

Hartalega (HOLD ↓, EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

13 June 2013

Price Target: RM6.37 (↔)

Share Price: RM6.30

NGC - Nurturing Growth Commitment

Highlights

- In its exchange filing, Hartalega announced that its wholly-owned subsidiary, Hartalega NGC SB has entered into an agreement with Kumpulan Tanjung Balai SB to acquire 3 plots of land for a total cash consideration of RM97.0m.
- The total land areas measured up to 120 hectares is located at Mukim Labu, Daerah Sepang, Selangor.
- The objective of the land purchase is to expand its production capacities by erecting 6 manufacturing facilities leveraging on new in-house developed technologies. They will house 72 production lines (PL) which was accorded the EPP under ETP due to its high economic impact.
- The expansion will be spread over two 4-year phases and employ about 5k workers.
 - 2013 - 2017: 42 PL with total annual capacity of 16.5bn.
 - 2018 - 2021: 30 PL with total annual capacity of 12.0bn.
- The land development also includes administration office, centre of excellence, learning and development centre, sports and recreation centre and staff's accommodation.
- The whole project was allocated with a budget of RM1.9bn.
- The construction layout is subject to the approvals by relevant local authorities.

Financial Impact

- The price tag of RM97.0m which was derived based on willing-buyer willing-seller basis will be funded by internally generated funds and bank borrowings, without specifying the ratio. We are not too concern as Hartalega ended FY13 with a net cash position of RM170.3m.

Comments

- Additional capacity from NGC is expected to commence production only in FY15.
- Emphasizes on human capital as the operations will be highly dependent on the skilled workforce. As mitigation measure, Hartalega has pre-employed factory workers now at 3.9k compared to a year ago at 2.9k.

Risks

- Delays in capacity expansion plans.
- Surge in nitrile latex prices.
- Shift in demand to natural latex gloves from nitrile gloves, if prices of natural latex fall significantly below nitrile latex.
- Depreciation of USD vs. MYR.
- Unchanged as we have factored this expansion based on previous guidance.

Forecasts

Rating

HOLD ↓, TP: RM6.37 ↔

- Positives** – Leader in nitrile glove market; highest ROE and net profit margins; most efficient and profitable glove maker. In the event of a price war, Hartalega's earnings will be the least affected, shielded by its high profit margins.
- Negatives** – Possibility of increased competition in nitrile glove market.

Valuation

- Since our upgrade in early May, share price has performed well, rallied by 17.4% from RM5.45 to reach all time high of RM6.40 and slightly topped our TP.
- As such, considering that there is limited upside, we downgrade our call on the equity from BUY to HOLD based on unchanged TP of RM6.37 derived based on 17.5x CY14 EPS. At this juncture, we believe that it is fairly valued.

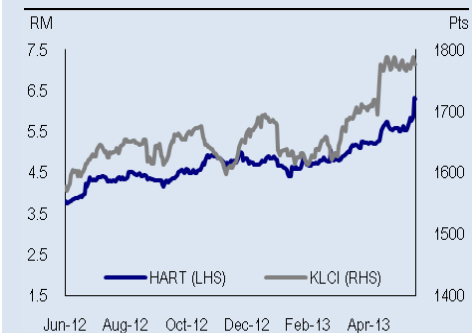
Low Yee Huap, CFA

yhlow@hlib.hongleong.com.my

(603) 2168 1078

KLCI	1775.1
Expected share price return	1.1%
Expected dividend return	1.7%
Expected total return	2.8%

Share price



Information

Bloomberg Ticker	HART MK
Bursa Code	5168
Issued Shares (m)	734
Market cap (RM m)	4,624
3-mth avg. volume ('000)	733

Price Performance	1M	3M	12M
Absolute	9.2	31.3	61.1
Relative	10.0	21.7	43.1

Major Shareholders

Hartalega Industries SB	50.1%
Budi Tenggara Sdn Bhd	4.9%
BNP Paribas Singapore	7.7%

Summary Earnings Table

FYE Mar (RM m)	2012A	2013A	2014E	2015E
Turnover	931.1	1032.0	1288.2	1509.5
EBITDA	289.2	337.1	405.1	465.1
PBT	258.4	305.9	343.8	382.3
Net profit	201.4	234.7	268.1	298.1
EPS (sen)	27.5	32.1	34.7	37.0
Diluted EPS (sen)	25.0	31.8	33.3	37.0
P/E	25.2	19.8	18.9	17.0
BV/share (RM)	0.85	1.05	1.34	1.71
P/BV	7.4	6.0	4.7	3.7
Net DY (%)	1.7	1.7	2.7	3.0
ROE (%)	32.5	30.7	24.9	21.6
ROA (%)	26.6	25.1	20.0	18.1

HLIB

Financial Projections

Income statement

FYE 31 Mar (RMm)	2011A	2012A	2013A	2014E	2015E
Revenue	734.9	931.1	1032.0	1288.2	1509.5
EBITDA	270.3	289.2	337.1	405.1	465.1
Dept. & Amort.	-24.9	-29.0	-31.9	-55.1	-77.1
Interest income	2.4	0.9	0.8	4.5	5.0
Interest expense	-2.5	-1.7	-0.9	-6.2	-5.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	242.8	258.4	305.9	343.8	382.3
Taxation	-52.5	-57.0	-70.8	-75.6	-84.1
Minorities	0.03	0.05	-0.33	0.05	0.05
Net profit	190.3	201.4	234.7	268.1	298.1
No. of shares (m)	731.1	731.1	731.1	771.8	805.1
Basic EPS (sen)	26.0	27.5	32.1	34.7	37.0
Diluted EPS (sen)	23.6	25.0	31.8	33.3	37.0

