

Company Update

Share price: Target price: MYR5.60 MYR5.40 (Unchanged)

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Stock Information

Description: World's biggest nitrile glove OEM manufacturer

Ticker:	HART MK
Shares Issued (m):	733.5
Market Cap (MYR m):	3,997.6
3-mth Avg Daily Turnover (USD m):	1.11
KLCI:	1,776.73
Free float (%):	71.6
<u>Major Shareholders:</u>	%
Hartalega Industries Sdn Bhd	50.2
Budi Tenggera Sdn Bhd	5.0

Key Indicators

Net cash / (debt) (MYR m):	170.3
NTA/shr (MYR):	1.05
Net Gearing (x):	Cash

Historical Chart



52-week High/Low		MYR5.53/MYR3.56			
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	6.2	16.0	11.5	38.7	14.7
Relative (%)	1.0	7.3	3.5	26.6	9.5

Hartalega Dominating Nitrile Space

Maintain HOLD. Hartalega's non-deal roadshow (NDR) in Singapore last Friday was well-received. The two areas that garnered the most attention were with regard to: i) management's ability to successfully execute its ambitious expansion plans; and ii) competition within the nitrile space. Investors were generally positive on its next phase of growth, which will see Hartalega dominating the nitrile space. However, trading at forward PER of 16x, we think the current share price is already fair. Maintain HOLD and TP of MYR5.40 (15x 2014 FD PER).

Ensuring non-disruptive growth. Having already garnered a strong technical know-how in the production of nitrile glove, Hartalega has spent the past three years in building its skilled workforce. This is to ensure a smooth execution of its ambitious 9-year Next Generation Integrated Glove Manufacturing Complexl (NGC) plant expansion in Sepang, which will see its total capacity increasing to 42.5b pcs p.a. by FY3/23 (+3x post-plant 6). A successful execution will see Hartalega dominating the nitrile space with a much bigger global nitrile market share (c.17% now) and defending its price-setter position.

Manageable nitrile competition. Management acknowledged that the current mild supply-led ASP pressure may persist for the next three years but believed it will be mitigated by higher plant efficiency (45,000 pcs/hr vs. average 30,000 pcs/hr now) and economies of scale from its NGC plant expansion. Management reiterated that the group's net margin will not fall below 20% for FY3/14-FY3/16 (FY3/12: 23%) and the group's focus will be on market share gains and bottomline growth (vs. margin expansion in the past).

Expect stronger growth in FY3/16. We maintain our forecasts, which project a modest FD EPS growth of 7% and 5% in FY3/14-FY3/15 respectively. We look forward to a stronger FD EPS growth of 15% in FY3/16, underpinned by its NGC plant expansion. The construction work at the NGC plant will commence in Sep 2013 and production lines will come on stream progressively from 2QFY3/15 onwards.

Hartalega – Summary Earnings Table

FYE Mar (MYR m)	2012A	2013A	2014F	2015F	2016F
Revenue	931.1	1,032.0	1,202.6	1,390.0	1,590.5
EBITDA	288.2	337.9	390.6	442.2	513.7
Recurring Net Profit	201.4	234.7	265.1	288.8	331.4
Recurring FD EPS (sen)	27.7	32.1	34.3	36.1	41.4
FD EPS growth (%)	5.7	16.1	6.9	5.1	14.7
DPS (sen)	10.8	14.5	16.3	17.8	20.4
BVPS (MYR)	0.85	1.05	1.25	1.46	1.71
FD PER	20.3	17.4	16.3	15.5	13.5
EV/EBITDA (x)	13.7	11.6	10.2	9.2	7.9
Div Yield (%)	1.9	2.6	2.9	3.2	3.6
P/BV(x)	6.6	5.3	4.5	3.8	3.3
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	32.5	30.7	29.1	27.0	26.5
ROA (%)	26.8	25.1	22.1	21.0	21.1
Consensus Net Profit (MYR m)	-	-	261.1	290.5	330.2

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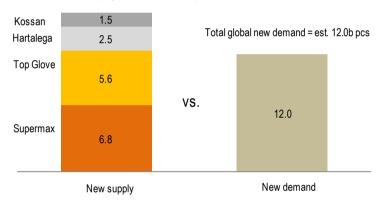


17 May 2013

Other updates

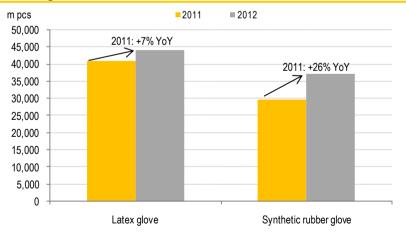
Competition to be manageable. We estimate that the top four Malaysian producers (Top Glove, Supermax, Hartalega and Kossan) will add 16.4b pcs of nitrile installed capacity in 2013. However, if we adjust for the timing (full commencement usually only takes place 6-8 months later) and the optimal utilisation levels, we estimate that the incoming new supply from the top four could be around 11b pcs in 2013. This is still below our expected global new nitrile demand growth of 12b pcs in 2013 (assuming a 20% YoY growth rate), to be driven by the strong nitrile demand in Europe where penetration rate is still low at 48% (vs. 73% in US).

