

Corporate Highlights

Results Note

Hai-O Enterprise

*Higher Contribution From The MLM
In 1QFY04/08*



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

1 October 2007

Share Price : RM2.70
Fair Value : RM3.13
Recom : **Outperform**
(maintained)

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RHBRI	Consensus
<input type="checkbox"/>	Above <input type="checkbox"/>
<input checked="" type="checkbox"/>	In Line <input checked="" type="checkbox"/>
<input type="checkbox"/>	Below <input type="checkbox"/>

◆ 1QFY04/07 net profit came in within expectations at 29.8% of our full-year forecast and full-year market consensus. For this quarter, Hai-O has successfully carried out a new intensive distributor recruitment programme and received overwhelming response from the Malay community. We believe the group's distributor force has risen to more than 64,000 members during the quarter from 60,000 previously, which is in line with our expectations. Coupled with stable distributor productivity, Hai-O's MLM division has registered tremendous growth in operating profit of 150% in 1QFY04/08.

Table 1: Earnings Review (YoY)

FYE April (RMm)	2007 1Q	2007 4Q	2008 1Q	% chg QOQ	% chg YoY	Observation/ Comments
Revenue	39.4	56.7	59.3	4.5	50.6	Increase in MLM contribution that more than offset the decrease in contribution from the wholesale division.
EBIT	5.8	10.1	9.8	-2.4	69.6	Higher operating efficiency from distributors.
Finance cost	0.0	0.1	0.0	-75.7	-265.0	
PBT	5.8	10.2	9.8	-3.4	70.8	Filtered down from EBIT.
Taxation	-1.8	-2.4	-2.9	18.2	58.8	
MI	-0.4	0.0	0.1	nm	-117.5	
Net profit	3.5	7.8	7.1	-9.1	99.6	
EPS (sen)	5.4	11.9	10.5	-11.1	94.6	
Gross dividend (sen)	0.0	13.0	0.0	nm	nm	
EBIT margin (%)	14.7	17.7	16.5	-1.2	1.9	
PBT margin (%)	14.6	18.0	16.6	-1.4	2.0	
Net profit margin (%)	9.0	13.7	11.9	-1.8	2.9	
Effective tax rate (%)	31.2	23.7	29.0	5.3	-2.2	

◆ We expect the MLM division to chalk up higher growth in FY04/08 underpinned by: 1) an addition of 12,000 new distributors; and 2) an increase in distributor productivity by 6% to RM1,700/distributor. Moreover, the retail segment should also see higher earnings in FY04/08 on the back of: 1) maiden contributions

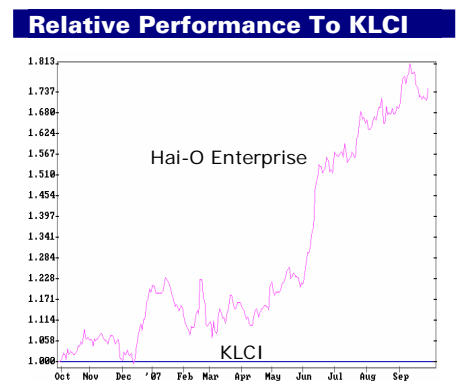
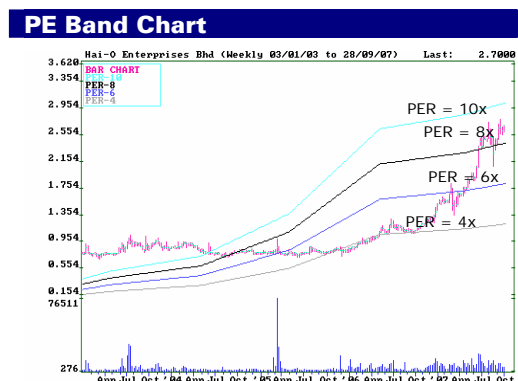
from new retail outlets in Sungai Long, Bandar Utama and Queensbay Mall; and 2) sales promotions to Hai-O's members in 2QFY04/08. Hai-O's transfer of listing to the Main Board of Bursa Malaysia will likely be completed in early-October 2007.

- ◆ We continue to like Hai-O for its compelling earnings visibility from its established position in the traditional Chinese medicine market. Meanwhile, Hai-O's MLM segment should continue to fuel earnings growth especially in view of the civil servant's pay hike in July 2007. Indicative fair value is RM3.13 based on 10x CY08 EPS, which is at 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 2: 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	10.2		1.5	Net cash	11.0	4.1	
2008f	204.6	23.7	28.6	8.4	9.4	35.0	1.4	Net cash	10.5	4.3	
2009f	234.1	26.8	32.3	13.1	8.4	39.0	1.6	Net cash	10.5	4.9	
2010f	262.7	30.0	36.2	11.8	7.5		1.8	Net cash	10.4	5.5	
Issued Capital (m shares)							83.0	Major Shareholders		(%)	
Market Capitalisation (RMm)							224.1	Tan Family		25.0	
Daily Trading Volume (m shares)							0.1			5.2	
52-week Price Range (RM / s)							1.09-2.70				

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

1QFY04/08 net profit came in within expectations at 29.8% of our full-year forecast and full-year market consensus. The decent earnings performance was mainly due to higher contribution from the MLM division. Going forward, we expect the MLM and retail divisions to chalk up higher growth underpinned by an addition of 12,000 new distributor and increase in distributor productivity as well as maiden contributions from new retail outlets. No change to our earnings forecast. Indicative fair value is RM3.13 based on 10x CY08 EPS. Maintain Outperform.



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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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