

## Results Note

## Hai-O Ent

HAIO MK  
RM3.06

**REDUCE (downgrade)**

**Target Price: RM2.90 (↓)**



## Price Performance

	1M	3M	12M
Absolute	-10.0%	-1.3%	+6.1%
Rel to KLCI	-9.7%	+11.2%	+66.9%

## Stock Data

Issued shares (m)	84.2
Mkt cap (RMm)	257.6
Avg daily vol - 6mth (m)	0.11
52-wk range (RM)	3.90-2.61
Est free float	40%
NTA per share (RM)	1.96
P/NTA (x)	1.56
Net cash/ (debt) (RMm)	23.7
ROE (2009F)	28.4
Derivatives	Nil

## Key Shareholders

Tan family	25.6%
Maybank Smallcap	3.9%

## Earnings &amp; Valuation Revisions

	09E	10E	11E
Prev EPS (sen)	58.6	63.4	69.2
Curr EPS (sen)	46.8	49.7	53.7
Chg (%)	-20.1	-21.6	-22.3
Prev target price (RM)		3.66	
Curr target price (RM)		2.90	

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## Dampened MLM sales

## Impact from volatile capital market filtered into a weak 2QFY09

Hai-O's weaker 2QFY09 net earnings of RM10.9m (-19.8% qoq, +20.0% yoy) was affected mainly by a sales decline in its MLM division, as consumers turned more cautious on the back of the volatile capital markets during the period. Annualised net earnings would be below our forecasts by 17.3% and consensus' net earnings by 6.6%.

## MLM division is lower qoq

The MLM division, which contribute the bulk of revenue at 76% of total revenue in 2QFY09, tumbled by 28.0% qoq. This is mainly due to pullback on spending on two of its major high-value product contributor, i.e. water treatment and slimming products. Also, the Ramadhan month is generally a quieter month for the company. The company indicated that MLM sales declined by 20% mom in the September-October 2008, although this has now picked up again since November 2008. The retail division (11.5% of total revenue) did better with 26.1% rise qoq in revenue, attributed to more sales promotional activities.

## More cautious outlook ahead

The company indicated a more cautious outlook for its MLM division, which is dependent on two major high-value items (water-treatment and slimming product cost close to RM3,000 each). This would be somewhat mitigated by its new product launches, mainly a new skincare line (scheduled to be launched in February 2009) and a health food supplement, which is expected to be launched soon before end-December 2008. Overall, the company hinted that its potential customers are likely to be more cautious going forward given the current economic slowdown.

## The retail and wholesale business is expected to be more resilient

As for the retail division, the company expect this to register single-digit growth overall for FY09. The wholesale division (38% of total revenue) is expected to see flattish growth overall for FY09.

## Downgrade to REDUCE with new TP of RM2.90

We downgrade our revenue growth assumption for the MLM division, to -10% growth for FY09, from a marginal growth of +0.5% previously. We believe there is also a chance that its dividend payout policy (which is a minimum dividend payout of 50% of net earnings) may not hold post-FY09, given that other listed companies are also indicating a reduction in dividend policy to preserve capital. At the moment the company remains comfortable with a minimum payout of 50% for FY09. We reduce our TP to RM2.90 based on a PE of 6x as earnings growth is expected to fall to within the 6% to 8% range over FY10-11.

FYE30 April	2007	2008	2009F	2010F	2011F
Revenue (RMm)	189.3	373.8	362.7	403.5	447.1
EBITDA (RMm)	32.6	67.3	58.4	61.7	65.7
Pretax profit (RMm)	30.6	67.7	54.1	57.5	62.2
Net profit (RMm)	21.4	48.5	39.3	41.8	45.1
EPS (sen)	26.0	58.1	46.8	49.7	53.7
EPS growth (%)	110.0	123.3	(19.5)	6.3	8.1
PER (x)	11.8	5.3	6.5	6.2	5.7
Core net profit (RMm)	21.4	48.5	39.3	41.8	45.1
Core EPS (sen)	26.0	58.1	46.8	49.7	53.7
Core PER (x)	11.8	5.3	6.5	6.2	5.7
DPS (sen)	18.0	40.0	29.5	32.5	35.5
Dividend Yield (%)	5.9	13.1	9.6	10.6	11.6
EV/EBITDA (x)	6.8	3.5	3.7	3.3	2.9
Consensus profit (RMm)			50.3	54.0	58.1
Affin/Consensus (x)			0.8	0.7	0.8

