CIMB

Hartalega Holdings

HART MK / HTHB.KL

COMPANY NOTE

Market Cap	Avg Daily Turnover	Free Float
US$1,201m	**US$0.62m**	**40.3%**
RM3,703m	RM1.92m	726.9 m shares

Current	RM5.05
Target	RM5.69
Previous Target	RM5.66
Up/downside	12.7%

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

Notes from the Field

YEOH Yung-Juen, CFA
T (60) 3 2084 9911
E yungjuen.yeoh@cimb.com

Company Visit ☑ Expert Opinion ☐
Channel Check ☐ Customer Views ☐

"Our position as the world leader in the nitrile glove market remains as strong as ever and we intend to hold on to this position."

– Kuan Kam Hon,
Founder and chairman of Hartalega

Hart to heart talk

We left our meeting with Hartalega positively surprised that demand for nitrile gloves remains strong with over-capacity a non-issue. Utilisation rates remain above 90% and capacity is oversold up till Jun. Also, lower ASPs are not a sign of undercutting but lower input prices.

Hartalega remains an Outperform and our top pick, with catalysts from demand and the start of NGC. Our target price falls after we cut FY13-15 core EPS by 1-10% as we were too optimistic on margins. While EPS is lower, we raise our target basis to 15.57x CY14 P/E (from 14.15x) as we apply a 10% premium to Top Glove instead of zero. We believe Hartalega deserves a premium due to higher returns, margins and growth.

Kuan brothers confident

We met Managing Director Kuan Mun Leong and Executive Director Kuan Mun Keng recently to discuss Hartalega's prospects and the outlook of the glove industry. We left the meeting positively surprised at management's confidence on demand and assurance that fears of over-capacity have been exaggerated.

ASP trend misunderstood

While selling prices have fallen 9% in the past 12 months, we believe the decline was due to cheaper raw materials rather than excess capacity. Over the same period, nitrile raw-material prices were down 24%.

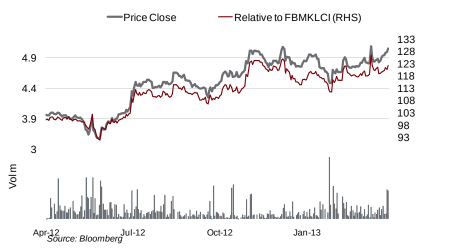
Also, Hartalega sets its glove prices at cost-plus that adjusts for changes in costs, demand and forex twice a month. Hence the decline in ASP.

Gas supply is certain

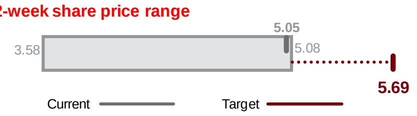
Although news reports suggest that negotiations over a new gas contract with Gas Malaysia have been delayed, we are confident that an agreement will be signed eventually. Gas Malaysia is the sole supplier of natural gas in Malaysia and there is no viable substitute for natural gas as a primary fuel. As a result, while glovemakers are not happy with the current proposal, we believe they will eventually reach an agreement.

EPS adjustments

We cut FY13-15 core EPS by 1-10% as we were too optimistic on Hartalega's margins. Our lower estimates are mainly influenced by lower long-run selling prices, which should be 11.9% lower at 9.5sen per glove from 10.8sen previously. As a result, our EBITDA margins fall by 3.1-4.2% pts to 31.6-33.3% and our net margins, by 2.1-3.4% pts to 21.6-22.6%.



52-week share price range



Financial Summary

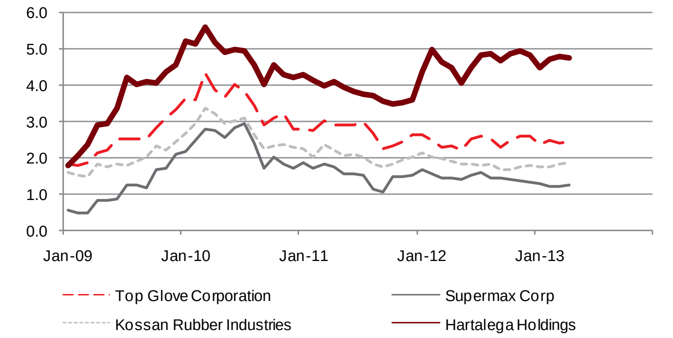
	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue (RMm)	735	931	1,010	1,175	1,290
Operating EBITDA (RMm)	270.2	289.2	319.1	376.0	429.6
Net Profit (RMm)	190.2	201.6	228.8	254.1	279.5
Core EPS (RM)	0.26	0.28	0.31	0.35	0.38
Core EPS Growth	30.9%	7.2%	12.2%	11.0%	10.0%
FD Core P/E (x)	19.30	18.00	16.85	15.90	14.45
DPS (RM)	0.10	0.16	0.14	0.16	0.17
Dividend Yield	2.07%	3.17%	2.81%	3.11%	3.43%
EV/EBITDA (x)	13.30	12.22	10.96	9.50	8.16
P/FCFE (x)	38.90	30.18	32.04	NA	87.88
Net Gearing	(15.8%)	(22.4%)	(23.3%)	(9.7%)	(12.4%)
P/BV (x)	7.42	5.93	4.93	3.55	2.74
Recurring ROE	44.8%	36.6%	33.5%	28.5%	23.5%
% Change In Core EPS Estimates			(0.94%)	(3.18%)	(9.96%)
CIMB/consensus EPS (x)			1.02	1.00	0.99

