

## Results Note

## Hai-O Ent

HAIO MK  
RM3.34

ADD (maintain)

Target Price: RM3.66



## Price Performance

|             | 1M     | 3M     | 12M    |
|-------------|--------|--------|--------|
| Absolute    | -12.1% | -5.6%  | +32.6% |
| Rel to KLCI | -8.4%  | +10.1% | +67.7% |

## Stock Data

|                          |           |
|--------------------------|-----------|
| Issued shares (m)        | 84.2      |
| Mkt cap (RMm)            | 281.1     |
| Avg daily vol - 6mth (m) | 0.10      |
| 52-wk range (RM)         | 3.90-2.48 |
| Est free float           | 40%       |
| NTA per share (RM)       | 1.85      |
| P/NTA (x)                | 1.81      |
| Net cash/ (debt) (RMm)   | 75.8      |
| ROE (2009F)              | 34.3%     |
| Derivatives              | Nil       |

## Key Shareholders

|                  |       |
|------------------|-------|
| Tan family       | 25.6% |
| Maybank Smallcap | 3.9%  |

## Earnings &amp; Valuation Revisions

|                        | 08E  | 09E  | 10E  |
|------------------------|------|------|------|
| Prev EPS (sen)         | 58.6 | 63.4 | 69.2 |
| Curr EPS (sen)         | 58.6 | 63.4 | 69.2 |
| Chg (%)                | --   | --   | --   |
| Prev target price (RM) |      |      | 3.66 |
| Curr target price (RM) |      |      | 3.66 |

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## Within expectations; Lower sales dragged earnings

## Lower earnings dragged down by wholesale, retail &amp; MLM

Hai-O's 1QFY09 sales (RM112.9m) and net profit (RM13.6m) declined 15.5% and 28.2% qoq respectively, dragged down by; 1) weaker sales in its wholesale division (-15.9% qoq) as the significant fuel price hike in Jun 08 affected sales in the Chinese Medical Hall unit while the fall in Pu-Er tea prices dampened margins; 2) lower sales in retail division (-27.8% qoq) as 1Q (May to July) has historically been a seasonally weak quarter; and 3) lower sales in MLM due to higher base in 4QFY08 when distributors boosted sales achieve incentives targets (e.g. trip to Paris). EBITDA margins therefore declined to 16.4% from 19.6% in 4QFY08. Annualised results are within expectations, accounting for 28% and 26% respectively of our and consensus forecasts.

## Net profit almost doubled yoy

Yoy, net profit grew by 92.6% driven by revenue growth of +90.5%. The strong yoy revenue and profit growth were attributable to: 1) stronger sales from the MLM division (+128.6% yoy) driven largely by a dedicated network of distributors and stronger core distributors productivity (total member force reach above 70,000 from 60,000 in 2007); 2) increased sales of higher margin house-brand products in the retail division; and 3) better margin from OEM contracts in pharmaceutical manufacturing division. Despite the higher sales, EBITDA margin was relatively flat compared to 16.5% in 1QFY09 largely due to higher fuel cost and inflationary pressure.

## MLM annual sales growth of 12%-13% in FY09-10 achievable

We continue to expect revenue growth of 12%-13% p.a. over FY09-10 for the MLM division driven by: 1) the introduction of new products, including skincare which is expected to be launched in Nov 08; 2) expanding its network of distributors and increasing distributor productivity; and 3) the addition of 3 to 5 stockists in the eastern and southern region. Management also plan to kick-start the MLM business in Indonesia in 2HFY09 with the introduction of its inner beauty wear and nutritional food products. We have yet to factor this into our earnings pending better clarity on the market response to its products. The MLM division is the key division in the group, accounting for 75% and 70% of group revenue and net profit in FY08 respectively.

## Maintain ADD with a target price of RM3.66

We are keeping our forecasts and ADD rating with SOP-based target price of RM3.66. Key risks to our view are: 1) slowdown would impact sales and margins, and 2) weaker market sentiment.

