

Results Note

Hai-O Ent

HAI O MK
RM3.84

BUY (maintain)

Target Price: RM4.50



Price Performance

	1M	3M	12M
Absolute	+1.1%	+23.9%	+60.5%
Rel to KLCI	+7.0%	+29.0%	+81.0%

Stock Data

Issued shares (m)	83.5
Mkt cap (RMm)	320.7
Avg daily vol - 6mth (m)	0.09
52-wk range (RM)	3.84-2.08
Est free float	40%
NTA per share (RM)	1.69
P/NTA (x)	2.27
Net cash/ (debt) (RMm)	86.7
ROE (2008F)	37.7%
Derivatives	Nil

Key Shareholders

Tan family	25.6%
Maybank Smallcap	3.9%

Earnings & Valuation Revisions

	09E	10E	11E
Prev EPS (sen)	58.9	64.5	70.5
Curr EPS (sen)	58.9	64.5	70.5
Chg (%)	---	--	--
Prev target price (RM)			4.48
Curr target price (RM)			4.50

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Stellar performance; net profit more than doubled

Strong earnings; results above ours and street expectations

Hai-O delivered a strong FY08 results with net profit more than doubled to RM48.5m (+128.6% yoy) from RM21.4m a year ago. Results are 8% above our expectations due to lower-than-expected minority interest, and surpass consensus forecast by 28%. Hai-O declared a final gross DPS of 32 sen (final gross DPS of 13 sen in 4QFY07). Including 2QFY08 interim gross DPS of 8 sen, the total FY08 gross dividend amounted to 40 sen (10.4% dividend yield or 69% dividend payout) and exceeds our 27 sen forecast (vs. consensus 26.5 sen). We keep our FY09-10 DPS projections at 29.5 sen and 32.5 sen on the assumption that management reverts to a dividend payout policy of 50%.

Strong sales from MLM, and better margins in all divisions

The strong earnings growth was driven by revenue growth of +97.4% yoy to RM373.8m, mainly due to stronger sales from the MLM division (+182.5% yoy) which was driven largely by: 1) a growing network of distributors and stronger core distributors productivity; and 2) its successful overseas trip incentive campaign. EBIT margin expanded to 19.6% vs. 18.3% in FY07, driven largely by higher contribution from its MLM division (accounts for 75.3% of sales in FY08 vs. 52.7% of sales in FY07), underpinned by rising sales of its higher margin inner beauty wear products and water filters. Improved margins were also seen across its 3 other businesses; 1) wholesale division - growing contribution from its tea products; 2) retail division - increase house brand products and 3) pharmaceutical manufacturing division - has changed for the better after undertaking a restructuring and turnaround of its subsidiaries. Moving forward, we expect MLM division revenue growth to moderate to 12%-13% over FY09-10 in view of the inflationary pressure. Growth is underpinned by: 1) increased in new distributor force, 2) introduction of new product range - skincare and cosmetics in 1HFY09; 4) kick-start of MLM operations in Indonesia in 2HFY09.

Distribution of 1-for-25 share dividend

Hai-O also surprises by proposing a distribution of one treasury share for every twenty five existing ordinary shares held by its shareholders and the entitlement date is on 31st July 2008. Recall over the past 6 months, Hai-O has bought back 896,100 shares and its cumulative Treasury shares presently stands at 3.4m shares (4.1% of issued shares of 83.5m) worth RM13.1m.

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	72.7	79.1	85.1
Pretax profit (RMm)	30.6	67.7	68.2	74.6	81.5
Net profit (RMm)	21.4	48.5	49.5	54.2	59.2
EPS (sen)	26.0	58.1	58.9	64.5	70.5
EPS growth (%)	110.0	123.3	1.5	9.4	9.2
PER (x)	14.8	6.6	6.5	6.0	5.5
Core net profit (RMm)	21.4	48.5	49.5	54.2	59.2
Core EPS (sen)	26.0	58.1	58.9	64.5	70.5
Core PER (x)	14.8	6.6	6.5	6.0	5.5
DPS (sen)	18.0	40.0	29.5	32.5	35.5
Dividend Yield (%)	4.7	10.4	7.7	8.5	9.2
EV/EBITDA (x)	8.8	4.4	3.8	3.2	2.7
Consensus profit (RMm)		37.8	41.4	50.5	-
Affin/Consensus (x)			1.2	1.1	n.a.

Maintain FY09-10 earnings forecasts; introduce FY11 EPS of 70.5 sen

We maintain our FY09-10 earnings and DPS forecasts. We introduce our FY11 EPS of 70.5 sen (+9.2% yoy).

Maintain BUY but higher target price of RM4.50

We have adjusted our SOP- based target price to RM4.50 (previously RM4.48) following the updating of actual FY08 profit and balance sheet numbers. We continue to like Hai-O for its: 1) fast expanding MLM division; and 3) above market average dividend yields of 8%-9%.