Planned new nitrile capacities in 2013: New supply could be lower if adjust for timing and optimal utilisation rates



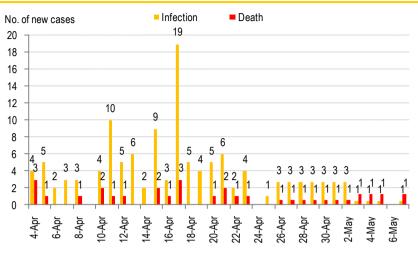
Total new supply from Top 4 = 16.4b pcs

Source: Companies, Maybank KE



Malaysia rubber glove export: Nitrile glove taking market share away from latex glove

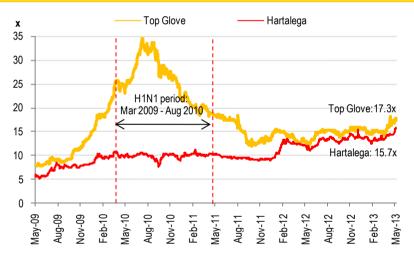
Source: MREPC, Maybank KE



H7N9: New cases have declined of late, suggesting a well-contained outbreak and little human-to-human transmission risk

Source: WHO, Maybank KE

Rolling forward PER: Hartalega trading at its peak of 15.7x but still below Top Glove's 17.3x



Source: Bloomberg, Maybank KE

INCOME STATEMENT (MYR m)

FY Mar	2013A	2014F	2015F	2016F
Revenue	1,032.0	1,202.6	1,390.0	1,590.5
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EBITDA	337.9	390.6	442.2	513.7
Depreciation & Amortisation	(31.9)	(48.6)	(67.2)	(83.9)
Operating Profit (EBIT)	305.9	342.0	374.9	429.8
Interest (Exp)/Inc	(0.1)	(2.1)	(4.7)	(4.9)
Associates	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0
Pre-Tax Profit	305.9	339.9	370.2	424.9
Тах	(70.8)	(74.8)	(81.4)	(93.5)
Minority Interest	(0.3)	0.0	0.0	0.0
Net Profit	234.7	265.1	288.8	331.4
Recurring Net Profit	234.7	265.1	288.8	331.4
Revenue Growth %	10.8	16.5	15.6	14.4
EBITDA Growth (%)	17.2	15.6	13.2	16.2
EBIT Growth (%)	18.0	11.8	9.6	14.6
Net Profit Growth (%)	16.6	13.0	8.9	14.8
Recurring Net Profit Growth (%)	16.6	13.0	8.9	14.8
Tax Rate %	23.2	22.0	22.0	22.0

FY Mar	2013A	2014F	2015F	2016F
Fixed Assets	534.9	736.4	949.1	1,115.2
Other LT Assets	7.6	7.6	7.6	7.6
Cash/ST Investments	182.4	207.2	131.8	125.0
Other Current Assets	211.4	246.3	284.7	325.7
Total Assets	936.3	1,197.5	1,373.2	1,573.5
ST Debt	7.7	7.7	7.7	7.7
Other Current Liabilities	107.4	122.7	139.6	157.6
LT Debt	4.5	104.5	104.5	104.5
Other LT Liabilities	50.3	50.3	50.3	50.3
Minority Interest	1.0	1.0	1.0	1.0
Shareholders' Equity	765.5	911.4	1,070.2	1,252.5
Total Liabilities-Capital	936.3	1,197.5	1,373.2	1,573.5
Share Capital (m)	731.3	731.3	731.3	731.3
Net Cash/(Debt)	170.3	95.1	19.6	12.8
Working capital	118.5	138.1	159.6	182.6
Net gearing (%)	Cash	Cash	Cash	Cash

BALANCE SHEET (MYR m)

CASH FLOW (MYR m) 2014F FY Mar 2013A 2015F 2016F Profit before taxation 305.9 339.9 370.2 424.9 Depreciation 31.9 48.6 67.2 83.9 Net interest receipts/(payments) 0.1 2.1 4.7 4.9 Working capital change 35.7 (19.6) (21.5) (23.0) Cash tax paid (59.2) (74.8) (81.4) (93.5) Others (incl'd exceptional items) 2.8 0.0 0.0 (0.0) Cash flow from operations 317.3 296.2 339.2 397.2 Capex (187.0) (250.0) (280.0) (250.0) 0.0 0.0 Disposal/(purchase) 0.0 0.0 Others (7.0) 0.0 0.0 0.0 Cash flow from investing (194.0) (250.0) (280.0) (250.0) Debt raised/(repaid) (12.5) 100.0 0.0 0.0 Equity raised/(repaid) 3.0 4.0 5.0 6.0 Dividends (paid) (98.8) (119.3) (129.9) (149.1) Interest payments (0.1) (2.1) (4.7) (4.9) Others 4.3 (4.0) (5.0) (6.0) Cash flow from financing (104.1) (21.4) (134.6) (154.0) Change in cash 19.2 24.8 (75.4) (6.8)

Source: Company, Maybank KE

RATES & RATIOS				
FY Mar	2013A	2014F	2015F	2016F
EBITDA Margin %	32.7	32.5	31.8	32.3
Op. Profit Margin %	29.6	28.4	27.0	27.0
Net Profit Margin %	22.7	22.0	20.8	20.8
ROE %	30.7	29.1	27.0	26.5
ROA %	25.1	22.1	21.0	21.1
Net Margin Ex. El %	22.7	22.0	20.8	20.8
Dividend Cover (x)	2.2	2.2	2.2	2.2
Interest Cover (x)	259.9	86.9	52.5	60.2
Asset Turnover (x)	1.1	1.0	1.0	1.0
Asset/Debt (x)	77.0	10.7	12.2	14.0
Debtors Turn (days)	44.1	44.1	44.1	44.1
Creditors Turn (days)	32.8	32.8	32.8	32.8
Inventory Turn (days)	30.6	30.6	30.6	30.6
Net Gearing %	Cash	Cash	Cash	Cash
Debt/ EBITDA (x)	Cash	Cash	Cash	Cash
Debt/ Market Cap (x)	Cash	Cash	Cash	Cash

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Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings	
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth	
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio	
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter	
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset	
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity	
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds	
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital	
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year	
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date	
EV = Enterprise Value	PBT = Profit Before Tax		

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