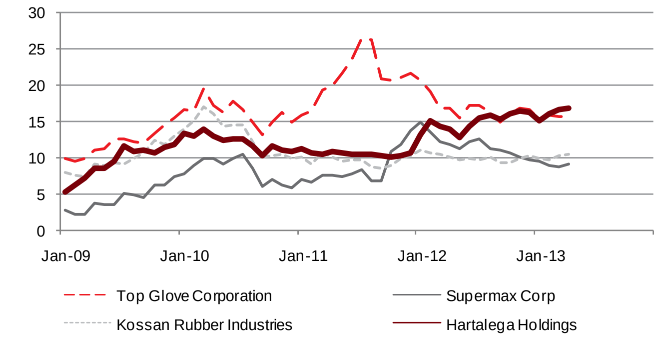
SOURCE: CIMB, COMPANY REPORTS

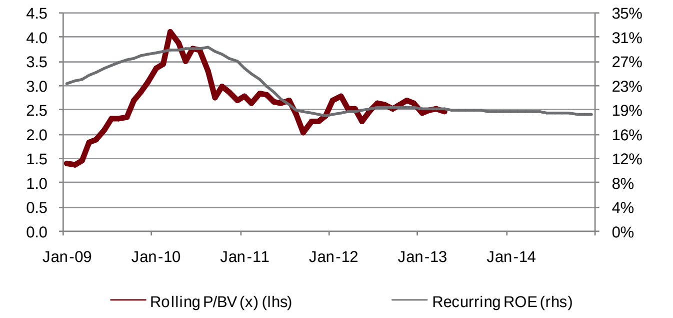
PEER COMPARISON

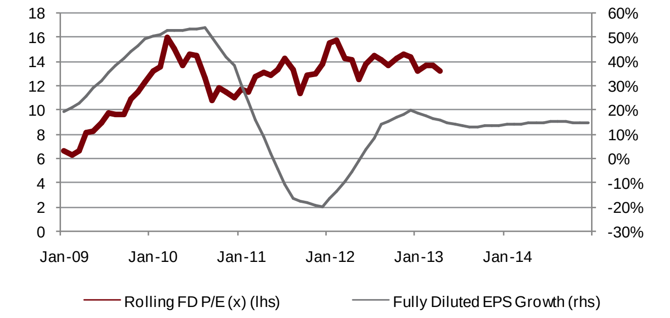
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US$m	Price	Target Price	Upside
Top Glove Corporation	TOPG MK	MY	NEUTRAL	1,099	5.47	5.97	9.2%
Supermax Corp	SUCB MK	MY	OUTPERFORM	418	1.90	2.37	24.7%
Kossan Rubber Industries	KRI MK	MY	OUTPERFORM	379	3.67	3.69	0.5%
Hartalega Holdings	**HART MK**	**MY**	**OUTPERFORM**	**1,201**	**5.05**	**5.69**	**12.7%**









Valuation

	P/E (FD) (x)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Top Glove Corporation	16.12	14.37	12.96	2.50	2.25	2.03	9.15	7.85	6.76
Supermax Corp	9.56	8.49	7.21	1.28	1.13	1.00	6.06	5.30	3.85
Kossan Rubber Industries	11.23	9.15	7.55	1.95	1.66	1.41	6.36	4.62	3.42
Hartalega Holdings	**17.13**	**16.12**	**14.79**	**5.14**	**3.81**	**2.90**	**11.23**	**9.81**	**8.46**

Growth and Returns

	Fully Diluted EPS Growth			Recurring ROE			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Top Glove Corporation	46.2%	12.2%	10.9%	16.5%	16.5%	16.5%	3.27%	4.64%	5.14%
Supermax Corp	44.5%	12.6%	17.7%	14.5%	14.2%	14.7%	2.17%	2.62%	3.07%
Kossan Rubber Industries	3.8%	22.8%	21.1%	18.6%	19.6%	20.2%	2.18%	2.24%	2.73%
Hartalega Holdings	**8.0%**	**6.3%**	**9.0%**	**34.2%**	**29.5%**	**24.5%**	**2.90%**	**3.04%**	**3.35%**

SOURCE: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

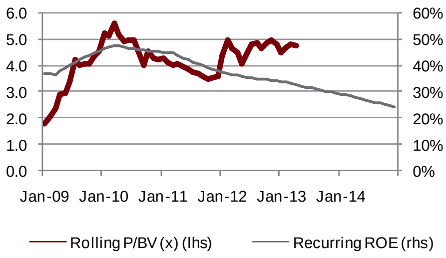
BY THE NUMBERS

Share price info

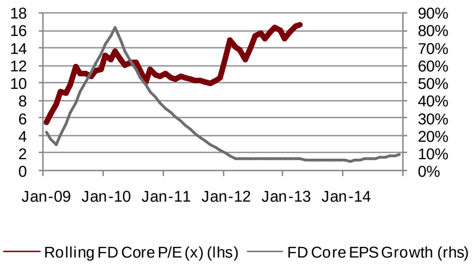
Share px perf. (%)	1M	3M	12M
Relative	3.4	4.5	22.5
Absolute	6.3	4.1	27.4

Major shareholders	% held
Hartalega Industries Sdn Bhd	50.2
Budi Tenggara Sdn Bhd	5.0
BNP Paribas (S'pore)	4.6

P/BV vs Recurring ROE



FD Core P/E vs FD Core EPS Growth



Higher depreciation from capex required for the company's next-generation glove complex in Sepang.

Profit & Loss

(RMm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues	**735**	**931**	**1,010**	**1,175**	**1,290**
Gross Profit	**273**	**297**	**297**	**335**	**369**
Operating EBITDA	**270**	**289**	**319**	**376**	**430**
Depreciation And Amortisation	(25)	(29)	(32)	(50)	(70)
Operating EBIT	**245**	**260**	**287**	**326**	**359**
Total Financial Income/(Expense)	(2)	(2)	(1)	(8)	(10)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**243**	**259**	**286**	**318**	**349**
Exceptional Items	0	0	0	0	0
Pre-tax Profit	**243**	**259**	**286**	**318**	**349**
Taxation	(53)	(57)	(57)	(64)	(70)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	**190**	**202**	**229**	**254**	**280**
Minority Interests	(0)	(0)	(0)	(0)	(0)
Preferred Dividends	0		0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	0	0	0	0	0
Net Profit	**190**	**202**	**229**	**254**	**280**
Recurring Net Profit	190	204	229	254	280
Fully Diluted Recurring Net Profit	**190**	**204**	**229**	**254**	**280**

We have assumed that the exercise of warrants will raise RM150m annually in FY14-15 to fund the expansion and construction of NGC.

