

Corporate Highlights

Results Note

Hai-O Enterprise

MLM Boosted 1QFY04/09 Earnings



RHB Research
Institute Sdn Bhd
A member of the
RHB Banking Group
Company No: 233327 -M

22 September 2008

Share Price : RM3.34
Fair Value : RM4.74
Recom : **Outperform**
(Maintained)

FYE Apr	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	EPS gwth (%)	PER (x)	C.EPS* (sen)	NTA/share (x)	Net gearing (x)	ROE (%)	Net Div. Yld. (%)
2008a	373.8	48.5	64.4	144.1	5.2		1.7	Net cash	19.4	12.0
2009f	437.8	52.2	62.9	-2.3	5.3	61.0	2.2	Net cash	15.9	4.3
2010f	493.7	58.2	70.1	11.4	4.8	66.0	2.8	Net cash	14.0	4.7
2011f	551.9	65.5	78.8	12.5	4.2	74.0	3.4	Net cash	12.7	5.2

Main Board Listing / Trustee Stock / Syariah-Approved Stock By The SC ^ Consensus based on IBES Estimates

- ◆ **Within expectation.** 1QFY04/09 net profit of RM13.6m came in within our expectations and consensus estimates at 26% of our full-year forecast and full-year consensus estimates.
- ◆ **1QFY04/09 net profit surged 93% yoy** due to higher contribution from all divisions, particularly from the MLM segment. For this quarter, the MLM division recorded a 129% yoy top-line growth to RM91.5m, which filtered down to a 150% growth in EBIT to RM14.2m that account more than 70% of Hai-o's 1QFY04/09 earnings. This stellar performance was due to the increase in distributors and higher distributor productivity. We believe Hai-o has added 3,000 new members to its distribution force during this quarter while the distributor productivity remained high at RM4,000/distributor (vs RM1,600 in FY04/07 and RM4,023 in FY04/08) this quarter.
- ◆ **Future prospects.** Looking forward, we expect the MLM division to chalk up higher growth in FY04/09-11 underpinned by: 1) an addition of 10,000-12,000 new distributors per annum; and 2) an increase in distributor productivity by 3% p.a. to RM4,100-4,400/distributor. Also, a maiden contribution from manufacturing Stevia natural sweetener would kick-in this financial year and we have already projected this contract to provide RM4m a year to Hai-o's revenue over the next three years.
- ◆ **Risks to our view.** The major risks include: 1) termination of supply agreements from its suppliers in China; and 2) slowdown in consumer spending in Malaysia.
- ◆ **Forecast.** No change to our FY04/09-11 earnings projections.
- ◆ **Investment case.** Indicative fair value remains unchanged at RM4.74, based on unchanged 7x CY09 EPS, representing a 40% discount to our target PE for the consumer sector. Maintain **Outperform**.

RHBRI	Vs.	Consensus
✓	Above In Line Below	✓

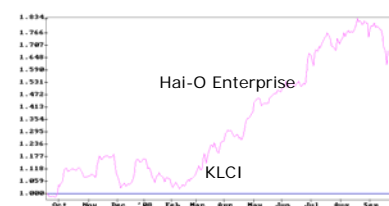
Issued Capital (m shares)	83.1
Market Cap(RMm)	277.5
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	2.28-3.85
Major Shareholders:	(%)
Tan Family	25.0
Excellent Communication	5.2

FYE Apr	FY09	FY10	FY11
EPS chg (%)	-	-	-
Var to Cons (%)	3.1	6.2	6.5

PE Band



Relative Performance To KLCI



Please read important disclosures at the end of this report.

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Table 2. Earnings Review (YoY Cumulative)

FYE Apr (RMm)	1Q08	4Q08	1Q09	QoQ (%)	YoY (%)	Comments
Revenue	59.3	133.5	112.9	-15.5	90.5	Mainly due to higher contribution from the MLM division. Decline QoQ due to seasonality factor.
- Wholesale & Retail	18.4	25.2	20.2	-19.7	9.8	
- MLM	40.0	107.3	91.5	-14.7	128.6	
- Other	0.8	1.1	1.2	5.3	41.1	
EBIT	9.8	26.2	18.6	-29.1	89.2	Driven by higher revenue.
Finance cost	0.0	0.3	0.1	-53.8	269.7	
PBT	9.8	26.4	18.7	-29.3	89.8	Filtered down from EBIT.
Taxation	-2.9	-7.3	-5.1	-29.8	78.7	
MI	0.1	-0.2	0.0	-109.7	-70.7	
Net profit	7.1	18.9	13.6	-28.2	92.6	
EPS (sen)	10.5	25.2	16.8	-33.2	59.5	
Gross dividend	0.0	32.0	0.0	-100.0	n.m.	
EBIT margin (%)	16.5	19.6	16.4	-3.2	-0.1	Decline QoQ due to change in product mix whereby wholesale and retail provide better margin than MLM.
PBT margin (%)	16.6	19.8	16.5	-3.2	-0.1	
Net profit margin (%)	11.9	14.2	12.0	-2.1	0.1	
Effective tax rate (%)	29.0	27.5	27.3	-0.2	-1.7	

Source: Company, RHBRI

Table 3. Earnings Forecasts

FYE Apr (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	373.8	437.8	493.7	551.9
Turnover growth (%)	96%	18%	13%	12%
Cost of Sales	-236.2	-275.8	-311.0	-347.7
Gross Profit	135.7	162.0	182.7	204.2
EBITDA	69.4	76.5	84.9	94.2
EBITDA margin (%)	19%	17%	17%	17%
Depreciation	-2.2	-2.7	-3.4	-3.4
Net Interest	0.5	0.3	1.1	1.5
Associates	0.0	0.0	0.0	0.0
Pretax Profit	67.7	74.1	82.6	92.3
Tax	-18.7	-20.0	-22.3	-24.0
Minorities	-0.6	-1.9	-2.1	-2.8
Net Profit	48.5	52.2	58.2	65.5

Source: Company data, RHBRI estimates

Table 4. Forecast Assumptions

FYE Apr	FY09F	FY10F	FY11F
Core distributor force (CDF)	82,000	92,000	102,000
Distributor productivity (RM/CDF)	4,143	4,268	4,396
Opening of new retail outlets	2	1	0
Revenue per outlet (RM'000)	705	719	733

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Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

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Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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