



**CONSUMER**

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**9MFY07 Results Review**

Private Circulation Only

**Hai-O Enterprise**

**BUY** **Maintain**  
**Price** **RM1.92**  
**Target** **RM2.23**

**Another Strong Quarter**

**Stock Profile/Statistics**

	HAIO MK Equity
Bloomberg Ticker	KLCI
Issued Share Capital (m)	68.13
Market Capitalisation (RMm)	130.80
52 week H   L Price (RM)	2.19   1.14
Average Volume (3m) '000	116.66
YTD Returns (%)	0.15
Net gearing (x)	(0.17)
Altman Z-Score	3.82
ROCE/WACC	1.15
Beta (x)	0.98
Book Value/share (RM)	1.36

**Major Shareholders (%)**

Tan Kai Hee & Family	22.9
Excellent Communication SB	5.3

**Share Performance (%)**

Month	Absolute	Relative
1m	(1.22)	(6.60)
3m	20.60	2.70
6m	58.06	16.59
12m	78.50	25.69

**6-month Share Price Performance**



Hai-O's quarter earnings have surprised on the upside again for the second time since we initiated coverage only 3 months ago. The strong results was mainly contributed by the strong performance of its MLM business. With more focus in the MLM division and strengthening of the Ringgit, we are positive on the company's future outlook. **Maintain BUY with a revised target price of RM2.23**

**Above expectation.** Hai-O's 9MFY07 earnings of RM13.4m, when annualised is 26% above our forecast. 9M revenue grew by 20.6% while earnings were up 77.7%. The strong set of figures was generated by higher contributions from the multi-level marketing (MLM) division (50,000 distributors), and successful sales promotions held by the retail business division (50 outlets).

**Stronger EBITDA margin.** 9-month EBITDA margin increase from 10.7% in previous year to 15.4%. The higher margin was attributed to (i) stronger contribution from MLM; (ii) the disposal of its non-core businesses which improved operational efficiency; and (iii) better selling price in the wholesale division particularly the Pu-Er tea. We believe the strengthening of the Ringgit against the US\$ have contributed towards the reduction in import costs hence improving overall profit margin of the Group. Based on our estimates, every 1% appreciation in Ringgit, Hai-O's gross profit margin will increase by 0.3%-0.4%.

**Earnings forecast revised.** We are increasing our FY07 and FY08 earnings forecast from RM14.2m and RM15.9m to RM16.0m (+13%) and RM17.2m (+8.0%) respectively. Its 3 year CAGR going forward is expected to grow by about 22%.

**Attractive dividend yield.** Hai-O has promised to pay at least 50% of net profit as dividend to shareholders. For FY07, we expect the company to declare gross dividend of 17 sen per share translating into yield of 8.8%.

**Maintain BUY.** We are revising our fair value from RM2.08 to RM2.23 by applying the composite average of 9x PER over FY08 EPS of 25.8 sen, P/BV of 1.3x and Gordon Growth model.

FYE Apr (RMm)	FY04	FY05	FY06	FY07f	FY08f
Total revenue	119.5	139.3	144.3	166.7	186.4
EBITDA	8.5	12.8	17.1	24.2	25.9
Pretax profit	6.4	10.3	15.1	24.2	26.1
Net Profit	3.9	5.5	10.2	16.0	17.2
% chg YoY	295.9	41.6	84.9	57.0	7.9
EPS (sen)	5.8	8.2	15.1	23.9	25.8
Gross DPS (sen)	2.1	2.5	8.0	16.9	17.9
Gross Div Yield (%)	1.1	1.3	4.1	8.8	9.3
PER (x)	33.2	23.4	12.7	8.0	7.5
BV/ share	1.2	1.2	1.3	1.4	1.6
P/BV	1.6	1.6	1.4	1.3	1.2
ROE (%)	4.8	6.8	11.9	17.0	16.8
ROA (%)	3.5	4.7	8.1	11.0	10.6

**KEY HIGHLIGHTS**

<b>Quarter Results Table</b>						
<b>FYE Apr (RMm)</b>	<b>3QFY07</b>	<b>2QFY07</b>	<b>% chg</b>	<b>YTD FY07</b>	<b>YTD FY06</b>	<b>% chg</b>
Turnover	51.4	41.9	22.8%	132.6	110.0	20.6%
EBITDA	7.4	7.0	5.8%	20.4	11.8	73.2%
Depreciation	(0.6)	(0.6)	0.0%	(1.7)	(1.7)	0.5%
Net interest expense	0.0	(0.0)	-107.7%	(0.1)	(0.1)	-9.7%
Associates	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT	7.5	7.2	4.9%	20.4	12.3	66.4%
Tax	(2.3)	(2.0)	12.5%	(6.1)	(4.3)	42.5%
MI	(0.3)	(0.2)	35.5%	(0.9)	(0.4)	105.0%
Net Profit	5.0	4.9	0.6%	13.4	7.6	77.7%
EPS (sen)	7.4	7.3		20.0	11.3	
Gross DPS (sen)						
EBITDA margin	14.5%	16.8%		15.4%	10.7%	

<b>FYE Apr (RMm)</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07f</b>	<b>FY08f</b>
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Net Profit	3.9	5.5	10.2	16.0	17.2
EPS (sen)	5.8	8.2	15.1	23.9	25.8
DPS (sen)	2.1	2.5	8.0	16.9	17.9
Margin					
EBITDA	7.1%	9.2%	11.8%	14.5%	13.9%
PBT	5.3%	7.4%	10.5%	14.5%	14.0%
Net Profit	3.3%	4.0%	7.1%	9.6%	9.3%
ROE	4.8%	6.8%	11.9%	17.0%	16.8%
ROA	3.6%	4.8%	8.4%	11.8%	11.2%
Balance Sheet					
Fixed Assets	54.4	53.2	54.6	54.9	54.8
Current Assets	55.5	64.5	70.6	97.0	114.2
Total Assets	109.9	117.7	125.2	145.0	162.1
Current Liabilities	24.6	31.0	31.1	42.1	50.6
Net Current Assets	30.9	33.6	39.4	54.9	63.6
LT Liabilities	0.4	0.2	0.0	0.0	0.0
Shareholders Funds	80.6	81.9	89.4	98.3	106.9
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash

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