Cash Flow

(RMm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
EBITDA	270.2	289.2	319.1	376.0	429.6
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(41.7)	(44.5)	67.6	(14.0)	(9.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(0.4)	1.9	10.9	2.7	4.6
Net Interest (Paid)/Received	(2.5)	(1.5)	(1.2)	(8.4)	(9.9)
Tax Paid	(47.8)	(48.8)	(57.0)	(57.2)	(63.5)
Cashflow From Operations	**177.9**	**196.3**	**339.5**	**299.1**	**351.1**
Capex	(81.3)	(60.2)	(200.0)	(400.0)	(300.0)
Disposals Of FAs/subsidiaries	0.2	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.1	0.1	0.1	0.1	0.1
Cash Flow From Investing	**(81.0)**	**(60.1)**	**(199.9)**	**(399.9)**	**(299.9)**
Debt Raised/(repaid)	(2.5)	(14.6)	(19.3)	99.9	(5.3)
Proceeds From Issue Of Shares	0.4	6.9	0.0	150.0	150.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(56.9)	(87.4)	(103.0)	(114.4)	(125.8)
Preferred Dividends					
Other Financing Cashflow	0.0	(0.0)	(1.2)	(8.4)	0.0
Cash Flow From Financing	**(59.0)**	**(95.0)**	**(123.4)**	**127.1**	**19.0**

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

Assuming Hartalega raises RM100m in debt to fund the purchase of land in Sepang for NGC.

Balance Sheet

(RMm)	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Cash And Equivalents	117	163	179	206	266
Total Debtors	104	117	111	129	142
Inventories	65	98	51	59	64
Total Other Current Assets	0	0	0	0	0
Total Current Assets	**286**	**378**	**341**	**394**	**472**
Fixed Assets	349	370	539	889	1,118
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	0	9	0	0	0
Total Non-current Assets	**349**	**380**	**539**	**889**	**1,119**
Short-term Debt	15	13	0	100	100
Current Portion of Long-Term Debt					
Total Creditors	57	61	76	88	97
Other Current Liabilities	7	12	11	9	9
Total Current Liabilities	**79**	**85**	**86**	**198**	**205**
Total Long-term Debt	24	12	5	5	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	**24**	**12**	**5**	**5**	**0**
Total Provisions	37	41	43	45	47
Total Liabilities	**140**	**138**	**134**	**248**	**252**
Shareholders' Equity	494	620	745	1,035	1,339
Minority Interests	0	0	0	0	0
Total Equity	**495**	**620**	**746**	**1,035**	**1,339**

Key Ratios

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue Growth	28.5%	26.7%	8.5%	16.3%	9.7%
Operating EBITDA Growth	33.3%	7.0%	10.3%	17.8%	14.2%
Operating EBITDA Margin	36.8%	31.1%	31.6%	32.0%	33.3%
Net Cash Per Share (RM)	0.11	0.19	0.24	0.14	0.23
BVPS (RM)	0.68	0.85	1.03	1.42	1.84
Gross Interest Cover	99.3	149.9	198.7	37.5	34.8
Effective Tax Rate	21.6%	22.0%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	29.9%	43.3%	45.0%	45.0%	45.0%
Accounts Receivables Days	44.55	42.87	39.41	33.94	34.88
Inventory Days	36.65	46.79	37.86	23.74	24.42
Accounts Payables Days	32.00	33.92	28.37	23.74	24.42
ROIC (%)	52.8%	43.0%	41.3%	39.8%	27.5%
ROCE (%)	49.3%	41.5%	38.9%	33.0%	26.9%

Key Drivers

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
ASP (% chg, main prod./serv.)	-0.6%	2.4%	-6.0%	-6.9%	0.0%
Unit sales grth (%, main prod./serv.)	26.7%	16.2%	26.9%	24.9%	9.7%
Util. rate (%, main prod./serv.)	85.0%	85.0%	90.0%	88.0%	88.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

Hart to heart talk

Table of Contents

1. BACKGROUND	p.5
2. OUTLOOK	p.5
3. RISKS	p.8
4. FINANCIALS	p.9
5. VALUATION AND RECOMMENDATION	p.10

1. BACKGROUND

1.1 The Kuan brothers speak

We met the Kuan brothers recently. Both are non-independent board members and together run Hartalega which is 50.2% owned by their family's holding company, Hartalega Industries Sdn Bhd. Hartalega has been manufacturing gloves since 1988 and was established by their father, Mr Kuan Kam Hon, Chairman of the board.

Our meeting lasted almost three hours, far longer than we expected as we thought it would be a routine update. Instead, our discussion took us into great detail about issues such as the gas supply agreement being negotiated with Gas Malaysia, the reasons why Hartalega believes over-capacity is not a threat and the company's expansion plans. We were especially grateful to get the views of Mun Leong, who seldom meets investors as he is primarily responsible for plant operations and not investor relations.

Our discussion touched on a variety of issues, including over-capacity, selling prices and the supply of natural gas. We left the meeting positively surprised at Hartalega's confidence that capacity for nitrile gloves is not as excessive as feared and assurance that the construction of its next-generation glove complex (NGC) will start by Sep 13.

1.2 Lowering our EPS

We cut FY13-15 EPS by 1-10% as we were too bullish on selling prices and Hartalega's ability to sustain its high profit margins. As a result, our FY13-15 DPS falls by the same quantum, still on the assumption of 45% payouts, in line with guidance.

