

Corporate Highlights

News Update

Hai-O Enterprise

Further Details On The Supply and Purchase Agreement

Share Price	:	RM3.08
Fair Value	:	RM3.37
Recom	:	Outperform (maintained)

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- ◆ We have obtained further details from management with regards to the supply and purchase agreement of Pu-Er tea to Pu-Er Tea Investment Co (PTI):
 1. Hai-O will source and sell Pu-Er tea to PTI in return for a spread for trading in Pu-Er tea on behalf and for the benefit of PTI; and
 2. The put option is exercisable on all unsold Pu-Er Tea one year after the agreement in October 2007. We think this option would remain un-exercisable as the value of Pu-Er tea is unlikely to fall below the purchase price to PTI.
- ◆ Hai-O will source Pu-Er tea on behalf of PTI and then sell it to PTI. Thereafter, upon identifying any potential buyers for the tea, Hai-O will purchase the tea back from PTI to sell to the external buyer. In return, Hai-O will earn a spread for trading in Pu-Er tea on behalf and for the benefit of PTI. Assuming PTI uses about RM20m out of the RM50m investment funds to invest in Pu-Er tea, and based on our estimate for tea trading margins of 8-10%, we estimate profit contribution from this agreement to be about RM1.5-2.8m in FY04/08-10. This will raise our FY04/08-10 earnings projection for Hai-O by 6-9% to RM25-33m.
- ◆ The put option on all the unsold Pu-Er tea granted to PTI will be exercisable one year after the agreement starts in October 2007. We understand that for the put option to be in-the-money, the value of Pu-Er tea must be below PTI's purchase price. We believe this situation is unlikely to occur as Pu-Er tea's value will appreciate after being aged for many years. Therefore, we think the put option will not be exercised during the 3-year duration of the agreement.
- ◆ Following the adjustment to our net profit forecasts, our indicative fair value for Hai-O is raised to RM3.37 from RM3.13. This is based on unchanged 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**

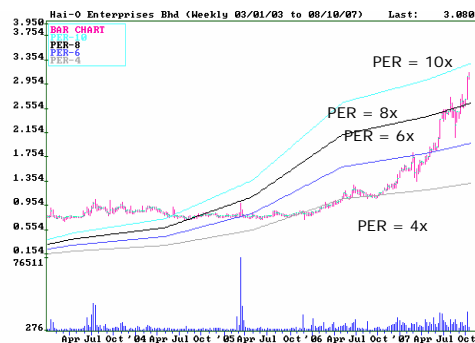
FYE Apr	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	EPS gwth (%)	PER (x)	C.EPS* (sen)	NTA/share (x)	Net gearing (x)	ROE (%)	Net. Div. Yld. (%)
2007a	189.3	21.4	26.4*	105.3*	11.7	-	1.5	Net cash	11.0	3.6*
2008f	224.6	25.2	30.3	14.9	10.2	30.0	1.4	Net cash	11.1	4.0
2009f	254.7	29.4	35.4	17.0	8.7	33.0	1.7	Net cash	11.4	4.7
2010f	283.9	32.8	39.5	11.4	7.8	36.0	1.9	Net cash	11.1	5.3
Issued Capital (m shares)						83.0	Major Shareholders		(%)	
Market Capitalisation (RMm)						255.7	Tan Family		25.0	
Daily Trading Volume (m shares)						0.1 Excellent Communication		5.2		
52-week Price Range (RM / s)						1.15-3.08				

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

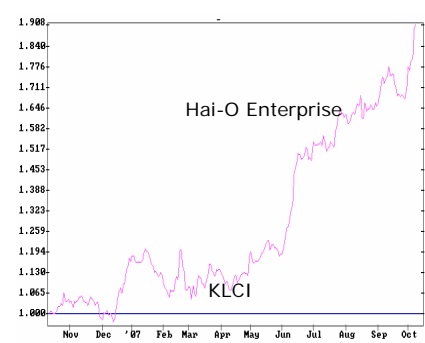
^ Consensus based on IBES Estimates

* Adjusted for bonus issue for light-to-light comparison

PE Band Chart



Relative Performance To KLCI



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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.

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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