

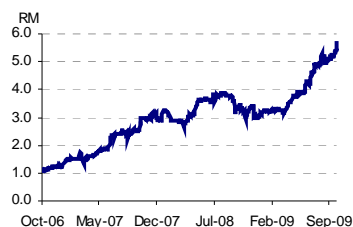
## Results Note

## Hai-O Ent

HAIO MK  
RM5.69

BUY (maintain)

Target Price: RM6.00 (↑)



## Price Performance

|             | 1M     | 3M     | 12M    |
|-------------|--------|--------|--------|
| Absolute    | +12.0% | +22.1% | +69.3% |
| Rel to KLCI | +8.9%  | +8.7%  | +42.8% |

## Stock Data

|                                  |           |
|----------------------------------|-----------|
| Issued shares (m)                | 83.2      |
| Mkt cap (RMm)                    | 473.6     |
| Avg daily vol - 6mth (m)         | 0.08      |
| 52-wk range (RM)                 | 5.74-2.86 |
| Est free float                   | 47.7%     |
| NTA per share (RM) (end-Jul 09)  | 2.2       |
| P/NTA (x)                        | 2.6       |
| Net cash/debt (RMm) (end-Jul 09) | 55.1      |
| ROE (FY10F)                      | 39.3      |
| Derivatives                      | Nil       |

## Key Shareholders

|                 |      |
|-----------------|------|
| Tan Kai Hee     | 9.6% |
| Akintan Sdn Bhd | 7.2% |

## Earnings &amp; Valuation Revisions

|                        | 10E   | 11E   | 12E   |
|------------------------|-------|-------|-------|
| Prev EPS (sen)         | 68.0  | 74.6  | 82.2  |
| Curr EPS (sen)         | 84.7  | 95.3  | 105.1 |
| Chg (%)                | +24.5 | +21.7 | +27.9 |
| Prev target price (RM) |       |       | 5.20  |
| Curr target price (RM) |       |       | 6.00  |

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## Earnings surprise once again

## 1QFY10 net profit above expectations

Hai-O reported 1QFY10 revenue of RM148.6m (+31.6% yoy, +11.8% qoq), bolstered mainly by stronger performances from the MLM and wholesale divisions. Contribution from the latter grew by +3.6% yoy while MLM sales surged +42.4% yoy, driven by enhanced marketing strategies, newly recruited distributors and higher distributor productivity. Net earnings were a pleasant surprise, with 1QFY10 net profit of RM18.5m (+35.7% yoy, +25.8% qoq) accounting for 32.2% and 34.6% of our and consensus expectations, respectively.

## Strong MLM sales propels earnings

Sequentially, Hai-O's retail and manufacturing divisions saw revenue declines of -15.8% and -28.5%, respectively, reflecting cautious spending by consumers. However, Hai-O's growth story continues to defy the worst of the economic crisis. MLM sales increased +15.8% qoq, which more than offset the decline in the other divisions. Bottomline grew by +25.8% qoq.

## On track to achieve earnings growth target

Hai-O is well on track to achieve and, we believe, surpass its internal target of 10% FY10 earnings growth. Taking into account the robust 1QFY10 results and better-than-expected MLM sales, we raise our FY10-12 earnings forecasts by 22-28%. Hai-O's attractiveness lies in its strong dividend payout policy of at least 50% of net earnings. Traditionally, the company has paid out above and beyond that amount, averaging at 65% over the past 5 financial years. We project GDPS for FY10 and FY11 at 54.5 sen (GDPS yield: 9.6%) and 57 sen (GDPS yield: 10%), respectively.

## Maintain BUY, with new TP of RM6.00

Management had earlier guided that they were looking at plans to improve the trading liquidity of the stock (possibly in the form of bonus issue or share split.) As corporate exercise has yet to be undertaken, we continue to peg a 10% discount to our target price. Based on a DDM valuation, and assuming a beta of 1.0x, risk-free rate of 4.2%, market risk premium of 6.5% and terminal growth rate of less than 1%, our target price is raised to **RM6.00**, after our earnings upgrade. Maintain **BUY**. The company is unique given its growth exposure to all mainstream segments of Malaysia's population (retail: Chinese-based, MLM: mainly Malay based). Key risks to our positive stance are: (a) unexpected reduction in dividend payout ratio to below 50%; and (b) MLM division's revenue coming in below our expectations.

