

Hartalega Holdings

HART MK / HTHB.KL

3Q12 RESULTS NOTE

➤ **Market Cap**
US\$961.8m
RM2,906m

➤ **Avg Daily Turnover**
US\$0.67m
RM2.10m

➤ **Free Float**
42.9%
364.6 m shares

Current **RM7.97**
Target **RM9.98**
Previous Target **RM9.35**
Up/downside **25.2%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL NEUTRAL
UNDERPERFORM

CIMB Analyst



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	20.1	33.8	34.3
Absolute	22.6	42.3	37.4

Major shareholders

	% held
Hartalega Industries	55.4
Kuan family members	1.1
Franklin Resources	0.6

Got the whole world in its hands

Hartalega's strong run continued in 3QFY3/12. Fears over competition are overstated as nitrile's cost advantage and robust demand will underpin sales. New technology will lower costs and raise revenue per employee by 70%. A proposed bonus is positive as it enhances liquidity.

At 80% of our and consensus full-year estimates, 9M12 core EPS beat expectations. We raise FY12-14 EPS as our ASPs were too low. Our target also rises, still based on 13.05x forward P/E (10% below Top Glove's 2-year average). The 2nd DPS of 6 sen was expected. Maintain Outperform.

and demand are unique. While smaller glovemakers are competing aggressively and cutting prices, nitrile demand is rising by 30% p.a., robust enough to accommodate new entrants.

Stellar 9M results ➤

9M12 revenue rose by 27.4% yoy to RM691m. But costs increased by 31.4% at RM455m, leading to a 2.2% pt EBITDA margin shrinkage to 34.1%. However, higher output and efficiency offset the bigger cost base, enabling EBITDA to advance by 20.2% to RM236m. Core net profit, after adding back RM6.4m in FX losses, rose by 14.7% to RM158m.

Driven by efficiency ➤

Plant-6 will start its engines by Sep 2012. Its technology will yield a line speed of 40k/hour (45% above peers), increase automation and lower staff cost by 2.6% pts to 4.1% of revenue. The higher automation will also raise revenue per employee by 70% to RM530/worker p.a.

Mitigating competition ➤

Competition from Chinese glovemakers is overstated as synthetic vinyl glovemakers cannot convert lines to nitrile. There is little overlap as the technology, process

Expansion after Plant-6 ➤

Hartalega's proposed 1:1 bonus was expected but the proposed 1-for-5 free warrant issue was a nice surprise. This could enable Hartalega to raise up to RM308m and shore up its balance sheet. We view this as a signal that Hartalega has aggressive expansion plans beyond Plant-6.