**Fig 1: Quarterly Results Comparison**

FYE April (RMm)	2QFY08	1QFY09	2QFY09	QoQ % chg	YoY % chg	Comment
Revenue	80.5	112.9	87.3	(22.7)	8.4	Slower sales qoq due to quieter Ramadhan month and impact on consumer spending from the volatile capital market. Still recorded a yoy increase mainly because of its MLM division.
Op costs	(93.4)	(131.5)	(102.8)	(21.8)	10.1	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	12.9	18.6	15.5	(16.6)	20.4	
EBITDA margin (%)	16.0	16.5	17.8	nm	nm	EBITDA margin in line with our estimates
Int expense	(0.1)	(0.2)	(0.5)	130.9	397.9	
Int and other inc	0.2	0.3	0.3	(8.8)	51.5	
Associates	0.0	0.0	0.0	nm	nm	
<b>Pretax</b>	<b>13.0</b>	<b>18.7</b>	<b>15.3</b>	<b>(18.1)</b>	<b>18.1</b>	
Tax	(3.6)	(5.1)	(4.2)	(18.0)	16.0	
Tax rate (%)	27.8	27.2	27.3	nm	nm	
MI	(0.3)	(0.0)	(0.2)	995.5	nm	
<b>Net profit</b>	<b>9.1</b>	<b>13.6</b>	<b>10.9</b>	<b>(19.8)</b>	<b>20.0</b>	2QFY09 made up 22.2% of our net earnings and 21.7% of consensus forecasts for FY09
EPS (sen)	10.8	16.2	13.0	(19.8)	20.0	
<b>Core net profit</b>	<b>9.1</b>	<b>13.6</b>	<b>10.9</b>	<b>(19.8)</b>	<b>20.0</b>	

Source: Affin estimates, Company data

**Fig 2: Cumulative Results Comparison**

FYE April (RMm)	YTD2008	YTD2009	YTD % chg	Comment
Revenue	181.0	200.2	10.6	Yoy growth came mainly from its MLM division. But revenue if annualised is 14.9% below our forecasts
Op costs	(212.3)	(234.3)	10.4	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	31.3	34.1	9.1	
EBITDA margin (%)	17.3	17.0	nm	
Int expense	(0.2)	(0.7)	187.8	
Int and other inc	0.4	0.6	51.9	
Associates	0.0	0.0	nm	
<b>Pretax</b>	<b>31.4</b>	<b>34.1</b>	<b>8.3</b>	
Tax	(8.6)	(9.3)	8.5	
Tax rate (%)	27.2	27.3	nm	
MI	(0.4)	(0.3)	(34.6)	
<b>Net profit</b>	<b>22.5</b>	<b>24.5</b>	<b>9.0</b>	Net earnings if annualised came in 17.3% below our forecasts and 6.6% below consensus' RM50.3m for FY09
EPS (sen)	26.9	29.3	9.0	
<b>Core net profit</b>	<b>22.5</b>	<b>24.5</b>	<b>9.0</b>	

