

## Company Update

## Hai-O Ent

HAIO MK  
RM3.18

ADD (upgrade)

Target Price: RM3.70 (↑)



## Price Performance

	1M	3M	12M
Absolute	-3.6%	+1.3%	+11.0%
Rel to KLCI	-0.1%	+3.0%	+54.0%

## Stock Data

Issued shares (m)	84.2
Mkt cap (RMm)	244.2
Avg daily vol - 6mth (m)	0.84
52-wk range (RM)	3.90-2.79
Est free float	47.7%
NTA per share (RM) (end-Oct 08)	1.96
P/NTA (x)	1.62
Net cash/debt (RMm) (end-Oct 08)	59.2
ROE (2009F)	31.7
Derivatives	Nil

## Key Shareholders

Tan family	25.6%
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## Earnings &amp; Valuation Revisions

	09E	10E	11E
Prev EPS (sen)	46.8	49.7	53.7
Curr EPS (sen)	52.4	56.2	60.9
Chg (%)	+12.0	+12.9	+13.4
Prev target price (RM)			2.90
Curr target price (RM)			3.70

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## Positive affirmation of dividend payout policy

## MLM division likely to come in better than our expectations

At last Friday's analysts' briefing, Hai-O indicated that the MLM division (which contributed the bulk of revenue at 76% of total revenue in 2QFY09 and 75.3% of total revenue in FY08) has fared relatively better after posting a major dip in the months of September-October 2008. Recall that the MLM division's sales tumbled by 28.0% qoq in 2QFY09 with consumers pulling back spending on two of its major high-value product contributor, i.e. water treatment and slimming products. Accordingly MLM sales has held up relatively well since then and is above the low experienced in the September-October months. This is attributed to the steady recruitment of new members at about 2,000/month, particularly from the civil service, and successful promotion of incentive trips.

## Reaffirmation of dividend policy at 50%

Management reiterated the company's dividend policy would be maintained at 50%. This is reassuring considering the recent trend of dividend cuts by listed companies. We raise our FY09 - 11 dividend payout assumption to 50% from 45% - 48% previously. This leads to high NDPS forecast of RM0.26 FY09, RM0.28 FY10 and RM0.30 FY11 (GDPS: RM0.365 FY09; RM0.39 FY10 and RM0.42 FY11). Notwithstanding the increased payouts, balance sheet will remain healthy with net cash projected at RM67.5m end-FY09 and RM78.6m end-FY10, as capex requirements is expected to remain low.

## Upgrade to ADD with new TP of RM3.70

The MLM division appears to be less vulnerable than previously feared. We thus upgrade our MLM sales forecasts to +5.4% yoy from a -0.2% yoy decline previously, for FY09. This leads to upgrades in our net earnings of 12.0% FY09, 12.9% FY10 and 13.4% FY11. We derived a DDM-based valuation assuming a beta of 1.0x, risk free rate of 4.85%, market risk premium of 6.5%, and terminal growth rate of less than 1%, which gives us RM4.10/share. However, we peg a 10% discount to this given the illiquid trading volume of the shares, which translates to our fair value of RM3.70. At RM3.70, this implied a target CY09 PE of 6.7x, within the historical mean of 6.5x. The company is unique given its growth exposure to all mainstream segments of Malaysia's population (retail: Chinese-based, MLM: mainly Malay based). Main re-rating catalysts are: (a) delivery of high dividend yield; and (b) resilience of earnings despite the slower economic environment. 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	2007	2008	2009F	2010F	2011F
Revenue (RMm)	189.3	373.8	378.3	421.2	466.8
EBITDA (RMm)	32.6	67.3	64.9	69.1	74.0
Pretax profit (RMm)	30.6	67.7	60.6	65.0	70.5
Net profit (RMm)	21.4	48.5	44.0	47.2	51.2
EPS (sen)	26.0	58.1	52.4	56.2	60.9
EPS growth (%)	110.0	123.3	(9.8)	7.2	8.5
PER (x)	12.2	5.5	6.1	5.7	5.2
Core net profit (RMm)	21.4	48.5	44.0	47.2	51.2
Core EPS (sen)	26.0	58.1	52.4	56.2	60.9
Core PER (x)	12.2	5.5	6.1	5.7	5.2
DPS (sen)	18.0	40.0	36.5	39.0	42.0
Dividend Yield (%)	5.7	12.6	11.5	12.3	13.2
EV/EBITDA (x)	7.1	3.6	3.5	3.1	2.7
Consensus profit (RMm)			45.2	47.6	45.1
Affin/Consensus (x)			0.8	0.8	0.9