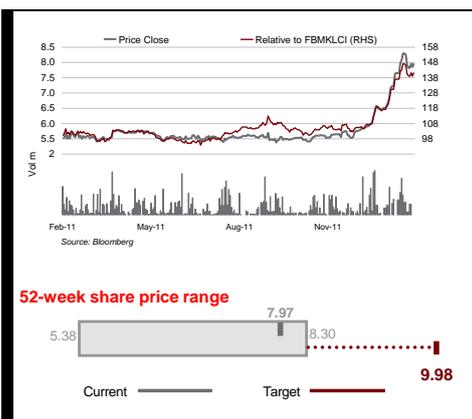
Results Comparison

FYE Mar (RM m)	3Q FY12	3Q FY11	yoy % chg	2QFY12	qoq % chg	3QFY12 cum	3QFY11 cum	yoy % chg	Prev. FY12F	Comments
Revenue	242.0	188.1	28.6	229.5	5.4	690.9	542.4	27.4	821.7	Increased capacity, robust demand and higher ASP
Operating costs	(163.9)	(112.4)	45.8	(143.5)	14.2	(455.1)	(346.2)	31.4	(550.1)	Higher sales volume and material costs
EBITDA	78.1	75.7	3.1	86.1	(9.3)	235.8	196.2	20.2	271.6	Higher yoy due to higher output and efficiency
EBITDA margin (%)	32.3	40.3	(19.8)	37.5	(13.9)	34.1	36.2	(5.6)	33.1	Contraction due to competition and higher costs
Depn & amort.	(14.5)	(14.6)	(1.2)	(19.4)	(25.6)	(33.9)	(21.7)	56.3	26.1	Total PPE of RM358.9m as at 31 Dec 2011
EBIT	63.6	61.1	4.1	66.6	(4.5)	201.9	174.5	15.7	245.5	Increase due to efficiency gains
Interest expense	(0.4)	(0.6)	(35.5)	(0.4)	(10.7)	(1.3)	(1.9)	(29.3)	(1.3)	Total borrowings of RM28.8m as at 31 Dec 2011
Interest & invt inc	0.9	1.7	(49.6)	-	na	(0.0)	4.4	na	1.7	Cash balance of RM164.9m as at 31 Dec 2011
Associates' contrib	-	-	-	-	-	-	-	-	-	No ownership of associates
Exceptionals	(0.2)	-	na	(6.6)	(96.9)	(6.4)	-	na	-	Due to net foreign exchange losses
Pretax profit	63.9	62.2	2.7	59.6	7.3	194.1	177.0	9.7	245.9	9M accounted for 78.9% of our full-year estimate
Tax	(13.2)	(13.0)	1.9	(13.4)	(1.1)	(42.5)	(39.2)	8.5	(49.2)	Lower than Malaysia's statutory tax rate of 25%
Tax rate (%)	20.7	20.9	(0.8)	22.5	(7.8)	21.9	22.2	(1.1)	20.0	due to allowances from the export of gloves
Minority interests	0.0	(0.0)	600.0	(0.0)	190.9	0.0	(0.0)	366.7	(0.2)	Higher contribution from China in the 3Q11
Net profit	50.7	49.2	3.0	46.1	9.9	151.6	137.8	10.0	196.6	9M accounted for 77.1% of our full-year estimate
Core net profit	50.9	49.2	3.5	52.7	(3.5)	158.0	137.8	14.7	196.6	9M accounted for 80.4% of our full-year estimate
EPS (sen)	13.9	13.5	3.0	12.7	9.9	41.6	37.8	10.0	54.0	Based on 364.0m total shares outstanding
Core EPS (sen)	14.0	13.5	3.5	14.5	(3.5)	43.4	37.8	14.7	54.0	Excluding exceptionals, which are mainly FX related

SOURCE: CIMB, COMPANY REPORTS

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Financial Summary

	Mar-10A	Mar-11A	Mar-12F	Mar-13F	Mar-14F
Revenue (RMm)	572	735	847	933	1,100
Operating EBITDA (RMm)	201.0	274.4	287.2	334.6	394.9
Net Profit (RMm)	141.2	189.7	208.0	243.8	289.2
Core EPS (RM)	0.40	0.52	0.57	0.67	0.80
Core EPS Growth	68.3%	32.1%	9.6%	17.2%	18.7%
FD Core P/E (x)	20.17	15.27	13.93	11.88	10.02
DPS (RM)	0.10	0.21	0.26	0.30	0.36
Dividend Yield	1.25%	2.63%	3.23%	3.79%	4.49%
EV/EBITDA (x)	14.25	10.27	9.40	7.86	6.39
P/FCFE (x)	34.96	28.70	16.46	18.80	13.38
Net Gearing	(9.4%)	(15.8%)	(32.5%)	(35.9%)	(41.2%)
P/BV (x)	8.18	5.86	4.76	3.90	3.21
Recurring ROE	47.2%	44.7%	37.7%	36.1%	35.2%
% Change In Core EPS Estimates			6.64%	6.54%	6.73%
CIMB/consensus EPS (x)			1.01	1.02	1.12

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Proposals announced

	Entitlement	(m)
1) Bonus issue	1 for 1	371.7
2) Free warrants	1 warrant for 5 shares	74.3
Tenure: Three years		
Exercise period: Anytime after the first anniversary		
Mode of exercise: Each warrant exercisable into one new share		
Exercise price: To be determined		
3) Increase in authorised share cap from RM250m to RM750m (RM0.50 par)		

