

Corporate Highlights

News Update

Hai-O Enterprise

Secured A RM30m Manufacturing Contract



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

31 January 2008

Share Price	:	RM3.00
Fair Value	:	RM4.04
Recom	:	Outperform (maintained)

Analyst : Tan Kam Meng, CFA Tel : (603) 9280 2162 E-mail : tan.kam.meng@rhb.com.my

- ◆ Hai-O, via its wholly-owned subsidiary SG Global Biotech, has secured an exclusive manufacturing contract from Pure Circle, which is a listed company on London Stock Exchange, to manufacture Stevia natural sweetener for the next five years in return for a total minimum guaranteed revenue of RM30m. Stevia natural sweetener is a natural extract from the stevia rebaudiana plant, which is now widely used in food and beverage applications for companies like Cargill and Coca-cola as a sugar substitute with zero calories.
- ◆ According to management, there is no significant capex needed to carry out the manufacturing activity as Hai-O's existing plants are already able to produce up to 80 tonnes p.a. of the Stevia natural sweetener for the next 3 years. This would translate into a revenue of RM4-5m p.a.. Thereafter, should demand increase, Hai-O intends to build a new plant which would increase its production capacity to 150 tonnes per year. We were given to understand that the profit margin for producing this product could be higher than its existing manufacturing margin, ie. >30%. We also note that Hai-O could be appointed as an exclusive distributor in Malaysia and China at a later stage to distribute the product. We have not factored in the appointment of Hai-O as the exclusive distributor in Malaysia and China into our earnings forecasts.
- ◆ All in, we raise our FY04/09-10 earnings forecasts by 2-3% to reflect: 1) a RM4m p.a. revenue contribution from manufacturing stevia natural sweetener; and 2) higher operating margin for the manufacturing division of 31% from 30%. Correspondingly, indicative fair value is raised to RM4.04/share from RM3.96/share based on unchanged target PE of 10x CY08 EPS, which is at a 40% discount to our CY08 target PE of 16x for the consumer sector, to reflect its smaller earnings base and market capitalisation. Maintain **Outperform**.

Table 1: Investment Statistics (HAIO ; Code: 7668) Bloomberg Ticker: HAIO MK

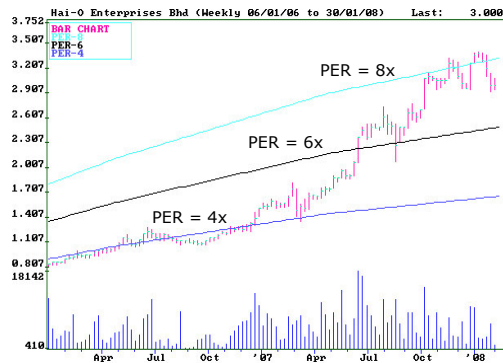
FYE Apr	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	EPS gwth (%)	PER (x)	C.EPS* (sen)	NTA/share (x)	Net gearing (x)	ROE (%)	Net Div. Yld. (%)
2007a	189.3	21.4	26.4*	105.3*	11.4		1.5	Net cash	11.0	3.7*
2008f	294.0	30.1	36.3	37.6	8.3	33.0	1.5	0.0	13.0	4.0
2009f	338.8	35.2	42.4	17.0	7.1	38.0	1.8	Net cash	12.8	4.8
2010f	376.0	38.9	46.9	10.5	6.4	45.0	2.1	Net cash	12.0	5.3
Issued Capital (m shares)					82.6	Major Shareholders				(%)
Market Capitalisation (RMm)					247.8	Tan Family				25.0
Daily Trading Volume (m shares)					0.1	Excellent Communication				5.2
52-week Price Range (RM / s)					1.38-3.38					

Second Board Listing /Trustee Stock/non-Syariah Approved Stock By The SC

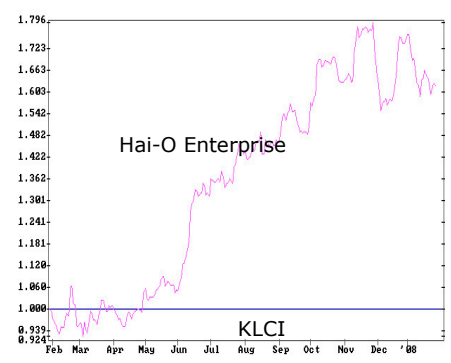
^ Consensus based on IBES Estimates

* Adjusted for bonus issue

PE Band Chart



Relative Performance To KLCI



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Stock Ratings

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.

Industry/Sector Ratings

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

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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