TA Securities

A Member of the TA Group

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Initiation Coverage

Thursday, March 28, 2013
FBM KLCI: 1,667.57
Sector: Manufacturing

Hartalega Holdings Berhad

More Nitrile Please

TP: RM 5.50 *(+12.2%)*

Last traded: RM4.90

BUY

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Investment Thesis and Key Assumptions

We initiate coverage on Hartalega with a BUY recommendation and RM5.50 target price. This is based on a 25% premium to the industry's targeted PE multiple of 12x. The assumed premium is justified by Hartalega's efficiency, nitrile capacity and industry high operating margin. Hartalega currently pays out around 45% of net profit. Considering proceeds from capital gains and dividends, this provides a potential total upside of 16%.

Hartalega Holdings Berhad is the largest synthetic rubber glove manufacturer in the world. Through its annual capacity of 11bn gloves a year, 90% or 9.9bn of the gloves produced by Hartalega are nitrile gloves. This places them at an excellent position to capitalize on the recent upsurge in demand for nitrile gloves. Through its efforts in efficiency and automation, Hartalega boasts an operating profit margin of 33%, which is currently the highest in the industry.

To maintain its edge, Hartalega plans to boost capacity through the installation of Plant 6 which will increase production capacity by 30% to 14bn. Apart from that, Hartalega has also initiated the Next Generation Integrated Glove Manufacturing Complex (NGC), which will be completed by 2021. Once completed, this will approximately quadruple current capacity to 42.5bn pieces of gloves per annum. Also, the NGC is expected to further improve efficiency in the face of increasing competition as other glove players increase their nitrile capacity.

Our broad assumptions for FY13-15 are as follows:

1. Commissioning of Plant 6 and Plant 7 as scheduled.
2. A decline in utilisation rate to 85% due to increased competition
3. ASP of Nitrile glove to decline at a rate of 2.5% every year
4. Rising NBR prices at a rate of 2.5% per year from its FY13 average of RM5.85 per kg
5. Average prices of natural rubber (NR) and latex gloves to remain stable at RM6.30 per kg (US2.03) and RM124 per 1000 pieces (US40) and average prices of nitrile (NBR) to track closely the price of natural rubber

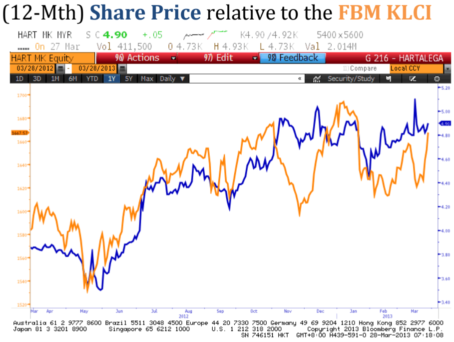
Share Information	
Bloomberg Code	HART MK
Stock Code	5168
Listing	Main Market
Share Cap (mn)	733.1
Market Cap (RMmn)	3592.3
Par Value	0.50
52-wk Hi/Lo (RM)	5.10/3.56
12-mth Avg Daily Vol ('000 shrs)	372.3
Estimated Free Float (%)	40.0
Beta	0.6
Major Shareholders (%)	
Hartalega Industries Sdn Bhd	50
Budi Tenggara Sdn Bhd	5
DB (Malaysia) Nominee (Asing) Sdn Bhd	5

Forecast Revision	FY13	FY14
Forecast Revision (%)	n.a.	n.a.
Net profit (RMm)	228.6	268.5
Consensus	229.6	262.7
TA's / Consensus (%)	99.6	102.2
Previous Rating	n.a.	

Financial Indicators	FY13	FY14
Net gearing (x)	0.2	0.1
CFPS (RM)	0.3	0.4
P/CFPS (x)	14.5	12.7
ROA (%)	27.9	27.0
ROE (%)	33.5	32.8
NTA/Share (RM)	1.0	1.2
Price/ NTA (x)	4.9	4.1

Share Performance (%)		
Price Change	**SUCB**	**FBM KLCI**
1 mth	2.9%	1.8%
3 mth	2.9%	-0.8%
6 mth	11.4%	1.9%
12 mth	23.3%	5.3%

(12-Mth) **Share Price** relative to the **FBM KLCI**



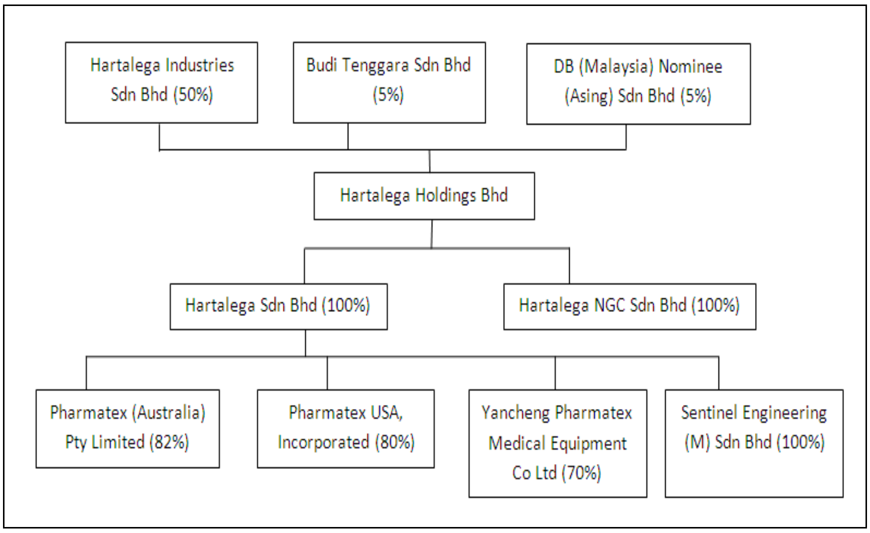
Source: Bloomberg

1.0 Background

Established in 1988, Hartalega was founded by the Kuan family with the vision of producing gloves that protected what mattered most, LIFE. Since then, Hartalega has evolved from its humble beginnings as a one line operation to one that produces 11bn gloves a year from 49 production lines. Stationed in Bestari Jaya, Hartalega employs over 3,000 factory workers, led by a lean management team consisting 20 managers. Hartalega is managed by Kuan Mun Leong (Managing Director) and Kuan Mun Keng (Finance and Sales Director) and overseen by Kuan Kam Hon (Founder and Chairman). As a result of its efforts in R&D, innovation, quality and good manufacturing practices, Hartalega was awarded the Forbes Asia Best Under A Billion List in 2012, 2011 & 2010, Asiamoney Overall Best Managed Company in 2012 & 2010 and KPMG Shareholder Value Award in 2010.

Hartalega Holdings Berhad (Hartalega) was listed on Bursa Malaysia Main Board Industrial Sector on April 17 2008 at an IPO price of RM1.80. Hartalega is the parent company for the Hartalega Group of companies, comprising Hartalega Sdn Bhd (manufacturing subsidiary), Hartalega NGC Sdn Bhd (new manufacturing subsidiary), Sentinel Engineering Sdn Bhd (engineering research subsidy) and Pharmatex Sdn Bhd (retailing subsidiary). Hartalega's main shareholders are Hartalega Industries Sdn Bhd at 50%, Budi Tenggara Sdn Bhd at 5% and DB (Malaysia) Nominee (Asing) Sdn Bhd at 5%. This provides a free float of around 40%.