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Sector comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY11	CY12		CY11	CY12	CY11	CY12		
Astra Agro Lestari	AALI IJ	Neutral	22,200	24,300	3,880	12.9	15.3	10.0%	4.39	4.12	36.1%	28.0%	3.8%	3.8%
BW Plantation	BWPT IJ	Outperform	1,520	2,000	682	19.1	18.7	23.9%	4.30	3.59	24.7%	21.3%	0.3%	0.4%
Genting Plantations	GENP MK	Underperform	9.25	8.53	2,323	15.3	17.0	12.8%	2.19	2.00	15.6%	12.0%	1.7%	1.7%
Hap Seng Plantations	HAPL MK	Trading Buy	3.18	3.27	842	10.1	11.9	13.0%	1.35	1.29	14.4%	10.9%	6.3%	5.1%
London Sumatra	LSIP IJ	Outperform	2,700	3,300	2,044	10.6	12.9	22.0%	3.19	2.91	32.6%	24.5%	1.9%	2.8%
Sampoerna Agro	SGRO IJ	Outperform	3,475	4,200	729	12.2	11.9	13.5%	2.55	2.18	22.8%	19.8%	1.0%	1.1%
Plantation (upstream)						12.7	14.6	14.3%	2.90	2.63	24.5%	18.9%	2.7%	2.8%
Golden Agri-Resources	GGR SP	Trading Buy	0.78	0.81	7,516	11.8	13.3	18.9%	1.02	0.96	9.0%	7.4%	1.8%	1.5%
Indofood Agri Resources	IFAR SP	Trading Buy	1.64	1.80	1,879	12.2	11.3	16.8%	1.16	1.07	11.2%	9.8%	0.5%	1.2%
IOI Corporation	IOI MK	Underperform	5.34	5.04	11,355	17.2	16.1	11.3%	2.82	2.66	16.8%	17.0%	3.0%	3.1%
Kuala Lumpur Kepong	KLK MK	Underperform	23.64	19.36	8,352	18.2	18.0	13.7%	3.54	3.37	21.2%	18.8%	3.4%	3.0%
Sime Darby Bhd	SIME MK	Trading Buy	9.64	10.90	19,173	15.3	14.2	12.6%	2.33	2.17	15.9%	15.8%	3.3%	3.5%
Wilmar International	WIL SP	Outperform	5.22	6.20	26,696	17.6	12.7	34.1%	2.03	1.80	12.1%	15.0%	1.1%	1.6%
Plantation (integrated)						16.0	14.0	20.1%	2.04	1.87	13.4%	13.9%	2.3%	2.4%
Mewah International	MII SP	Underperform	0.63	0.38	753	19.9	15.7	-18.4%	1.44	1.33	7.3%	8.8%	1.0%	1.3%
Noble Group	NOBL SP	Neutral	1.43	1.43	7,299	22.7	12.5	23.6%	1.56	1.37	7.2%	11.6%	1.4%	2.6%
Olam International	OLAM SP	Outperform	2.40	3.17	4,683	14.9	12.1	34.5%	2.34	2.12	16.0%	18.4%	1.5%	2.1%
Supply chain managers						19.1	12.5	22.8%	1.76	1.57	9.6%	13.3%	1.4%	2.3%
Sri Trang Agro-Industry	STA TB	Trading Buy	21.80	27.63	907	15.7	7.9	15.8%	1.48	1.27	12.3%	17.3%	5.7%	2.1%
Rubber processor						15.7	7.9	15.8%	1.48	1.27	12.3%	17.3%	5.7%	2.1%
Adventa	ADV MK	Underperform	1.58	1.49	80	19.8	11.6	-7.0%	0.90	0.76	4.9%	7.2%	0.8%	2.6%
Hartalega Holdings	HART MK	Outperform	7.97	9.98	962	14.3	12.3	18.4%	4.99	4.08	38.7%	36.5%	3.1%	3.7%
Kossan Rubber Industries	KRI MK	Outperform	3.30	3.84	349	11.2	9.3	6.2%	2.02	1.72	19.4%	20.1%	2.3%	2.7%
Latexx Partners	LTX MK	Neutral	1.80	2.05	133	6.9	6.3	26.6%	1.41	1.18	22.6%	20.5%	2.9%	3.2%
Supermax Corp	SUCB MK	Outperform	2.00	2.43	450	10.8	9.7	1.4%	1.53	1.35	15.5%	14.4%	3.0%	2.1%
Top Glove Corporation	TOPG MK	Underperform	4.80	3.61	983	24.6	20.6	-3.4%	2.55	2.33	10.5%	11.9%	2.3%	2.3%
Glove manufacturers						14.6	12.5	6.9%	2.44	2.12	17.7%	18.1%	2.6%	2.8%
Average (all)						15.8	13.7	19.3%	2.06	1.88	13.7%	14.3%	2.3%	2.5%