### MLM is faring reasonably well due to steady recruitment of new members

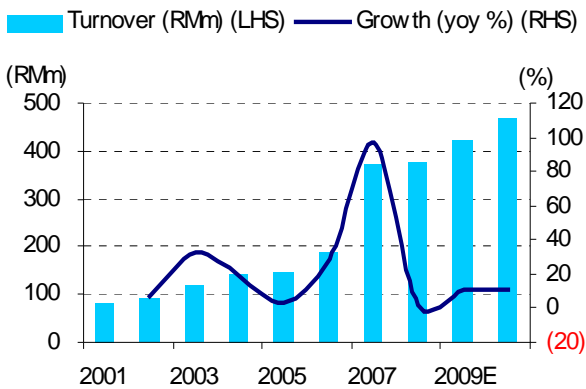
The MLM division has held up well, attributed to: (a) steady recruitment of new members at about 2,000/month, particularly from the civil service. (Current membership stands at above 80,000); (b) successful promotion of incentive trip to Sydney which was closed in January 2009; and (c) ongoing promotion of incentive trips to Umrah and Hokaido in 2HFY09. Our earlier fears of slowdown in its two major high-value items (water treatment and slimming products) appears unfounded. This is because, despite the slower economic environment, the MLM business has continued to attract new members who seek to supplement their monthly income. As an indication, Amway (M) Holdings reported a 12.2% yoy increase in revenue for the December 2008 quarter. Given this, we have upgraded our MLM sales forecasts to +5.4% yoy from a -0.2% yoy contraction previously, for FY09. This leads to upgrade to our net earnings of 12.0% FY09, 12.9% FY10 and 13.4% FY11. All in, we expect a net earnings decline of 9.3% in FY09, mainly on unfavourable foreign exchange rates (USD). For FY10 and FY11, net earnings growth of is projected at 7.2% and 8.5% yoy, respectively.

**Fig 2: Sector Comparison**

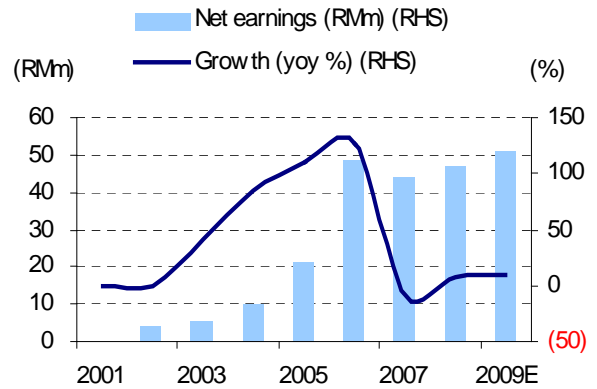
Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x)		EPS growth (%)		EV/EBITDA (x)	P/B (x)	ROE (%)		NDPS yield (%)	
						Pros1	Pros2	Pros1	Pros2			Pros1	Pros2	Pros1	Pros2
AEON	REDUCE	3.74	3.62	1,313	Dec	10.2	9.2	6.2	10.8	4.0	1.3	13.8	13.8	3.0	3.0
BAT	ADD	45.00	48.70	12,849	Dec	16.6	16.8	-4.7	-1.1	11.3	27.5	177.2	155.3	5.6	5.6
Bonia	REDUCE	0.70	0.70	141	Jun	7.4	5.5	-29.5	33.0	2.9	0.8	11.2	13.1	3.1	3.1
CAB	SELL	3.26	2.50	1,004	Dec	13.9	13.0	-5.7	7.2	6.9	1.8	13.9	13.2	2.8	2.8
GUIN	ADD	5.60	5.90	1,692	Jun	13.3	13.1	1.4	1.1	7.6	3.9	30.7	28.9	5.8	5.8
HAI-O	ADD	3.18	3.70	268	Apr	6.1	5.7	-9.8	7.2	3.5	1.8	31.7	29.8	8.3	8.3
JTI	ADD	4.20	5.00	1,098	Dec	11.2	11.2	0.2	-0.5	6.4	3.6	25.6	30.0	5.3	5.3