Fig. 1: Sum-of-part valuations

Divisions	CY08 net profit	Applied PER (x)	Value RM'm	Comments
MLM	35.3	6	219.7	Target PER at a 35% discount to local MLM average of 9.6x
Retail	1.5	9	13.2	Fair PER for a fairly stable business
Wholesale	10.8	7	75.6	Fair PER for a fairly stable business
Manufacturing	0.7	7	5.2	Local pharmaceutical companies trade between 4x-9x
Others	0.8	4	3.3	Reasonable for its traditional Chinese clinics
Net cash/debt			59.1	
			376.2	
No of shares (m)			83.5	
SOP/share			4.50	

Figure 2: Quarterly Results Comparison

FYE April (RMm)	4QFY07	3QFY08	4QFY08	QoQ % chg	YoY % chg	Comment
Revenue	56.7	100.5	133.5	32.9	135.5	In line. Revenue growth driven largely by MLM, wholesale, retail and manufacturing division
Op costs	(66.7)	(118.9)	(159.7)	34.4	139.4	In line with expectations
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	10.0	18.4	26.2	42.3	162.0	
EBITDA margin (%)	17.6	18.3	19.6	nm	nm	In line. Margin improve led by MLM, wholesale, retail and manufacturing division
Int expense	(0.0)	(0.1)	(0.1)	(59.2)	70.6	
Int and other inc	0.2	0.2	0.3	49.1	38.2	
Associates	0.0	0.0	0.0	nm	nm	
Pretax	10.2	18.5	26.4	43.2	159.5	
Tax	(2.4)	(4.9)	(7.3)	46.9	200.7	In line with expectations
Tax rate (%)	23.7	26.8	27.5	nm	nm	
MI	0.0	(0.1)	(0.2)	83.7	nm	Below expectations
Net profit	7.8	13.4	18.9	41.5	143.8	Above expectations by 8%
EPS (sen)	9.3	16.0	22.7	41.5	143.8	
Core net profit	7.8	13.4	18.9	41.5	143.8	

Figure 3: Cumulative Results Comparison

FYE April (RMm)	YTD2007	YTD2008	YTD % chg	Comment
Revenue	189.3	373.8	97.4	Strong revenue driven by MLM, manufacturing, wholesale and retail division
Op costs	(219.8)	(441.1)	100.7	In line with expectations
Exceptional gain/losses	0.0	0.0	nm	
EBIT	30.5	67.3	120.7	
EBITDA margin (%)	16.1	18.0	nm	In line. Margin improve led by MLM, wholesale, retail and manufacturing division
Int expense	(0.3)	(0.4)	21.0	
Int and other inc	0.5	0.9	84.3	
Associates	0.0	0.0	nm	
Pretax	30.6	67.7	121.3	
Tax	(8.5)	(18.7)	119.9	In line with expectations
Tax rate (%)	27.8	27.6	nm	
MI	(0.9)	(0.6)	(38.6)	Below expectations
Net profit	21.2	48.5	128.6	Above expectations by 8%
EPS (sen)	25.4	58.1	128.6	
Core net profit	21.2	48.5	128.6	

Figure 4 : Segmental Revenue Breakdown

FY April (RMm)	1Q2006	2Q2006	3Q2006	4Q2006	1Q2007	2Q2007	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008
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
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
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
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
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
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)
Total	33.9	40.3	35.8	34.3	39.4	41.9	51.4	56.7	59.3	80.5	100.5	133.5
Qoq (%)		18.7	(10.9)	(4.4)	14.8	6.4	22.8	10.3	4.5	35.8	24.8	32.9
Yoy (%)					16.1	4.0	43.4	65.4	50.6	92.3	95.5	135.5
Contribution (%)												
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
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
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
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
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
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)

Figure 5 : Segmental EBIT Breakdown

FY April (RMm)	1Q2006	2Q2006	3Q2006	4Q2006	1Q2007	2Q2007	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008
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
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
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
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
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
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)
Total	2.9	5.1	4.1	3.4	5.8	7.2	7.5	10.1	9.8	12.9	18.4	26.2
Qoq (%)		74.2	(20.0)	(16.0)	68.0	24.3	4.3	34.0	(2.4)	31.3	42.7	42.3
Yoy (%)					96.5	40.3	82.9	191.9	69.6	79.1	145.2	160.4
Contribution (%)												
Wholesale	62.1	48.8	139.5	(56.9)	60.4	23.4	80.4	103.2	33.0	16.1	57.4	189.6
MLM	44.8	37.6	31.0	58.0	39.3	47.7	56.8	38.8	58.0	70.6	83.7	164.8
Retail	(6.6)	13.9	6.5	(4.2)	4.0	12.3	(2.3)	7.0	1.6	8.3	1.3	4.6
Manufacturing	4.6	2.6	3.1	3.4	2.5	0.9	0.6	0.7	1.7	0.4	0.6	1.2
Others	3.0	(19.3)	(3.5)	7.1	(2.4)	13.2	5.4	9.7	7.1	2.6	2.8	1.5
Elimination	(7.9)	16.4	(76.7)	92.6	(3.9)	2.5	(40.9)	(59.4)	(1.4)	2.0	(3.1)	(158.6)
Margin (%)												
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
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
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
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
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
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
EBIT margin	8.7	12.7	11.4	10.0	14.7	17.2	14.6	17.7	16.5	16.0	18.3	19.6

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	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
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	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
SELL	Total return is expected to be below -15% over a 12-month period
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OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	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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