

Hartalega Holdings

HART MK / HTHB.KL

FLASH NOTE

➤ **Market Cap**
US\$1,052m
RM3,283m

➤ **Avg Daily Turnover**
US\$0.46m
RM1.46m

➤ **Free Float**
42.9%
726.9 m shares

Current **RM4.49**
Target ➤ **RM5.01**
Previous Target **RM5.01**
Up/downside **11.6%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL **NEUTRAL**
UNDERPERFORM

CIMB Analyst



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	1.4	15.5	48.2
Absolute	1.8	20.7	60.4
Major shareholders	% held		
Hartalega Industries	55.4		
Kuan family members	1.1		
Franklin Resources	0.6		

More than meets the eye

We learnt yesterday that glove consumption in India and China may be higher than what the official statistics imply. This suggests that emerging markets (EM)'s are more mature than expected, which improves Hartalega's probability of success as it expands its footprint.

Hartalega remains our top sector pick and an Outperform. Our target price is still based on 14.15x forward P/E, in line with Top Glove's target. Cost shrinkage and continued robust demand for synthetics should catalyse the stock, in our view.

What Happened ➤

Yesterday, we met MD Kuan Kam Hon, deputy MD Kuan Mun Leong and ED Kuan Mun Keng on the sidelines of the 6th International Rubber Glove Conference and Exhibition. We understand that Hartalega's operations in India and China are picking up. The company is planning five exhibitions in India in Oct 12 and 10 in China this year. We gather from our meeting that glove consumption in India and China may be higher than what published stats suggest as a large portion of glove usage in these markets is off-the-books.

What We Think ➤

We have been estimating 2-3 gloves per-capita consumption in China per year and were positively surprised to

find that actual consumption is likely higher. This suggests China is more mature than expected and we believe this enhances Hartalega's probability of success for these ventures. Current EM contribution is small and management believes material contribution from EMs would only occur in 2-3 years time. However, if actual consumption is higher than official statistics imply, this time line may be too conservative. The Chinese glove market alone could be worth US\$4bn in five years (2% p.a. population growth and per-capita consumption equal to the US at 96 gloves/year); or 1.3x the total market cap of Malaysia's glove sector. If Hartalega captures a 5% share at a 10% net margin, earnings uplift could be c.20% on an NPV basis (Re: 9.3%, t=5).

What You Should Do ➤

Investors should buy Hartalega. Its specialisation and long history in synthetic glovemaking has enabled it to expand as its peers play catch-up. The company boasts sector-leading returns and management.



Financial Summary

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue (RMm)	735	931	933	1,100	1,310
Operating EBITDA (RMm)	274.4	290.7	324.5	384.4	462.2
Net Profit (RMm)	189.7	201.6	231.0	272.4	330.2
Core EPS (RM)	0.26	0.28	0.32	0.37	0.45
Core EPS Growth	32.1%	7.5%	13.3%	17.9%	21.2%
FD Core P/E (x)	17.20	16.01	14.84	13.19	10.88
DPS (RM)	0.10	0.13	0.14	0.17	0.20
Dividend Yield	2.33%	2.87%	3.19%	3.76%	4.55%
EV/EBITDA (x)	11.61	10.55	9.26	7.57	6.28
P/FCFE (x)	32.34	17.96	12.61	14.63	22.74
Net Gearing	(15.8%)	(32.5%)	(35.3%)	(40.2%)	(33.9%)
P/BV (x)	6.60	5.36	4.44	3.69	3.06
Recurring ROE	44.7%	37.0%	34.4%	33.6%	33.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.02	1.08	1.19

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		2-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY12	CY13		CY12	CY13	CY12	CY13	CY12	CY13
Adventa	ADV MK	Trading Buy	1.82	2.10	89	13.4	11.1	25.5%	0.88	0.75	7.2%	7.2%	2.2%	2.7%
Hartalega Holdings	HART MK	Outperform	4.49	5.01	1,052	14.5	12.4	9.2%	4.63	3.85	35.2%	33.8%	3.1%	3.6%
Kossan Rubber Industries	KRI MK	Outperform	3.20	3.69	328	9.8	8.0	15.6%	1.70	1.45	18.7%	19.6%	2.6%	3.1%
Latexx Partners	LTX MK	Neutral	1.57	1.70	112	8.1	6.8	3.9%	1.08	0.95	14.0%	14.8%	2.5%	2.9%
Supermax Corp	SUCB MK	Outperform	2.05	2.64	447	9.9	8.2	15.5%	1.38	1.21	15.0%	15.7%	2.0%	2.4%
Top Glove Corporation	TOPG MK	Underperform	5.30	4.20	1,051	17.9	16.4	12.3%	2.47	2.23	14.9%	14.3%	2.2%	2.4%
Average						13.4	11.5	10.3%	2.26	1.97	18.2%	18.3%	2.5%	2.9%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCP** - Excellent, **BEC** - Very Good, **BECL** - Very Good, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Very Good, **CCET** - Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **GRAMMY** - Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** - Very Good, **ITD** - Good, **IVL** - Very Good, **JAS** - Very Good, **KBANK** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - not available, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **SC** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Very Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Very Good, **THCOM** - Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good.