

## Results Note

## Hai-O Ent

HAIO MK  
RM3.34

ADD (maintain)

Target Price: RM3.70 (↔)



## Price Performance

	1M	3M	12M
Absolute	+1.8%	+4.4%	+9.9%
Rel to KLCI	+2.4%	+3.9%	+56.2%

## Stock Data

Issued shares (m)	84.5
Mkt cap (RMm)	282.1
Avg daily vol - 6mth (m)	0.84
52-wk range (RM)	3.90-2.79
Est free float	47.7%
NTA per share (RM) (end-Jan 09)	1.85
P/NTA (x)	1.8
Net cash/debt (RMm) (end-Jan 09)	45.2
ROE (2009F)	31.7
Derivatives	Nil

## Key Shareholders

Tan family	25.6%
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## Earnings &amp; Valuation Revisions

	09E	10E	11E
Prev EPS (sen)	52.4	56.2	60.9
Curr EPS (sen)	52.4	56.2	60.9
Chg (%)	-	-	-
Prev target price (RM)			3.70
Curr target price (RM)			3.70

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## On track for high dividend yield

## Above expectations

Hai-O's 3QFY09 net earnings of RM12.0m (-10.5% yoy, +9.9% qoq) if annualised exceeded our forecasts by 10.2% and consensus' net earnings by 7.3%. This is mainly due to better than expected performance from the MLM division.

## MLM's division recovered in this quarter

The MLM division (77.3% of 3QFY09's revenue) registered sales growth of 19.8% qoq and 5.7% yoy, attributed to its growing number of sales force (estimated net addition of 2,000/month to a total distributor force of above 80,000), and recovery from the dip experienced in September-October 2008 when consumer spending turned cautious. The MLM division chalked up an EBIT growth of 36.5% qoq and 28.1% yoy. Annualised revenue and EBIT for the MLM division came in 6.3% and 22.3% above our expectations.

## Likely to maintain dividend payout of at least 50%

The 3QFY09 results reaffirm our positive stance on the company, particularly the MLM division. More importantly, we believe the strong results support its dividend policy, in which management has articulated will be maintained at a minimum of 50% of net earnings. We maintain our NDPS forecast of RM0.26 FY09, RM0.28 FY10 and RM0.30 FY11 (GDPS: RM0.365 FY09; RM0.39 FY10 and RM0.42 FY11) based on dividend payout assumption of 50%. The company has declared an interim GDPS of RM0.10 in 2QFY09 (no dividends were declared in this quarter, as expected).

## Maintain ADD with an unchanged TP of RM3.70

We maintain a DDM-based valuation, assuming a beta of 1.0x, risk free rate of 4.85%, market risk premium of 6.5%, and terminal growth rate of less than 1%, which gives us RM4.10/share. However, we peg a 10% discount to this given the illiquid trading volume and smallish market cap, which yields a fair value of RM3.70. At RM3.70, this implies a target CY09 PE of 6.7x, within the historical mean of 6.5x. The company is unique given its growth exposure to all mainstream segments of Malaysia's population (retail: Chinese-based, MLM: mainly Malay based). Main re-rating catalysts are: (a) resilience of earnings despite the slower economic environment; and (b) delivery of high dividend yield. Key risks to our positive stance are: (a) unexpected reduction in dividend payout ratio to below 50%; and (b) MLM division's revenue coming in below our expectations.

FYE 30 April	2007	2008	2009F	2010F	2011F
Revenue (RMm)	189.3	373.8	378.3	421.2	466.8
EBITDA (RMm)	32.6	67.3	64.9	69.1	74.0
Pretax profit (RMm)	30.6	67.7	60.6	65.0	70.5
Net profit (RMm)	21.4	48.5	44.0	47.2	51.2
EPS (sen)	26.0	58.1	52.4	56.2	60.9
EPS growth (%)	110.0	123.3	(9.8)	7.2	8.5
PER (x)	12.8	5.8	6.4	5.9	5.5
Core net profit (RMm)	21.4	48.5	44.0	47.2	51.2
Core EPS (sen)	26.0	58.1	52.4	56.2	60.9
Core PER (x)	12.8	5.8	6.4	5.9	5.5
DPS (sen)	18.0	40.0	36.5	39.0	42.0
Dividend Yield (%)	5.4	12.0	10.9	11.7	12.6
EV/EBITDA (x)	7.6	3.8	3.7	3.3	2.9
Consensus profit (RMm)			45.2	47.6	45.1
Affin/Consensus (x)			0.8	0.8	0.9