## Earnings and Valuation Summary

| FYE 30 April           | 2007  | 2008  | 2009F | 2010F | 2011F |
|------------------------|-------|-------|-------|-------|-------|
| Revenue (RMm)          | 189.3 | 373.8 | 395.5 | 440.6 | 488.5 |
| EBITDA (RMm)           | 32.6  | 67.3  | 72.1  | 77.3  | 83.1  |
| Pretax profit (RMm)    | 30.6  | 67.7  | 67.7  | 73.3  | 80.1  |
| Net profit (RMm)       | 21.4  | 48.5  | 49.2  | 53.2  | 58.1  |
| EPS (sen)              | 26.0  | 58.1  | 58.6  | 63.4  | 69.2  |
| EPS growth (%)         | 110.0 | 123.3 | 0.8   | 8.2   | 9.2   |
| PER (x)                | 12.8  | 5.8   | 5.7   | 5.3   | 4.8   |
| Core net profit (RMm)  | 21.4  | 48.5  | 49.2  | 53.2  | 58.1  |
| Core EPS (sen)         | 26.0  | 58.1  | 58.6  | 63.4  | 69.2  |
| Core PER (x)           | 12.8  | 5.8   | 5.7   | 5.3   | 4.8   |
| DPS (sen)              | 18.0  | 40.0  | 29.5  | 32.5  | 35.5  |
| Dividend Yield (%)     | 5.4   | 12.0  | 8.8   | 9.7   | 10.6  |
| EV/EBITDA (x)          | 7.6   | 3.8   | 3.2   | 2.7   | 2.2   |
| Consensus profit (RMm) |       |       | 51.9  | 57.1  | 59.1  |
| Affin/Consensus (x)    |       |       | 0.9   | 0.9   | 1.0   |

**Figure 1: Quarterly Results Comparison**

| FYE April (RMm)          | 1QFY08      | 4QFY08      | 1QFY09      | QoQ<br>% chg  | YoY<br>% chg | Comment  |
|--------------------------|-------------|-------------|-------------|---------------|--------------|--|
| Revenue                  | 59.3        | 133.5       | 112.9       | (15.5)        | 90.5         | In line. Lower revenue growth qoq largely due to MLM, wholesale and retail divisions |
| Op costs                 | (69.1)      | (159.7)     | (131.5)     | (17.7)        | 90.4         | In line with expectations  |
| Exceptional gain/losses  | 0.0         | 0.0         | 0.0         | nm            | nm           |  |
| EBIT                     | 9.8         | 26.2        | 18.6        | (28.9)        | 89.6         |  |
| <b>EBITDA margin (%)</b> | <b>16.5</b> | <b>19.6</b> | <b>16.5</b> | <b>nm</b>     | <b>nm</b>    | In line. Lower margin due to lower sales from MLM, wholesale, and retail divisions   |
| Int expense              | (0.1)       | (0.1)       | (0.2)       | 256.9         | 105.0        |  |
| Int and other inc        | 0.1         | 0.3         | 0.3         | 2.2           | 145.5        |  |
| Associates               | 0.0         | 0.0         | 0.0         | nm            | nm           |  |
| <b>Pretax</b>            | <b>9.8</b>  | <b>26.4</b> | <b>18.7</b> | <b>(29.2)</b> | <b>90.2</b>  |  |
| Tax                      | (2.9)       | (7.3)       | (5.1)       | (29.8)        | 78.7         | In line with expectations  |
| <b>Tax rate (%)</b>      | <b>29.0</b> | <b>27.5</b> | <b>27.2</b> | <b>nm</b>     | <b>nm</b>    |  |
| MI                       | 0.1         | (0.2)       | (0.0)       | (90.3)        | nm           |  |
| <b>Net profit</b>        | <b>7.1</b>  | <b>18.9</b> | <b>13.6</b> | <b>(28.2)</b> | <b>92.6</b>  | In line with expectations  |
| EPS (sen)                | 8.4         | 22.5        | 16.2        | (28.2)        | 92.6         |  |
| <b>Core net profit</b>   | <b>7.1</b>  | <b>18.9</b> | <b>13.6</b> | <b>(28.2)</b> | <b>92.6</b>  |  |