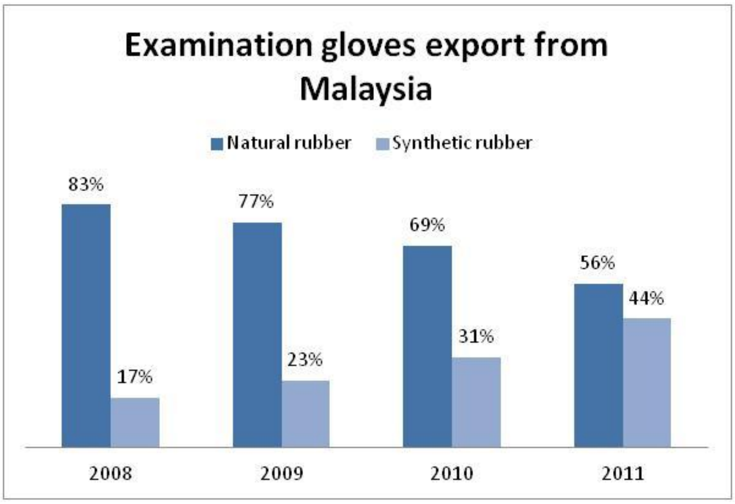
Shareholding Structure



Source: Company, TA Research

2.0 Business Operations

2.1 King of Nitrile

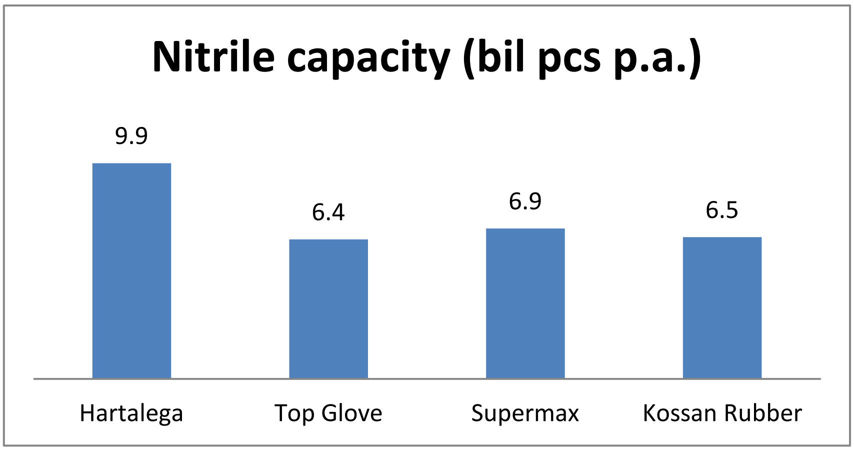


Source: Company, TA Research

Latex is traditionally preferred due to its softness, comfort, fit, grip in dry and wet conditions, tactility, durability, protection against viral penetration and biodegradability. In addition to this, the price of natural rubber (NR) was also constantly cheaper when compared to nitrile butadiene rubber (NBR), which are the main raw materials used to produce latex gloves and nitrile gloves respectively. In 2008, 83% of all examination gloves exported from Malaysia was made from natural rubber.

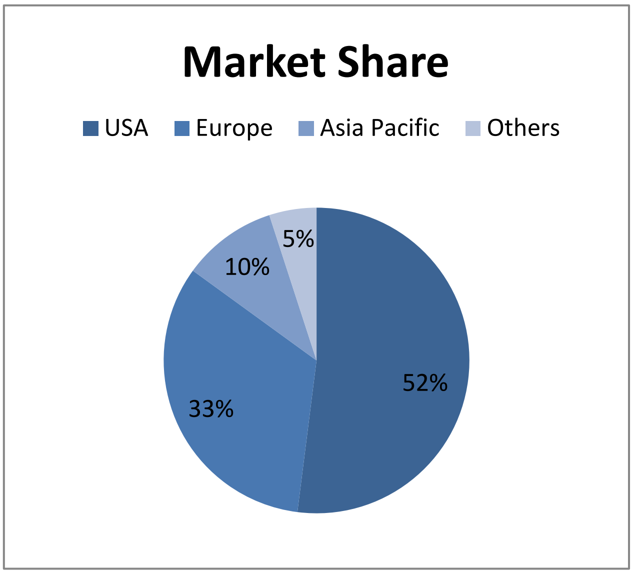
Attempting to close this gap, Hartalega first commenced R&D on an elastic thin nitrile glove in 2002. This subsequently led to the introduction of nitrile gloves that mimicked the softness and stretchiness of a natural rubber glove without protein allergy risks, which affects up to 17% of healthcare workers. In accordance with consumer demand, Hartalega also worked on reducing the weight of its gloves. This led to the production of thinner gloves as Hartalega introduced the 4.7g nitrile glove in 2005, 3.7g nitrile glove in 2007 and eventually the 3.2g soft nitrile glove in 2011. The year 2010 marked the turning point for nitrile when prices of natural rubber reached a high of RM7.46 and nitrile gloves became cheaper than natural rubber gloves.

Along with the quality of its developed product, Hartalega was able to capitalize on this upsurge in demand and eventually became the largest synthetic rubber glove manufacturer in the world. As of 2011, 44% of all examination gloves exported from Malaysia is now made of synthetic rubber. We expect this trend to continue with nitrile reaching 60% of total exports within the next two years.

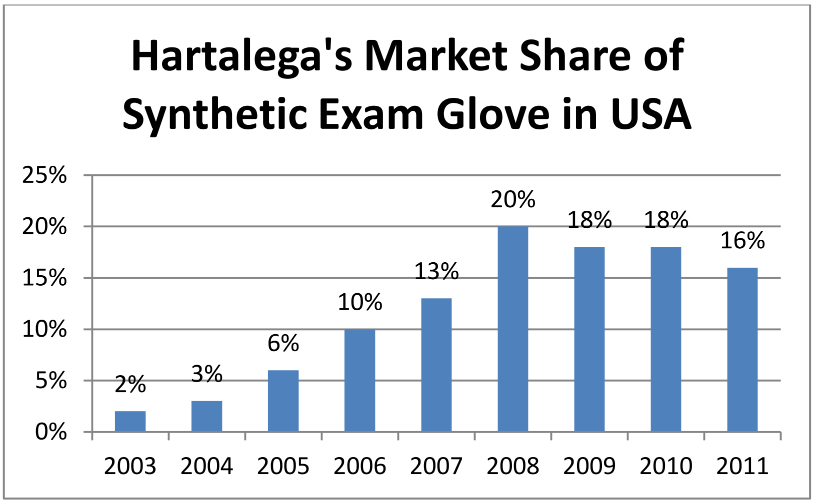


Source: Company, TA Research

Of its current production capacity of 11bn gloves a year, 90% or 9.9bn gloves are nitrile. In comparison to its peers, Supermax's current nitrile mix is 39%, Top Glove at 16% and Kossan Rubber at 50%. This places Hartalega in pole position to capitalize on the strong demand for nitrile gloves. However, we note that most industry players are currently increasing their nitrile capacity. For instance, Supermax and Top Glove are on track to raise the production of their nitrile mix by 5.4bn and 7.6bn pieces per annum, thus raising the nitrile mix to 53% (from 39%) and 30% (from 17%) in the next 1-2 years. By 2014, we estimate that Top Glove would almost be on par with Hartalega's production capacity of 14bn pieces of nitrile gloves. Hence, Hartalega's dominance could likely be reduced resulting in higher degrees of competition.



