



**CONSUMER**

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

**1QFY08 Results Review**

Private Circulation Only

**Hai-O Enterprise**

**BUY** **Maintain**  
**Price** **RM2.70**  
**Target** **RM3.60**

**Stock Profile/Statistics**

Bloomberg Ticker	HAIO
KLCI	1336.30
Issued Share Capital (m)	83.01
Market Capitalisation (RMm)	224.13
52 week H   L Price (RM)	2.78   1.12
Average Volume (3m) '000	133.15
YTD Returns (%)	1.25
Net gearing (x)	n/a
Altman Z-Score	5.04
ROCE/WACC	1.09
Beta (x)	1.04
Book Value/share (RM)	1.28

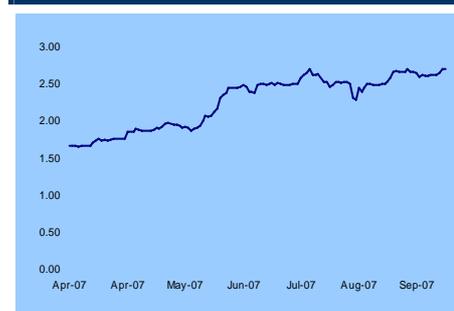
**Major Shareholders (%)**

Tan Kai Hee & Family	22.9
Excellent Communication SB	5.3

**Share Performance (%)**

Month	Absolute	Relative
1m	8.00	2.96
3m	13.29	14.82
6m	60.40	49.66
12m	158.82	73.77

**6-month Share Price Performance**



**Another Good Showing from Hai-O**

Again Hai-O proved its mettle as it registered yet another strong quarterly showing, boosted by the strengthening of the Ringgit and strong growth in MLM sales. With the increase of active members in the MLM division we are positive on the company's future outlook. The transfer to the mainboard will definitely boost buying interest. **Maintain BUY on Hai-O with a revised target price of RM3.60**

**Better than expected.** Hai-O registered strong 1QFY08 earnings of RM7m which were 17% above our forecast. Revenue grew by 50.6% while earnings were up 97.6%. The strong performance was contributed by higher sales from the multi-level marketing (MLM) division, and successful sales promotions held by the retail business division.

**Lower Q-o-q.** Meanwhile, q-o-q earnings were lower by 10.3% due to additional non-operating revenue being accounted for in the previous quarter. Moreover, 1Q is a relatively weaker quarter due to seasonal factor.

**Higher EBITDA margin.** 1Q EBITDA margin increased from 15% in the previous year to 16.2%. The higher margin was attributed to stronger contribution from MLM; and better selling price in the wholesale division particularly the Pu-Er tea. The strengthening of the Ringgit against the US\$ will reduce imported costs hence improving overall profit margins of the Group. As 60% of the goods are imported, we estimate every 1% appreciation in Ringgit; Hai-O's gross profit margin will increase by 0.3%-0.4%.

**Earnings forecast revised.** The 1Q is a relatively weaker quarter, and yet Hai-O has already produced strong results. We expect 2Q and 3Q to be stronger; therefore we are increasing our FY08 earnings forecast from RM24.1m to RM25.5m. Meanwhile FY09 earnings is expected to be RM28.5m.

**Maintain BUY.** Following Hai-O's 1-for-5 bonus issue and upcoming transfer into the Main Board, we expect the stock to generate more interest and therefore should deserve a higher PE valuation. As such, we are revising up our target price from RM2.70 (RM3.25 cum-bonus) to RM3.60 by applying a higher PE of 12x (previously 10x) over FY08 EPS of 30.7 sen and P/BV of 2.4x (previously 2x). We reiterate our **BUY** recommendation on Hai-O with potential upside of 33%.

FYE Apr (RMm)	FY05	FY06	FY07	FY08f	FY09f
Total revenue	139.3	144.3	189.3	207.1	221.5
EBITDA	12.8	17.1	32.8	34.1	37.6
Pretax profit	10.3	15.1	30.6	36.1	39.8
Net Profit	5.5	10.2	21.4	25.5	28.5
% chg YoY	41.6	84.9	110.0	19.3	11.8
EPS (sen)	6.6	12.3	25.8	30.7	34.4
Gross DPS (sen)	4.8	6.4	14.6	16.0	18.0
Gross Div Yield (%)	1.8	2.4	5.4	5.9	6.7
PER (x)	40.7	22.0	10.5	8.8	7.9
BV/ share	1.0	1.1	1.3	1.5	1.7
P/BV	2.7	2.5	2.1	1.8	1.6

**KEY HIGHLIGHTS**

Quarter Results Table						
FYE Apr (RMm)	1QFY08	4QFY07	% chg	YTD FY08	YTD FY06	% chg
Turnover	59.3	56.7	4.5%	59.3	39.4	50.6%
EBITDA	9.6	8.9	8.5%	9.6	5.9	63.3%
Depreciation	(0.6)	(0.6)	-0.2%	(0.6)	(0.6)	-0.2%
Net interest expense	0.0	0.1	-75.9%	0.0	(0.0)	-265.0%
Associates	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT	9.9	10.2	-2.7%	9.9	5.8	72.1%
Tax	(2.9)	(2.4)	18.1%	(2.9)	(1.8)	58.8%
MI	(0.1)	0.0	-475.0%	(0.1)	(0.4)	-82.5%
Net Profit	7.0	7.8	-10.3%	7.0	3.5	97.6%
EPS (sen)	8.4	9.4		8.4	4.3	
Gross DPS (sen)						
EBITDA margin	16.2%	15.6%		16.2%	15.0%	

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DPS (sen)	4.8	6.4	14.6	16.0	18.0
Margin					
EBITDA	9.2%	11.8%	17.3%	16.4%	17.0%
PBT	7.4%	10.5%	16.2%	17.4%	18.0%
Net Profit	4.0%	7.1%	11.3%	12.3%	12.9%
ROE	6.8%	11.9%	21.9%	22.5%	21.9%
ROA	4.8%	8.4%	15.6%	16.1%	16.0%
Balance Sheet					
Fixed Assets	53.2	54.6	53.8	53.8	54.0
Current Assets	64.5	70.6	95.2	114.3	134.9
Total Assets	117.7	125.2	149.0	168.1	188.9
Current Liabilities	31.0	31.1	38.0	41.6	44.6
Net Current Assets	33.6	39.4	57.2	72.7	90.4
LT Liabilities	0.2	0.0	0.1	0.1	0.1
Shareholders Funds	81.9	89.4	105.7	121.6	139.4
Net Cash/(debt)	11.8	8.7	20.3	34.8	48.2

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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  
Fax : + (60) 3 2175 3333

**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