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## Company Update

# Hai-O

**BUY** ↻

**Target**

**RM10.55**

**Previous**

**RM8.95**

**Price**

**RM8.72**

### CONSUMER (RETAIL)

Hai-O is involved in wholesaling, retailing, multi-level marketing and pharmaceuticals, and also operates modern Chinese medicinal clinics.

### Stock Statistics

Bloomberg Ticker	HAIO MK
Share Capital (m)	84.46
Market Cap (RMm)	736.47
52 week H L Price (RM)	8.92   3.14
3mth Avg Vol ('000)	180.90
YTD Returns	0.25
Beta (x)	0.73

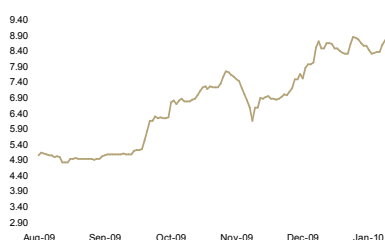
### Major Shareholders (%)

Tan Kai Hee	9.59
Akintan SB	7.15
Excellent communication	5.11

### Share Performance (%)

Month	Absolute	Relative
1m	2.95	1.90
3m	21.76	16.01
6m	81.07	56.71
12m	193.56	85.40

### 6-month Share Price Performance



## Keeping Pace

We recently hosted a corporate presentation by Hai-O which was attended by fund managers who raised questions related to: (i) the company's MLM's expansion to Indonesia, and (ii) its new technology venture. We gather that Hai-O's MLM operations here and in Indonesia are proceeding smoothly, and that there are good prospects for its technology division. We also see ongoing expansion for the group's retail business. As we believe our earnings forecast had been overly conservative previously, we are raising our F09, FY10 and FY11 earnings by 15%-26%. **Maintain BUY at a higher TP of RM10.55.**

**MLM business in Indonesia.** Hai-O started its MLM business in Indonesia via a joint-venture in which it holds a 60% stake. The total investment of US\$0.5m has been utilized and Hai-O does not expect any major capex in the future given that the basic infrastructure is now in place. Although official business licence was obtained in August 2009, the group will officially launch its MLM in Indonesia only in April 2010. We have yet to compute the contribution from Indonesia. On the local front, the number of MLM members remained at ~100,000 and management has guided for strong sales momentum. In the pipeline are ~10 new products, including new corsets with different range of colours and designs, a new skincare product range and health food, to be introduced in the next two years.

**Talking technology.** We understand that the heat transfer technology, namely "high intensity heat transfer technology using non-phase change heat pipe (NPC-HP)", has the following unique features: (i) heat transfer along the heat pipes that does not result in a change in the state of the internal medium within the pipe (ie. liquid remains as liquid while gas remains gas); (ii) the heat pipes therefore have heat transfer and dissipation capabilities of order of magnitude above current technology; and (iii) this is achieved by ensuring the right pressure response to temperature change. Hai-O is applying to patent the technology. In December 2009, the group signed an agreement with Beijing Co-Chance Co Ltd, a company under China Aero Space Corporation (CAST), to develop a high-efficiency system to harness solar energy and is also talking to other parties on more joint ventures. We also understand that the few trial applications in China and in Malaysia have been proceeding as planned. We stand by our view that this venture is a potential earnings booster given its wide applications and low initial investment cost of ~RM3m.

**Retail division.** Hai-O has 65 outlets, including 10 franchise stores, with a cumulative floor space of 68,000 sft in Malaysia. It plans to open 3-5 new outlets annually and increase the number of house brands (contribute >40% of retail sales) which command higher margins. The introduction of its house brand in 2007 has helped to improve its EBITDA margin from 12.2% in 2006 to 18.5% in 2009. During the last quarter, the group opened 1 retail outlet each in Bangsar, Kuchai Lama, Sea Park and 2 in East Malaysia.

FYE Apr (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Revenue	373.8	435.2	569.6	673.8	777.2
Net Profit	48.5	52.3	72.6	85.2	100.2
% chg y-o-y	127.0	7.7	38.8	17.3	17.6
Consensus	-	-	75.4	90.2	95.1
EPS (sen)	57.5	61.9	86.0	100.9	118.7
DPS (sen)	40.0	42.0	57.0	68.0	80.0
Dividend yield (%)	4.6	4.8	6.5	7.8	9.2
ROE (%)	34.5	31.6	38.7	39.5	40.4
ROA (%)	23.8	21.1	27.3	27.9	28.9
PER (x)	15.2	14.1	10.1	8.6	7.3
BV/share (RM)	1.66	1.96	2.22	2.55	2.94
P/BV (x)	5.2	4.5	3.9	3.4	3.0
EV/ EBITDA (x)	9.6	9.2	6.4	5.5	4.7

## VALUATION AND RECOMMENDATION

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**Revising upwards earnings.** As we believe our previous earnings forecast had been overly conservative, we are raising our F09, FY10 and FY11 earnings upwards by 15%-26% to RM72.6m, RM85.2m and RM100.2m respectively, to factor in higher sales from the MLM division (increased number of members by 10,000/annum), and stronger RM against the US dollar. With this, we maintain our BUY recommendation at a higher TP of RM10.55 (based on CY10 EPS).

**EARNINGS FORECAST**

<b>FYE Apr (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10f</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	373.8	435.2	569.6	673.8	777.2
EBIT	67.2	76.1	107.4	125.4	145.8
PBT	67.7	75.9	106.4	124.4	145.8
Net Profit	48.5	52.3	72.6	85.2	100.2
EPS (sen)	57.5	61.9	86.0	100.9	118.7
DPS (sen)	40.0	42.0	57.0	68.0	80.0
<b>Margin</b>					
EBIT (%)	18.0	17.5	18.9	18.6	18.8
PBT (%)	18.1	17.4	18.7	18.5	18.8
Net Profit (%)	13.0	12.0	12.7	12.6	12.9
ROE (%)	34.5	31.6	38.7	39.5	40.4
ROA (%)	23.8	21.1	27.3	27.9	28.9
<b>Balance Sheet</b>					
Fixed Assets	21.6	59.4	64.1	73.7	83.3
Current Assets	154.0	154.4	171.3	196.2	208.0
Total Assets	204.1	248.3	265.5	304.9	346.4
Current Liabilities	58.0	61.2	62.7	74.4	83.2
Net Current Assets	146.2	187.2	202.8	230.5	263.2
LT Liabilities	0.1	15.7	15.1	15.1	15.1
Shareholders Funds	140.6	165.4	187.7	215.5	248.1
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

**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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