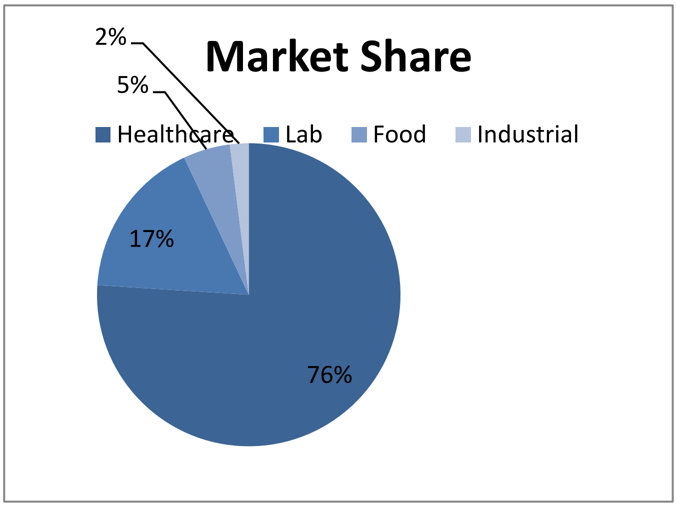
Source: Company, TA Research



Source: Company, TA Research

Hartalega primarily sells its products to developed markets such as the United States (US), Japan and Germany. Of total revenue, the United States contributed 52% followed by Europe at 33%, Asia Pacific at 10% and others at 5%. In recent years, demand for nitrile gloves in the US has been increasing at such a rapid pace that Hartalega's market share in the market had decreased from 20% in 2008 to 16% in 2011. This was due to their inability to cater for the sudden upsurge in demand, which has led to a portion of sales going to competitors who have been increasing their production of nitrile. Management will address this shortage by building 6 new manufacturing facilities with total installed capacity of 28.1bn pieces of gloves per annum.

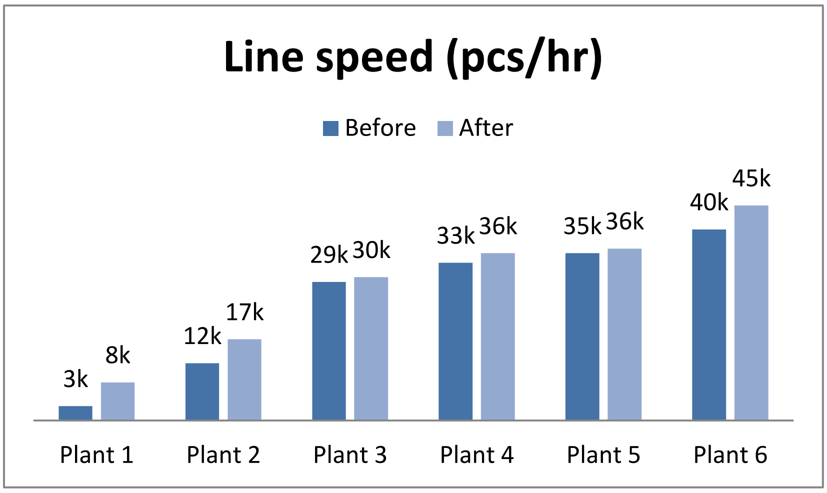
Going forward, Hartalega has also targeted China and India as potential expansion destinations for the near future. Beginning a year ago, Hartalega's venture into China has resulted in growing monthly sales. In particular, management believes there are plenty of opportunities to grow in the industrial glove segment in China. Their venture into India, however, might prove a tougher task as nitrile gloves remain new to the market.



Source: Company, TA Research

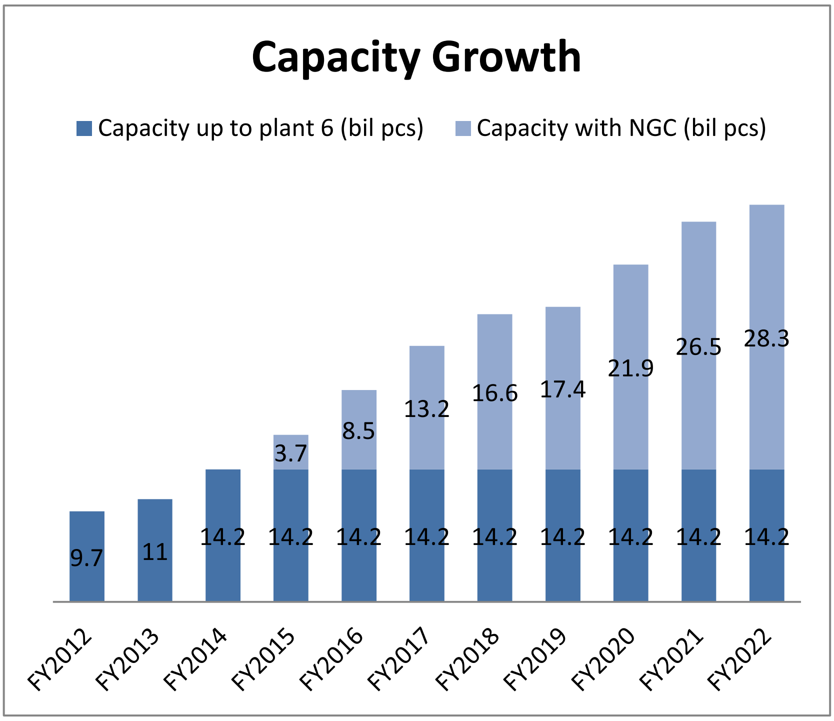
In terms of sectors, Healthcare's contribution to total sales is 76%, Lab at 17%, Food at 5% and Industrial at 2%. In the healthcare sector, these gloves are mainly used by general practitioners and nurses. Management foresees future growth in the industrial and food segment. For the industrial segment, this would include the development of thicker gloves to protect against hand laceration, oil, grease, electrical shocks, chemical and detergents. For the food industry, growth is seen from the increased usage of gloves to serve food to maintain cleanliness.

