



**CONSUMER**

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**3QFY08 Results Review**

Private Circulation Only

**Hai-O Enterprise**

<b>BUY</b>	<b>Maintain</b>
<b>Price Target</b>	<b>RM3.00</b>
	<b>RM5.00</b>

**Amazing Performance!**

**Stock Profile/Statistics**

Bloomberg Ticker	HAIO MK Equity
KLCI	1245.42
Issued Share Capital (m)	83.06
Market Capitalisation (RMm)	249.19
52 week H   L Price (RM)	3.40   1.63
Average Volume (3m) '000	77.33
YTD Returns (%)	(0.30)
Net gearing (x)	Net Cash
Altman Z-Score	5.78
ROCE/WACC	1.56
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	3.50	11.28
3m	(7.66)	3.70
6m	22.10	21.41
12m	93.63	81.16

**6-month Share Price Performance**



Hai-O has impressed us again as it registered another strong quarterly showing, boosted by the strengthening of the Ringgit and strong growth in MLM sales. With the Ringgit's ascension and the number of active members in the MLM division continue to increase; we are optimistic on the company's future outlook. **Maintain BUY on Hai-O with a revised target price of RM5.00**

**Way above expectation.** Hai-O registered its strong 9MFY08 earnings of RM29.6m which were 43% above our forecast. Revenue and earnings grew strongly by 81.2% and 117.4% respectively. The strong performance was contributed by higher sales from the multi-level marketing (MLM) division which recorded a tremendous growth of 160.6% and successful sales promotions held by the retail business division growing at 10.1%. Nevertheless manufacturing, wholesaling and others contracted by 5.3%, 3.5% and 18.1% respectively.

**Strong EBITDA margin.** 9-month EBITDA margin is also higher at 16.6% compared to the previous year of 15.1%. The stronger margin can be attributed to the strengthening of the Ringgit against the US\$ as 60% of the goods are imported; and this would reduce imported costs hence improving overall profit margins of the Group. Moreover, aggressive promotion campaign carried out during the festive seasons and promoting higher margin products have also contribute significantly to the group's overall profitability.

**Earnings forecast revised.** With the strong results achieved in the current quarter, we are revising our FY08 and FY09 earnings forecast upwards from RM32.5m and RM37m to RM38.3m and RM42m respectively. Balance sheet is solid with net cash per share of RM0.73. Hai-O has recommended an interim dividend of 8 sen per share and with the strong earnings; we expect a final dividend of at least 12 sen per share totalling 20 sen per share for FY08. This would translate into gross yield of 6.7%

**Maintain BUY.** Having taken into account on the current stock market condition and our downgrading in the GDP projection from 6.2% to 5.8%, we are now more conservative thus assuming the lower band of the PE and P/BV of the retail sector. Notwithstanding, our target price revised higher following the earnings revision; and rolling our numbers to FY09. We peg a target price of RM5.00 (previously RM4.60) by applying the composite of 10x (previously 12x) over FY09 EPS of 50.6 sen and P/BV of 2.6x (previously 3x). We reiterate our **BUY** recommendation on Hai-O.

FYE 30 Apr	FY05	FY06	FY07	FY08f	FY09f
Total revenue	139.3	144.3	189.3	320.3	357.1
EBITDA	12.8	17.1	32.8	52.1	55.6
Pretax profit	10.3	15.1	30.6	54.8	58.7
Net Profit	5.5	10.2	21.4	38.3	42.0
% chg YoY	41.6	84.9	110.0	78.9	9.8
Consensus Net Profit	-	-	-	30.4	36.7
EPS (sen)	6.6	12.3	25.8	46.1	50.6
Gross DPS (sen)	4.8	6.4	14.6	20.0	23.0
Gross Div Yield (%)	1.6	2.1	4.9	6.7	7.7
PER (x)	45.2	24.5	11.6	6.5	5.9
BV/ share	0.98	1.07	1.27	1.59	1.93
P/BV	3.1	2.8	2.4	1.9	1.6

## APPENDIX

Figure 1: Results Table (RMm)

FYE 30 Apr	3QFY08	2QFY08	% chg	YTD FY08	YTD FY07	% chg
<b>Turnover</b>	<b>100.5</b>	<b>80.5</b>	<b>24.8%</b>	<b>240.3</b>	<b>132.6</b>	<b>81.2%</b>
Wholesaling	14.5	10.2	42.5%	35.2	37.1	-5.3%
MLM	74.7	59.5	25.5%	174.3	66.9	160.6%
Retail	10.5	10.0	5.3%	28.4	25.8	10.1%
Manufacturing	0.2	0.2	16.5%	0.8	0.8	-3.5%
Others	0.6	0.6	-12.9%	1.7	2.0	-18.1%
<b>EBITDA</b>	<b>18.2</b>	<b>12.1</b>	<b>50.4%</b>	<b>39.8</b>	<b>20.1</b>	<b>98.4%</b>
Depreciation	(0.5)	(0.5)	0.0%	(1.4)	(1.4)	3.2%
Net interest expense	0.1	0.1	-26.7%	0.2	(0.1)	-471.4%
Associates	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT	18.5	12.9	43.0%	41.3	20.4	102.2%
Tax	(4.9)	(3.6)	37.0%	(11.4)	(6.1)	87.8%
MI	(0.1)	(0.1)	-5.4%	(0.3)	(0.8)	-56.5%
<b>Net Profit</b>	<b>13.4</b>	<b>9.2</b>	<b>46.0%</b>	<b>29.6</b>	<b>13.6</b>	<b>117.4%</b>
EPS (sen)	16.1	11.0		35.6	16.4	
EBITDA margin	18.1%	15.0%		16.6%	15.1%	

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PBT	10.3	15.1	30.6	54.8	58.7
Net Profit	5.5	10.2	21.4	38.3	42.0
EPS (sen)	6.6	12.3	25.8	46.1	50.6
DPS (sen)	4.8	6.4	14.6	20.0	23.0
Margin					
EBITDA	9.2%	11.8%	17.3%	16.3%	15.6%
PBT	7.4%	10.5%	16.2%	17.1%	16.4%
Net Profit	4.0%	7.1%	11.3%	11.9%	11.8%
ROE	6.8%	11.9%	21.9%	32.4%	29.1%
ROA	4.8%	8.4%	15.6%	23.1%	21.1%
Balance Sheet					
Fixed Assets	53.2	54.6	53.8	31.4	31.4
Current Assets	64.5	70.6	95.2	151.5	183.7
Total Assets	117.7	125.2	149.0	183.0	215.1
Current Liabilities	31.0	31.1	38.0	47.6	51.4
Net Current Assets	33.6	39.4	57.2	103.9	132.3
LT Liabilities	0.2	0.0	0.1	0.1	0.1
Shareholders' Funds	81.9	89.4	105.7	130.5	158.8
Net Cash/(debt)	11.8	15.6	38.9	61.4	78.5

**OSK Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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