

Hartalega (HART MK)

Industrial - Misc. Manufacturer

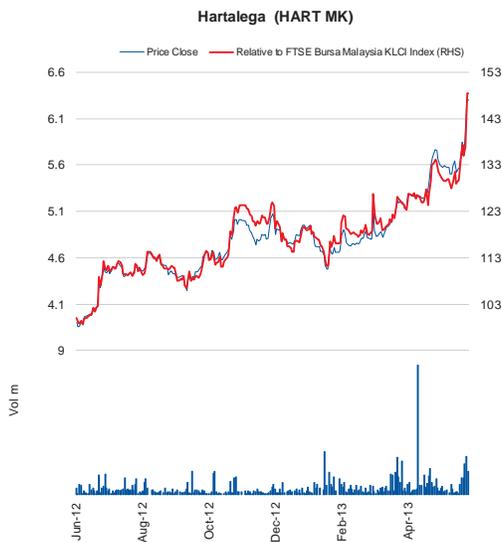
Market Cap: USD1,476m

Neutral (from Buy)

 Target Price: **MYR6.26**

 Price: **MYR6.30**

Long Term Goals In Sight

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	3.84m/1.26m
Cons. Upside (%)	-16.2
Upside (%)	-0.6
52-wk Price low/high (MYR)	3.86 - 6.31
Free float (%)	70

Shareholders (%)	
Hartalega Industries Sdn Bhd	27.6

Shariah compliant

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Hartalega's expansion plans are well on track, having secured the land for its Next Generation Integrated Glove Manufacturing Complex (NGC). We expect the capacity boost from this new facility to gradually kick in from 2015 and double the Group's total capacity by 2022 upon full completion. In view of the recent run-up in its share price, we downgrade our call to NEUTRAL, with FV unchanged at MYR6.26.

◆ **Landbank expansion for the future.** Hartalega (HART) yesterday announced that its wholly owned subsidiary, Hartalega NGC SB (HNSB) has entered into an agreement to acquire a piece of land measuring approximately 120 acres located at Mukim Labu, Sepang, Selangor from Kumpulan Tanjung Balai SB for a total cash consideration of MYR96m. The acquisition will be funded internally and via borrowings. Based on its 4QFY13 financials, Hartalega is currently sitting on a cash pile of MYR182m and total borrowings of MYR12.1m.

◆ **Capacity to hit 43bn pieces pa by 2022.** The acquisition is part of HART's capacity expansion plans, i.e. the land is earmarked for the NGC. Management has allocated a total capex of MYR1.5bn-MYR2.0bn for the complex, which will be constructed over a period of eight years and consists of six plants with a combined installed annual capacity of 29bn pieces. While the quantum appears overwhelming at first glance, we reiterate that construction will be carried out gradually over a eight-year period and given HART's operating cash flow generation of ~MYR300m pa, we believe the funding for its capex will be adequate. Management has guided that its major shareholders will convert ~40.5m outstanding warrants, which we believe could potentially raise some MYR168m upon conversion.

Upon completion, the NGC will expand HART's total production capacity to 43bn pieces pa. All in, we are positive on this move as it helps to secure the Group's production and hence earnings growth in the foreseeable future. We also see potential costs synergies by combining its plants in a single location.

Forecasts and Valuations	Mar-11	Mar-12	Mar-13	Mar-14F	Mar-15F
Total turnover (MYRm)	735	931	1,032	1,173	1,267
Reported net profit (MYRm)	190	201	235	268	292
Recurring net profit (MYRm)	190	201	235	268	292
Recurring net profit growth (%)	33.0	5.8	16.7	14.0	9.1
Core EPS (MYR)	0.26	0.28	0.32	0.37	0.40
DPS (MYR)	0.11	0.09	0.15	0.17	0.18
Dividend Yield (%)	1.7	1.4	2.3	2.6	2.9
Core P/E (x)	24.1	22.7	19.5	17.1	15.7
Return on average equity (%)	44.8	36.2	33.9	31.9	29.4
P/B (x)	9.26	7.39	5.98	5.02	4.27
P/CF (x)	24.8	22.9	14.4	13.6	14.1
EV/EBITDA (x)	17.3	15.7	13.3	12.6	11.6
Net debt to equity (%)	net cash				
Our vs consensus EPS (%)				5.9	15.6

Source: Company data, RHB Estimates

Fastest production lines in the industry. On a side note, with HART's Plant 6 fully commissioned in July 2013, we expect the Group's overall production capacity to increase to 14bn pieces pa. Also, line speeds in Plant 6 has reached 45,000 pieces/hour, which is among the fastest in the industry. We believe that the company will continue to further improve its line production efficiency as it expands its capacity.

Downgrade to NEUTRAL. We are positive that HART is making good progress in getting its NGC up and running. Although, we continue to like the company for its advanced technology and automation processes, we downgrade our call to NEUTRAL given the recent run-up in its share price. Our FV is unchanged at MYR6.26 based on 17x FY14 P/E.