3.0 Expansion Plans

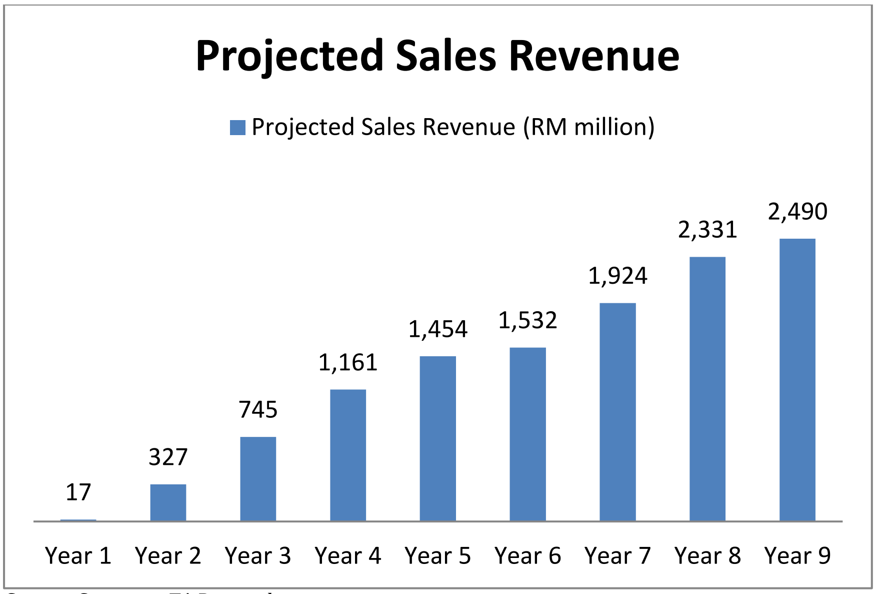


Source: Company, TA Research

Hartalega currently has six plants located within close proximity to each other in Bestari Jaya, with plant 6 expected to be fully completed in June 2013. Plant 6 is expected to increase production capacity by 30% to 14bn. Furthermore, Hartalega continually strives to increase the efficiency of existing production lines. Since inception, the line speed of all existing plants have increased, even the unfinished plant 6 will have a higher production rate of 45,000 pieces per hour than the initial expected rate of 40,000 pieces per hour.

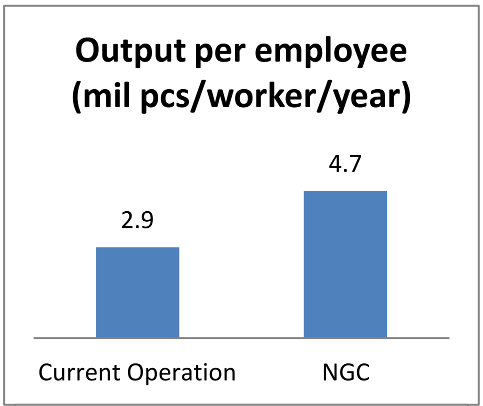


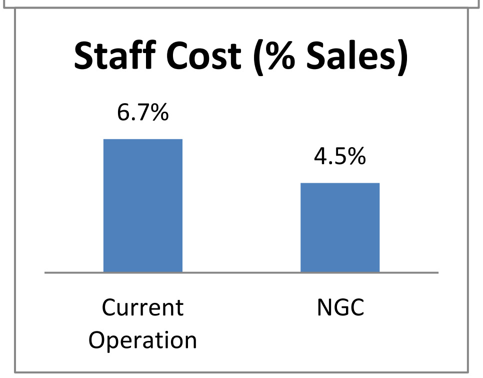
Source: Company, TA Research



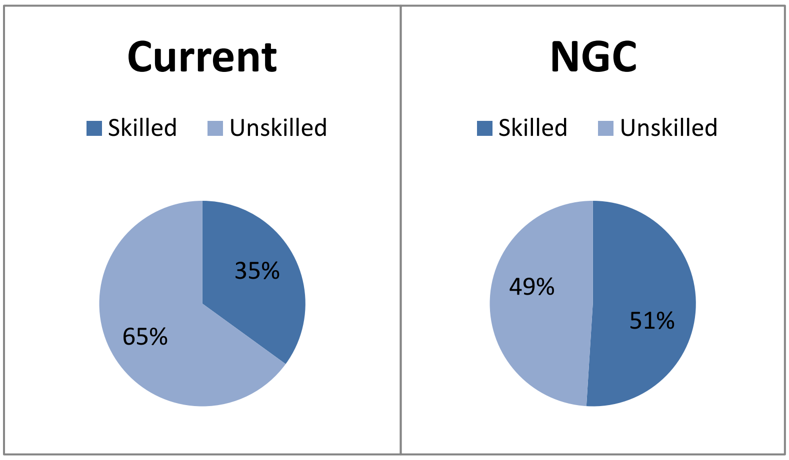
Source: Company, TA Research

With Plant 6 close to completion, Hartalega will be initiating the Next Generation Integrated Glove Manufacturing Complex (NGC), which has been scheduled for completion in 2021. The investment which costs RM1.5bn will provide an additional capacity of 28.3bn pieces per year through 72 production lines. This will be funded through a combination of loans, warrants and internal funds. The project will be constructed on a 112 acres land located in Sepang. Facilities to be constructed in the NGC include an R&D Centre, Renewable Energy Complex, Training & Development Centre, Sports & Recreational Complex and an Eco-friendly Workers Quarters. Split into two phases over a duration of eight years, as part of the NGC project, Plant 7 will begin construction in the second half of 2013 and is expected to contribute to profits by August 2014 (FY2015). Once production is completed, the NGC is estimated to provide RM2.49bn in revenue based on an assumption of average selling price of RM100 (c. US32-33) per 1,000 pieces. This will require a workforce size of 4,600 workers.



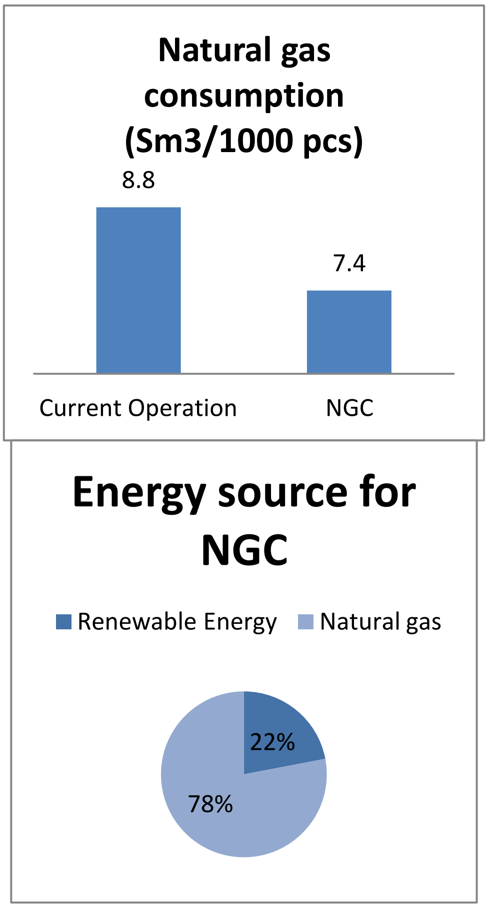


Source: Company, TA Research



Source: Company, TA Research

Post completion of the NGC, production is expected to improve due to greater efficiency and automation through innovations such as the industry's first glove stacking device. As such, management expects output per employee to increase by 62% to 4.7mn pieces per worker each year. Staff cost is also expected to decrease to 4.5% of sales with the proportion of unskilled labour decreasing to 49% after the GNC. This is envisaged to provide RM52mn in savings per annum and further reduce Hartalega's volatility in accordance to changes in minimum wage laws. Additionally, reliance on foreign workers will be reduced considerably.

