

# Corporate Highlights



**RHB Research Institute Sdn Bhd**  
A member of the RHB Group  
Company No: 233327 -M

## Results Note

**21 December, 2007**

## Hai-O Enterprise

*Strong Growth From The MLM Division  
In 1HFY04/08*

Share Price : RM3.06  
Fair Value : RM3.96  
Recom : **Outperform**  
(Maintained)

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RHBRI	Consensus
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Above
<input type="checkbox"/>	<input type="checkbox"/> In Line
<input type="checkbox"/>	<input type="checkbox"/> Below

◆ 1HFY04/08 net profit came in higher than our expectations and market forecast, at 60-65% of our full-year forecast and full-year market consensus. The variance was largely due to higher-than-expected contributions from the multi-level marketing (MLM) division, thanks to the intensive distributor recruitment programme carried out last quarter which received overwhelming response. YTD, Hai-O's distributor force has already reached our year-end distributor force projection of 70,000 members (from 60,000 in FY04/07), while distributor productivity has risen to RM1,422/distributor, above our projected RM900/distributor for 6MFY08. Hai-O has declared a gross interim dividend of 8 sen, which is within our expectations.

**Table 1: Earnings Review (YoY)**

FYE April (RMm)	2007 2Q	2008 2Q	% chg YoY	2007 6M	2008 6M	% chg YoY	Observation/ Comments
Revenue	41.9	80.5	92.3	81.2	139.8	72.1	Increased contribution from the MLM division more than offset the decline in wholesale and retail of traditional Chinese medicine.
- Wholesale & Retail	20.0	20.1	0.7	40.9	38.6	-5.7	
- MLM	21.0	59.5	183.3	38.3	99.6	160.1	
- Other	0.9	0.8	-2.7	2.1	1.7	-20.0	
EBIT	7.2	12.9	79.1	13.0	22.7	74.9	
Finance cost	0.0	0.1	-361.5	-0.1	0.1	-328.8	In tandem with the increase in net cash.
PBT	7.2	13.0	81.5	12.9	22.8	76.7	Filtered down from revenue.
Taxation	-2.0	-3.6	79.2	-3.8	-6.5	69.6	
MI	-0.2	-0.3	38.8	-0.6	-0.2	-67.6	
Net profit	4.9	9.1	84.2	8.5	16.2	90.6	
EPS (sen)	7.6	13.6	79.5	13.0	24.1	85.8	
Gross dividend (sen)	5.0	8.0	60.0	5.0	8.0	60.0	
EBIT margin (%)	17.2	16.0	-1.2% pts	16.0	16.2	0.3% pt	
PBT margin (%)	17.1	16.1	-1.0% pt	15.9	16.3	0.4% pt	
Net profit margin (%)	11.8	11.3	-0.5% pt	10.4	11.6	1.1% pts	
Effective tax rate (%)	28.2	27.8	-0.4% pt	29.5	28.3	-1.2% pts	

- ◆ As such, we raise our projections of distributor force to 84,000-106,000 from earlier estimates of 70,000-94,000 members and of distributor productivity to RM2,400-2,546 from earlier estimates of RM1,800-1,900/distributor for FY08-10. All in, our FY04/08-10 earnings forecasts have been raised by 19-22%. Looking forward, we expect the MLM division to chalk up higher growth in FY04/08-10 underpinned by: 1) 10-40% growth in distributor force p.a.; and 2) an increase in distributor productivity by 50% in FY04/08 and 3% p.a. thereafter. Moreover, the retail segment should also see higher earnings in FY04/08-10 on the back of: 1) network expansion of 3-4 new outlets p.a.; and 2) on-going sales promotions to Hai-O's members.
- ◆ To-date, Hai-O has bought back 2.5m (3%) outstanding shares from the open market. According to management, these treasury shares would be placed out to raise funds for the recently proposed acquisition of land and factory in Klang for RM45m and for working capital purpose.
- ◆ We continue to like Hai-O for its compelling earnings visibility from its established position in the traditional Chinese medicine market. Meanwhile, Hai-O's MLM segment should continue to fuel earnings growth especially in view of the civil servant's pay hike in July 2007. Post-earnings revision, indicative fair value is raised to RM3.96/share from RM3.31/share based on unchanged 10x CY08 EPS, which is at 40% discount to our CY08 target PE of 16x for the consumer sector, to reflect its smaller earnings base and market capitalisation. Maintain **Outperform**.

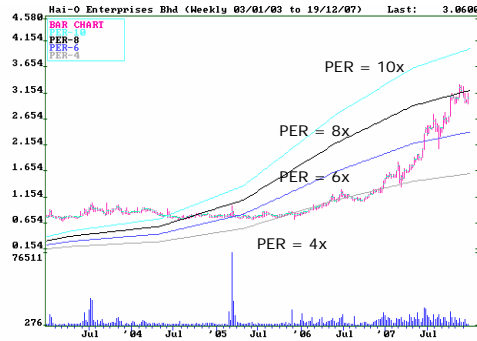
Table 2: Investment Statistics (HAIO ; Code: 7668)							Bloomberg Ticker: HAIO MK			
FYE Apr	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	EPS gwth (%)	PER (x)	C.EPS* (sen)	NTA/share (x)	Net gearing (x)	ROE (%)	Net Div. Yld. (%)
2007a	189.3	21.4	26.4*	105.3*	11.6	-	1.5	Net cash	11.0	3.6*
2008f	294.0	30.1	36.3	37.6	8.4	33.0	1.5	0.0	13.0	4.0
2009f	334.8	34.3	41.4	14.1	7.4	38.0	1.8	Net cash	12.5	4.7
2010f	372.0	38.0	45.8	10.7	6.7	45.0	2.1	Net cash	11.8	5.1
<b>Issued Capital (m shares)</b>					82.6	<b>Major shareholders</b>				(%)
<b>Market Capitalisation (RMm)</b>					252.7	Tan Family				25.0
<b>Daily Trading Volume (m shares)</b>					0.1	Excellent Communication				5.2
<b>52-week Price Range (RM / s)</b>					1.36-3.30					

Second Board Listing /Trustee Stock/non-Syariah Approved Stock By The SC

^ Consensus based on IBES Estimates

\* Adjusted for bonus issue for like-to-like comparison

**PE Band Chart**



**Relative Performance To KLCI**



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**Outperform** = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

**Trading Buy** = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

**Market Perform** = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

**Underperform** = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

**Industry/Sector Ratings**

**Overweight** = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

**Neutral** = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

**Underweight** = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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