## Earnings and Valuation Summary

| FYE 30 April           | 2008  | 2009  | 2010F | 2011F | 2012F |
|------------------------|-------|-------|-------|-------|-------|
| Revenue (RMm)          | 373.8 | 435.2 | 543.2 | 601.8 | 659.1 |
| EBITDA (RMm)           | 67.3  | 83.4  | 102.3 | 114.3 | 124.6 |
| Pretax profit (RMm)    | 67.7  | 75.5  | 96.7  | 108.8 | 120.1 |
| Net profit (RMm)       | 48.5  | 52.0  | 71.5  | 80.5  | 88.8  |
| EPS (sen)              | 58.1  | 61.6  | 84.7  | 95.3  | 105.1 |
| EPS growth (%)         | 123.3 | 6.1   | 37.4  | 12.5  | 10.3  |
| PER (x)                | 9.8   | 9.2   | 6.7   | 6.0   | 5.4   |
| Core net profit (RMm)  | 48.5  | 52.0  | 71.5  | 80.5  | 88.8  |
| Core EPS (sen)         | 58.1  | 61.6  | 84.7  | 95.3  | 105.1 |
| Core PER (x)           | 9.8   | 9.2   | 6.7   | 6.0   | 5.4   |
| GDPS (sen)             | 40.0  | 42.0  | 54.5  | 57.0  | 60.0  |
| Dividend Yield (%)     | 7.0   | 7.4   | 9.6   | 10.0  | 10.5  |
| EV/EBITDA (x)          | 6.7   | 5.0   | 4.3   | 3.5   | 2.9   |
| Consensus profit (RMm) |       |       | 53.3  | 60.3  | 74.0  |
| Affin/Consensus (x)    |       |       | 1.3   | 1.4   | 1.5   |

**Fig 1: Quarterly results comparison**

| FYE April (RMm)         | 1QFY09      | 4QFY09      | 1QFY10      | QoQ<br>% chg | YoY<br>% chg | Comment   |
|-------------------------|-------------|-------------|-------------|--------------|--------------|---|
| Revenue                 | 112.9       | 132.8       | 148.6       | 11.8         | 31.6         | <i>Driven by revenue growth of:<br/>i) +42.4% yoy in the MLM division<br/>ii) +3.6% yoy in the wholesale division</i> |
| Op costs                | (131.5)     | (155.9)     | (174.9)     | 12.2         | 33.0         |   |
| Exceptional gain/losses | 0.0         | 0.0         | 0.0         | nm           | nm           |   |
| EBIT                    | 18.6        | 23.0        | 26.3        | 14.3         | 41.5         |   |
| <i>EBIT margin (%)</i>  | <i>16.5</i> | <i>17.3</i> | <i>17.7</i> | <i>nm</i>    | <i>nm</i>    | <i>Above our forecast due to stronger than expected MLM sales</i>   |
| Int expense             | (0.2)       | (0.2)       | (0.2)       | (1.0)        | (0.5)        |   |
| Int and other inc       | 0.3         | 0.1         | 0.2         | 28.4         | (47.7)       |   |
| Associates              | 0.0         | 0.0         | 0.0         | nm           | nm           |   |
| <b>Pretax</b>           | <b>18.7</b> | <b>23.0</b> | <b>26.3</b> | <b>14.5</b>  | <b>40.4</b>  |   |
| Tax                     | (5.1)       | (8.2)       | (7.8)       | (5.5)        | 52.3         |   |
| <i>Tax rate (%)</i>     | <i>27.2</i> | <i>35.8</i> | <i>29.6</i> | <i>nm</i>    | <i>nm</i>    |   |
| MI                      | (0.0)       | (0.1)       | (0.1)       | (6.7)        | nm           |   |
| <b>Net profit</b>       | <b>13.6</b> | <b>14.7</b> | <b>18.5</b> | <b>25.8</b>  | <b>35.7</b>  | <i>Net profit accounts for 32.2% and 34.6% of our and consensus expectations</i>                                      |
| EPS (sen)               | 16.2        | 17.4        | 22.2        | 27.2         | 37.2         |   |
| <b>Core net profit</b>  | <b>13.6</b> | <b>14.7</b> | <b>18.5</b> | <b>25.8</b>  | <b>35.7</b>  |   |