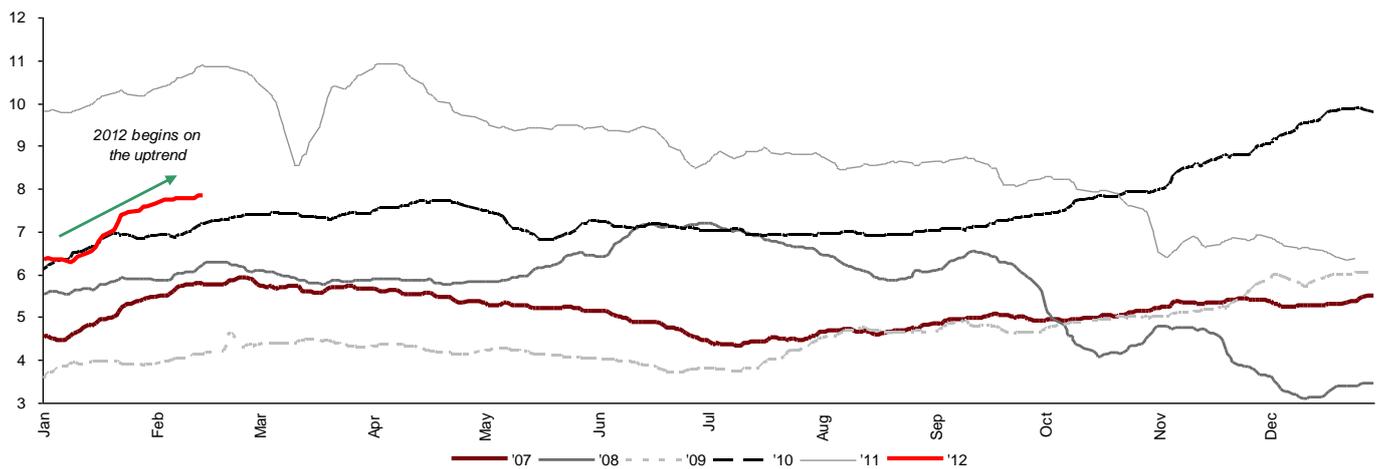
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, EFA

Figure 3: Cost of production (US\$/1,000 pieces of gloves)



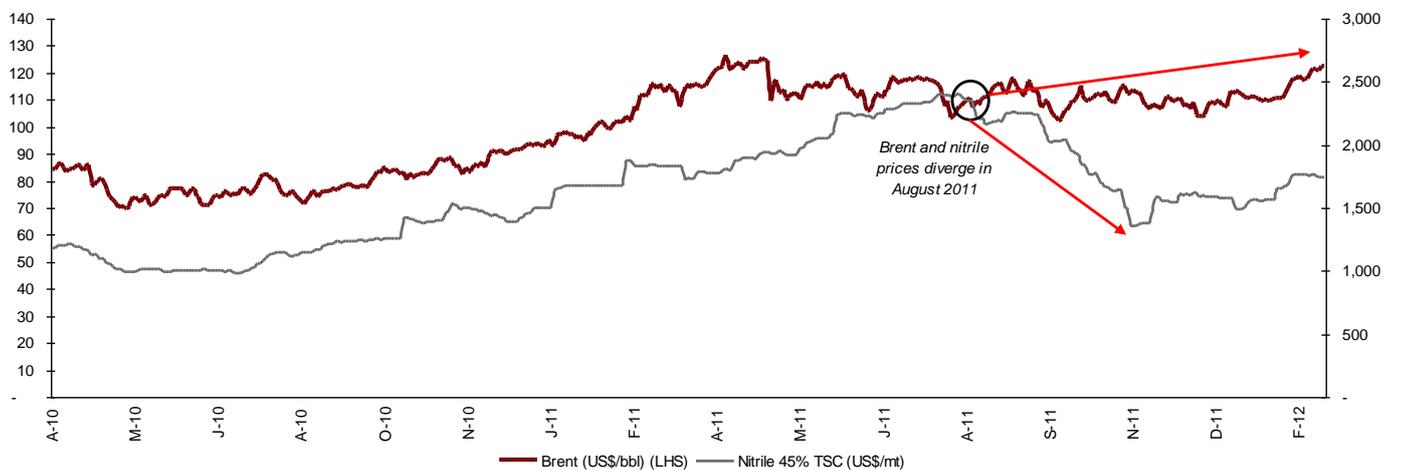
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 4: NR latex's 6-year price cycle (RM/kg)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 5: Brent versus nitrile price



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.
NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCP** - Excellent, **BEC** - Very Good, **BECL** - Very Good, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Very Good, **CCET** - Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **ITD** - Good, **IVL** - Very Good, **KBANK** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - not available, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Very Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good: