

The Research Team
+60 (3) 9207 7688
research2@my.oskgroup.com

Company Update

Hai-O Enterprise

A Breath of Life From New Salt Product

We recently visited Hai-O, which seems to be slowly regaining its earnings momentum. Its strategy of focusing on repeat consumer products instead of big-ticket items is working as the MLM division is showing improvement. We believe Hai-O would be able to deliver decent results given: i) the recent collaboration with KAEAM Corp on the global distributorship of bamboo salt, and ii) its bird's nest export business. Maintain NEUTRAL, with FV of RM2.03.

NEUTRAL

Fair Value **RM2.03**
Previous Price **RM1.99**
Price **RM2.18**

CONSUMER /RETAIL

Hai-O is involved in wholesaling, retailing, multi-level marketing and pharmaceuticals, and also operates modern Chinese medicinal clinics.

Stock Statistics

Bloomberg Ticker	HAIO MK
Share Capital (m)	202.2
Market Cap	440.8
52 week H L Price	2.42 1.55
3mth Avg Vol (000)	118.0
YTD Returns	14.1
Beta (x)	0.96
Shariah Compliant	YES

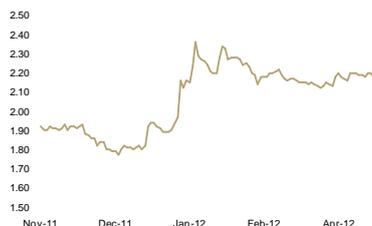
Major Shareholders (%)

Tan Kai Hee	9.6
Akintan SB	7.3
Excellent Communications	5.1

Share Performance (%)

Month	Absolute	Relative
1m	2.3	0.4
3m	-5.9	-9.6
6m	21.5	3.1
12m	2.9	-6.8

6-month Share Price Performance



The worst may be over. Hai-O managed to improve on its revenue and earnings in the last two quarters after eight consecutive quarters of dismal performance, which indicates that the company might be on the road to recovery. The core MLM business bounced back with a decent 4.9% y-o-y revenue growth last quarter. Going forward, the management is confident that Hai-O will be able to deliver satisfactory results.

MLM bounces back. The MLM division has around 140k registered members and is adding 2.5k new members monthly. The number of new members has risen steadily from 2k/month to 2.5k/month y-o-y, with management now aiming for new additions of 3k/month in the near term. Learning from the past, the company has shifted its focus from big-ticket items such as water filters to consumer-centric products such as beauty and health products, for which sales are consistent and are repeated. We believe the growth momentum in the MLM division is sustainable given the company's improved marketing strategy and more balanced product mix. Meanwhile, its Indonesia MLM operation is still relatively small and not making much progress due to fierce competition and strict regulations. Hai-O is trying to penetrate the relatively untapped 2nd tier cities such as Batam, Medan and Pekan Baru for new markets.

Bamboo salt the new star. In early April, Hai-O Marketing signed a global distributorship agreement with South Korea's KAEAM Food Corp, the pioneer manufacturer of 'bamboo salt' (garam buloh). Hai-O brought in KAEAM bamboo salt three years ago via an exclusive collaboration, which proved to be timely because this product is gaining a strong following, which allows the company to expand into new markets. Elsewhere, Hai-O's new subsidiary – Yan Ou Holdings SB (Yan Ou) – will be sourcing for and processing, trading and distributing bird's nest. Once it obtains the licence to export bird's nest, this will represent another good revenue stream for the company since the consumption of the product in Asia, especially China, is huge.

Maintain NEUTRAL. Assuming stronger sales for the MLM division, we are marginally revising upwards our FY13 forecast by 1.7%. Maintain NEUTRAL, with a higher FV of RM2.03, based on 12x FY13 EPS.

