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Corporate News Flash

Hai-O

CONSUMER

BUY ↔
Ex-Target
Previous
Ex-Price

RM5.04
RM4.40
RM4.33

Going Ex

THE BUZZ

Hai-O's 1-for-5 bonus issue which involves the issuance of up to 16.8m shares and 1-into-2 share split will go ex today.

OUR TAKE

To recap. Hai-O had on 22 Dec 2009 proposed (i) a 1-for-5 bonus issue involving the issuance of up to 16.8m shares, (ii) 1-into-2 share split, and (iii) private placement of up to 10% of its enlarged share capital. While the private placement has yet to be completed, the bonus shares and share split exercise will go ex today. The entire exercise will increase its paid-up capital (including ~1.27m treasury shares) to RM101.3m comprising 202.7m shares RM0.50 shares. Based on our current valuation of 11x CY10 EPS, the ex-all target price is RM4.40 versus the theoretical ex-share price of RM4.33. On a cum basis, our previous target price was RM10.55 versus yesterday's closing of RM10.40.

Business still solid. Based on our recent chat with the management, we gather that its core multi-level marketing (MLM) business which contributes >70% of revenue is still performing well locally while the start-up venture in Indonesia is also progressing smoothly. The MLM business in Indonesia is expected to break even within two years with a target membership base of 5k-10k in FY10. Hai-O's other key revenue contributor- the retail division-continued to show steady growth with average SSS increase of 3.5% YTD. The target is open 3-4 outlets per year. In regards to its newly formed thermal transfer business, management revealed that there were more active developments on all activities are progressing as planned. Premised on the aforementioned factors, we are confident that the group's 3QFY10 results, scheduled at the end of this month will be decent. Note that 3Q earnings are typically stronger than 2Q.

Maintain BUY and our FY10 and FY11 earnings forecasts of RM72.6m and RM85.2m respectively pending the release of its results. Hai-O's superior bottom line growth, comparable ROE and ROA as well as the improved share liquidity despite its smaller revenue and earnings base warrants a higher target PE of 12x which is the industry's average PE. This is still below Amway's 14x forward PE. As such, pegging Hai-O at 12x FY11 EPS, our ex-bonus issue and share split TP is raised to RM5.04.

Table 1: Comparison of Hai-O and Amway

	Hai-O	Amway
CY09 Sales* (RMm)	524.8	663.9
CY09 EBITDA Margin*	18.9	14.6
CY09 Net profit* (RMm)	65.8	72.5
Net profit 3-year-CAGR	72.5	-3.4
FY0 ROE (%)	31.6	30.5
FY0 ROA (%)	21.1	21.6
FY1 dividend yield	5.5	6.5

*Based on OSK's FY10 forecast
Source: OSK

Figure 2: Ex and cum scenarios for bonus issue and share split

	Cum basis	Ex-bonus issue and share split
Share price	10.40	4.33
Shares out	84.5	202.7
FY10 EPS forecast (sen)	86.0	35.8
Target price	10.55	4.40 (based on 11x CY10 EPS)
Ex- all target price		5.04 (based on 12x FY11 EPS)

Source: OSK

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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