### Other divisions within our expectations

The retail division recorded a higher revenue of 17.3% qoq and 11.8% yoy attributed to the success of its sales campaign during the Chinese New Year period. As for the wholesale division, EBIT margin declined to 5.4% in 3QFY09 from 11.9% in 2QFY09, attributed to weakening of the Ringgit against the US dollar which increased its raw material costs. However, this has already been factored into our earnings estimates.

**Fig 1: Quarterly Results Comparison**

FYE April (RMm)	3QFY08	2QFY09	3QFY09	QoQ % chg	YoY % chg	Comment
Revenue	100.5	87.3	102.1	17.0	1.6	Stronger sales qoq due to higher sales of MLM and retail division.
Op costs	(118.9)	(102.8)	(120.8)	17.5	1.6	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	18.4	15.5	18.6	20.1	1.4	
<b>EBIT margin (%)</b>	<b>18.3</b>	<b>17.8</b>	<b>18.2</b>	<b>nm</b>	<b>nm</b>	EBIT margin above our forecast of 16.1%
Int expense	(0.1)	(0.5)	(0.3)	(45.2)	84.5	
Int and other inc	0.2	0.3	0.2	(37.3)	(13.0)	
Associates	0.0	0.0	0.0	nm	nm	
<b>Pretax</b>	<b>18.5</b>	<b>15.3</b>	<b>18.6</b>	21.0	0.5	
Tax	(4.9)	(4.2)	(6.2)	47.0	24.4	
<b>Tax rate (%)</b>	<b>26.8</b>	<b>27.3</b>	<b>33.1</b>	<b>nm</b>	<b>nm</b>	
MI	(0.1)	(0.2)	(0.4)	74.3	nm	
<b>Net profit</b>	<b>13.4</b>	<b>10.9</b>	<b>12.0</b>	9.9	(10.5)	The quarter's earnings made up 27.3% of our full year estimates and 26.5% of consensus forecasts for FY09
EPS (sen)	15.9	13.0	14.2	9.9	(10.5)	
<b>Core net profit</b>	<b>13.4</b>	<b>10.9</b>	<b>12.0</b>	<b>9.9</b>	<b>(10.5)</b>	

Source: Affin estimates, Company data

**Fig 2: Cumulative Results Comparison**

FYE April (RMm)	YTD2008	YTD2009	YTD % chg	Comment
Revenue	240.3	302.3	25.8	Boosted by MLM's strong sales growth of 35.6% yoy for the period. Annualised, sales came in 6.9% above our forecasts.
Op costs	(281.4)	(355.1)	26.2	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	41.1	52.8	28.4	
<b>EBITDA margin (%)</b>	<b>17.1</b>	<b>17.4</b>	<b>nm</b>	
Int expense	(0.3)	(0.9)	179.4	
Int and other inc	0.5	0.8	49.1	
Associates	0.0	0.0	nm	
<b>Pretax</b>	<b>41.3</b>	<b>52.6</b>	27.5	
Tax	(11.4)	(15.4)	35.3	
<b>Tax rate (%)</b>	<b>27.6</b>	<b>29.3</b>	<b>nm</b>	
MI	(0.3)	(0.7)	108.9	
<b>Net profit</b>	<b>29.6</b>	<b>36.5</b>	23.5	Net earnings if annualised came in 10.2% above our forecasts and 7.3% above consensus' estimates.
EPS (sen)	35.4	43.7	23.5	
<b>Core net profit</b>	<b>29.6</b>	<b>36.5</b>	<b>23.5</b>	

