

Malaysia Result Snapshot Hartalega Holdings

Bloomberg: HART MK EQUITY | Reuters: HTHB.KL

DBS Group Research . Equity

23 Feb 2012

Bonus issue in the pipeline

HOLD RM7.97

Price Target : RM 7.70

Reporting Period	Performance	Mkt Cap	FY	EPS Pre-Ex (sen)	EPS Gth Pre-Ex (%)	EPS Revision	PE (x)	PBV (x)	Net Dividend Yield (%)
3Q 2012	In line	RM2,906m US\$960m	2011A	52.3	33	-	15.2	5.9	2.6
			2012F	55.7	6	-	14.3	4.7	2.8
			2013F	60.2	8	-	13.2	3.9	3.0

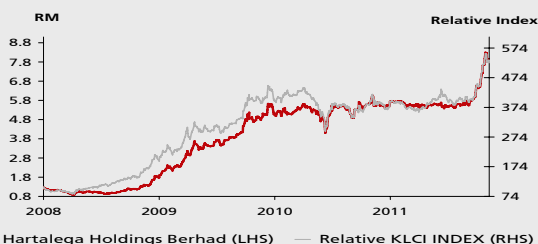
Result Summary

FY Mar (RM m)	3Q2012	3Q2011	3Q2012	% Chg y-o-y	% Chg q-o-q
P&L Items					
Sales	242.0	188.1	242.0	28.6	5.4
Gross Profit	63.4	61.1	63.4	3.8	-3.2
EBIT	64.3	62.8	64.3	2.3	7.2
Exceptional	0.0	0.0	0.0	N/A	
Pretax Profit	63.9	62.2	63.9	2.7	7.3
Net Profit	50.7	49.2	50.7	3.0	9.9
Gross Margin	26.2	32.5	26.2		

BS & CF Items

Inventory	98.7	54.0	114.5
Receivables	93.2	80.6	88.1
Net Cash/(Debt)	136.1	87.6	112.2

Price Relative



Source: Company, DBS Vickers

At a Glance

- **3Q12/9M12 results were within our and consensus expectations; earnings led by 4% growth in sales volume**
- **Propose bonus issue (1-for-1) and free warrants (1-for-5)**
- **Maintain Hold and RM7.70 TP**

Comment on Results

3QFY12 net profit came in at RM50.7m (+10% q-o-q; +3% y-o-y), taking 9M12 earnings to RM151.6m or 75% of our full year forecast. Revenue grew 5% q-o-q led by improved capacity utilisation (85% vs 82% in 2Q12), while ASPs remained relatively stable. Number of gloves sold rose 4% q-o-q, with good traction seen in the Asia region – its sales contribution improved from 8% to c.16% in 3QFY12. Gross margins fell to 26% from 29% a quarter ago, mainly due to higher raw material costs. Hartalega was in 37sen per share net cash position at end Dec11 vs 31sen at end Sep11. It declared a second interim 6 sen DPS (single tier), taking YTD DPS to 12 sen or 29% payout of 9M12 earnings. Ex-date is 8 March 2012.

Hartalega has proposed the following: (i) a bonus issue of up to 371.6m new ordinary shares of RM0.50 each on the basis of one bonus share for every one existing share held, (ii) warrants issue of up to 74.3m free warrants on the basis of one free warrant for every five existing shares held, and (iii) to increase authorised share capital from RM250m comprising 500m shares to RM750m comprising 1,500m shares. Each free warrant shall entitle the holder to subscribe for one new share at an exercise price to be determined at a later date. The proposals are subject to approvals from Bursa and shareholders at EGM, and are expected to be completed by 2Q 2012.

Recommendation

We like Hartalega for its lead in the nitrile gloves segment. Share price has gained c.40% YTD. The next re-rating catalyst is the new Factory 6, which will lift capacity by c.4bn to 13bn pieces p.a. (+44%). Maintain Hold and RM7.70 TP pegged to 13x CY12 EPS.

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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