



# Results Review –Hartalega Holdings

**Buy**

## 1H Earnings In line

Price: **RM5.46**

Target Price: **RM6.92**

### Stock Data

Bloomberg Ticker	HART MK	Altman Z-score	11.9
Market Cap	1,987.5	YTD price chg	2.2%
Issued shares	364.0	YTD KLCI chg	-2.5%
52-week range (H)	6.08	Beta	0.7
52-week range (L)	4.85	<b>Major Shareholders</b>	
3-mth avg daily volume	252,633	Hartalega Industries	50.5%
Free Float	43.8%	Budi Tenggara SB	5.0%
Shariah Compliant	Y		

### Share Performance (%)

	1mth	3mth	12mth
Absolute	(1.8)	2.4	2.5
vs. KLCI	1.8	0.7	1.8

### Financial Highlights

FYE 31 Mar	2009	2010	2011	2012E	2013E
Turnover	443.2	571.9	734.9	808.4	966.0
EBIT	97.9	181.2	245.7	274.9	303.1
Pretax profit	95.5	177.8	243.3	272.3	300.4
<b>Net Profit</b>	<b>84.5</b>	<b>142.9</b>	<b>190.2</b>	<b>212.3</b>	<b>234.3</b>
EPS (sen)	23.3	39.3	52.3	58.4	64.5
EPS growth (%)	110.2%	69.1%	33.1%	11.7%	10.3%
PER (x)	23.5	13.9	10.4	9.3	8.5
DPS (sen)	7.7	20.0	21.0	22.0	22.0
Div. Yield (%)	1.4%	3.7%	3.8%	4.0%	4.0%
NTA/share (RM)	0.70	0.97	1.36	1.72	2.15

EBIT margin	22.1%	31.7%	33.4%	34.0%	31.4%
Pretax margin	21.5%	31.1%	33.1%	33.7%	31.1%
Effective tax rate	11.5%	19.5%	21.8%	22.0%	22.0%
ROE	33.2%	40.4%	38.5%	37.9%	33.3%
ROA	26.4%	33.5%	34.3%	30.3%	27.5%
Net Gearing (x)	0.08	net cash	net cash	net cash	net cash

### Growth ratios

Turnover	56.5%	29.0%	28.5%	10.0%	19.5%
EBIT	105.2%	85.0%	35.7%	11.9%	10.3%
Pretax profit	104.6%	86.2%	36.8%	11.9%	10.3%
Core Net profit	110.2%	69.1%	33.1%	11.7%	10.3%

### Share Price Chart



### The Research Team

[research@bimbsec.com.my](mailto:research@bimbsec.com.my)

03-26918887 ext 111

Hartalega's 1HFY12 net earnings of RM100.9m, 32.1% higher than the previous year is in line with our forecast. 1H total quantity sold increased by 28.8% with a product mix of 94% nitrile and 6% natural latex gloves. QoQ, net profit was 15.8% lower due to higher production cost and stiff competition. 1H EBIT margin although slightly lower; is still strong at 29.2% compared to industry's average of between 15%-16%. No change to our earnings forecast and target price is unchanged at RM6.92 based on 3-year average PER band of 11x over CY12 EPS of 62.9 sen. **Maintain BUY.**

**Lower QoQ.** Despite the stronger 1H, QoQ net earnings declined by 15.8% as: i) both nitrile and natural latex prices were high during the quarter resulted in lower profit margin; and ii) other glove makers switched their production into nitrile gloves due to the high latex price in the past 12 months hence a certain degree of price war thus lower profit margin. Nevertheless, we believe this is just a short term problem for Hartalega as latex price has begun to fall in the past few weeks; and other industry players who switch into nitrile gloves may revert into natural latex gloves, which may reduce the competition within the nitrile segment.

**The worst is over?** Latex price has peaked in early 2011 at RM10.90/kg. It has since moved south to around 7.50/kg level recently. If this level can be sustained for a longer period, it would be a welcome reprieve for other rubber glove makers as well. Technically, the price level of RM8.50/kg which formed the critical support has been violated and is highly likely to hit the RM6.50/kg level in the medium term.

**Strong financials.** We maintain our net earnings estimates for FY12 and FY13 of RM212.3m and RM234.3m respectively. Balance sheet is strong with a net cash position, while its ROE is highest in the industry circa. 34.3% for FY11.

**View & Valuation.** Our target price remains unchanged at RM6.92 based on its 3 year average PE Band of 11x over its CY12 EPS of 62.9 sen. We reiterate our **BUY** recommendation on Hartalega.

