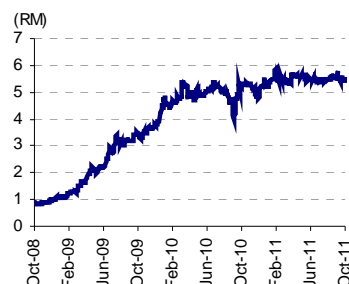


Results Note

Hartalega

HART MK
RM5.46
BUY (maintain)
Target Price: RM7.33 (↔)

Price Performance

	1M	3M	12M
Absolute	-1.8%	+1.3%	-1.3%
Rel to KLCI	-7.1%	+0.7%	+1.8%

Stock Data

Issued shares (m)	364.0
Mkt cap (RMm)	1,987.5
Avg daily vol - 6mth (m)	0.25
52-wk range (RM)	6.08 – 4.85
Est free float	48.3%
NTA per share (RM) (2QFY12)	1.53
P/NTA (x)	2.98
Net cash/ (debt) (RMm) (2QFY12)	112.3
ROE (FY12E)	37.9%
Derivatives	Nil

Key Shareholders

Hartalega Industries	50.6%
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Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	56.6	65.5	74.3
Curr EPS (sen)	56.6	65.5	74.3
Chg (%)	-	-	-
Prev target price (RM)	7.33		
Curr target price (RM)	7.33		

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Feeling the pressure from competitors
Within expectations

Hartalega's 1HFY03/12 revenue grew +26.7% yoy to RM448.9m. The strong topline growth was attributed to: 1) higher ASPs, in tandem with higher nitrile latex prices, and; 2) +28.8% yoy increase in glove volume sales. EBIT margin was slightly lower at 31.1% vs 31.9% in 1HFY03/11 – this is most likely attributed to stronger competition from increased nitrile glove production by other glove manufacturers. Overall, 1HFY03/12 headline net profit grew by +13.9% yoy to RM100.9m. This included a RM8.7m loss on foreign exchange and changes in fair value for forward forex contracts (1HFY03/11 saw a gain of RM3.1m). Stripping off the Els, 1HFY03/12 core net profit grew by a sharper +28.1% yoy to RM109.6m. Results were within expectations, accounting for 53% and 52% of our and consensus full year estimates. Hartalega also declared a first interim dividend of 6 sen/share.

2QFY03/12 core net profit was flat at RM54.8m

Sequentially, 2QFY03/12 was slightly weaker for Hartalega. Sales volume slipped marginally by -1.6% qoq, though this was offset by higher ASPs of nitrile gloves (+8.5% qoq). Overall, 2QFY03/12 revenue grew by +4.6% qoq to RM229.5m, while bottomline declined by -15.8% qoq to RM46.1m. Excluding the forex losses, 2QFY03/12 net profit was flat qoq at RM54.8m. On a yoy basis, 2QFY03/12 net profit surged +20.4%, on the back of a +24.5% increase in revenue. The strong performance was attributed to: 1) +23.2% yoy increase in volume sales, and; 2) higher ASPs for NR and nitrile gloves (+10.6% yoy and +1.8% yoy, respectively). In terms of geographical breakdown, sales to North America remained steady, accounting for 55.3% of total revenue in 2QFY03/12 (1QFY03/12: 55.5%). Demand from Europe, on the other hand, continued to grow strongly, with its proportion of revenue contribution rising from 27.6% in 1QFY03/12 to 33.2% in 2QFY03/12. Going forward, we expect demand from Europe to remain robust as the demand switch to nitrile gloves is still gathering momentum.

Maintain BUY and unchanged TP of RM7.33

No change to our FY12-14 net earnings forecasts. We have already factored in weaker margins from stronger price competition into our forecasts. Notwithstanding that, we continue to like Hartalega for: 1) reduced exposure to severely volatile latex prices; 2) strong technological and operational efficiencies, and; 3) attractive valuations (CY12 PE of 8.6x vs sector average of 10x). Hartalega also offers high dividend yields of 5-6%. Maintain BUY, with an unchanged target price of RM7.33.

