



MALAYSIA EQUITY
Investment Research
Daily News

CONSUMER

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FY08 Results Review

Private Circulation Only

Hai-O Enterprise

BUY	Maintain
Price	RM3.84
Target	RM5.50

Stock Profile/Statistics

Bloomberg Ticker	HAIO MK Equity
KLCI	1203.89
Issued Share Capital (m)	83.52
Market Capitalisation (RMm)	320.72
52 week H L Price (RM)	3.84 2.08
Average Volume (3m) '000	100.12
YTD Returns (%)	0.57
Net gearing (x)	Net Cash
Altman Z-Score	5.66
ROCE/WACC	1.84
Beta (x)	0.90
Book Value/share (RM)	1.28

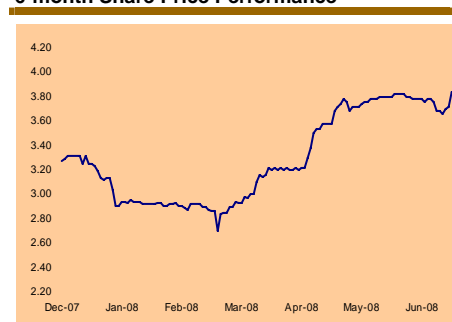
Major Shareholders (%)

Tan Kai Hee & Family	24.2
Excellent Communication SB	5.3

Share Performance (%)

Month	Absolute	Relative
1m	1.05	6.96
3m	28.00	29.03
6m	18.20	37.31
12m	67.20	81.03

6-month Share Price Performance



Doubling The Earnings!

Hai-O has once again proven itself worthy of being our “darling” stock in the consumer sector as it capped another strong financial year with earnings of RM48.5m, 26.3% higher than our estimates. Earnings soared 126.8% boosted by tremendous growth in its MLM division. Hai-O has been registering earnings growth of more than 100% for 2 consecutive years. In FY08, MLM is again the major contributor, with revenue growing 182.5% although other divisions remained flattish. We are revising our numbers upwards and maintaining a BUY on Hai-O with a revised target price of RM5.50.

Strong EBITDA margin. EBITDA margin was higher at 18.6% compared with the previous year's 17.3%. The better margins can be attributed to the strengthening of the Ringgit against the US\$ as 60% of the goods are imported. This led to lower cost of imports, thus improving the Group's overall profit margins.

More room for MLM to grow. Currently Hai-O has about 80,000 members, which is still a far cry from Amway's benchmark of 190,000. This means Hai-O has a long way to go to achieve this stature. Moreover, Amway's distributor numbers are still growing by about 10% per annum; hence we believe Hai-O can still maintain the current momentum for at least another 8 to 10 years.

Revising earnings forecast. Despite the strong growth momentum in the MLM division, we cautious over the recent fuel price hike as it would negatively impact on consumer spending. We are thus projecting earnings growth of only 11.6% for the coming year. We expect Hai-O to register net earnings of RM54.1m and RM59.0m for FY09 and FY10 respectively. Its balance sheet is solid with net cash per share of RM1.31. Hai-O has recommended a final dividend of 32 sen per share totalling to 40 sen per share for FY08. This would translate into gross yield of 10.4% based on the current share price. On top of that, the company has proposed a share dividend of 1 treasury share for every 25 ordinary shares.

FYE 30 Apr	FY06	FY07	FY08	FY09f	FY10f
Total revenue	144.3	189.3	373.8	420.0	458.7
Net Profit	10.2	21.4	48.5	54.1	59.0
% chg YoY	84.9	110.0	126.8	11.6	9.1
Consensus Net Profit	-	-	-	48.3	54.2
EPS (sen)	11.8	24.8	56.2	60.3	65.8
Gross DPS (sen)	6.1	14.0	40.0	45.0	50.0
Gross Div Yield (%)	1.6	3.7	10.4	11.7	13.0
ROE (%)	11.9	21.9	39.4	34.3	31.3
ROA (%)	8.4	15.6	27.5	23.8	21.8
PER (x)	32.6	15.5	6.8	6.4	5.8
P/BV	3.7	3.1	2.4	2.0	1.7
EV/EBITDA	18.5	8.9	3.6	3.1	2.5

APPENDIX

Maintain BUY. Taking into account the current stock market conditions and the fuel price hike, which would affect overall consumer spending, we have become more conservative and are assuming the lower PE and P/BV band of the retail sector. Nonetheless, our target price is revised higher following the earnings revision. We are pegging a target price of RM5.50 by applying the composite of 9x (previously 10x) over FY09 EPS of 60.3 sen and P/BV of 2.7x. We reiterate our **BUY** recommendation with a potential upside of more than 43.2%.

Figure 1: Results Table (RMm)

FYE 30 Apr	4QFY08	3QFY08	% chg	YTD FY08	YTD FY07	% chg
Turnover	135.2	99.9	35.3%	373.8	189.3	97.4%
Wholesaling	14.2	14.5	-1.8%	49.4	47.5	4.0%
MLM	107.3	74.7	43.6%	281.6	99.7	182.5%
Retail	11.0	10.5	4.0%	39.3	35.6	10.6%
Others	2.8	0.2	1155.7%	3.5	3.6	-2.4%
EBITDA	26.8	19.0	41.0%	69.6	32.8	112.3%
Depreciation	(0.5)	(0.5)	0.0%	(1.9)	(1.8)	4.9%
Net interest income/(expense)	0.3	0.1	258.1%	0.5	0.1	484.0%
Associates	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT	26.4	18.5	43.2%	67.7	30.6	121.3%
Tax	(7.3)	(4.9)	46.9%	(18.7)	(8.5)	119.9%
MI	(0.2)	(0.1)	86.1%	(0.6)	(0.7)	-24.2%
Net Profit	18.9	13.4	41.4%	48.5	21.4	126.8%
EPS (sen)	21.9	15.5		56.2	24.8	
EBITDA margin	19.8%	19.0%		18.6%	17.3%	

FYE 30 Apr	FY06	FY07	FY08	FY09f	FY10f
Turnover	144.3	189.3	373.8	420.0	458.7
EBITDA	17.1	32.8	69.6	71.3	77.7
PBT	15.1	30.6	67.7	73.9	80.7
Net Profit	10.2	21.4	48.5	54.1	59.0
EPS (sen)	11.8	24.8	56.2	60.3	65.8
DPS (sen)	6.1	14.0	30.0	36.4	41.6
Margin					
EBITDA	11.8%	17.3%	18.6%	17.0%	16.9%
PBT	10.5%	16.2%	18.1%	17.6%	17.6%
Net Profit	7.1%	11.3%	13.0%	12.9%	12.9%
ROE	11.9%	21.9%	39.4%	33.6%	29.8%
ROA	8.4%	15.6%	27.5%	23.8%	21.5%
Balance Sheet					
Fixed Assets	54.6	53.8	50.2	49.9	49.7
Current Assets	70.6	95.2	153.1	202.6	245.9
Total Assets	125.2	149.0	203.3	252.4	295.6
Current Liabilities	31.1	38.0	57.2	64.5	70.1
Net Current Assets	39.4	57.2	95.9	138.1	175.8
LT Liabilities	0.0	0.1	0.1	0.1	0.1
Shareholders' Funds	89.4	105.7	140.5	181.6	214.8
Net Cash/(debt)	15.6	38.9	81.5	111.0	146.5

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