



**CONSUMER**

Thong Pak Leng  
+60 (3) 2333 8585  
Thong.pakleng@osk.com.my

**Corporate News Flash**

Private Circulation Only

**Hai-O Enterprise**

<b>BUY</b>	<b>Maintain</b>
<b>Price</b>	<b>RM3.08</b>
<b>Target</b>	<b>RM3.60</b>

**Tea Fund**

**MOU with Golden Hope.** Hai-O had entered into a Distributorship Agreement with Golden Hope Biogenic SB to distribute and sell Tri-E (a soft-gel capsule of vitamin E extract from palm oil) to Peoples' Republic of China excluding Hong Kong and Macau for a period of 3 years.

**Setting up a Pu-Er Tea Fund.** Meanwhile, for its wholesaling division, Hai-O had entered into a Supply and Purchase Agreement with Pu-Er Tea Investment Co. Ltd. (Incorporated in British Virgin Islands, involved in the principal business of investing in wines, teas and other collectible items).

**COMMENTS**

**Stepping Stone to China.** Currently the company is in talk with several retailers which have wide distribution network in China. Hai-O has a minimum sales volume target of 3m capsules over three years. Although this may not have significant impact on their bottomline, we see this an opportunity for Hai-O as the marketing of Tri-E will enable the company to gain a stronger foothold in China to market more products in the future.

**Strengthening the marketing arm.** Pu-Er Tea Investment Co. Ltd (PTI) is a SPV approved by SC incorporated by Kumpulan Sentiasa Cemerlang SB (KSC), a licensed fund management company to seek return from investment of Pu-Er tea. Hai-O will be appointed as the marketing agent for PTI. On top of that, Hai-O will provide storage facilities for the Tea purchased by PTI. KSC is targeting high net worth individuals and corporations to invest into this fund and has an approved size of RM50m.

**Malaysia a suitable place to store Pu-Er tea.** The culture of drinking and collecting Pu-Er tea is regarded as a status symbol amongst the Chinese around the world. Malaysia is the most suitable place to store Pu-Er tea due to its hot and humid climate to help its fragmentation. According to tea experts, one year of storage in Malaysia is equivalent to three years or more in China; therefore, Hai-O will be benefited from the Malaysian weather. As an appointed marketing agent, Hai-O will earn a commission from buying and selling of Pu-Er tea; and storage fee.

**No changes in our forecast.** It is too early to determine the impact on the bottomline, therefore, we maintain our FY08 and FY09 earnings forecast at RM25.5m and RM28.5m respectively.

**Valuation still cheap.** Since we make no changes to our estimates at this juncture, our target price maintains at RM3.60. At this price, the stock is trading at a forward PER of 11.7x which is way below it's peers such as Amway and Aeon (both at 18x for FY07). We believe that fundamentals of the stock remain intact. Furthermore, balance sheet is strong with net cash of RM50m therefore we do not rule out any possibility of special dividend for FY08. Hai-O's stock will be transferred into the Main Board today. **Maintain BUY.**

**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

All research is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change at short notice, and no part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report. The company, its directors, officers, employees and/or connected persons may periodically hold an interest and/or underwriting commitments in the securities mentioned.

All Rights Reserved. Published and printed by :-

**OSK RESEARCH SDN. BHD. (206591-V)**  
(A wholly-owned subsidiary of OSK Holdings Berhad)



Chris Eng

**Kuala Lumpur****Hong Kong****Singapore**

**Malaysia Headquarters**  
OSK Investment Bank Bhd.  
(Formerly OSK Securities Bhd.)  
20<sup>th</sup> Floor, Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur  
Malaysia  
Tel : + (60) 3 2333 8333

**Malaysia Research Office**  
OSK Research Sdn. Bhd. (206591-V)  
6<sup>th</sup> Floor, Plaza OSK  
Jalan Ampang  
50450 Kuala Lumpur  
Malaysia  
Tel : + (60) 3 2333 8333  
Fax : + (60) 3 2175 3202  
E-mail : research2@osk.com.my

**Hong Kong Office**  
OSK Asia Securities Ltd.  
1201-1203, 12/F,  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : + (852) 2525 1118  
Fax : + (852) 2537 1332

**Singapore Office**  
DMG & Partners Securities Pte. Ltd.  
#22-01 Ocean Towers  
20 Raffles Place  
Singapore 048620  
Tel : +(65) 6438 8810  
Fax : +(65) 6535 4809