2. OUTLOOK

2.1 Excess capacity overhyped

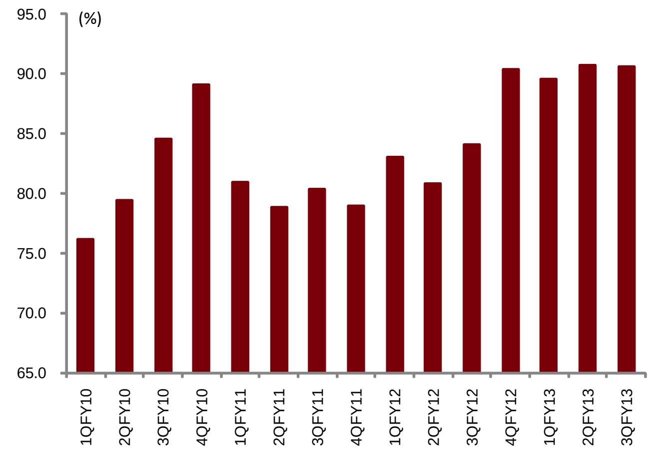
We think excess capacity for nitrile gloves has been overhyped. While there is excess capacity for gloves in general, this does not apply to the nitrile segment. Hartalega is in fact running above 90% utilisation, which is highly unusual as glovemakers usually start to build new factories when utilisation stabilises at 85%. This is because they seek to expand capacity ahead of demand so that they can capture the higher consumption.

However, due to a shortage of natural gas, Hartalega's expansion has been affected. It has built all the capacity it can at its Bestari Jaya glove complex and cannot expand further.

Hartalega is not alone in reporting strong demand for nitrile. In Mar 13, Top Glove said its nitrile-glove sales had jumped by 46% yoy and 10% qoq in 2Q. Volume growth for its other products was not as strong. For instance, volume sales of latex-powdered gloves had risen only by 16% yoy and 13% qoq, latex powder-free gloves by 10% yoy and 1% qoq and surgical gloves by 20% yoy and 3% qoq.

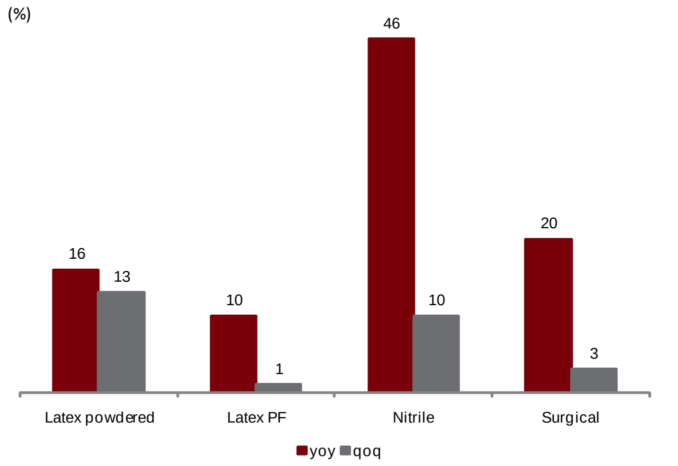
As a result of the strong demand, the industry's manufacturing capacity for nitrile is oversold by 2-3 months, meaning production lines are full until Jun 13 and glovemakers are already taking orders for 2H.

Figure 1: Hartalega's capacity utilisation rates



SOURCES: CIMB, COMPANY REPORTS, HARTALEGA

Figure 2: Top Glove's volume growth by glove type in 2QFY13



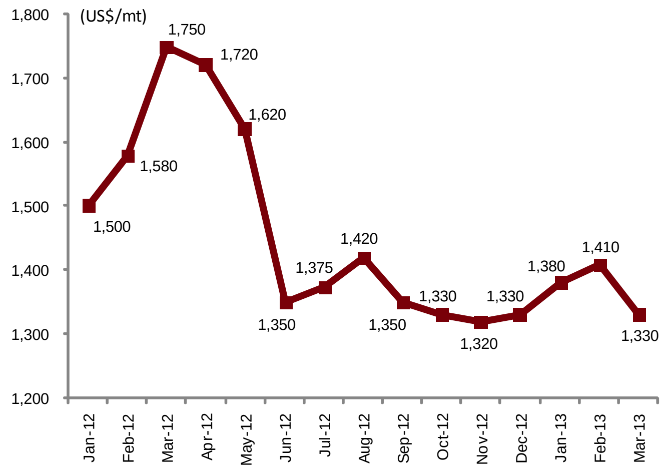
SOURCES: CIMB, COMPANY REPORTS, TOP GLOVE

2.2 Lower ASPs are due to material costs, not competition

Although Hartalega's selling prices have fallen 9% in the past 12 months, we believe the decline was due primarily to lower nitrile prices and not irrational competition. While the price of nitrile gloves was down by 9% yoy, nitrile raw-material prices were down by 24% over the same period.

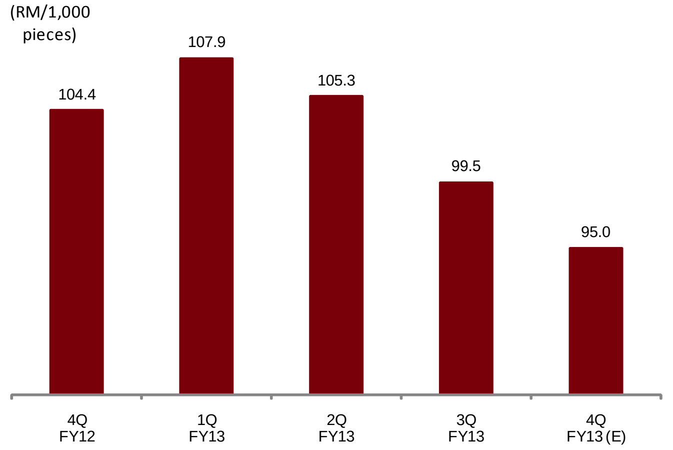
Passthrough pricing adopted by glovemakers is probably responsible for this. Hartalega itself changes its product prices every 2-3 weeks or about twice a month, adjusting for variables such as raw-material costs, demand and forex. As nitrile makes up the bulk of its costs (50-60%), we believe selling prices will trend with the price of nitrile.

