

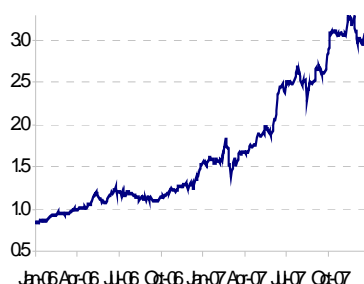
Results Note

Hai-O Ent

HAIO MK
RM3.06

BUY (maintain)

Target Price: RM4.18



Price Performance

	1M	3M	12M
Absolute	-6.7	16.8	125.3
Rel to KLCI	-7.2	9.2	72.2

Stock Data

Issued shares (m)	82.56
Mkt cap (RMm)	252.7
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.32-3.32
Est free float	50%
NTA per share (RM)	1.46
P/NTA (x)	2.06
Net cash/ (debt) (RMm)	68.9
ROE (2008F)	26.5
Derivatives	Nil

Key Shareholders

Tan family	25.6%
Maybank Smallcap	3.9%

Earnings & Valuation Revisions

	08E	09E	10E
Prev EPS (sen)	37.4	44.1	52.0
Curr EPS (sen)	37.4	44.1	52.0
Chg (%)	-	-	-
Prev target price (RM)		4.18	
Curr target price (RM)		4.18	

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Strong earnings; within expectations

Strong 1H08 earnings; results within ours but above street expectations

Hai-O delivered a strong set of 1HFY08 results with net profit surging by 90.6% yoy to RM16.2m. Results are within our expectation but above consensus (52% of ours but 61% of consensus FY08 forecast). Hai-O surprised with an interim dividend of 8 sen (nil in 2QFY07). We maintain our FY08-10 DPS projections at 19-27 sen (based on 51%-52% payout ratio) pending an update with management.

Growth driven by strong MLM sales

The strong earnings growth was driven by revenue growth of +72.1% yoy to RM139.8m and step-up in EBITDA margin to 16.2% vs. 16.0% in 1HFY07. This was largely underpinned by robust MLM sales driven by: 1) strong growth in new distributor force - monthly members have on average more than doubled to 2,000-2,500/month from 1,000/month previously (total member force now approaching 70,000 from 60,000 in mid 2007); 2) increased awareness of Hai-O's products and offerings following its recent sponsorship of the popular "Jom Heboh" TV program on TV3; 3) Hai-O being a key beneficiary of the recent civil servants pay hike (+7.5 to +35%) as nearly 95% of Hai-O's distributor force comprises of Bumiputeras; 4) relatively easy consumer financing (micro-credit) programme offered by Bank Rakyat which enables members to leverage to rapidly build their MLM network; and 5) Hari Raya festivities (in Oct). Further, management has also pushed sales mix into higher margin products.

Earnings growthy driven by retail, wholesale and MLM sales

Sequentially, Hai-O's 2Q08 net earnings jumped +28.8% qoq (+84.2% yoy), on the back of higher revenue of +35.8% qoq (+92.3% yoy) driven largely by higher MLM sales, intensive sales promotions by Hai-O's retail chain stores and increasing sales in wholesale division. However, EBITDA margin was marginally lower at 16.0% from 16.5% in 1QFY08, due to weaker margins at its wholesale division. We believe this could be due to higher sales of lower grade Pu-er tea coupled with the recent depreciation in value of the tea.

Maintain BUY and RM4.18 target price

We maintain our FY08-10 earnings forecast and BUY call with a SOP derived target price of RM4.18. We continue to like Hai-O for its: 1) fast expanding MLM division; 2) robust 3-year EPS CAGR of 32% over CY07-10; 3) highly attractive valuations - FY04/08 PE of 8x, and 4) excellent dividend yields of 7.7%.

Earnings and Valuation Summary

FYE 30 April	2005	2006	2007	2008F	2009F	2010F
Revenue (RMm)	141.5	146.8	189.3	256.4	294.6	339.8
EBITDA (RMm)	13.5	17.3	32.6	46.4	53.9	62.9
Pretax profit (RMm)	10.3	15.1	30.6	43.1	50.1	59.4
Net profit (RMm)	5.5	10.2	21.4	30.9	36.7	43.5
EPS (sen)	8.0	12.4	26.0	37.4	44.1	52.0
EPS growth (%)	41.7	55.2	110.0	43.6	18.2	17.8
PER (x)	37.6	24.2	11.5	8.0	6.8	5.8
Core net profit (RMm)	5.5	10.2	21.4	30.9	36.7	43.5
Core EPS (sen)	8.0	12.4	26.0	37.4	44.1	52.0
Core PER (x)	37.6	24.2	11.5	8.0	6.8	5.8
DPS (sen)	5.0	6.7	15.1	19.2	22.4	27.2
Dividend Yield (%)	1.7	2.2	5.0	6.4	7.5	9.1
EV/EBITDA (x)	15.1	13.9	6.7	4.7	3.7	2.8
Consensus profit (RMm)				26.6	31.4	43.5
Affin/Consensus (x)				1.2	1.2	1.0