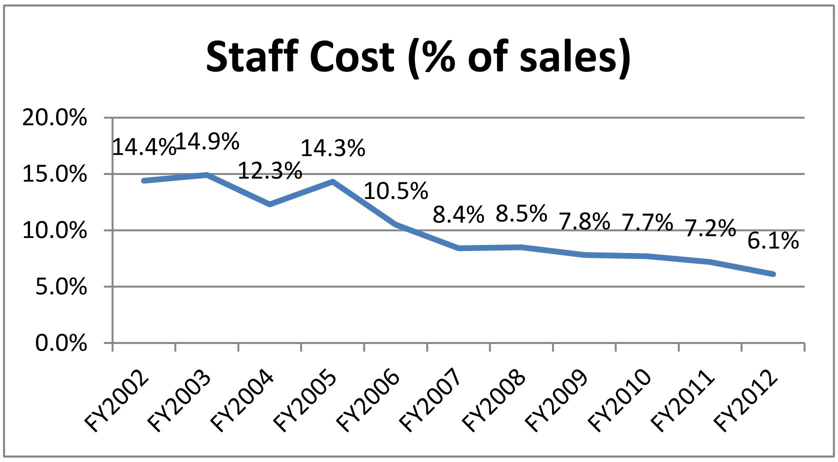


Source: Company, TA Research

With the construction of more energy efficient production lines and utilization of biomass based renewable energy through the NGC, natural gas consumption at newer plants are expected to be 17% lower as compared to existing plants. 22% of the NGC's energy needs will be supplied by the installation of the

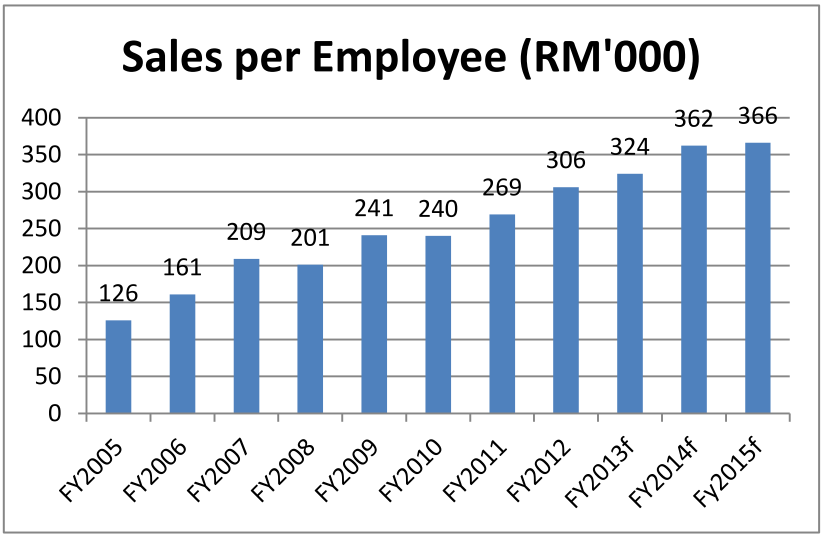
Biomass renewable energy plants which will provide a total capacity of 58MW. This will help ease the pressure on gas costs which are expected to rise from current levels of RM15 per mm BTU to RM40 per mm BTU in 5 years time.

3.1 Rise of the Machines



Source: Company, TA Research

Hartalega remains the most efficient glove manufacturer, with speeds of its production lines being consistently higher than the industry's average. The average speed of Hartalega's production lines is 28,000 gloves an hour versus the industrial average of 18,000 to 22,000 gloves an hour. Capacities of all its plants have increased since its inception, the current highest being Plant 6 which is able to produce 45,000 gloves an hour. This has allowed management to cut back on employment of workers in the unskilled category. The current total workforce is approximately 3,700 where 35% of them are skilled workers. As a proportion of sales, staff cost has decreased from 14.4% in FY2002 to 6.1% in FY2012. Thus, compared to its peers, Hartalega should be less affected by the implementation of the minimum wage policy with earnings erosion envisaged to be in the range of 4% to 6%.

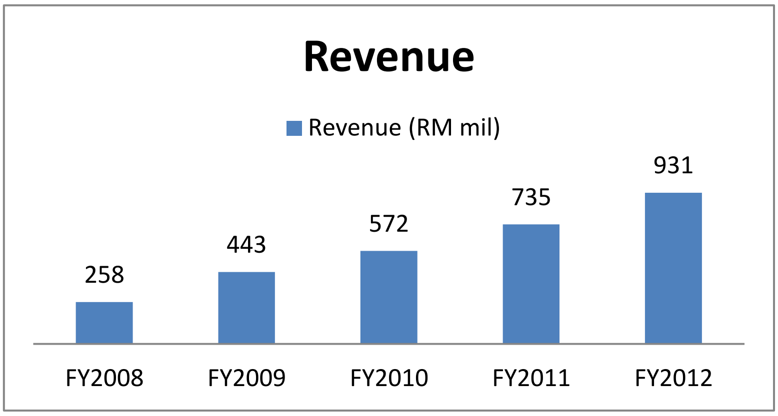


Source: Company, TA Research

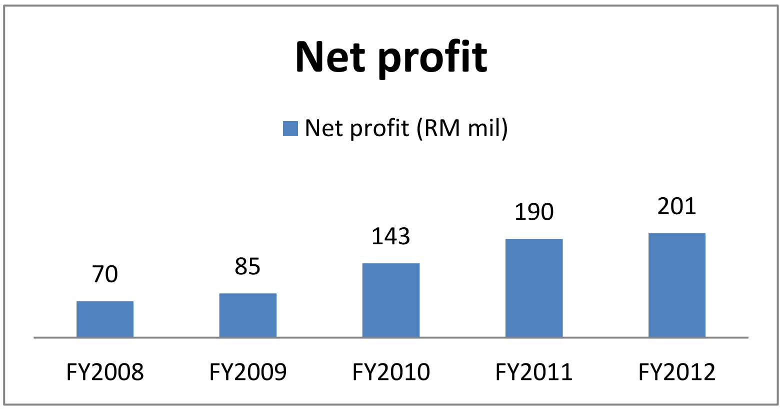
Sales per employee have increased by 143% from FY2005 to FY2012 despite a reduction in average selling price. Management expects this trend to continue with expected sales per employee of RM366,000 in FY2015 from current levels of RM306,000 per employee. In line with the increase in revenue, profit per employee has increased 339% from RM16,227 in 2005 to RM71,306 in 2012. Hartalega is also planning to implement the industry's first glove stacking device which is foreseen to reduce 100 jobs from the current total of 500 jobs per factory.