Financial Exhibits

Profit & Loss (MYRm)	Mar-11	Mar-12	Mar-13	Mar-14F	Mar-15F
Total turnover	735	931	1,032	1,173	1,267
Cost of sales	(462)	(634)	(683)	(801)	(863)
Gross profit	273	297	350	372	404
Gen & admin expenses	(25)	(28)	(31)	(35)	(38)
Selling expenses	(10)	(11)	(13)	(14)	(15)
Other operating costs	(2)	(5)	(5)	(6)	(6)
Operating profit	236	254	301	317	345
Operating EBITDA	261	283	333	355	386
Depreciation of fixed assets	(25)	(29)	(32)	(37)	(41)
Amortisation of intangible assets	(0)	(0)	0	-	-
Operating EBIT	236	254	301	317	345
Other recurring income	10	6	6	2	2
Interest expense	(2)	(2)	(1)	(7)	(6)
Pre-tax profit	243	258	306	312	341
Taxation	(53)	(57)	(71)	(45)	(49)
Minority interests	(0)	(0)	(0)	(0)	-
Profit after tax & minorities	190	201	235	268	292
Reported net profit	190	201	235	268	292
Recurring net profit	190	201	235	268	292

Source: Company data, RHB Estimates

Cash flow (MYRm)	Mar-11	Mar-12	Mar-13	Mar-14F	Mar-15F
Operating profit	236	254	301	317	345
Depreciation & amortisation	25	29	32	37	41
Change in working capital	(41)	(44)	36	(76)	(16)
Other operating cash flow	12	8	5	95	(3)
Operating cash flow	232	246	374	374	367
Interest received	(2)	(1)	-	-	-
Interest paid	2	2	1	7	6
Tax paid	(48)	(47)	(56)	(45)	(49)
Cash flow from operations	185	200	318	336	324
Capex	(22)	(35)	(18)	(250)	(200)
Other investing cash flow	(59)	(25)	(176)	-	-
Cash flow from investing activities	(81)	(60)	(194)	(250)	(200)
Dividends paid	(57)	(87)	(99)	(121)	(132)
Increase in debt	(2)	(15)	(12)	-	-
Other financing cash flow	0	7	7	(7)	(6)
Cash flow from financing activities	(59)	(95)	(104)	(127)	(137)
Cash at beginning of period	75	117	163	182	238
Total cash generated	45	45	20	(41)	(13)
Forex effects	(2)	1	-	-	-
Implied cash at end of period	117	163	183	142	225

Source: Company data, RHB Estimates

Financial Exhibits

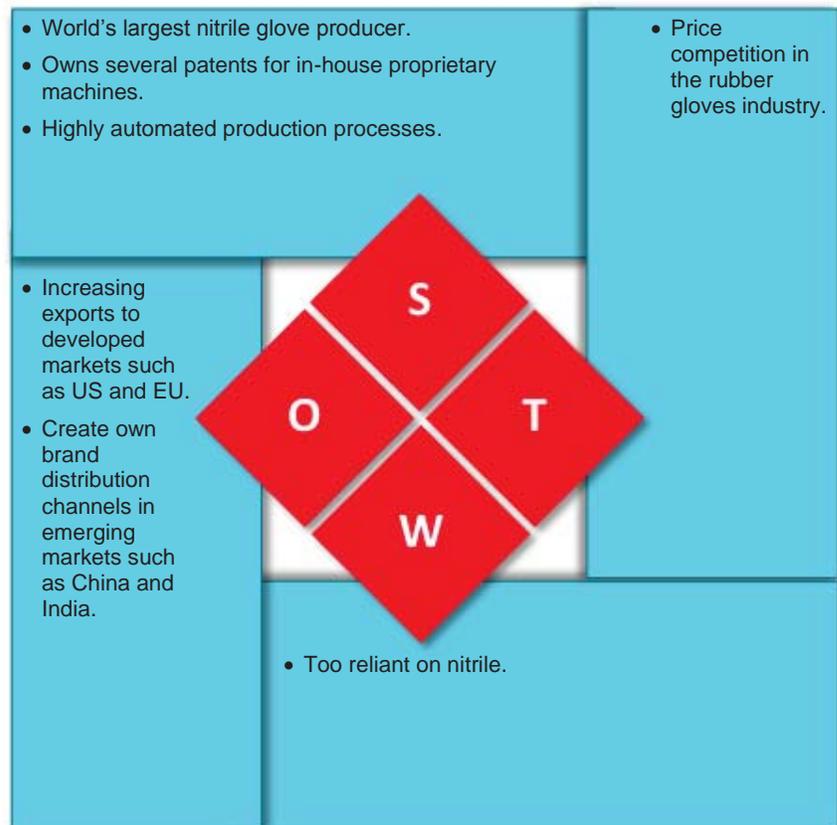
Balance Sheet (MYRm)	Mar-11	Mar-12	Mar-13	Mar-14F	Mar-15F
Total cash and equivalents	117	163	182	238	224
Inventories	65	98	87	123	133
Accounts receivable	101	117	125	148	159
Other current assets	3	0	0	0	0
Total current assets	286	378	394	509	516
Total investments	0	0	1	1	1
Tangible fixed assets	349	380	535	651	810
Intangible assets	0	0	7	7	7
Total other assets	0	0	0	0	0
Total non-current assets	349	380	543	658	817
Total assets	635	758	936	1,167	1,334
Short-term debt	15	13	8	8	8
Accounts payable	57	60	93	76	82
Other current liabilities	7	12	15	15	15
Total current liabilities	79	85	115	98	104
Total long-term debt	24	12	4	104	104
Other liabilities	37	41	50	50	50
Total non-current liabilities	61	53	55	155	155
Total liabilities	140	138	170	253	259
Share capital	182	183	367	367	367
Retained earnings reserve	307	421	399	546	707
Other reserves	5	16	-	-	-
Shareholders' equity	494	620	766	913	1,074
Minority interests	0	1	1	1	1
Other equity	(0)	0	(0)	(0)	(0)
Total equity	495	620	767	914	1,075
Total liabilities & equity	635	758	936	1,167	1,334