FYE Apr (RM m)	FY09	FY10	FY11	FY12f	FY13f
Revenue	435.2	511.1	223.2	216.1	241.1
Net Profit	52.3	70.6	28.8	30.6	34.2
% chg y-o-y	7.7	35.0	-59.2	6.1	11.9
Consensus	-	-	-	33.0	36.5
EPS (sen)	25.8	34.8	14.2	15.1	16.9
DPS (sen)	5.5	9.4	7.5	7.5	8.4
Dividend yield (%)	2.5	4.3	3.4	3.5	3.9
ROE (%)	31.6	33.7	14.1	13.6	14.2
ROA (%)	21.1	26.0	11.6	11.7	12.3
PER (x)	8.5	6.3	15.3	14.4	12.9
BV/share	0.82	1.03	1.01	1.11	1.19
P/BV (x)	2.7	2.1	2.2	2.0	1.8
EV/EBITDA (x)	5.3	4.0	9.8	8.6	7.8

“Change Your Salt Today”

What is bamboo salt? Bamboo salt was first produced by Buddhist monks in South Korea about 1,300 years ago as medicinal salt by roasting sea salt in bamboo stubs together with pine tree firewood. The baking process is repeated 3, 6 or 9 times on 900°C to 1500°C heat in order to burn away toxins in the salt. Hai-O KAEAM Bamboo Salt is alkaline in nature and comprises 76 types of minerals known to be effective for detoxifying, balancing and regulating the human body. The refined salt widely used nowadays is a more purified form of sodium chloride that has artificial additives such as iodine and an anti-crystallization agent, which may cause health problems like hypertension and hyperglycemia.

Hai-O KAEAM bamboo salt. Hai-O Marketing’s new best seller, ‘bamboo salt’ – better known as ‘garam buloh’ – contributes around 10% of the company’s revenue. From only selling about 200 boxes per month four years ago, the company is now distributing 12k to 14k boxes of bamboo salt a month. Its marketing team has been promoting and creating awareness on the value of bamboo salt via its ‘Change Your Salt’ activities. Meal/dinner vouchers are sold to members and consumers, and the dishes are all prepared using Hai-O KAEAM bamboo salt instead of conventional salt. Bamboo salt, which is rich in minerals and nutrients, appears to be a better substitute for normal salt. The management expects the volume of this star product to double in 2-3 years’ time following its tie-up, making it KAEAM Food Corp’s global distributor. The company will remain focused on strengthening the local market before spreading its wings regionally within the next two years.

Figure 1: Hai-O KAEAM bamboo salt



Source : Company website

Figure 2: Comparison between refined and bamboo salt

	Refined Salt	Bamboo Salt
Processing	Steam boiling up to 140°C	9-times baking up to 1300°C
Ingredients	Contains artificial additive	Organic substances.
pH	Weak acidic	Strong alkaline
Taste	Salty and sometimes bitter	Salty with sweet
Effect	Migh cause hypertension	Neutralize toxin

Source : website

EARNINGS FORECAST

FYE Apr (RM m)	FY09	FY10	FY11	FY12f	FY13f
Turnover	435.2	511.1	223.2	216.1	241.1
EBITDA	76.1	95.7	41.4	42.9	46.4
PBT	75.9	95.6	41.4	42.1	45.6
Net Profit	52.3	70.6	28.8	30.6	34.2
EPS (sen)	25.8	34.8	14.2	15.1	16.9
DPS (sen)	5.5	9.4	7.5	7.5	8.4
Margin					
EBITDA (%)	17.5	18.7	18.5	19.9	19.2
PBT (%)	17.4	18.7	18.5	19.5	18.9
Net Profit (%)	12.0	13.8	12.9	14.2	14.2
ROE (%)	31.6	33.7	14.1	13.6	14.2
ROA (%)	21.1	26.0	11.6	11.7	12.3
Balance Sheet					
Fixed Assets	59.4	60.9	71.7	81.1	90.9
Current Assets	154.4	184.0	111.8	144.5	152.7
Total Assets	248.3	271.7	249.2	260.6	278.7
Current Liabilities	61.2	49.3	33.4	26.4	27.4
Net Current Assets	187.2	222.4	215.8	234.2	251.3
LT Liabilities	15.7	13.2	10.7	10.1	10.1
Shareholders Funds	165.4	209.2	205.1	224.2	241.3
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

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

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
PT OSK Nusantara Securities Indonesia Plaza CIMB Niaga, 14 th Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	OSK Indochina Securities Limited No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
OSK Securities (Thailand) PCL 10 th Floor ,Sathorn Square Office Tower, 98, North Sathorn Road,Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		