Source: Bloomberg, Affin estimates, Company data

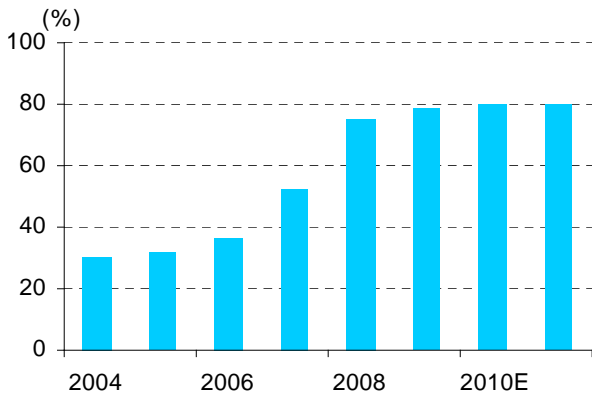
**Fig 3: Turnover trend**



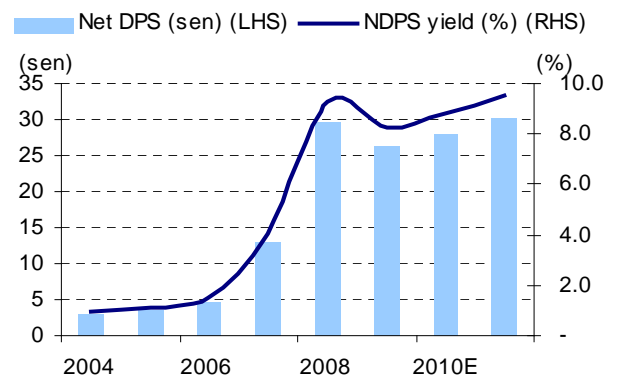
**Fig 4: Net earnings trend**



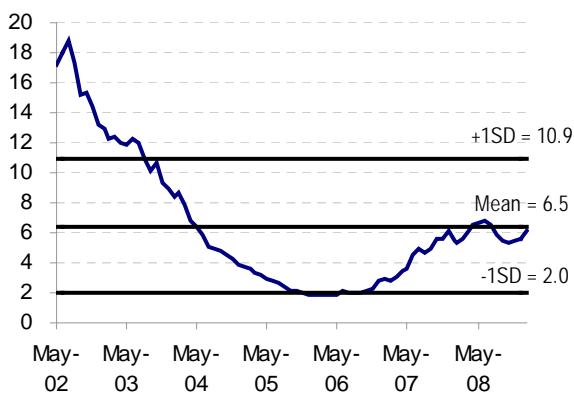
**Fig 5: Contribution from MLM division to total sales**



**Fig 6: Net dividend**



**Fig 7: PE**



**Fig 8: Share price**



Source: Affin estimates, Company data

# HAIO - Financial Summary

## Profit & Loss Statement

FYE 30 April (RMm)	*2007	2008	2009E	2010E	2011E
Revenue	189.3	373.8	378.3	421.2	466.8
Operating expenses	-156.7	-306.5	-313.4	-352.1	-392.8
EBITDA	32.6	67.3	64.9	69.1	74.0
Depreciation	-1.8	-3.2	-4.1	-4.4	-4.6
EBIT	30.5	67.3	60.7	64.6	69.3
Net int income/(expense)	0.1	0.5	-0.1	0.3	1.2
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	30.6	67.7	60.6	65.0	70.5
Tax	-8.5	-18.7	-15.2	-16.2	-17.6
Minority interest	-0.7	-0.6	-1.5	-1.6	-1.7
Net profit	21.4	48.5	44.0	47.2	51.2

## Balance Sheet Statement

FYE 30 April (RMm)	*2007	2008	2009E	2010E	2011E
Fixed assets	22.0	48.2	49.5	50.4	48.7
Other long term assets	31.7	31.8	31.7	31.7	31.6
<b>Total non-current assets</b>	<b>53.8</b>	<b>80.0</b>	<b>81.2</b>	<b>82.1</b>	<b>80.3</b>
Cash and equivalents	16.9	12.3	48.9	60.0	76.8
Stocks	33.9	53.4	54.0	60.2	66.7
Debtors	14.8	33.9	36.4	40.6	45.0
Other current assets	29.6	18.6	18.6	18.6	18.6
<b>Total current assets</b>	<b>95.2</b>	<b>118.3</b>	<b>158.0</b>	<b>179.4</b>	<b>207.1</b>
Creditors	21.6	42.4	46.3	50.8	56.8
Short term borrowings	7.4	7.8	7.4	7.4	7.4
Other current liabilities	9.0	14.3	12.6	13.1	13.8
<b>Total current liabilities</b>	<b>38.0</b>	<b>64.6</b>	<b>66.2</b>	<b>71.3</b>	<b>78.0</b>
Long term borrowings	0.0	0.0	20.0	20.0	20.0
Other long term liabilities	0.1	0.1	(0.3)	(0.7)	(1.1)
<b>Total long term liabilities</b>	<b>0.1</b>	<b>0.1</b>	<b>19.7</b>	<b>19.3</b>	<b>18.9</b>
<b>Shareholders' Funds</b>	<b>105.7</b>	<b>128.4</b>	<b>148.9</b>	<b>167.4</b>	<b>188.2</b>
<b>Minority interest</b>	<b>5.2</b>	<b>5.3</b>	<b>4.4</b>	<b>3.4</b>	<b>2.4</b>