Source: Company data, RHB Estimates

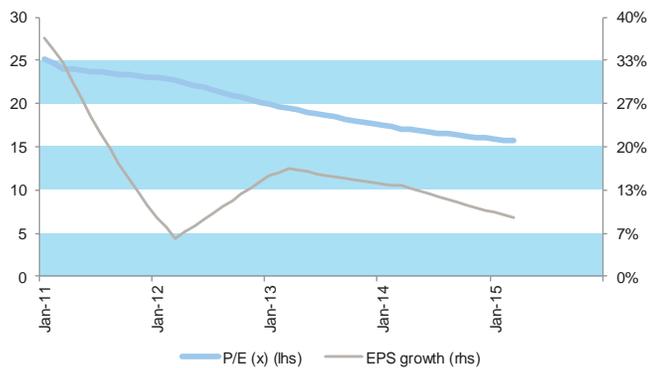
Key Ratios (MYR)	Mar-11	Mar-12	Mar-13	Mar-14F	Mar-15F
Revenue growth (%)	28.5	26.7	10.9	13.6	8.0
Operating profit growth (%)	32.6	7.6	18.5	5.4	8.7
Net profit growth (%)	33.0	5.8	16.7	14.0	9.1
EPS growth (%)	33.0	5.8	16.7	14.0	9.1
Bv per share growth (%)	39.6	25.3	23.6	19.2	17.6
Operating margin (%)	32.1	27.2	29.1	27.0	27.2
Net profit margin (%)	25.9	21.6	22.8	22.8	23.1
Return on average assets (%)	34.2	28.9	27.7	25.5	23.4
Return on average equity (%)	44.8	36.2	33.9	31.9	29.4
Net debt to equity (%)	(15.8)	(22.3)	(22.2)	(13.8)	(10.4)
DPS	0.11	0.09	0.15	0.17	0.18
Recurrent cash flow per share	0.25	0.28	0.44	0.46	0.45

Source: Company data, RHB Estimates

SWOT Analysis

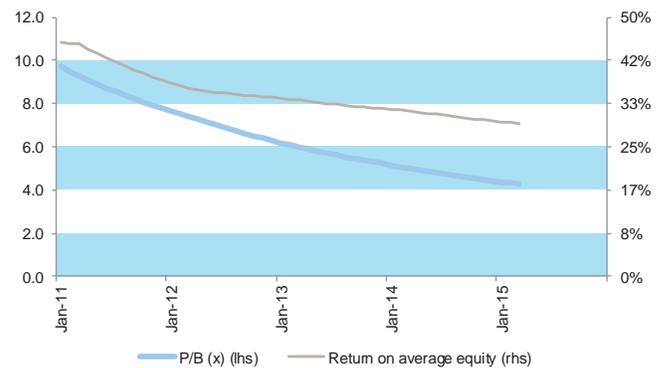


P/E (x) vs EPS growth



Source: Company data, RHB Estimates

P/BV (x) vs ROAE



Source: Company data, RHB Estimates

Company Profile

Hartalega Holdings Bhd (HART) manufactures a wide range of latex gloves.

Recommendation Chart



Source: RHB Estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-08	Buy	6.26	5.56
2012-11-07	Neutral	5.07	5.01
2012-09-10	Neutral	4.47	4.46
2012-08-16	Neutral	4.47	4.51
2012-08-08	Neutral	4.38	4.50
2012-06-25	Neutral	4.38	3.99
2012-05-09	Sell	7.37	3.91
2012-04-16	Sell	7.37	3.98
2012-04-09	Sell	7.12	3.98
2012-02-23	Sell	7.12	4.09

Source : RHB Estimates, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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