

13 June 2013 | Corporate Update

Hartalega Holdings Berhad

Land acquisition for NGC completed

Maintain NEUTRAL

Revised Target Price (TP): RM5.85
(Previous TP: RM5.19)

INVESTMENT HIGHLIGHTS

- Land acquired in Labu, Sepang, for a total cash consideration of RM97.0m.
- Land to be utilized for the NGC (Next Generation Integrated Glove Manufacturing Complex) project.
- NGC project set to commence this year, with full completion in 2021.
- **Maintain NEUTRAL with a revised TP of RM5.85.**

Land acquired. Hartalega NGC Sdn Bhd (HNSB), a wholly owned subsidiary of Hartalega Holdings Bhd (Hartalega), has entered into an agreement with Kumpulan Tanjung Balai Sdn Bhd for the acquisition of a 120 hectares acres land in Labu, Sepang, for a total cash consideration of RM97.0m.

No impact on gearing. The acquisition of land will be funded by internally generated funds of the Group and bank borrowings. With a net cash position of RM170.3m as of the end of FY13, we do not expect the acquisition to have any material effect on the Group's gearing for FY14.

NGC set to take off. With the land acquisition completed, the Group is set to start its "Next Generation Integrated Glove Manufacturing Complex" (NGC) project. The total project will cost RM1.9b and comprise of 72 new high tech production lines in six new factories. It has been accorded the EPP status under the Government's ETP due to its high economic impact.

Fully integrated facilities. The project will be housed within a new site of about 95 acres with several dedicated facilities. Other than the six manufacturing facilities, the compound will also house an administration office, a center of excellence, a learning and development center, a sports and recreation center, and also employees' accommodation.

Full completion in 2021. The NGC project will be spread over two 4-year phases and employ in total about 5,000 workers. The first phase is set to start this year and be completed in 2017, comprising 42 production lines with total annual capacity of 16.5b pieces of gloves per annum. The second phase will run from 2018 to 2021, comprising 30 production lines with total annual capacity of 12b pieces per annum.

Positive on the news. Already the most efficient glove maker, we view the land acquisition positively, as the NGC will enable the Group to enhance its position as the best glove producer in terms of profitability. With the sheer size of the project, we expect the Group to be able to leverage on economies of scale for its production processes, and strengthen its position as the glove producer with the highest level of efficiency and productivity.

RETURN STATS

Price (12 Jun 2013)	RM6.30
Target Price	RM5.85
Expected Share Price Return	-7.1%
Expected Dividend Yield	2.5%
Expected Total Return	-4.6%

STOCK INFO

KLCI	1,775.12
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main/ Industrial Products
Syariah Compliant	Yes
Issued shares (mil)	734.0
Par Value (RM)	0.50
Market cap. (RM'm)	4,624.1
Price over NA	6.03x
52-wk price Range	RM3.86–RM6.31
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	0.74m
3-mth Avg Daily Value	RM3.95m
<i>Major Shareholders</i>	
Hartalega Industries	50.1%
BNP Paribas	7.7%
EPF	5.1%
Budi Tenggara	4.9%

INVESTMENT STATISTICS

FYE Mar	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	931.1	1,032.0	1,173.8	1,350.0
EBIT (RM'm)	260.1	306.8	328.7	391.5
Pretax Profit (RM'm)	258.4	305.9	325.1	390.2
Net Profit (RM'm)	201.4	234.7	253.6	295.5
EPS (sen)	27.65	32.10	34.60	40.3
EPS growth (%)	5.8	16.1	7.8	16.4
PER(x)	19.7	17.0	15.8	13.5
Net Dividend (sen)	10.8	14.5	16.0	18.1
Net Dividend Yield (%)	2.0	2.7	2.9	3.3

Source: Company, Forecasts by MIDFR

Nitrile wave set to continue. Currently, nitrile gloves make up approximately 40% of the global glove demand, with the remaining majority 60% still being made up by latex gloves. However, in 2011, with Malaysia being world's largest rubber glove producer, total export of nitrile glove grew by 29%yoy, as compared to the average annual 8%yoy growth for rubber gloves as a whole. Furthermore, all major markets registered contraction in importation of latex gloves from Malaysia, while registering growth in nitrile glove import from Malaysia. Consequently, nitrile glove made up 39% of Malaysia's total rubber glove export in 2011, up 8%-points from the previous year. We expect the global switching trend from latex to nitrile glove to continue at around 20% annually over the foreseeable future due to a couple of factors, namely the anti-latex policy being implemented among the hospitals in the developed markets due to protein allergy, and the still relatively lower raw material price of nitrile compared to natural rubber.

Maintain NEUTRAL with a revised TP of RM5.85. We do not expect any immediate impact to the Group's earnings from the NGC project in the current FY14. As such, we maintain our NEUTRAL call for the stock with a revised TP of RM5.85 per share. Our valuation is derived from the multiple of 16.9x of the Group's forecasted FY14F EPS. This is higher than our previous benchmark of 15.0x, based on the industry's weighted average price earnings multiple. Based on its track record, we are confident that the Group's management is more than capable of sustaining the revenue and profit growth of the Group. However, at the current price, we are of the opinion that the stock is in line with the fundamentals and the upside is limited.



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.