**Fig 2: Segmental revenue breakdown**

| FY April (RMm)          | 1QFY08       | 2QFY08       | 3QFY08       | 4QFY08       | 1QFY09       | 2QFY09       | 3QFY09       | 4QFY09       | 1QFY10       | QoQ<br>% chg | YoY<br>% chg |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Wholesale               | 25.5         | 31.6         | 57.8         | 53.1         | 44.7         | 32.8         | 54.3         | 48.0         | 46.3         | (3.6)        | 3.6          |
| MLM                     | 40.0         | 59.5         | 74.7         | 107.3        | 91.5         | 65.9         | 78.9         | 112.5        | 130.3        | 15.8         | 42.4         |
| Retail                  | 7.9          | 10.0         | 10.5         | 11.0         | 8.0          | 10.0         | 11.8         | 9.4          | 7.9          | (15.8)       | (0.8)        |
| Manufacturing           | 1.2          | 0.7          | 0.8          | 1.1          | 1.2          | 1.1          | 1.3          | 1.7          | 1.2          | (28.5)       | (0.5)        |
| Others                  | (15.3)       | (21.4)       | (43.4)       | (39.1)       | (32.5)       | (22.6)       | (44.2)       | (38.8)       | (37.1)       | (4.2)        | 14.3         |
| <b>Total</b>            | <b>59.3</b>  | <b>80.5</b>  | <b>100.5</b> | <b>133.5</b> | <b>112.9</b> | <b>87.3</b>  | <b>102.1</b> | <b>132.8</b> | <b>148.6</b> | <b>11.8</b>  | <b>31.6</b>  |
| Qoq (%)                 | 4.5          | 35.8         | 24.8         | 32.9         | (15.5)       | (22.7)       | 17.0         | 30.1         | 11.8         |              |              |
| Yoy (%)                 | 50.6         | 92.3         | 95.5         | 135.5        | 90.5         | 8.4          | 1.6          | (0.5)        | 31.6         |              |              |
| <b>Contribution (%)</b> |              |              |              |              |              |              |              |              |              |              |              |
| Wholesale               | 43.0         | 39.3         | 57.6         | 39.8         | 39.6         | 37.6         | 53.2         | 36.2         | 31.1         |              |              |
| MLM                     | 67.6         | 73.9         | 74.4         | 80.3         | 81.1         | 75.5         | 77.3         | 84.7         | 87.7         |              |              |
| Retail                  | 13.3         | 12.5         | 10.5         | 8.3          | 7.1          | 11.5         | 11.5         | 7.1          | 5.3          |              |              |
| Manufacturing           | 2.0          | 0.9          | 0.8          | 0.9          | 1.1          | 1.3          | 1.3          | 1.3          | 0.8          |              |              |
| Others                  | (25.9)       | (26.5)       | (43.2)       | (29.2)       | (28.8)       | (25.9)       | (43.3)       | (29.2)       | (25.0)       |              |              |
| <b>Total</b>            | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |              |              |