4.0 Financial Highlights

4.1 Revenue and Net Profits

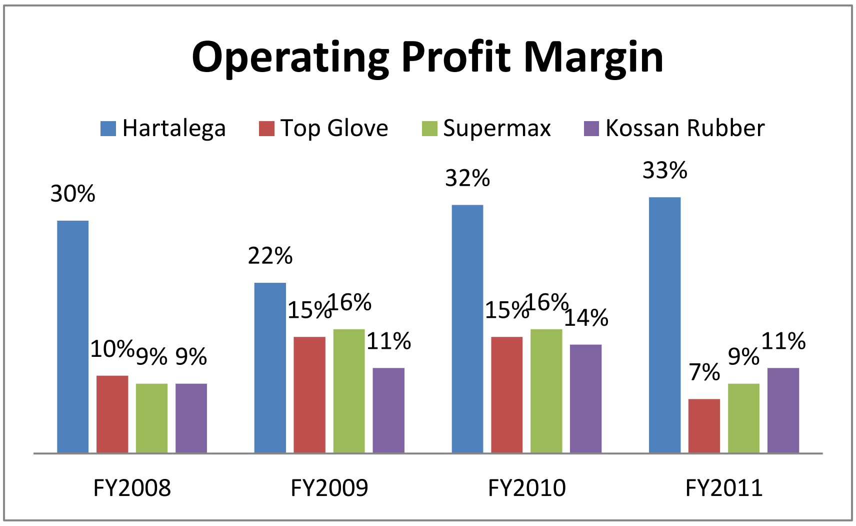


Source: Company, TA Research



Source: Company, TA Research

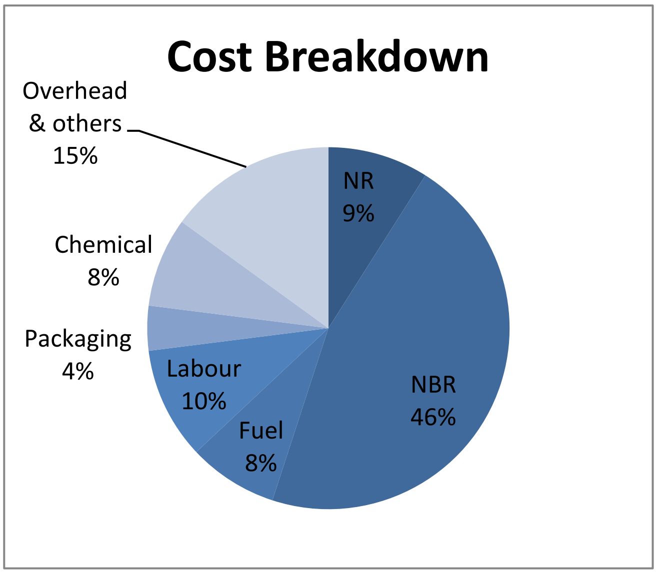
Revenue grew 261% from RM258mn to RM931mn with a five year CAGR of 38%. Consistent with this, net profit grew 187% from RM70mn to RM201mn with a five year CAGR of 30%. Compared with the previous year, net profit in FY12 only grew at a modest pace of 6%. This was due to lower margins and ASP as management competed with its peers to capture a larger market share in the glove industry. Revenue will be boosted by the addition of plant 6 and the implementation of the NGC. This will contribute to profit figures beginning FY14 and FY15 respectively.



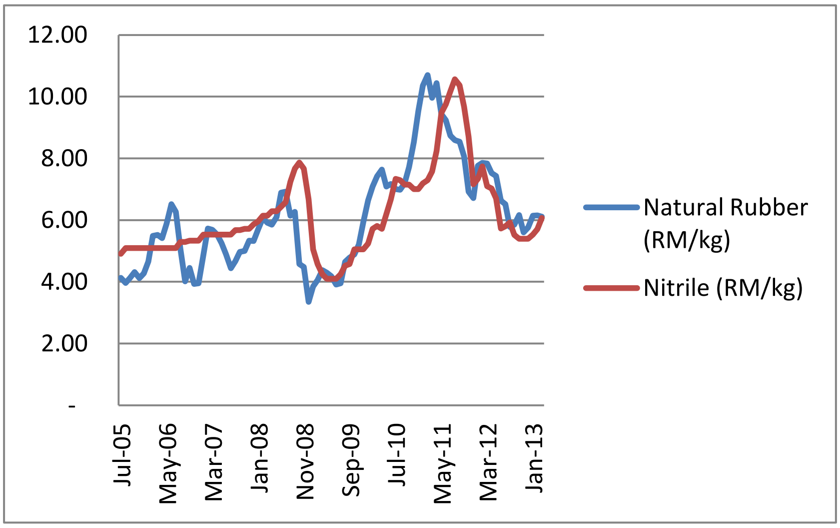
Source: Companies, TA Research

Due to their efficiency in automation, Hartalega has been able to keep costs at a minimum. This has led to an industry high operating profit margin of 33% for FY11. However, with rising costs and lower ASPs from increased competition, we expect Hartalega's operating profit margin to decrease to around 27% - 26% in the near future. The ASP of nitrile gloves could drop from some RM98.50 (c. US$31 to US$32) per 1,000 pieces currently to RM95.00 (c. US$30 to US$32) per 1,000 pieces due to the increased competition while the ASP of latex gloves are expected to remain stable with the current price at around RM113 (US$36 to US$37) per 1,000 pieces. We note that, despite an expected decrease in ASP, Hartalega's high operating profit margin due to production efficiency will allow it to weather larger decreases of ASP and still remain profitable.

4.2 Costs



Source: Company, TA Research



Source: Company, TA Research

NBR, also known as nitrile butadiene rubber is the key ingredient used in the production of nitrile gloves. As 9 out of 10 gloves produced by Hartalega are nitrile gloves, NBR makes up 41% of total cost. The remainders of gloves produced are latex gloves made from natural rubber (NR) which account for 5% of total cost. Historically, prices of natural rubber have been higher during the wintering period which occurs between February and May. During this period, leaves of the rubber tree die and fall off while new leaves are formed. This substantially affects the metabolism of the tree, which causes rubber production to shrink 45% to 60% from its peak. In recent years, prices of NBR and NR have been increasingly correlated due to usage of both materials in the production of tyres. Thus, we note that NBR has been experiencing similar increases in price during the wintering period.

Apart from the wintering period, prices of NBR are also affected by crude oil prices. This is because, Butadiene, the petrochemical used to make synthetic rubber comes from processing crude oil. Also, as an indirect effect, as NBR prices increase, tyre manufacturers have switched from synthetic to natural rubber, driving up demand and consequently increasing the prices for natural rubber. To combat these fluctuations in prices, the burdens of cost increases are usually passed on to consumers through higher product selling prices. However, this is met with a certain time lag and hence revenue will still be affected in the short run.

As of March 2013, the prices of NBR are at RM6.07 per kg while prices of NR are RM6.11 per kg. We expect NR prices to be stable, trading between RM6.00 per kg and RM7.00 per kg. For NBR, in the long term, prices are expected to increase due to rising demand. However, major nitrile suppliers are currently utilizing only 65% to 75% of their capacity. As such, we do not foresee any shortage in the supply of nitrile latex in the near future. Given current consumption pace, we expect the prices of NBR to be between RM5.00 per kg to RM6.50 per kg. We also expect the usage of NBR and NR to decrease in tandem with increasing consumer demand for thinner gloves. Currently, the average weight of nitrile gloves and latex gloves produced by Hartalega are 3.73 grams and 6.11 grams respectively.

Straying away from material prices, another large component of total cost is fuel. Fuel which includes natural gas and biomass makes up 8% of total cost. Natural gas is mainly used to generate heat to dry the gloves in the oven. Currently, the cost of using natural gas and biomass are similar. However, with prices of natural gas expected to increase to RM40 per mm BTU in 5 years time from present prices of RM15 per mm BTU, biomass appears to be the cheaper alternative in the long run. To soften the impact, Hartalega's newer plants will include more energy efficient production lines while Biomass renewable energy plants providing a capacity of 58MW will also be installed, reducing the NGC's energy needs by 22%.