**Figure 2: Segmental Revenue Breakdown**

| FY April (RMm)          | 1Q2006      | 2Q2006      | 3Q2006      | 4Q2006      | 1Q2007      | 2Q2007      | 3Q2007      | 4Q2007      | 1Q2008      | 2Q2008      | 3Q2008       | 4Q2008       | 1Q2009       |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Wholesale               | 22.6        | 24.8        | 28.7        | 18.8        | 21.2        | 20.1        | 30.2        | 34.8        | 25.5        | 31.6        | 57.8         | 53.1         | 44.7         |
| MLM                     | 13.6        | 16.2        | 10.7        | 13.7        | 17.3        | 21.0        | 28.6        | 32.8        | 40.0        | 59.5        | 74.7         | 107.3        | 91.5         |
| Retail                  | 7.6         | 7.9         | 9.8         | 8.2         | 7.9         | 9.9         | 8.1         | 11.8        | 7.9         | 10.0        | 10.5         | 11.0         | 8.0          |
| Manufacturing           | 0.9         | 0.9         | 0.8         | 0.7         | 0.9         | 0.9         | 0.9         | 0.8         | 1.2         | 0.7         | 0.8          | 1.1          | 1.2          |
| Others                  | 3.9         | 4.2         | 4.0         | 1.8         | 2.0         | 1.6         | 1.9         | 2.1         | 1.7         | 2.3         | 2.6          | 2.2          | 1.8          |
| Elimination             | (14.7)      | (13.7)      | (18.1)      | (9.0)       | (9.8)       | (11.7)      | (18.3)      | (25.5)      | (17.1)      | (23.7)      | (46.0)       | (41.3)       | (34.3)       |
| <b>Total</b>            | <b>33.9</b> | <b>40.3</b> | <b>35.8</b> | <b>34.3</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> |
| Qoq (%)                 |             | 18.7        | (10.9)      | (4.4)       | 14.8        | 6.4         | 22.8        | 10.3        | 4.5         | 35.8        | 24.8         | 32.9         | (15.5)       |
| Yoy (%)                 |             |             |             |             | 16.1        | 4.0         | 43.4        | 65.4        | 50.6        | 92.3        | 95.5         | 135.5        | 90.5         |
| <b>Contribution (%)</b> |             |             |             |             |             |             |             |             |             |             |              |              |              |
| Wholesale               | 66.8        | 61.6        | 80.0        | 54.8        | 53.7        | 48.1        | 58.8        | 61.3        | 43.0        | 39.3        | 71.8         | 66.0         | 55.5         |
| MLM                     | 40.2        | 40.2        | 29.8        | 39.8        | 43.9        | 50.2        | 55.6        | 57.9        | 67.6        | 73.9        | 92.8         | 133.3        | 113.7        |
| Retail                  | 22.4        | 19.7        | 27.5        | 23.9        | 20.0        | 23.6        | 15.8        | 20.8        | 13.3        | 12.5        | 13.1         | 13.7         | 9.9          |
| Manufacturing           | 2.7         | 2.3         | 2.2         | 2.2         | 2.3         | 2.1         | 1.8         | 1.3         | 2.0         | 0.9         | 0.9          | 1.4          | 1.5          |
| Others                  | 11.4        | 10.3        | 11.2        | 5.3         | 5.1         | 3.9         | 3.6         | 3.7         | 2.9         | 2.9         | 3.3          | 2.8          | 2.2          |
| Elimination             | (43.5)      | (34.1)      | (50.6)      | (26.1)      | (25.0)      | (27.9)      | (35.7)      | (45.0)      | (28.8)      | (29.4)      | (57.1)       | (51.3)       | (42.6)       |

**Figure 3: Segmental EBIT Breakdown**

| <b>FY April (RMm)</b>   | <b>1Q2006</b> | <b>2Q2006</b> | <b>3Q2006</b> | <b>4Q2006</b> | <b>1Q2007</b> | <b>2Q2007</b> | <b>3Q2007</b> | <b>4Q2007</b> | <b>1Q2008</b> | <b>2Q2008</b> | <b>3Q2008</b> | <b>4Q2008</b> | <b>1Q2009</b> |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Wholesale               | 1.8           | 2.5           | 5.7           | (2.0)         | 3.5           | 1.7           | 6.0           | 10.4          | 3.2           | 2.1           | 7.4           | 24.4          | 3.6           |
| MLM                     | 1.3           | 1.9           | 1.3           | 2.0           | 2.3           | 3.4           | 4.3           | 3.9           | 5.7           | 9.1           | 10.8          | 21.2          | 14.2          |
| Retail                  | (0.2)         | 0.7           | 0.3           | (0.1)         | 0.2           | 0.9           | (0.2)         | 0.7           | 0.2           | 1.1           | 0.2           | 0.6           | 0.3           |
| Manufacturing           | 0.1           | 0.1           | 0.1           | 0.1           | 0.1           | 0.1           | 0.0           | 0.1           | 0.2           | 0.1           | 0.1           | 0.2           | 0.3           |
| Others                  | 0.1           | (1.0)         | (0.1)         | 0.2           | (0.1)         | 0.9           | 0.4           | 1.0           | 0.7           | 0.3           | 0.4           | 0.2           | (0.1)         |
| Elimination             | (0.2)         | 0.8           | (3.1)         | 3.2           | (0.2)         | 0.2           | (3.1)         | (6.0)         | (0.1)         | 0.3           | (0.4)         | (20.4)        | 0.3           |
| <b>Total</b>            | <b>2.9</b>    | <b>5.1</b>    | <b>4.1</b>    | <b>3.4</b>    | <b>5.8</b>    | <b>7.2</b>    | <b>7.5</b>    | <b>10.1</b>   | <b>9.8</b>    | <b>12.9</b>   | <b>18.4</b>   | <b>26.2</b>   | <b>18.6</b>   |
| Qoq (%)                 |               | 74.2          | (20.0)        | (16.0)        | 68.0          | 24.3          | 4.3           | 34.0          | (2.4)         | 31.3          | 42.7          | 42.3          | (29.1)        |
| Yoy (%)                 |               |               |               |               | 96.5          | 40.3          | 82.9          | 191.9         | 69.6          | 79.1          | 145.2         | 160.4         | 89.2          |
| <b>Contribution (%)</b> |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Wholesale               | 62.1          | 48.8          | 139.5         | (56.9)        | 60.4          | 23.4          | 80.4          | 103.2         | 33.0          | 16.1          | 40.2          | 93.3          | 19.4          |
| MLM                     | 44.8          | 37.6          | 31.0          | 58.0          | 39.3          | 47.7          | 56.8          | 38.8          | 58.0          | 70.6          | 58.7          | 81.1          | 76.7          |
| Retail                  | (6.6)         | 13.9          | 6.5           | (4.2)         | 4.0           | 12.3          | (2.3)         | 7.0           | 1.6           | 8.3           | 0.9           | 2.3           | 1.5           |
| Manufacturing           | 4.6           | 2.6           | 3.1           | 3.4           | 2.5           | 0.9           | 0.6           | 0.7           | 1.7           | 0.4           | 0.4           | 0.6           | 1.4           |
| Others                  | 3.0           | (19.3)        | (3.5)         | 7.1           | (2.4)         | 13.2          | 5.4           | 9.7           | 7.1           | 2.6           | 1.9           | 0.7           | (0.7)         |
| Elimination             | (7.9)         | 16.4          | (76.7)        | 92.6          | (3.9)         | 2.5           | (40.9)        | (59.4)        | (1.4)         | 2.0           | (2.1)         | (78.1)        | 1.7           |
| <b>Margin (%)</b>       |               |               |               |               |               |               |               |               |               |               |               |               |               |
| Wholesale               | 8.1           | 10.1          | 19.9          | (10.4)        | 16.5          | 8.4           | 19.9          | 29.8          | 12.7          | 6.6           | 12.8          | 46.0          | 8.1           |
| MLM                     | 9.7           | 11.9          | 11.9          | 14.6          | 13.2          | 16.3          | 14.9          | 11.9          | 14.2          | 15.3          | 14.4          | 19.8          | 15.6          |
| Retail                  | (2.5)         | 9.0           | 2.7           | (1.8)         | 3.0           | 9.0           | (2.1)         | 5.9           | 2.0           | 10.7          | 1.6           | 5.4           | 3.5           |
| Manufacturing           | 15.1          | 14.0          | 16.7          | 15.5          | 15.9          | 7.4           | 5.1           | 9.6           | 14.0          | 7.8           | 10.5          | 13.5          | 22.2          |
| Others                  | 2.3           | (23.7)        | (3.5)         | 13.4          | (6.8)         | 58.1          | 21.7          | 46.0          | 40.2          | 14.6          | 13.6          | 8.6           | (7.7)         |
| Elimination             | 1.6           | (6.1)         | 17.3          | (35.6)        | 2.3           | (1.5)         | 16.7          | 23.4          | 0.8           | (1.1)         | 0.9           | 49.5          | (0.9)         |
| <b>EBIT margin</b>      | <b>8.7</b>    | <b>12.7</b>   | <b>11.4</b>   | <b>10.0</b>   | <b>14.7</b>   | <b>17.2</b>   | <b>14.6</b>   | <b>17.7</b>   | <b>16.5</b>   | <b>16.0</b>   | <b>18.3</b>   | <b>19.6</b>   | <b>16.4</b>   |

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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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