**Fig 3: Segmental EBIT breakdown**

| FY April (RMm)          | 1QFY08     | 2QFY08      | 3QFY08      | 4QFY08      | 1QFY09      | 2QFY09      | 3QFY09      | 4QFY09      | 1QFY10      | QoQ<br>% chg | YoY<br>% chg |
|-------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Wholesale               | 3.2        | 2.1         | 7.4         | 24.4        | 3.6         | 3.9         | 2.9         | (0.4)       | 4.1         | 1,126.9      | 14.5         |
| MLM                     | 5.7        | 9.1         | 10.8        | 21.2        | 14.2        | 10.1        | 13.8        | 20.8        | 21.2        | 1.9          | 48.9         |
| Retailing               | 0.2        | 1.1         | 0.2         | 0.6         | 0.3         | 0.8         | 1.1         | 0.7         | 0.3         | (53.9)       | 10.5         |
| Manufacturing           | 0.2        | 0.1         | 0.1         | 0.2         | 0.3         | 0.1         | 0.2         | 0.3         | 0.2         | (38.2)       | (21.7)       |
| Others                  | 0.7        | 0.3         | 0.4         | 0.2         | (0.1)       | 1.0         | 0.6         | 0.5         | 0.3         | (42.4)       | 290.6        |
| Elimination             | (0.1)      | 0.3         | (0.4)       | (20.4)      | 0.3         | (0.3)       | (0.0)       | 1.2         | 0.2         | (82.4)       | (33.7)       |
| <b>Total</b>            | <b>9.8</b> | <b>12.9</b> | <b>18.4</b> | <b>26.2</b> | <b>18.6</b> | <b>15.5</b> | <b>18.6</b> | <b>23.0</b> | <b>26.3</b> | <b>14.3</b>  | <b>41.5</b>  |
| <b>Contribution (%)</b> |            |             |             |             |             |             |             |             |             |              |              |
| Wholesale               | 33.0%      | 16.1%       | 40.2%       | 93.3%       | 13.8%       | 30.3%       | 22.8%       | (1.5%)      | 15.8%       |              |              |
| MLM                     | 58.0%      | 70.6%       | 58.7%       | 81.1%       | 54.4%       | 78.6%       | 107.2%      | 79.5%       | 81.0%       |              |              |
| Retailing               | 1.6%       | 8.3%        | 0.9%        | 2.3%        | 1.1%        | 6.2%        | 8.7%        | 2.5%        | 1.2%        |              |              |
| Manufacturing           | 1.7%       | 0.4%        | 0.4%        | 0.6%        | 1.0%        | 0.6%        | 1.4%        | 1.3%        | 0.8%        |              |              |
| Others                  | 7.1%       | 2.6%        | 1.9%        | 0.7%        | (0.5%)      | 7.4%        | 4.6%        | 1.8%        | 1.0%        |              |              |
| Elimination             | (1.4%)     | 2.0%        | (2.1%)      | (78.1%)     | 1.2%        | (2.6%)      | (0.1%)      | 4.4%        | 0.8%        |              |              |
| <b>Margin (%)</b>       |            |             |             |             |             |             |             |             |             |              |              |
| Wholesale               | 12.7%      | 6.6%        | 12.8%       | 46.0%       | 8.1%        | 11.9%       | 5.4%        | (0.8%)      | 8.9%        |              |              |
| MLM                     | 14.2%      | 15.3%       | 14.4%       | 19.8%       | 15.6%       | 15.4%       | 17.5%       | 18.5%       | 16.3%       |              |              |
| Retailing               | 2.0%       | 10.7%       | 1.6%        | 5.4%        | 3.5%        | 8.0%        | 9.5%        | 7.0%        | 3.9%        |              |              |
| Manufacturing           | 14.0%      | 7.8%        | 10.5%       | 13.5%       | 22.2%       | 6.9%        | 13.6%       | 20.2%       | 17.5%       |              |              |
| Others                  | 40.2%      | 14.6%       | 13.6%       | 8.6%        | (7.7%)      | 43.4%       | 19.4%       | 16.3%       | 9.8%        |              |              |
| Elimination             | 0.8%       | (1.1%)      | 0.9%        | 49.5%       | (0.9%)      | 1.4%        | 0.1%        | (1.4%)      | (0.5%)      |              |              |

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#### Equity Rating Structure and Definitions

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|                               |   |
|-------------------------------|---|
| <b>BUY</b>                    | Total return is expected to exceed +15% over a 12-month period  |
| <b>TRADING BUY (TR BUY)</b>   | Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks |
| <b>ADD</b>                    | Total return is expected to be between 0% to +15% over a 12-month period  |
| <b>REDUCE</b>                 | Total return is expected to be between 0% to -15% over a 12-month period  |
| <b>TRADING SELL (TR SELL)</b> | Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks      |
| <b>SELL</b>                   | Total return is expected to be below -15% over a 12-month period  |
| <b>NOT RATED</b>              | Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation   |
| <b>OVERWEIGHT</b>             | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months   |
| <b>NEUTRAL</b>                | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months  |
| <b>UNDERWEIGHT</b>            | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months   |

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