



# MALAYSIA EQUITY Investment Research Daily News

## CONSUMER

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## FY09 Results Review

Private Circulation Only

# Hai-O Enterprise

<b>BUY</b>	<b>Maintain</b>
<b>Price</b>	<b>RM4.44</b>
<b>Target</b>	<b>RM5.20</b>

## A Hardy Dividend Play

**Hai-O's revenue and net profit grew 16.4% and 7.2% y-o-y respectively in FY09, driven mainly by still-robust growth of its MLM division. EBIT margin fell 0.6%-pts y-o-y due to the stronger US\$ against the ringgit. We raise our FY09/10 earnings by 11.8%-12.9% to RM56.4m and RM65.7m respectively and our target price is accordingly increased to RM5.20 based on 7x CY10 EPS. Maintain BUY.**

**Earnings continue to flourish.** Hai-O's results remained resilient, with revenue coming in at RM435.2m, up 16.4% y-o-y while earnings stood at RM52m (+7.2% y-o-y), in line with OSK's forecast of RM49.6m and consensus forecast of RM48.9m. The better results were driven mainly by its MLM division (revenue +23.9% y-o-y), which accounted for 85% of sales in FY09. The manufacturing division registered impressive growth of 111.4% as it secured more contracts but did not contribute much to overall growth owing to its small contribution of 0.7%. Due to slower consumer spending and higher write-downs in inventory value, the wholesale division's revenue contracted 14.6% while retail sales were flat y-o-y. Although retail and wholesaling sales fell by 20.2% and 7.2% respectively, q-o-q earnings still grew 22.4% supported by the manufacturing and MLM divisions, which chalked up strong growth of 80.1% and 42.5% respectively.

**Steady margins.** Full year EBIT dropped marginally by 0.6%-pts y-o-y, mainly impacted by the stronger US\$ against RM, which in turn muted the effects of higher margin from its in-house brands in the retail division. Net profit margin dipped 1% pts on higher finance cost incurred on term loan borrowings and a higher effective tax rate due to non-allowable expenses and under-provisions in the previous years.

**MLM remain strong.** We understand that Hai-O's May sales remained strong with its growing number of members at 3k-4k/month, and the group's efforts in introducing more effective advertising and promotion activities. Hai-O's current MLM market share is estimated at about 5%.

**Maintain BUY.** We raise our FY10 and FY11 earnings by 11.8% to 12.9% to RM56.4m and RM65.7m respectively. We now value Hai-O at RM5.20 versus RM4.16 previously based on 7x CY10 EPS. Hai-O proposed a final gross dividend of 32 sen per share, bringing full year dividend to 42 sen per share, translating into a 9.5% yield. With this, it remains the one of the top 10 dividend yielding stocks in our small cap/consumer universe.

### Stock Profile/Statistics

Bloomberg Ticker	HAIO EQUITY
KLCI	1075.77
Issued Share Capital (m)	84.46
Market Capitalisation (RMm)	374.99
52 week H   L Price (RM)	4.44   2.86
Average Volume (3m) '000	62.17
YTD Returns (%)	1.38
Net gearing (x)	-0.56
Altman Z-Score	5.96
ROCE/WACC	3.66
Beta (x)	0.82
Book Value/share (RM)	1.76

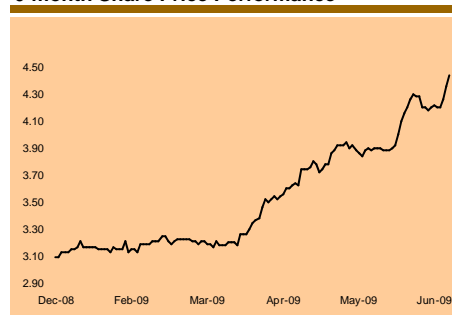
### Major Shareholders (%)

Kait Hee Tan	9.59
Akintan SB	7.00
Excellent communication	5.11

### Share Performance (%)

Month	Absolute	Relative
1m	11.80	11.29
3m	33.74	10.74
6m	44.14	13.28
12m	38.79	34.57