Figure 1: Quarterly Results Comparison

FYE April (RMm)	2QFY07	1QFY08	2QFY08	QoQ % chg	YoY % chg	Comment
Revenue	41.9	59.3	80.5	35.8	92.3	Strong revenue driven by MLM, wholesale and retail division
Op costs	(34.7)	(49.5)	(67.6)	36.7	95.1	
EBITDA	7.2	9.8	12.9	31.3	79.1	
<i>EBITDA margin (%)</i>	<i>17.2</i>	<i>16.5</i>	<i>16.0</i>	<i>Nm</i>	<i>Nm</i>	Margin were marginally lower due to higher incentives cost given to distributors force in MLM and increasing sales of lower grade of Pu-er tea
Deprn and amort	0.0	0.0	0.0	n.a.	n.a.	
Exceptional gain/losses	0.0	0.0	0.0	n.a.	n.a.	
EBIT	7.2	9.8	12.9	31.3	79.1	
Int expense	(0.1)	(0.1)	(0.1)	(5.0)	(5.9)	
Int and other inc	0.1	0.1	0.2	47.8	214.3	
Associates	0.0	0.0	0.0	n.a.	n.a.	
Pretax	7.2	9.8	13.0	31.9	81.5	
Tax	(2.0)	(2.9)	(3.6)	26.4	79.2	
<i>Tax rate (%)</i>	<i>28.2</i>	<i>29.0</i>	<i>27.8</i>	<i>Nm</i>	<i>Nm</i>	
MI	(0.2)	0.1	(0.3)	(472.0)	38.8	
Net profit	4.9	7.1	9.1	28.8	84.2	Strong earnings driven by higher revenue contribution from MLM, wholesale and retail division
EPS (sen)	6.0	8.6	11.0	28.8	84.2	
Core net profit	4.9	7.1	9.1	28.8	84.2	

Figure 2: Cumulative Results Comparison

FYE April (RMm)	YTD2007	YTD2008	YTD % chg	Comment
Revenue	81.2	139.8	72.1	Strong revenue driven by its 4 key division - MLM, wholesale, retail and manufacturing
Op costs	(68.3)	(117.1)	71.6	
EBITDA	13.0	22.7	74.9	
<i>EBITDA margin (%)</i>	<i>16.0</i>	<i>16.2</i>	<i>Nm</i>	
Deprn and amort	0.0	0.0	n.a.	
Exceptional gain/losses	0.0	0.0	n.a.	
EBIT	13.0	22.7	74.9	
Int expense	(0.2)	(0.2)	4.8	
Int and other inc	0.1	0.3	157.4	
Associates	0.0	0.0	n.a.	
Pretax	12.9	22.8	76.7	
Tax	(3.8)	(6.5)	69.6	
<i>Tax rate (%)</i>	<i>29.5</i>	<i>28.3</i>	<i>Nm</i>	
MI	(0.6)	(0.2)	(67.6)	
Net profit	8.5	16.2	90.6	Earnings boost by higher revenue contribution from its 4 key division - MLM, wholesale, retail and manufacturing
EPS (sen)	10.3	19.6	90.6	
Core net profit	8.5	16.2	90.6	

Figure 3 : Segmental Revenue Breakdown

FY April (RMm)	1Q2006	2Q2006	3Q2006	4Q2006	1Q2007	2Q2007	3Q2007	4Q2007	1Q2008	2Q2008
Wholesale	22.6	24.8	28.7	18.8	21.2	20.1	30.2	34.8	25.5	31.6
MLM	13.6	16.2	10.7	13.7	17.3	21.0	28.6	32.8	40.0	59.5
Retail	7.6	7.9	9.8	8.2	7.9	9.9	8.1	11.8	7.9	10.0
Manufacturing	0.9	0.9	0.8	0.7	0.9	0.9	0.9	0.8	1.2	0.7
Others	3.9	4.2	4.0	1.8	2.0	1.6	1.9	2.1	1.7	2.3
Elimination	(14.7)	(13.7)	(18.1)	(9.0)	(9.8)	(11.7)	(18.3)	(25.5)	(17.1)	(23.7)
Total	33.9	40.3	35.8	34.3	39.4	41.9	51.4	56.7	59.3	80.5
Qoq (%)		18.7	(10.9)	(4.4)	14.8	6.4	22.8	10.3	4.5	35.8
Yoy (%)					16.1	4.0	43.4	65.4	50.6	92.3
<u>Contribution (%)</u>										
Wholesale	66.8	61.6	80.0	54.8	53.7	48.1	58.8	61.3	43.0	39.3
MLM	40.2	40.2	29.8	39.8	43.9	50.2	55.6	57.9	67.6	73.9
Retail	22.4	19.7	27.5	23.9	20.0	23.6	15.8	20.8	13.3	12.5
Manufacturing	2.7	2.3	2.2	2.2	2.3	2.1	1.8	1.3	2.0	0.9
Others	11.4	10.3	11.2	5.3	5.1	3.9	3.6	3.7	2.9	2.9
Elimination	(43.5)	(34.1)	(50.6)	(26.1)	(25.0)	(27.9)	(35.7)	(45.0)	(28.8)	(29.4)

Figure 4 : Segmental EBIT Breakdown

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

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
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
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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