

Corporate Highlights



RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

Results Note

22 March 2010

Hai-O Enterprise

Indonesia Coming On Stream

Share Price : RM4.68
Fair Value : RM5.20
Recom : **Outperform**
(Maintained)

Table 1 : Investment Statistics (HAI O; Code: 7668) Bloomberg: HAI O MK

FYE	Revenue	Net Profit	EPS	Growth	PER	C. EPS *	P/NTA	Net Gearing	ROE	GDY
	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2009a	435.2	52.4	25.8	7.9	18.1	0.0	2.0	Net cash	34.2	3.7
2010f	611.8	78.5	38.7	49.9	12.1	37.0	2.4	Net cash	42.3	5.5
2011f	782.1	97.9	48.3	24.7	9.7	49.0	3.0	Net cash	42.5	6.9
2012f	904.2	116.9	57.7	19.4	8.1	55.0	3.7	Net cash	41.1	8.2

Main Board Listing / Trustee Stock

* Consensus Based On IBES Estimates

◆ **In line.** Hai-O's 9MFY04/10 core net profit of RM56.0m (+52.7% yoy) was in line with our and consensus expectations, accounting for 71% of full year net profit forecasts respectively. We believe this to be in line as 4Q is generally the strongest quarter for the group, accounting for 30-36% of historical full year forecasts.

◆ **Surprise second interim dividend.** Hai-O has also declared a second interim gross dividend of 4 sen (or ex-all 1.7 sen) (less 25% tax), which was above our expectations given that Hai-O historically only paid dividend twice p.a. – in the 2Q and 4Q. This brings YTD-FY10 gross dividend to 14 sen (or ex-all 5.8 sen). Despite the surprise second interim dividend, we believe Hai-O is merely declaring smaller sized dividends more regularly and not raising dividend payouts and hence we maintain our full-year assumption of 62 sen (or ex-all 25.8 sen) or 50% net dividend payout for FY10, which translates to net yields of 4-6%.

◆ **Yoy,** net profit jumped 50.2% due mainly to higher contributions from MLM division (+66.3% yoy) from increasing MLM members as well as higher A&P activities.

◆ **Qoq,** net profit dropped 7.9% due mainly to the lesser promotional activities in 3Q10 (as its sales campaign took place in 2Q10) coupled with higher personnel and A&P expenses.

◆ **Risks.** The risks include: 1) termination of supply agreements from its suppliers in China; 2) stronger-than-expected strengthening of US\$; and (3) weaker-than-expected increase in consumer spending.

◆ **Forecasts.** Hai-O will be officially opening its MLM business in the Indonesian market in Apr 10. As such, we have updated our earnings forecasts to include 8,000 members with average revenue of RM2,000/member for FY11 (in line with management's target of 5,000-10,000 in 2010) and 13,000 members with average revenue of RM2,000/member for FY12. Our Indonesia revenue/member assumption is based on half the size of Malaysia revenue/member. We have also adjusted down our revenue/CDF assumption for the Malaysian division by 3-4% for FY11-12 as we believe that its Malaysia CDF members would now shift its focus to the Indonesia market, which could lead to an initial slowdown in its Malaysian division. As such, our earnings forecasts have been reduced by 2.5-3.2% for FY11-12.

◆ **Investment case.** Following the earnings adjustment, our fair value have been tweaked down to RM5.20 (from RM5.30) based on unchanged 11.5x CY10 EPS, a 20% discount to our consumer division PE of 14.5x. Together with attractive net dividend yield of 4-6% p.a., we maintain our Outperform recommendation for the stock.

RHBRI	Vs.	Consensus
✓	Above	
	In Line	✓
	Below	

Issued Capital (m shares)	202.7
Market Cap(RMm)	948.6
Daily Trading Vol (m shs)	0.5
52wk Price Range (RM)	1.33-4.93

Major Shareholders:	(%)
Tan Family	30.0

FYE Apr	FY10	FY11	FY12
EPS chg (%)	(0.0)	(2.5)	(3.2)
Var to Cons (%)	4.7	(1.4)	4.9