Figure 3: Nitrile raw material prices (US$/mt) [1]



SOURCES: CIMB, COMPANY REPORTS, HARTAELGA
1. 24% decline from March 2012 (US$1,750/mt) to March 2013 (US$1,330/mt)

Figure 4: Hartalega's blended selling prices [1]



SOURCES: CIMB, COMPANY REPORTS, HARTALEGA
1. 9% decline from 4QFY12 to 4QFY13 (E)

2.3 Gas supply and contract negotiations

Recent news reports suggest that negotiations over a new gas supply agreement (GSA) between Gas Malaysia and Malaysian manufacturers have stalled. The GSA was supposed to have been signed in Feb 13 but has been postponed till 15 Apr 13.

The main hurdle appears to be Gas Malaysia's wish to include a take-or-pay clause (TOPC) to maintain discipline among its buyers. Gas Malaysia argues that a TOPC would enhance companies' ability to plan and manage their industrial gas supply.

According to KiniBiz, the TOPC would require manufactures to set gas volumes once a year. Manufacturers believe this is too strict and not flexible enough and have counter-proposed the resetting of volumes every quarter or four times annually.

We believe more frequent revisions of gas volumes would be the best solution for Gas Malaysia and the manufacturers. In our view, this would encourage higher consumption as glovemakers would have more flexibility to meet demand changes. Unlike the power sector which is stable, industrial gas demand can vary with domestic and international economic production.

2.4 Only a matter of time

While negotiations are taking longer than expected, we believe it is only a matter of time before an agreement is reached. Gas Malaysia is the sole supplier of industrial natural gas in Malaysia and natural gas is the fuel preferred by manufacturers as it is piped direct to their factories and is easy to control. Also, for many manufacturers, natural gas is their primary energy source as there is no viable alternative.

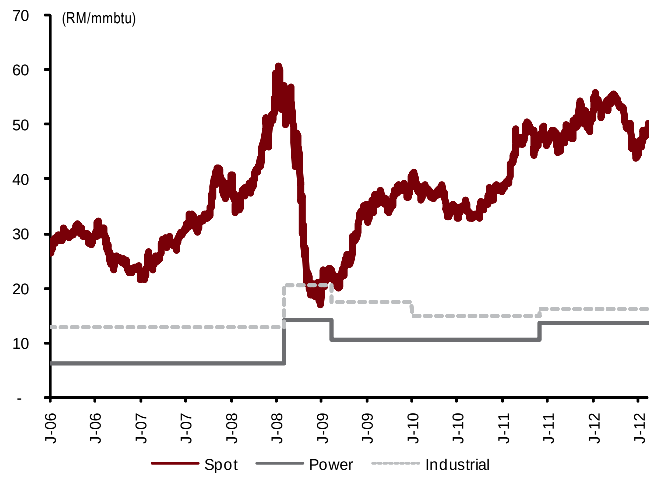
Coal is not suitable because coal requires additional land for storage and storage facilities must be near a sea port. Further, such facilities can be an environmental hazard. While biomass is used by some glove manufacturers, it is deployed in small quantities as a back-up fuel and not as their primary energy source. Some 78% of energy for Hartalega's NGC will come from natural gas. The balance 22% will come from biomass, which will be used to heat water and not the NGC's main glove oven.

2.5 Gas pricing

Petronas's CEO, Tan Sri Shamsul Azhar Abbas, had shared in Mar 13 that Petronas will be setting aside 3.6m tonnes of reserves in Sarawak to supply fuel to Peninsular Malaysia at a discount to Bintulu export prices.

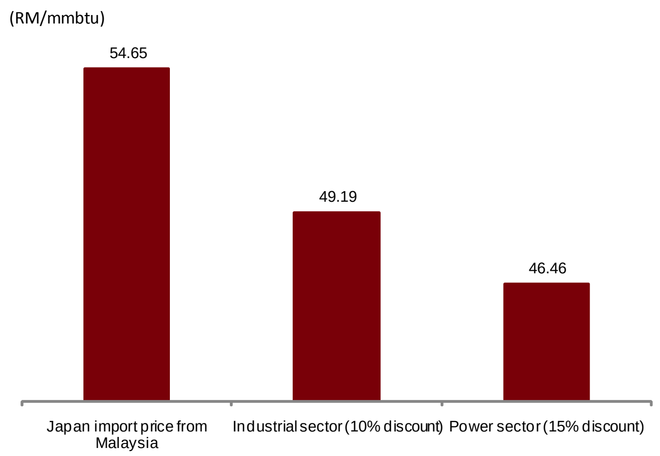
He said the industrial sector would be given 10% discounts and the power industry, 15% discounts. Assuming a market price of RM54.65/mmbtu (Japan's average LNG import price from Malaysia), LNG could be sold to the industrial sector at RM49.19/mmbtu and to the power sector, at RM46.46/mmbtu.

Figure 5: Natural gas prices in Malaysia



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 6: Proposed gas prices for industrial and power sectors



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, PETRONAS

How this will affect industrial gas prices is unknown as no announcement has been made. However, we gather from Gas Malaysia that there will be one price for all industrial-gas customers, with no discrimination.

Based on Gas Malaysia FY13 contracted gas supply, our estimates suggest that when LNG imports start, the industrial gas price could range from RM19.49-49.19/mmbtu compared to RM16.07/mmbtu now (Figure 7).

- The low end assumes 1) a weighted average cost according to volumes of piped gas and LNG and 2) a 10% discount to the market price for incremental natural gas (44mmscfd or 10% of Gas Malaysia's contracted supply for FY13).
- The high end of the range assumes Gas Malaysia sells all of its natural gas at a price that is a 10% discount to the market price.

Figure 7: Weighted price of natural gas after LNG imports (FY13)

	Contracted (mmscfd)	Of total (%)	Price (RM/mmbtu)
Piped domestic gas	382	90%	16.07
Imported LNG	44	10%	49.19
	426	100%	19.49

SOURCES: CIMB, COMPANY REPORTS, GAS MALAYSIA, PETRONAS

2.6 Glovemakers can pass on energy cost

If natural-gas prices are raised, we believe the glove industry can pass on the higher costs. Energy accounts for a small portion of their total costs at only 8% vs. 55-60% for nitrile or natural rubber. We believe the small percentage of fuel would mitigate the pain of higher gas prices. In our estimation, if energy costs were to double, production costs would only increase by 8%.