Source: Affin estimates, Company data

**Fig 3: Segmental Revenue Breakdown**

<b>FY April (RMm)</b>	<b>1QFY08</b>	<b>2QFY08</b>	<b>3QFY08</b>	<b>4QFY08</b>	<b>1QFY09</b>	<b>2QFY09</b>	<b>3QFY09</b>
Wholesale	25.5	31.6	57.8	53.1	44.7	32.8	54.3
MLM	40.0	59.5	74.7	107.3	91.5	65.9	78.9
Retail	7.9	10.0	10.5	11.0	8.0	10.0	11.8
Manufacturing	1.2	0.7	0.8	1.1	1.2	1.1	1.3
Others	(15.3)	(21.4)	(43.4)	(39.1)	(32.5)	(22.6)	(44.2)
<b>Total</b>	<b>59.3</b>	<b>80.5</b>	<b>100.5</b>	<b>133.5</b>	<b>112.9</b>	<b>87.3</b>	<b>102.1</b>
Qoq (%)	4.5	35.8	24.8	32.9	(15.5)	(22.7)	17.0
Yoy (%)	50.6	92.3	95.5	135.5	90.5	8.4	1.6

**Contribution (%)**

Wholesale	43.0	39.3	57.6	39.8	39.6	37.6	53.2
MLM	67.6	73.9	74.4	80.3	81.1	75.5	77.3
Retail	13.3	12.5	10.5	8.3	7.1	11.5	11.5
Manufacturing	2.0	0.9	0.8	0.9	1.1	1.3	1.3
Others	(25.9)	(26.5)	(43.2)	(29.2)	(28.8)	(25.9)	(43.3)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Affin estimates, Company data

**Fig 4: Segmental EBIT Breakdown**

<b>FY April (RMm)</b>	<b>1QFY08</b>	<b>2QFY08</b>	<b>3QFY08</b>	<b>4QFY08</b>	<b>1QFY09</b>	<b>2QFY09</b>	<b>3QFY09</b>
Wholesale	3.2	2.1	7.4	24.4	3.6	3.9	2.9
MLM	5.7	9.1	10.8	21.2	14.2	10.1	13.8
Retailing	0.2	1.1	0.2	0.6	0.3	0.8	1.1
Manufacturing	0.2	0.1	0.1	0.2	0.3	0.1	0.2
Others	0.7	0.3	0.4	0.2	(0.1)	1.0	0.6
Elimination	(0.1)	0.3	(0.4)	(20.4)	0.3	(0.3)	(0.0)
<b>Total</b>	<b>9.8</b>	<b>12.9</b>	<b>18.4</b>	<b>26.2</b>	<b>18.6</b>	<b>15.5</b>	<b>18.6</b>

**Contribution (%)**

Wholesale	33.0%	16.1%	40.2%	93.3%	13.8%	30.3%	22.8%
MLM	58.0%	70.6%	58.7%	81.1%	54.4%	78.6%	107.2%
Retailing	1.6%	8.3%	0.9%	2.3%	1.1%	6.2%	8.7%
Manufacturing	1.7%	0.4%	0.4%	0.6%	1.0%	0.6%	1.4%
Others	7.1%	2.6%	1.9%	0.7%	(0.5%)	7.4%	4.6%
Elimination	(1.4%)	2.0%	(2.1%)	(78.1%)	1.2%	(2.6%)	(0.1%)

**Margin (%)**

Wholesale	12.7%	6.6%	12.8%	46.0%	8.1%	11.9%	5.4%
MLM	14.2%	15.3%	14.4%	19.8%	15.6%	15.4%	17.5%
Retailing	2.0%	10.7%	1.6%	5.4%	3.5%	8.0%	9.5%
Manufacturing	14.0%	7.8%	10.5%	13.5%	22.2%	6.9%	13.6%
Others	40.2%	14.6%	13.6%	8.6%	(7.7%)	43.4%	19.4%
Elimination	0.8%	(1.1%)	0.9%	49.5%	(0.9%)	1.4%	0.1%

Source: Affin estimates, Company data

### Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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