PE Band Chart



Relative Performance To FBM KLCI



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Table 2: Earnings Reviews (YoY Cumulative)									
FYE Apr (RMm)	3Q09	2Q10	3Q10	QoQ (%)	YoY (%)	9M09	9M10	YoY (%)	Comments
Revenue	102.1	132.4	131.3	(0.8)	28.5	302.3	412.2	36.3	Yoy, higher revenue contribution from MLM and higher rental income offset lower revenue from wholesale & retail divisions.
- Wholesale & Retail	22.0	21.5	22.8	6.3	3.7	62.4	61.1	(2.0)	Yoy decline due to lower contributions from retail divisions due to Chinese New Year timing difference i.e. falling in 4Q in FY10 vs. 3Q in FY09.
- MLM	78.9	108.9	106.2	(2.4)	34.6	236.4	345.5	46.1	Yoy increase in CDF as well as distributor productivity from higher A&P activities.
- Other	1.2	2.0	2.2	11.3	88.8	3.6	5.6	58.4	Higher rental income.
EBIT	18.6	28.7	25.2	(12.2)	35.3	52.8	80.2	51.9	Filtered down from revenue and higher margin (refer to EBIT margin).
Finance cost	(0.1)	(0.1)	0.0	>(100)	>(100)	(0.1)	(0.1)	(40.0)	
EI	0.0	0.6	0.0	-	-	0.0	0.6	-	Realisation of exchange fluctuation reserve on disposal of foreign associate amounting RM624,799.
PBT	18.6	28.6	25.2	(11.9)	35.9	52.6	80.2	52.5	
PBT ex-EI	18.6	28.0	25.2	(9.9)	35.9	33.9	79.5	134.6	
Taxation	(6.2)	(8.2)	(7.0)	(14.3)	14.2	(15.4)	(23.0)	48.9	Refer to effective tax rate.
MI	(0.4)	(0.3)	(0.2)	(24.2)	(52.4)	(0.2)	(0.5)	190.5	
Net profit	12.0	20.2	18.0	(10.8)	50.2	36.7	56.7	54.4	
Net profit ex-EI	12.0	19.6	18.0	(7.9)	50.2	36.7	56.0	52.7	Filtered down from PBT and lower effective tax rate.
EPS (sen)	6.1	10.1	9.0	(10.7)	47.8	18.5	28.4	52.9	
GDPS (sen)	0.0	4.2	1.7	(60.0)	n.m.	4.2	5.8	40.0	Interim gross dividend of 4 sen (less 25% tax) was declared during the quarter.
EBIT margin (%)	18.2	21.7	19.2	(2.5)	1.0	17.5	19.5	2.0	Higher margin yoy due to company's focus on higher margin product sales.
Adj-PBT margin (%)	18.2	21.2	19.2	(1.9)	1.0	11.2	19.3	8.1	
Adj-Net profit margin (%)	11.7	14.8	13.7	(1.1)	2.0	7.7	13.6	5.9	
Effective tax rate (%)	33.1	29.2	27.8	(1.4)	(5.3)	45.5	28.9	(16.6)	

Source: Company; RHBRI

Table 3. Earnings Forecasts

FYE Apr (RMm)	FY09a	FY10F	FY11F	FY12F
Turnover	435.2	611.8	782.1	904.2
Wholesale	42.2	44.3	46.5	48.8
MLM	348.9	514.0	679.3	796.4
Retail	39.1	46.5	49.4	52.0
Manufacturing	2.5	2.5	3.0	3.5
Other	2.5	4.5	4.0	3.5
<i>Turnover growth (%)</i>	16.4	40.6	27.8	15.6
Cost of Sales	(305.1)	(377.6)	(486.1)	(558.5)
Gross Profit	130.1	234.2	296.0	345.8
EBITDA	78.2	113.8	139.4	163.2
EBITDA margin (%)	18.0	18.6	17.8	18.0
Depreciation	(2.1)	(4.3)	(4.4)	(4.4)
Net Interest	(0.2)	1.1	1.0	1.4
Associates	0.0	0.0	0.0	0.0
Pretax Profit	75.9	110.6	136.0	160.2
Tax	(22.8)	(31.0)	(36.7)	(41.6)
Minorities	(0.7)	(1.1)	(1.4)	(1.6)
Net Profit	52.4	78.5	97.9	116.9

Table 4. Forecast Assumptions

FYE Apr	FY10F	FY11F	FY12F
Core distributor force (CDF)	124,000	160,000	184,000
Distributor productivity (RM/CDF)	4,146	4,246	4,328
Opening of new retail outlets	7	3	3
Revenue per outlet (RM'000)	705	716	723

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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