Another large component of total cost is labour, which contributes 10% to total cost. The rubber glove industry is very labour intensive and requires a large amount of unskilled workers. As a result, total cost is susceptible to changes in wage policies, such as the recent implementation of the minimum wage law which contributed to earnings erosion. To minimize this risk, Hartalega constantly seeks to improve the efficiency of their production lines. After the NGC, the proportion of unskilled labour is expected to be reduced to 49% while the reliance on foreign workers will be reduced by 76%.

4.3 Earnings forecast and Assumptions

We expect net profit of RM228.6mn for FY13, RM268.5mn for FY14 and RM276.7mn for FY15. This will stem from expected revenue of RM1,032mn in FY13, RM1,248mn in FY14 and RM1,305mn in FY15. With FY13 coming to a close, our 18% and 8% topline growth assumption for FY14 and FY15 is premised on: 1) the expected completion of Plant 6 and Plant 7 which will bring a projected total glove capacity of 14.0 bn and 15.4 bn respectively, and 2) utilization rate to soften from current levels of 90% to 85% due to the increase in capacity and competition.

In the meantime, we believe our FY13 estimates are achievable given that the group has reported YTD revenue and net profit growth of 10.3% and 13.7% to RM762.3mn and RM172.4mn.

Muting the strong topline performance however, we envisage intense competitive pressure to reduce the ASP of nitrile gloves which we assume would decline by 2.5% YoY. In addition, because of the trend shift towards nitrile, we expect the price of NBR to increase by 2.5% a year from its FY13 average of RM5.85 per kg (US1.89). However, this will be slightly offset by the demand for thinner nitrile gloves which will reduce the average amount of NBR required in making each glove. Average prices of natural rubber and latex gloves are expected to remain stable at RM6.30 per kg (US2.03) and RM124 per 1000 pieces (US40).

5.0 Risks

5.1 Fluctuation in raw material prices, labour prices and energy supply

As mentioned above, a large part of total cost is composed of raw material prices, labour prices and energy prices. Although increases in these costs can partly be passed on to consumers, these efforts are usually met with a time lag. To recap, NR, with a current price of RM6.11 per kg is expected to trade between RM6.00 per kg and RM7.00 per kg. NBR is expected to trade in the range of RM 5.00 per kg to RM6.50 per kg from the current price of RM6.07 per kg. Lastly, cost of natural gas is expected to increase from RM15 per mm BTU to RM40 per mm BTU in 5 years time.

Based on the data available from FY12, a sensitivity analysis can be conducted to determine the impact of changes in the prices of NR, NBR, natural gas and labour cost on total cost. The average price of NBR for FY12 is RM8.86 per kg. We estimate that a 10 cents increase in the price of NBR will decrease net profit by approximately 1%. For natural rubber, the average price of natural rubber was RM8.34 per kg during FY12. A 10 cents increase in the price of NR would lead to a decrease in net profit by approximately 0.2%. The smaller effect when compared to NBR is attributed to the much higher proportion of nitrile gloves produced as compared to latex gloves.

Elsewhere, a 10% change in labour cost will increase or reduce net profit by approximately 2% to 3%. During FY12, the price of natural gas was RM15 per mm BTU. However, we forecast that a RM5 increase in this price would result in an approximately 8.5% reduction in net profit. Given the substantial impact, we note that management has been investing in biomass facilities which will likely reduce the burden of natural gas costs. Also, with increasing efforts towards automation and an increasing demand for thinner gloves, changes in earnings caused by the volatility in the prices above will likely be reduced.

5.2 Increased competition in industry

With local players rapidly increasing their nitrile gloves production, Hartalega faces increased competition in the nitrile segment. Recently, Top Glove declared their intentions of overtaking Hartalega as the largest nitrile glove manufacturer within 3 to 5 years. This will be achieved through an addition of 76 production lines due for completion in 2014. Taking into account current nitrile capacities, this will increase Top Glove's nitrile capacity to 14bn in 2014, placing them neck to neck against Hartalega in terms of nitrile capacity. Other sources of competition can also be seen from countries such as Thailand, Indonesia and to a lesser extent China. In the long run, the increase in supply may force ASP down and lead to lower revenues. ASP of nitrile gloves is expected to decrease from RM98.5 (US$31.8) per thousand gloves currently to RM95 (US$30.7) per thousand gloves in the future. However, prices are unlikely to decrease too significantly because apart from Hartalega, other nitrile glove makers operate at much lower margins.

5.3 Exposed to foreign exchange risks

Given that Hartalega's business is conducted in USD, Hartalega's revenue is exposed to exchange rate risks. Thus, revenue will be affected by fluctuations in the USD/MYR rate. As sales are received in USD, a higher USD/MYR rate will be beneficial to the company and would lead to higher revenue. However, given that 46% of cost, for the purchase of NBR raw material is also priced in USD, we note some natural hedge against forex risk. Currently, the average USD/MYR rate is 3.1. We assume the USD/MYR rate to reach 3.0 by the end of 2013. Based on FY12 figures, for every 10 cents appreciation or depreciation to the USD/MYR exchange rate, net profit should decrease/increase respectively by approximately 8%.

5.4 Environmental

A portion of the public has adopted a movement towards a more eco-friendly environment. Being synthetic, nitrile is not biodegradable and may be seen as harmful to the planet. As the world's largest synthetic glove manufacturer, this may have a long term effect on the sales of nitrile gloves. However, management remains skeptical of the potential this problem might pose going forward. They believe the positive image of gloves as a protective agent for our hands will overshadow any negative side effects linked with the environment.

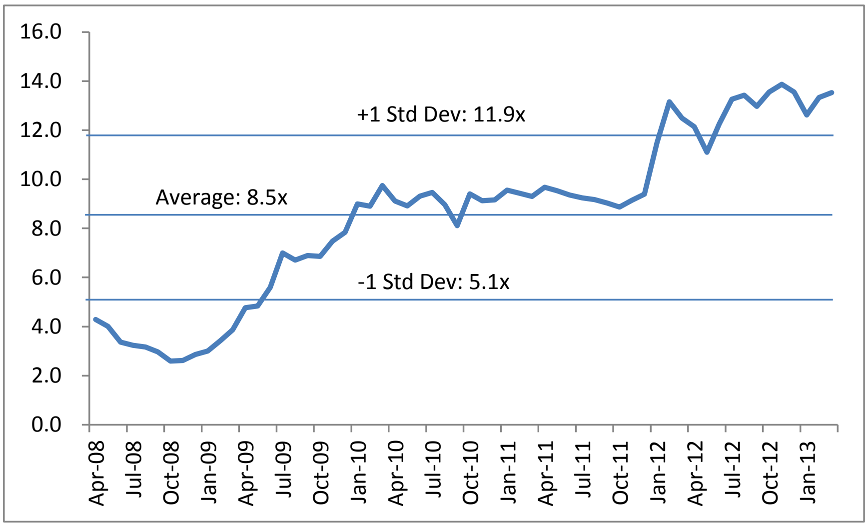
6.0 Valuation and Recommendations

Tagging a 25% premium to our industry's targeted PE multiple of 12x, we fairly value Hartalega at RM5.50. Taking into account proceeds from capital gains and dividends, this will represent a total upside of 16%. Despite assuming a higher PE ratio as compared to the industry average, we believe this is reasonable due to Hartalega's efficiency, nitrile capacity and industry high operating margins.