## Quarterly figures

FY 31 Mar (RMm)	1QFY11	2QFY011	3QFY11	4QFY11	1QFY12	2QFY012	QoQ Chg	YoY Chg	1HFY11	1HFY12
Revenue	170.0	184.3	188.1	192.5	219.4	229.5	4.6%	24.5%	354.3	448.9
EBIT	54.4	61.6	62.0	67.7	71.2	60.0	-15.7%	-2.7%	116.1	131.2
<b>Pretax profit</b>	<b>53.8</b>	<b>61.0</b>	<b>62.2</b>	<b>66.3</b>	<b>70.7</b>	<b>59.6</b>	-15.7%	-2.4%	<b>114.8</b>	<b>130.2</b>
Taxation	(12.3)	(13.9)	(13.0)	(13.9)	(15.9)	(13.4)	-16.0%	-3.8%	(26.2)	(29.3)
Minority Interest	0.0	(0.0)	(0.0)	(0.0)	0.0	(0.0)	-257.1%	266.7%	(0.0)	(0.0)
<b>Net Profit</b>	<b>41.5</b>	<b>47.1</b>	<b>49.2</b>	<b>52.4</b>	<b>54.8</b>	<b>46.1</b>	-15.8%	-2.1%	<b>88.6</b>	<b>100.9</b>
EPS (sen)	11.4	13.0	13.5	14.4	15.1	12.7	-15.8%	-2.1%	24.4	27.8
Net gearing (x)	net cash	n.a.	n.a.	net cash	net cash					
EBIT margin (%)	32.0%	33.4%	33.0%	35.1%	32.4%	26.1%	-19.4%	-21.8%	32.8%	29.2%
PBT margin (%)	31.6%	33.1%	33.1%	34.4%	32.2%	25.9%	-19.5%	-21.6%	32.4%	29.0%
Net profit margin (%)	24.4%	25.6%	26.2%	27.2%	25.0%	20.1%	-19.5%	-21.4%	25.0%	22.5%
Effective tax rate (%)	22.9%	22.8%	20.9%	20.9%	22.5%	22.5%	-0.3%	-1.4%	22.8%	22.5%

Source: BIMB Securities

## Income Statement

FY 31 Mar (RMm)	2009	2010	2011	2012E	2013E
Revenue	443.2	571.9	734.9	808.4	966.0
EBITDA	113.5	201.0	265.6	299.1	330.0
<b>Pretax profit</b>	<b>95.5</b>	<b>177.8</b>	<b>243.3</b>	<b>272.3</b>	<b>300.4</b>
Tax	(11.0)	(34.7)	(53.1)	(59.9)	(66.1)
MI	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
<b>Net profit</b>	<b>84.5</b>	<b>142.9</b>	<b>190.2</b>	<b>212.3</b>	<b>234.3</b>
<b>CY Net profit</b>	<b>128.3</b>	<b>178.3</b>	<b>206.8</b>	<b>228.8</b>	<b>269.6</b>
EPS (sen)	23.3	39.3	52.3	58.4	64.5
EPS growth (%)	110.2%	69.1%	33.1%	11.7%	10.3%
CY EPS	35.3	49.1	56.9	62.9	74.2
DPS (sen)	7.7	20.0	21.0	22.0	22.0
NTA/ share (RM)	0.7	1.0	1.4	1.7	2.1
Net gearing (x)	0.1	net cash	net cash	net cash	net cash
PER (x)	23.5	13.9	10.4	9.3	8.5
Div. yield (%)	1.4%	3.7%	3.8%	4.0%	4.0%
P/ NTA (x)	7.8	5.6	4.0	3.2	2.5
ROE (%)	33.2%	40.4%	38.5%	37.9%	33.3%

Source: BIMB Securities

## Balance Sheet

FYE 31 Mar (RMm)	2009	2010	2011	2012E	2013E
Non Current Assets	246.4	293.0	348.9	348.4	371.5
Current Assets	128.4	185.8	282.4	419.7	565.4
<b>Total Assets</b>	<b>374.8</b>	<b>478.9</b>	<b>631.3</b>	<b>768.1</b>	<b>937.0</b>
Current Liabilities	52.8	69.0	75.4	80.0	94.5
Non Current Liabilities	67.5	55.5	61.3	61.3	61.3
Shareholders' Fund	254.4	354.1	494.3	626.7	781.0
Minority Interests	0.1	0.3	0.4	0.2	0.3
<b>Equity &amp; Liabilities</b>	<b>374.8</b>	<b>478.9</b>	<b>631.3</b>	<b>768.1</b>	<b>937.0</b>

Source: BIMB Securities