Source: Affin estimates, Company data

**Fig 3: Segmental Revenue Breakdown**

FY April (RMm)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Wholesale	21.2	20.1	30.2	34.8	25.5	31.6	57.8	53.1	44.7	32.8
MLM	17.3	21.0	28.6	32.8	40.0	59.5	74.7	107.3	91.5	65.9
Retail	7.9	9.9	8.1	11.8	7.9	10.0	10.5	11.0	8.0	10.0
Manufacturing	0.9	0.9	0.9	0.8	1.2	0.7	0.8	1.1	1.2	1.1
Others	(7.9)	(10.0)	(16.5)	(23.4)	(15.3)	(21.4)	(43.4)	(39.1)	(32.5)	(22.6)
<b>Total</b>	<b>39.4</b>	<b>41.9</b>	<b>51.4</b>	<b>56.7</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>
Qoq (%)	14.8	6.4	22.8	10.3	4.5	35.8	24.8	32.9	(15.5)	(22.7)
Yoy (%)	16.1	4.0	43.4	65.4	50.6	92.3	95.5	135.5	90.5	8.4
<b>Contribution (%)</b>										
Wholesale	53.7	48.1	58.8	61.3	43.0	39.3	57.6	39.8	39.6	37.6
MLM	43.9	50.2	55.6	57.9	67.6	73.9	74.4	80.3	81.1	75.5
Retail	20.0	23.6	15.8	20.8	13.3	12.5	10.5	8.3	7.1	11.5
Manufacturing	2.3	2.1	1.8	1.3	2.0	0.9	0.8	0.9	1.1	1.3
Others	(19.9)	(24.0)	(32.1)	(41.3)	(25.9)	(26.5)	(43.2)	(29.2)	(28.8)	(25.9)
<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>	<b>100.0</b>

Source: Affin estimates, Company data

Fig 4: Segmental EBIT Breakdown

FY April (RMm)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Wholesale	3.5	1.7	6.0	10.4	3.2	2.1	7.4	24.4	3.6	3.9
MLM	2.3	3.4	4.3	3.9	5.7	9.1	10.8	21.2	14.2	10.1
Retailing	0.2	0.9	(0.2)	0.7	0.2	1.1	0.2	0.6	0.3	0.8
Manufacturing	0.1	0.1	0.0	0.1	0.2	0.1	0.1	0.2	0.3	0.1
Others	(0.1)	0.9	0.4	1.0	0.7	0.3	0.4	0.2	(0.1)	1.0
Elimination	(0.2)	0.2	(3.1)	(6.0)	(0.1)	0.3	(0.4)	(20.4)	0.3	(0.3)
<b>Total</b>	<b>5.8</b>	<b>7.2</b>	<b>7.5</b>	<b>10.0</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>Contribution (%)</b>										
Wholesale	60.4%	23.4%	80.4%	103.8%	33.0%	16.1%	40.2%	93.3%	13.8%	30.3%
MLM	39.3%	47.7%	56.8%	39.1%	58.0%	70.6%	58.7%	81.1%	54.4%	78.6%
Retailing	4.0%	12.3%	(2.3%)	7.0%	1.6%	8.3%	0.9%	2.3%	1.1%	6.2%
Manufacturing	2.5%	0.9%	0.6%	0.7%	1.7%	0.4%	0.4%	0.6%	1.0%	0.6%
Others	(2.4%)	13.2%	5.4%	9.7%	7.1%	2.6%	1.9%	0.7%	(0.5%)	7.4%
Elimination	(3.9%)	2.5%	(40.9%)	(59.8%)	(1.4%)	2.0%	(2.1%)	(78.1%)	1.2%	(2.6%)
<b>Margin (%)</b>										
Wholesale	16.5%	8.4%	19.9%	29.8%	12.7%	6.6%	12.8%	46.0%	8.1%	11.9%
MLM	13.2%	16.3%	14.9%	11.9%	14.2%	15.3%	14.4%	19.8%	15.6%	15.4%
Retailing	3.0%	9.0%	(2.1%)	5.9%	2.0%	10.7%	1.6%	5.4%	3.5%	8.0%
Manufacturing	15.9%	7.4%	5.1%	9.6%	14.0%	7.8%	10.5%	13.5%	22.2%	6.9%
Others	(6.8%)	58.1%	21.7%	46.0%	40.2%	14.6%	13.6%	8.6%	(7.7%)	43.4%
Elimination	2.3%	(1.5%)	16.7%	23.4%	0.8%	(1.1%)	0.9%	49.5%	(0.9%)	1.4%

Source: Affin estimates, Company data

### 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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