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9MFY12 Results Review

Hartalega Holdings

In Good Form, as Usual

Hartalega's 9MFY12 results were within expectations. Overall, there was a slight improvement in revenue and net profit, bolstered by a higher sales volume and better selling prices of gloves, besides more efficient production and better cost control. Separately, the group announced a 1-for-1 bonus issue and 1-for-5 free warrants to enhance liquidity in its stock and attract new investors. Maintain Buy, with a higher fair value of RM9.39 as we roll forward our valuation to FY13 as well as peg a higher PE of 15x in tandem with the improving liquidity in its stock.

BUY ↻

Fair Value **RM9.39**
Previous **RM7.40**
Price **RM7.97**

RUBBER GLOVES

Hartalega's principal activity is in the manufacture of premium medical grade rubber gloves.

Stock Statistics

Bloomberg Ticker	HART MK	
Share Capital (m)	364.40	
Market Cap	2904.27	
52 week H L Price	7.25	5.00
3mth Avg Vol (000)	282.2	
YTD Returns	23.5	
Beta (x)	0.66	
Shariah Compliant	YES	

Major Shareholders (%)

Hartalega Industries	55.4
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Share Performance (%)

Month	Absolute	Relative
1m	23.1	25.1
3m	31.2	30.4
6m	31.9	32.7
12m	35.2	29.5

6-month Share Price Performance



Within expectations. The 9MFY12 results were within consensus and our expectations, making 74% and 73% of the FY12 forecasts. Overall, both the company's 3QFY12 revenue and net profit of RM242.0m and RM50.7m increased 5.4% and 9.8% q-o-q, contributed by the higher selling prices of gloves and a higher production capacity. This was further boosted by more efficient production and better cost controls. We note a reduction in its forex net loss of only RM0.2m versus the 2QFY12 forex net loss of RM6.6m. Finally, on a YTD comparison, the higher selling price of gloves coupled with higher production capacity also led to 9MFY12 revenue and net profit rising by 27.4% and 10.1% respectively.

1-for-1 bonus issue and free 1-for-5 free warrant. Separately, Hartalega also announced a bonus issue and free warrants exercise to improve the liquidity of its stock and at the same time attract investors with a higher risk appetite to invest in its warrants. Upon completion of the bonus issue, the company's share base would double to 728.8m shares. The proposed warrants have a tenure of 3 years and can be exercised at any time within years 2 and 3.

Maintain Buy. We have also raised our fair value for Hartalega to RM9.39 (previously RM7.40) as we roll forward our valuation to FY13 as well as raise our PE valuation to 15x (previously 13x) given the impending improvement in its share liquidity. Hartalega is the world's leading producer of nitrile gloves. Upon completion of the bonus issue, our fair value would be adjusted to RM4.27, after factoring in the potential earnings dilution from the free warrants.

FYE Mar (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	443.2	571.9	734.9	767.9	866.3
Net Profit	84.5	143.1	190.1	206.9	227.6
% chg y-o-y	21.5	69.3	32.8	8.8	10.0
Consensus	-	-	-	204.0	233.0
EPS (sen)	23.3	39.4	52.3	56.9	62.6
DPS (sen)	12.0	20.0	22.0	25.0	25.0
Dividend yield (%)	1.5	2.5	2.8	3.1	3.1
ROE (%)	38.9	46.9	44.8	36.7	31.9
ROA (%)	26.3	33.7	34.3	29.8	27.0
PER (x)	34.3	20.2	15.2	14.0	12.7
BV/share (RM)	0.70	0.97	1.36	1.74	2.19
P/BV (x)	12.5	9.0	6.4	4.9	3.9
EV/ EBITDA (x)	25.7	14.5	11.1	10.7	9.7

Results Table (RMm)**Results Table (RMm)**

FYE Mar	3Q12	2Q12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	242.0	229.5	5.4%	690.9	542.4	27.4%	Higher due to higher selling prices of gloves and higher production capacity. Higher in line with the higher revenue, more efficient production and better cost control.
EBIT	64.3	60.0	7.2%	195.5	179.0	9.2%	
Net interest expense	-0.4	-0.4	-10.7%	-1.3	-1.9	-29.3%	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	63.9	59.6	7.3%	194.1	177.1	9.6%	Movement in line with EBIT
Tax	-13.2	-13.4	-1.1%	-42.5	-39.2	8.5%	
MI	0.0	0.0	-	0.1	-0.1	-	
Net profit	50.7	46.2	9.8%	151.6	137.8	10.1%	
EPS (sen)	13.9	12.7		41.7	37.9		
DPS (sen)	6.0	6.0		9.0	9.0		
EBIT margin	26.6%	26.1%		28.3%	33.0%		
NTA/share (RM)	1.61	1.53		1.61	1.36		

EARNINGS FORECAST

FYE Mar (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	443.2	571.9	734.9	767.9	866.3
EBITDA	113.5	197.9	254.9	263.3	288.0
PBT	95.5	177.9	243.3	241.4	264.6
Net Profit	84.5	143.1	190.1	206.9	227.6
EPS (sen)	23.3	39.4	52.3	56.9	62.6
DPS (sen)	12.0	20.0	22.0	25.0	25.0
Margin					
EBITDA (%)	25.6	34.6	34.7	30.0	30.0
PBT (%)	21.6	31.1	33.1	31.4	30.5
Net Profit (%)	19.1	25.0	25.9	26.9	26.3
ROE (%)	38.9	46.9	44.8	36.7	31.9
ROA (%)	26.3	33.7	34.3	29.8	27.0
Balance Sheet					
Fixed Assets	246.4	292.9	348.9	359.5	382.7
Current Assets	126.2	183.5	282.4	399.2	542.4
Total Assets	372.6	476.5	631.3	758.7	925.1
Current Liabilities	49.4	66.4	75.4	63.2	69.2
Net Current Assets	76.8	117.1	207.0	336.0	473.2
LT Liabilities	67.5	55.5	61.3	61.3	61.3
Shareholders Funds	255.6	354.3	494.3	634.0	794.3
Net Gearing (%)	7.6	net cash	net cash	net cash	net cash

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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

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