### 6-month Share Price Performance



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

FYE Apr (RM m)	FY08	FY09	FY10f	FY11f	FY12f
Turnover	373.8	435.2	505.6	566.3	629.3
Net Profit	48.5	52.0	56.4	65.7	74.0
% chg YoY	127%	7%	8%	17%	13%
Consensus	-	-	48.9	54.5	54.5
EPS (sen)	57.5	61.6	66.8	77.8	87.6
DPS (sen)	40.0	42.0	47.0	55.0	60.0
Div Yield	9.0%	9.5%	10.6%	12.4%	13.5%
ROE	34.5%	31.5%	31.3%	33.0%	33.2%
ROA	23.8%	21.0%	22.3%	23.5%	24.0%
PER (x)	7.7	7.2	6.7	5.7	5.1
P/BV (x)	2.7	2.3	2.1	1.9	1.7

**KEY HIGHLIGHTS**

<b>FYE Apr (RMm)</b>	<b>4QFY09</b>	<b>3QFY09</b>	<b>% chg</b>	<b>FY09</b>	<b>FY08</b>	<b>% chg</b>
Turnover	132.8	102.1	30.1	435.2	373.8	16.4
EBIT*	23.0	18.6	23.6	75.7	67.2	12.6
Net interest expense	-0.1	-0.1	1.0	-0.2	0.5	-142.8
Associates	0.0	0.0	-	0.0	0.0	-
PBT	23.0	18.6	23.7	75.5	67.7	11.6
Tax	-8.2	-6.2	33.6	-22.8	-18.6	22.5
MI	-0.1	-0.4	85.7	-0.7	-0.6	23.7
Net Profit	14.7	12.0	22.4	52.0	48.5	7.2
EPS (sen)	17.4	14.2	-	61.6	57.5	-
Gross DPS (sen)	32.0	0.0	-	42.0	40.0	-
EBIT margin	17.3%	18.2%	-	17.4%	18.0%	-
NTA/share (RM)	1.95	1.85	-	1.95	1.66	-

**MLM business in Indon.** To recap, Hai-O is replicating its MLM business in Indonesia via a joint-venture in which it holds a 60% stake and the remainder held by an Indonesian partner with established businesses in Macau and China. The total investment cost for the venture is US\$0.5m, of which Hai-O will fork out 60%.

**Set to take off.** We understand that the group has obtained the relevant approvals for some of its products to be launched in Indonesia and the goods have been shipped to that country. The group is likely to start recruiting members in July. Since only 50% of its products have received approval, the group intends to bank on its two best selling products, namely Bio Aura water filter and beauty lingerie, to roll out earlier as no approval is needed for these products. At the initial stage (the first two years), the group will target mainly the rural areas around Jakarta (9.1m population).

**Not too difficult to penetrate Indon market.** While there are many established players in the country, we believe the huge population (8x larger than Malaysia) in Indonesia would provide ample room for Hai-O to penetrate into. With Hai-O's strong execution track record and the fact that its representatives in Indonesia have connections in that country, we believe that it would not be too difficult to penetrate the market. We believe that the group has carried out adequate feasibility studies before venturing into Indonesia. Based on the management's indication that the group is targeting 5,000 new members, which is a conservative guidance given the huge population in Indonesia, we estimate that approximately RM5m will flow into its topline. This is based on the conservative assumption that revenue/contributor would be at ~RM1,000 per annum. If the Indon venture is successful, its next expansion would be to China in the next 2 to 3 years.

<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	505.6	566.3	629.3
EBIT	67.2	75.7	80.8	93.6	103.9
PBT	67.7	75.5	79.8	92.6	103.9
Net profit	48.5	52.0	56.4	65.7	74.0
EPS	57.5	61.6	66.8	77.8	87.6
DPS	40.0	42.0	47.0	55.0	60.0
Margin					
EBIT	18.0%	17.4%	16.0%	16.5%	16.5%
PBT	18.1%	17.4%	15.8%	16.3%	16.5%
Net Profit	13.0%	12.0%	11.1%	11.6%	11.8%
ROE	34.5%	31.5%	31.3%	33.0%	33.2%
ROA	23.8%	21.0%	22.3%	23.5%	24.0%
Balance sheet					
Fixed asset	21.6	59.4	64.1	73.7	83.3
Current Assets	154.0	154.4	158.4	170.8	169.8
Total Assets	204.1	248.3	252.6	279.5	308.2
Current liabilities	58.0	61.2	57.6	65.3	70.6
Net Current Assets	146.2	187.2	195.0	214.2	237.5
LT Liabilities	0.1	15.7	15.1	15.1	15.1
Shareholders Funds	140.6	165.4	179.9	199.2	222.5

**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:** Stock is not within regular research coverage

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