\*Changes in accounting policies to FRS 134

## Cash Flow Statement

FYE 30 April (RMm)	*2007	2008	2009E	2010E	2011E
EBIT	30.5	67.3	60.7	64.6	69.3
Depreciation & amortisation	2.1	3.3	4.2	4.5	4.7
Working capital changes	-7.6	-1.5	-1.1	-5.2	-4.2
Cash tax paid	-8.5	-18.7	-15.2	-16.2	-17.6
Others	11.3	-13.1	-5.1	-8.3	-8.6
<b>Cashflow from operation</b>	<b>27.8</b>	<b>37.3</b>	<b>43.6</b>	<b>39.4</b>	<b>43.5</b>
Capex	-1.9	-29.0	-5.0	-5.0	-2.5
Others	-9.1	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>-11.0</b>	<b>-29.0</b>	<b>-5.0</b>	<b>-5.0</b>	<b>-2.5</b>
Debt raised/(repaid)	2.8	0.4	19.6	0.0	0.0
Dividends paid	-7.1	-24.7	-22.1	-23.6	-25.4
Others	-5.5	0.7	0.4	0.3	1.2
<b>Cash flow from financing</b>	<b>-9.8</b>	<b>-23.6</b>	<b>-2.1</b>	<b>-23.3</b>	<b>-24.2</b>
<b>Free Cash Flow</b>	<b>25.9</b>	<b>8.3</b>	<b>38.6</b>	<b>34.4</b>	<b>41.0</b>

Source: Affin estimates, Company data

## Key Financial Ratios and Margins

FYE 30 April (RMm)	*2007	2008	2009E	2010E	2011E
<b>Growth</b>					
Revenue (%)	29.0	97.4	1.2	11.3	10.8
EBITDA (%)	89.1	106.1	-3.5	6.5	7.0
Core net profit (%)	110.0	126.8	-9.3	7.2	8.5
<b>Profitability</b>					
EBITDA margin (%)	17.2	18.0	17.2	16.4	15.9
PBT margin (%)	16.2	18.1	16.0	15.4	15.1
Net profit margin (%)	11.3	13.0	11.6	11.2	11.0
Effective tax rate (%)	27.8	27.6	25.0	25.0	25.0
ROA (%)	18.2	29.1	21.2	20.5	20.0
Core ROE (%)	21.9	41.4	31.7	29.8	28.8
ROCE (%)	29.5	54.0	38.9	34.8	33.8
Dividend payout ratio (%)	69.2	68.9	69.7	69.5	68.9
<b>Liquidity</b>					
Current ratio (x)	2.5	1.8	2.4	2.5	2.7
Op. cash flow (RMm)	27.8	37.3	43.6	39.4	43.5
Free cashflow (RMm)	25.9	8.3	38.6	34.4	41.0
FCF/share (sen)	31.5	9.9	46.0	40.9	48.9
<b>Asset management</b>					
Debtors turnover (days)	46.9	34.3	37.1	37.1	35.1
Stock turnover (days)	72.7	52.0	62.6	59.2	58.9
Creditors turnover (days)	52.0	38.1	51.6	50.3	49.9
<b>Capital structure</b>					
Net gearing (%)		net cash	net cash	net cash	net cash
Interest cover (x)		n.a.	n.a.	n.a.	n.a.

## Quarterly Profit & Loss

FYE 30 April (RMm)	4Q07	1Q08	2Q08	3Q08	4Q08
Revenue	56.7	59.3	80.5	100.5	133.5
Operating expenses	-46.7	-49.5	-67.6	-82.1	-107.4
EBITDA	10.0	9.8	12.9	18.4	26.2
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	10.0	9.8	12.9	18.4	26.2
Net int income/(expense)	0.2	0.0	0.1	0.1	0.3
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pretax profit	10.2	9.8	13.0	18.5	26.4
Tax	-2.4	-2.9	-3.6	-4.9	-7.3
Minority interest	0.0	0.1	-0.3	-0.1	-0.2
Net profit	7.8	7.1	9.1	13.4	18.9
Core net profit	7.8	7.1	9.1	13.4	18.9
<b>Margins (%)</b>					
EBITDA	17.6	16.5	16.0	18.3	19.6
PBT	18.0	16.6	16.1	18.4	19.8
Net profit	13.7	11.9	11.3	13.3	14.2

### 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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