Also, Malaysian glovemakers control 50-60% of the world's glove supply and we believe any higher costs can be passed through gradually and in unison.

3. RISKS

3.1 Execution of NGC

The biggest risk for Hartalega is execution of its NGC. If Hartalega has to scrap its NGC because of its inability to purchase land in Sepang or if gas supply cannot be secured, this could hurt its long-term earnings visibility.

Still, we believe the probability of this is low, as Hartalega has obtained all the required approvals for its NGC and aims to start construction by Sep 13.

Management had the prior experience of expanding its manufacturing base in Bestari Jaya which houses six factories and can produce 14bn pieces. The company has been manufacturing gloves since 1988 and we believe this experience would minimise Hartalega's execution risks.

3.2 Further erosion of margins and profitability

Although we cut our EBITDA margins in this note by 3.1-4.2% pts as we were too bullish about Hartalega's ability to maintain high selling prices, margins and profitability could fall further if competition intensifies to irrational levels. Also, demand for nitrile gloves may not keep pace with the current 20-25% annual growth due to changes in end-user behaviour, emergence of new products or decline in consumer affordability.

3.3 Growth comes from less penetrated markets

The mix of nitrile gloves in the US is already at 80% and incremental switching from natural rubber (20% mix) to nitrile in the US could be less acute. With the US saturated, nitrile glovemakers such as Hartalega are focusing on Europe (40% nitrile) for the next leg of growth where nitrile is less popular. If the nitrile take-up in this less penetrated market is low, incremental manufacturing capacity would sit idle.

3.4 A switch away from nitrile

In 2010 when natural rubber soared to all time highs in line with the rise in commodities, many end users switched away from natural rubber to nitrile as the latter became more affordable. The reverse could happen if there is a surge in demand for butadiene, which is the main component of nitrile. This could result in consumers switching away from nitrile to natural rubber, reversing the trend in 2010.

4. FINANCIALS

4.1 FY13-15 core EPS cut by 0.9-10.0%

We cut our FY13-15 core EPS by 0.9-10.0% as we were over-confident on the company's ability to maintain its high profit margins and selling prices.

We now assume 31.6-33.3% EBITDA margins (from 35.2-36.4% previously) and 21.6-22.6% net margins (from 24.7-25.1% previously).

Changes to our revenue assumptions are:

- We raise capacity, utilisation and output as we were too conservative on demand. Our capacity assumptions for FY13-15 have been raised by 8.6-21.2% and utilisation rates by 3-5% pts. As a result, our output for FY13-15 rises by 15-25.5% or by 1.3bn-2.5bn pieces.
- We lower ASPs for FY13-15 by 5.9-11.9% as we now assume a long-run selling price of 9.5sen/glove (RM95/1,000 pieces). The lower prices partially offset higher volume assumptions. As a result, our FY13-15 revenue rises by a lower 4.3-10.6%.

Even after our adjustments, Hartalega is still expected to book double-digit annual net profit growth in the next three years. Our new estimates imply 10-13.5% yoy profit growth for FY13-15 (Figure 8).

Figure 8: Changes in estimates

	Old estimates			New estimates			% change			Change in quantum		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Avg capacity (bn)	10,131	11,600	13,500	11,006	14,060	15,426	8.6%	21.2%	14.3%	875	2,460	1,926
Utilisation rate (%)	85	85	85	90	88	88	5.9%	3.5%	3.5%	5	3	3
Glove output (bn)	8,611	9,860	11,475	9,905	12,373	13,575	15.0%	25.5%	18.3%	1,294	2,513	2,100
ASP (sen/glove)	10.8	10.8	10.8	10.2	9.5	9.5	-5.9%	-11.9%	-11.9%	(1)	(1)	(1)
Revenue (RMm)	933	1,063	1,237	1,010	1,175	1,290	8.3%	10.6%	4.3%	77	113	53
Total costs (RMm)	(693)	(779)	(895)	(784)	(910)	(991)	13.0%	16.8%	10.7%	(90)	(131)	(96)
EBITDA (RMm)	328	384	451	319	376	430	-2.7%	-2.1%	-4.7%	(9)	(8)	(21)
Net profit (RMm)	231	262	310	229	254	280	-0.9%	-3.2%	-10.0%	(2)	(8)	(31)
Capex (RMm)	(200)	(350)	(225)	(200)	(400)	(300)	0.0%	14.3%	33.3%	-	(50)	(75)
Net profit growth (%)	14.6%	13.6%	18.3%	13.5%	11.0%	10.0%	-7.4%	-18.9%	-45.3%	(0.01)	(0.03)	(0.08)
EBITDA margin (%)	35.2%	36.2%	36.4%	31.6%	32.0%	33.3%	-10.1%	-11.5%	-8.5%	(0.04)	(0.04)	(0.03)
Net profit margin (%)	24.8%	24.7%	25.1%	22.6%	21.6%	21.7%	-8.5%	-12.5%	-13.6%	(0.02)	(0.03)	(0.03)
Dividend payout (%)	45.0	45.0	45.0	45.0	45.0	45.0	0.0%	0.0%	0.0%	-	-	-
Net DPS (sen)	14.3	16.2	19.2	14.2	15.7	17.3	-0.9%	-3.2%	-10.0%	(0.13)	(0.52)	(1.91)
Net dividend yield (%)	2.9%	3.3%	3.9%	2.9%	3.2%	3.5%	-0.9%	-3.2%	-10.0%	(0.00)	(0.00)	(0.00)

SOURCES: CIMB, COMPANY REPORTS

4.2 Funding for NGC

We are assuming Hartalega will raise RM300m by FY15 from the conversion of 73m warrants, RM150m each year in FY14-15. Each warrant is convertible into one Hartalega share at RM4.14. The warrants can be exercised from 30 May 13 and will expire on 29 May 15. The Kuan family owns about 50.2% of the outstanding warrants. We assume Hartalega will borrow RM100m for three years at interest rates of 4.5% to fund its 115-acre land purchase in Sepang.