Hartalega currently pays out around 45% of net profit. In FY12, total dividend paid was RM87mn which represented 43% of total net profit. Management is looking to better reward its shareholders by raising its dividend policy to 60% of net profit in FY16/17, once contributions from NGC start kicking in.

With that, we initiate coverage on Hartalega with a BUY recommendation. Key upside/downside risks to our fair value include: 1) strong competition eroding Hartalega's dominance as the world's largest synthetic rubber glove manufacturer, 2) falling margins due to competition, 3) Hartalega's ability to maintain high net profit margins due to automation and production efficiency, 3) better-than-expected contributions from NGC project which is expected to nearly quadruple current capacities by 2021, 4) lower-than-expected ASP due to increased competition, and 5) impact to fluctuation in raw material prices, energy supply and labour wages as compared to its competitors.

Rolling PER



Source: Company, TA Research

Peers Comparison

	Price (RM)	TP (RM)		Mkt Cap RM mil	EPS FY13 (sen)	EPS FY14 (sen)	EPS growth FY13 (%)	EPS growth FY14 (%)
Top Glove	5.35	6.55	BUY	3,313.3	35.9	39.0	9.8	8.6
Supermax	1.89	2.45	BUY	1,283.7	20.4	22.3	14.0	9.3
Hartalega	4.90	5.50	BUY	3,592.2	31.2	36.6	13.5	17.3
Simple average				**2,729.7**	**29.2**	**32.6**	**12.4**	**11.8**

	PER FY13 (x)	PER FY14 (x)	P/NTA FY13 (x)	P/NTA FY14 (x)	ROE FY13 (%)	ROE FY14 (%)	DPS FY13 (sen)	DPS FY14 (sen)	Div yield FY13 (%)	Div yield FY14 (%)
Top Glove	14.9	13.7	2.3	2.0	16.5	15.6	18.0	18.0	3.4	3.4
Supermax	9.3	8.5	1.4	1.2	14.9	14.7	5.0	5.0	2.6	2.6
Hartalega	15.7	13.4	4.9	4.0	33.5	32.8	14.0	16.0	2.9	3.3
Simple average	**13.3**	**11.9**	**2.8**	**2.4**	**21.6**	**21.0**	**12.3**	**13.0**	**3.0**	**3.1**

Source: Companies, Bloomberg, TA Research

Table 1: Earnings Summary

Profit & Loss (RMmn)

FYE Mar 31		2011	2012	2013f	2014f	2015f
Revenue		734.9	931.1	1,031.6	1,248.3	1,304.5
Other income		9.6	6.4	5.2	4.6	11.5
Total Cost		(501.7)	(679.1)	(743.4)	(908.5)	(961.1)
PBT		242.8	258.4	293.3	344.4	354.9
Taxation		(52.5)	(57.0)	(64.7)	(75.9)	(78.2)
Net profit		190.3	201.4	228.6	268.5	276.7
EPS	(sen)	26.0	27.5	31.2	36.6	34.3
EPS Growth	(%)	33.2	5.8	13.5	17.4	(6.3)
Div Yield	(sen)	7.8	11.9	14.0	16.5	15.4
Div Yield	(%)	1.6	2.4	2.9	3.4	3.2
PER	(x)	18.9	17.8	15.7	13.4	14.3

Cash Flow (RMmn)

FYE Mar 31	2011	2012	2013f	2014f	2015f
PBT	242.8	258.4	293.3	344.4	354.9
Adjustments	5.7	4.3	(4.2)	(0.1)	(8.4)
Dep. & amortisation	24.9	29.0	36.8	50.0	65.7
Changes in WC	(40.9)	(44.5)	(17.4)	(35.5)	(8.1)
Operational cash flow	**232.6**	**247.3**	**308.5**	**358.8**	**404.1**
Capex	(81.3)	(60.2)	(120.0)	(250.0)	(250.0)
Interest received	2.4	0.9	5.2	4.6	11.5
Others	(50.0)	(47.7)	(72.7)	(80.4)	(81.4)
Investment cash flow	**(128.8)**	**(107.0)**	**(187.5)**	**(325.8)**	**(319.8)**
Debt raised/(repaid)	(2.5)	(14.6)	(8.2)	64.8	(24.6)
Equity raised(repaid)	0.3	6.9	0.0	0.0	302.6
Dividend	(56.9)	(87.4)	(102.9)	(120.8)	(124.5)
Others	(0.0)	(0.0)	0.0	0.0	0.0
Financial cash flow	**(59.1)**	**(95.0)**	**(111.0)**	**(56.0)**	**153.5**
Net cash flow	**44.7**	**45.2**	**10.0**	**(23.0)**	**237.8**
Opening cash	74.6	117.0	163.2	173.2	150.1
Forex	(2.3)	1.0	0.0	0.0	0.0
Closing cash	**117.0**	**163.2**	**173.2**	**150.1**	**387.9**

Balance Sheet (RMmn)

FYE Mar 31	2011	2012	2013f	2014f	2015f
PPE	348.6	370.3	432.9	587.9	772.2
Others	0.3	9.9	37.5	82.5	82.5
Fixed Asset	**348.9**	**380.2**	**470.4**	**670.4**	**854.7**
Cash	117.0	163.2	173.2	150.1	387.9
Others	169.1	214.7	237.9	287.9	300.8
Current Asset	**286.1**	**377.9**	**411.1**	**438.0**	**688.7**
Total assets	**635.0**	**758.1**	**881.5**	**1,108.4**	**1,543.5**
ST debt	14.5	12.6	10.4	29.8	22.4
Other liabilities	64.3	72.9	77.9	92.3	97.2
Current Liability	**78.9**	**85.5**	**88.3**	**122.2**	**119.7**
Shareholders' funds & MI	**494.8**	**620.1**	**745.8**	**893.5**	**1,348.2**
LT borrowings	24.5	12.1	6.9	52.3	35.0
Others	36.9	40.5	40.5	40.5	40.5
LT liabilities	**61.3**	**52.6**	**47.4**	**92.8**	**75.5**
Total Liabilities + equity	**635.0**	**758.1**	**881.5**	**1,108.4**	**1,543.5**

Ratios

FYE Mar 31		2011	2012	2013f	2014f	2015f*
Profitability ratios						
ROE	(%)	44.8	36.1	33.5	32.8	24.7
ROA	(%)	34.2	28.9	27.9	27.0	20.9
PBT Margins	(%)	33.0	27.8	28.4	27.6	27.2
Liquidity ratios						
Current ratio	(x)	3.6	4.4	4.7	3.6	5.8
Quick ratio	(x)	2.8	3.3	3.4	2.5	4.6
Leverage ratios						
Total liabilities / equity	(x)	0.3	0.2	0.2	0.3	0.2
Net debt / Equity	(x)	0.1	0.0	0.0	0.1	0.0
Growth ratios						
Sales	(%)	28.5	26.7	10.8	21.0	4.5
Pretax	(%)	36.6	6.4	13.5	17.4	3.1
Total assets	(%)	32.6	19.4	16.3	25.7	39.3

**Assume warrants are fully exercised*

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