Balance sheet

FYE 31 Mar (RMm)	2011A	2012A	2013A	2014E	2015E
Fixed assets	348.6	379.7	534.9	856.9	1029.7
Other long-term assets	0.3	0.5	7.6	0.0	0.0
Other short-term assets	3.4	0.1	0.1	0.0	0.0
Working capital	108.5	154.2	118.5	213.7	255.1
Receivables	101.0	117.1	124.7	212.5	254.1
Payables	-57.2	-60.4	-92.8	-106.2	-127.1
Inventories	64.7	97.5	86.6	107.5	128.1
Net cash	78.0	138.6	170.3	47.2	133.9
Cash	117.0	163.2	182.4	161.9	238.5
ST debt	-14.5	-12.6	-7.7	-12.6	-12.6
LT debt	-24.5	-12.1	-4.5	-102.1	-92.1
Shareholder's funds	494.4	619.5	765.5	1077.0	1377.9
Share capital	181.8	182.5	366.7	385.9	402.5
Reserves	312.7	437.0	398.9	691.1	975.4
Minorities	0.4	0.6	1.0	0.6	0.6
Other liabilities	44.0	53.0	64.8	40.2	40.2

Assumption Metrics

FYE 31 Mar (RMm)	2011A	2012A	2013A	2014E	2015E
Effective capacity (bn)	8.33	9.78	11.0	13.7	15.7
Utilisation rate (%)	80	83	85	85	85
NBR latex price (USD/kg)	1.79	1.48	1.60	1.70	1.80
NR latex price (RM/kg)	8.21	8.29	6.36	6.96	7.48

Cashflow

FYE 31 Mar (RMm)	2011A	2012A	2013A	2014E	2015E
Pretax profit	242.8	258.4	305.88	343.77	382.25
Dep. and Amort.	25.0	29.0	31.9	55.1	77.1
Changes in working cap	-40.9	-44.5	35.7	-44.8	-41.4
Net interest received/(paid)	-0.1	1.9	2.9	-1.7	-0.7
Tax paid	-47.8	-48.8	-59.2	-75.6	-84.1
Others	5.7	4.3	-0.1	1.7	0.7
Operating Cash Flow	184.8	200.3	317.2	278.4	333.9
Capex	-81.3	-60.2	-187.0	-300.0	-250.0
Others	0.3	0.1	-7.0	0.0	0.0
Investing Cash Flow	-81.0	-60.1	-194.0	-300.0	-250.0
Div paid	-56.9	-87.4	-98.8	-120.5	-135.1
Changes in borrowings	-2.5	-14.6	-12.5	-10.0	-10.0
Issuance of shares	0.3	6.9	0.0	168.5	137.9
Others	0.0	0.0	7.3	0.0	0.0
Financing Cash Flow	-59.1	-95.0	-104.0	38.0	-7.2
Net cash flow	44.7	45.2	19.2	16.4	76.6
Forex	-2.3	1.0	0.0	0.0	0.0
Beginning cash	38.2	74.6	163.2	163.2	145.5
Ending cash	117.0	163.2	182.4	161.9	238.5

Valuation Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013A	2014E	2015E
EPS (sen)	26.0	27.5	32.1	34.7	37.0
Diluted EPS (sen)	23.6	25.0	31.8	33.3	37.0
P/E (x)	26.7	25.2	19.8	18.9	17.0
Net DPS (sen)	10.5	10.8	10.5	17.0	19.0
Net DY (%)	1.7	1.7	1.7	2.7	3.0
BV/share (RM)	0.68	0.85	1.05	1.34	1.71
P/BV (x)	9.3	7.4	6.0	4.7	3.7
FCF/share (sen)	14.2	19.2	17.8	-2.8	10.4
FCF yield (%)	2.2	3.0	2.8	-0.4	1.7
Market cap	4605.9	4605.9	4605.9	4862.3	5072.1
Net cash	78.0	138.6	170.3	47.2	133.9
EV	4527.9	4467.3	4435.6	4815.1	4938.2
EV/EBITDA	16.8	15.4	13.2	11.9	10.6
ROE (%)	38.5	32.5	30.7	24.9	21.6
ROA (%)	30.0	26.6	25.1	20.0	18.1

Other Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013A	2014E	2015E
Growth (%)					
Sales Growth	28.5	26.7	9.9	25.8	17.2
EBITDA Growth	34.5	7.0	13.9	23.0	14.8
PBT Growth	36.6	6.4	14.1	16.6	11.2
Net Profit Growth	33.2	5.8	14.2	16.6	11.2
Margins (%)					
EBITDA Margin	36.8	31.1	32.2	31.4	30.8
PBT Margin	33.0	27.8	28.8	26.7	25.3
Net Profit Margin	25.9	21.6	22.5	20.8	19.7

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 13 June 2013, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 13 June 2013, the analyst, Low Yee Huap who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
 (Formerly known as MIMB Investment Bank Berhad)
 Level 8, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.