5. VALUATION AND RECOMMENDATION

5.1 Lower target price

Our target price falls by 0.6% to RM5.69 following: 1) our earnings adjustments; and 2) an increase in our target P/E to 15.57x (Figure 9) as we now apply a 10% premium to our target for Top Glove (zero previously).

We believe a higher target can be justified for Hartalega by its CY13 ROE of 29.5% vs. 16.5% for Top Glove. Its higher profit margins should also insulate Hartalega from cost inflation.

Also while Hartalega's earnings growth over the next two years is not exciting (7% CAGR over the next two years), its next leg of growth begins in FY16 when the NGC is up and running. In FY16, Hartalega aims to take total capacity to 20bn pieces or a 30% increase (+4.6bn pieces). Assuming the more efficient production lines neutralise any impact of lower margins, we expect a similar increase in earnings of 30%.

This is higher than Top Glove, which aims to increase capacity by 10-15% annually. We believe Top Glove's lower growth trajectory is due to its focus on natural rubber. While the company aims to increase nitrile capacity, we believe this would be offset by its old lines which much be shut down or left idle.

While Top Glove's dividend yield is about 1.5% pts higher, we believe these cash flows are at higher risk due to the company's low margin model, high volume model. By comparison, we believe Hartalega's high margin model gives a higher degree of certainty to its cash flows and dividend yields.

Finally, we prefer Hartalega's operating model as it is focused on nitrile which is in high demand. For example, Malaysia's 2011 glove exports show that nitrile sales to Malaysia's major trading partners, US (10.6%), EU (81.2%), Japan (13.3%) and South America (92.3%) all rose. The reverse was true for natural rubber as exports to the US (-37%), EU (-25.5%), Japan (-10.3%) and South America (-92.3%) all fell.

Figure 9: Hartalega: changes in valuation parameters [1]

	Old	New	% chg	Qty chg
FY14 EPS (sen)	32.81	31.76	-3.2%	-1.04
FY15 EPS (sen)	38.80	34.94	-10.0%	-3.86
CY14 EPS (sen)	37.30	34.14	-8.5%	-3.16
Target P/E (x)	14.15	15.57	10.0%	1.42
Versus Top Glove (%)	0.00	10.00	na	10.00
Target price (RM)	5.66	5.69	0.6%	0.03

SOURCES: CIMB, COMPANY REPORTS
1. To achieve our target price, add RM0.38 in cash from warrants

5.2 Hartalega remains our top pick

Our new assumptions still show Hartalega with the highest margins and lowest costs in the sector due to its emphasis on automation and production efficiency. Hartalega's focus on nitrile is another plus as demand for nitrile gloves is growing above average rates and glove companies are reporting utilisation rates in excess of 90% for nitrile.

As labour and energy costs could rise after elections, we believe a lean cost structure is paramount. Hartalega's high margins offer a buffer to its earnings, more secure cash flows and more certain dividends, in our opinion.

Its high margins also mean Hartalega can focus on fine-tuning its organisational structure while its peers scramble to right-size their cost bases, enhance production efficiencies and adjust product mixes. By comparison, Hartalega will be adding more engineers, implementing lean manufacturing processes and installing advanced IT systems to improve its production timing.

Figure 10: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY13	Core P/E (x) CY14	2-year EPS CAGR (%)	P/BV (x) CY13	P/BV (x) CY14	Recurring ROE (%) CY13	Recurring ROE (%) CY14	Dividend Yield (%) CY13	Dividend Yield (%) CY14
Hartalega Holdings	HART MK	Outperform	5.05	5.69	1,201	14.8	13.4	7.0%	3.81	2.90	29.5%	24.5%	3.0%	3.3%
Kossan Rubber Industries	KRI MK	Outperform	3.67	3.69	379	9.1	7.6	16.2%	1.66	1.41	19.6%	20.2%	2.2%	2.7%
Supermax Corp	SUCB MK	Outperform	1.90	2.37	418	8.5	7.2	9.2%	1.13	1.00	14.3%	14.7%	2.6%	3.1%
Top Glove Corporation	TOPG MK	Neutral	5.47	5.97	1,099	14.4	13.0	7.6%	2.25	2.03	16.5%	16.5%	4.6%	5.1%
Average						**12.5**	**11.0**	**8.9%**	**2.24**	**1.91**	**19.3%**	**18.7%**	**3.5%**	**3.9%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

DISCLAIMER

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the "Restrictions on Distributions" set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

Unless otherwise specified, this report is based upon sources which CIMB considers to be reasonable. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of CIMB or its affiliates to any person to buy or sell any investments.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

CIMB or its affiliates may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CIMB may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

Reports relating to a specific geographical area are produced by the corresponding CIMB entity as listed in the table below. The term "CIMB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, CIMB Group Holdings Berhad ("**CIMBGH**") and its affiliates, subsidiaries and related companies.

Country	CIMB Entity	Regulated by
Australia	CIMB Securities (Australia) Limited	Australian Securities & Investments Commission
Hong Kong	CIMB Securities Limited	Securities and Futures Commission Hong Kong
Indonesia	PT CIMB Securities Indonesia	Badan Pengawas Pasar Modal & Lembaga Keuangan (Bapepam)
India	CIMB Securities (India) Private Limited	Securities and Exchange Board of India (SEBI)
Malaysia	CIMB Investment Bank Berhad	Securities Commission Malaysia
Singapore	CIMB Research Pte. Ltd.	Monetary Authority of Singapore
South Korea	CIMB Securities Limited, Korea Branch	Financial Services Commission and Financial Supervisory Service
Thailand	CIMB Securities (Thailand) Co. Ltd.	Securities and Exchange Commission Thailand

(i) As of April 3, 2013 CIMB has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) Hartalega Holdings, Supermax Corp, Top Glove Corporation

(ii) As of April 4, 2013, the analyst(s) who prepared this report, has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) -

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. CIMB may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CIMB is under no obligation to update this report in the event of a material change to the information contained in this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report. Neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

Australia: Despite anything in this report to the contrary, this research is provided in Australia by CIMB Securities (Australia) Limited ("CSAL") (ABN 84 002 768 701, AFS Licence number 240 530). CSAL is a Market Participant of ASX Ltd, a Clearing Participant of ASX Clear Pty Ltd, a Settlement Participant of ASX Settlement Pty Ltd, and, a participant of Chi X Australia Pty Ltd. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

France: Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

Hong Kong: This report is issued and distributed in Hong Kong by CIMB Securities Limited ("CHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB Securities Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected.

CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong).

India: This report is issued and distributed in India by CIMB Securities (India) Private Limited ("CIMB India") which is registered with SEBI as a stock-broker under the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 and in accordance with the provisions of Regulation 4 (g) of the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013, CIMB India is not required to seek registration with SEBI as an Investment Adviser.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of CIMB India and they have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues, client feedback and competitive factors. Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed or proposed to be performed by CIMB India or its affiliates.

Indonesia: This report is issued and distributed by PT CIMB Securities Indonesia ("CIMBI"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

Malaysia: This report is issued and distributed by CIMB Investment Bank Berhad ("CIMB"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

New Zealand: In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

Singapore: This report is issued and distributed by CIMB Research Pte Ltd ("CIMBR"). Recipients of this report are to contact CIMBR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMBR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBR..

As of April 3, 2013, CIMBR does not have a proprietary position in the recommended securities in this report.

South Korea: This report is issued and distributed in South Korea by CIMB Securities Limited, Korea Branch ("CIMB Korea") which is licensed as a cash equity broker, and regulated by the Financial Services Commission and Financial Supervisory Service of Korea.

The views and opinions in this research report are our own as of the date hereof and are subject to change, and this report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial investment instruments and it is not intended as a solicitation for the purchase of any financial investment instrument.

This publication is strictly confidential and is for private circulation only, and no part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB Korea.

Sweden: This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

Taiwan: This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

Thailand: This report is issued and distributed by CIMB Securities (Thailand) Company Limited (CIMBS). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBS has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBS. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBS.

Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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

United Arab Emirates: The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

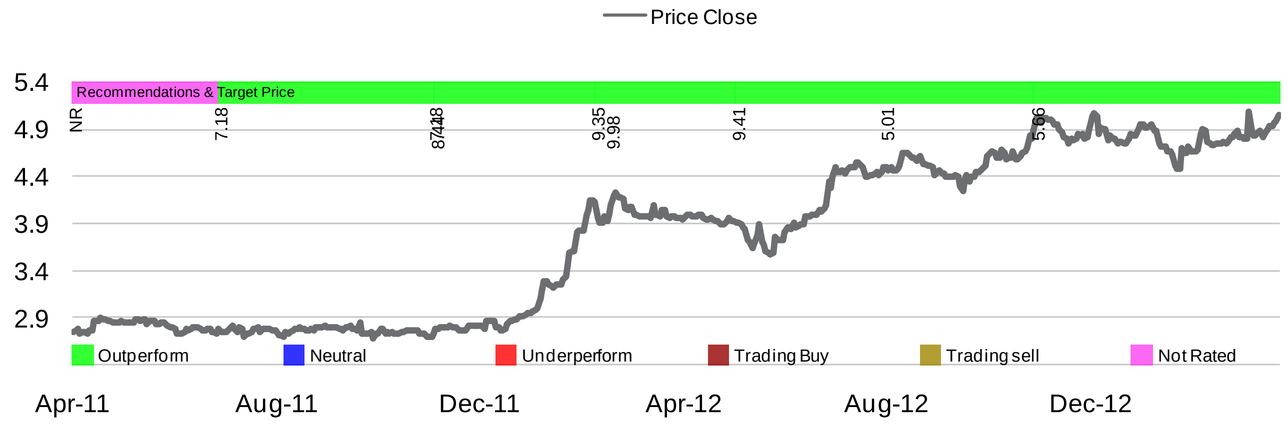
United Kingdom and Europe: In the United Kingdom and European Economic Area, this report is being disseminated by CIMB Securities (UK) Limited ("CIMB UK"). CIMB UK is authorised and regulated by the Financial Services Authority and its registered office is at 27 Knightsbridge, London, SW1X 7YB. This report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are persons that are eligible counterparties and professional clients of CIMB UK; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"); (c) are persons falling within Article 49 (2) (a) to (d) ("high net worth companies, unincorporated associations etc") of the Order; (d) are outside the United Kingdom; or (e) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with any investments to which this report relates may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This report is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons.

Only where this report is labelled as non-independent, it does not provide an impartial or objective assessment of the subject matter and does not constitute independent "investment research" under the applicable rules of the Financial Services Authority in the UK. Consequently, any such non-independent report will not have been prepared in accordance with legal requirements designed to promote the independence of investment research and will not subject to any prohibition on dealing ahead of the dissemination of investment research.

United States: This research report is distributed in the United States of America by CIMB Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB Research Pte Ltd, CIMB Investment Bank Berhad, PT CIMB Securities Indonesia, CIMB Securities (Thailand) Co. Ltd, CIMB Securities Limited, and is distributed solely to persons who qualify as "U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not a U.S. Institutional Investor or Major Institutional Investor must not rely on this communication. The delivery of this research report to any person in the United States of America is not a recommendation to effect any transactions in the securities discussed herein, or an endorsement of any opinion expressed herein. CIMB Securities (USA) Inc, is a FINRA/SIPC member and takes responsibility for the content of this report. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB Securities (USA) Inc.

Other jurisdictions: In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 28 February 2013 956 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	51.8%	8.6%
Neutral	34.8%	4.3%
Underperform/Sell/Trading Sell	13.4%	7.1%

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, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay 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.*

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% 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 +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% 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 +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% 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 -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% 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 +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% 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 -10% 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.

AAV – not available, **ADVANC** - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCH** - Good, **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, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** - Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – 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, **RS** – Excellent, **SC** – 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, **THCOM** – Very Good, **TICON** – Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good, **WORK** – Good.