Earnings and valuation summary

FYE Mar	2010	2011	2012E	2013E	2014E
Revenue (RMm)	571.9	734.9	887.1	1,071.2	1,201.9
EBITDA (RMm)	196.7	257.9	275.4	316.9	358.3
Pretax profit (RMm)	177.8	243.3	248.1	296.7	336.7
Net profit (RMm)	142.9	190.2	197.2	238.0	270.2
EPS (sen)	39.3	52.3	54.2	65.5	74.3
EPS growth (%)	69.1	33.1	3.7	20.7	13.5
PER (x)	13.9	10.4	10.1	8.3	7.3
Core net profit (RMm)	142.9	187.1	205.8	238.0	270.2
Core EPS (sen)	39.3	51.5	56.6	65.5	74.3
Core PER (x)	13.9	10.6	9.6	8.3	7.3
DPS (sen)	13.3	21.0	25.0	30.0	34.0
Dividend Yield (%)	2.4	3.8	4.6	5.5	6.2
EV/EBITDA (x)	9.9	7.3	6.7	5.6	4.6
Consensus profit (RMm)			209.0	235.4	269.2
Affin/Consensus (x)			1.0	1.0	1.0

Fig 1: Quarterly results comparison

FYE Mar (RMm)	2QFY11	1QFY12	2QFY12	QoQ % chg	YoY % chg	Comment
Revenue	184.3	219.4	229.5	4.6	24.5	Sequential revenue growth largely attributed to higher ASPs of nitrile gloves
Operating cost	(124.3)	(148.2)	(160.9)	8.6	29.5	
EBIT	60.1	71.2	68.7	(3.5)	14.3	
<i>EBIT margin (%)</i>	<i>32.6</i>	<i>32.4</i>	<i>29.9</i>	<i>Nm</i>	<i>Nm</i>	Impacted by higher raw material prices
Int expense	(0.6)	(0.5)	(0.4)	(10.0)	(28.1)	
Int and other inc	0.0	0.0	0.0	nm	nm	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional items	1.6	0.0	(8.7)	nm	nm	Forex losses and changes in fair value in forward forex contracts
Pretax profit	61.0	70.7	59.6	(15.7)	(2.4)	
Tax	(13.9)	(15.9)	(13.4)	(16.0)	3.8	
<i>Tax rate (%)</i>	<i>22.8</i>	<i>22.5</i>	<i>22.5</i>	<i>Nm</i>	<i>Nm</i>	
MI	(0.0)	0.0	(0.0)	0.0	0.0	
Net profit	47.1	54.8	46.1	(15.8)	(2.1)	
EPS (sen)	13.0	15.1	12.7	(15.8)	(2.1)	
Core net profit	45.5	54.8	54.8	0.0	20.4	Accounts for 27% and 26% of our and consensus estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE Dec (RMm)	1HFY11	1HFY12	YTD % chg	Comment
Revenue	354.3	448.9	26.7	Driven by: 1) +28.8% yoy increase in sales volume, and; 2) higher ASPs.
Operating cost	(241.3)	(309.1)	28.1	
EBIT	113.0	139.8	23.7	
<i>EBIT margin (%)</i>	<i>31.9</i>	<i>31.1</i>	<i>Nm</i>	
Int expense	(1.3)	(0.9)	(26.4)	
Int and other inc	0.0	0.0	nm	
Associates	0.0	0.0	nm	
Exceptional items	3.1	(8.7)	nm	Forex losses and changes in fair value in forward forex contracts
Pretax profit	114.8	130.2	13.5	
Tax	(26.2)	(29.3)	11.8	
<i>Tax rate (%)</i>	<i>22.8</i>	<i>22.5</i>	<i>Nm</i>	
MI	(0.0)	(0.0)	0.0	
Net profit	88.6	100.9	13.9	
EPS (sen)	24.4	27.8	13.9	
Core net profit	85.5	109.6	28.1	Accounts for 53% and 52% of our and consensus estimates

Source: Company, Affin

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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