

## Results Note

# Hartalega

HART MK  
RM4.89

**ADD (upgrade)**

**Target Price: RM5.15 (↑)**



### Price Performance

	1M	3M	12M
Absolute	+8.9%	+9.9%	+80.8%
Rel to KLCI	+10.0%	+9.6%	+62.5%

### Stock Data

Issued shares (m)	731.8
Mkt cap (RMm)	3,578.5
Avg daily vol - 6mth (m)	0.39
52-wk range (RM)	2.69 – 4.94
Est free float	72%
NTA per share (RM)	0.89
P/NTA (x)	5.47
Net cash/ (debt) (RMm) (2Q13)	147.7
ROE (FY13E)	34%
Derivatives	Nil

### Key Shareholders

Hartalega Industries SB	55.0%
-------------------------	-------

### Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	28.6	32.4	36.6
Curr EPS (sen)	30.7	34.9	38.9
Chg (%)	7.3	7.7	6.3
Prev target price (RM)		4.41	
Curr target price (RM)		5.15	

Mandy Teh  
(603) 2142 5815  
[ssteh@affininvestmentbank.com.my](mailto:ssteh@affininvestmentbank.com.my)

## Onward to a stronger 2HFY03/13

### 1HFY03/13 core net profit grew by a healthy 8% to RM113m

Hartalega (Harta) grew 1HFY13 core net profit by 8% to RM112.8m, of which is primarily driven by demand growth for synthetic nitrile gloves from its quality demanding major customer in USA. 1HFY03/13 revenue growth was 12%, 1HFY03/13 results account for 50% of consensus and 54% of our full year forecast. The healthy 1HFY03/13 set of results were driven by: 1) lower YTD average nitrile price of -23% yoy, 2) strong yoy volume sales growth of 18% and 3) improvement in production lines speed and improved operating efficiencies thanks to increased plants automation. As expected, the group declared a first single tier interim dividend of 3.5 sen/share. For FY13, we hold out for a Gross DPS forecast of 13 sen/share, based on a dividend payout ratio of 45% PAT.

### 2QFY03/13 core net earnings grew 6% qoq

Sequentially, Harta's 2QFY03/13 revenue and core net earnings of RM255m and RM58m were up by 3% and 6%, underpinned by a 9% increase in volume sales and -16% fall in average nitrile price, 2QFY03/13 average nitrile price was US\$4.16/kg, vs 1QFY03/13's US\$4.97/kg. While ASP had declined slightly by -0.9% qoq to RM105/1,000 pieces due to the fall in raw material prices, 2QFY03/13's EBIT margin expanded by 0.9%-points to 29.8%. On a yoy basis, revenue and core net earnings surged by +11% and +10% respectively. This is due to the lower average nitrile prices and strong volume sales growth (+24%). (Harta's 2QFY03/13 sales volume was 2.42bn pieces vs 2QFY03/12's 1.95bn pieces)

### Expecting stronger 2HFY03/13 thanks to improved production lines speed

We had projected a marginal EPS growth of +1% for FY03/13, largely due to capacity constraint owing to the 6-month delay in Plant 6's commencement date and lower margins from pricing pressure. Nonetheless, we gathered from management that they are confident to produce and sell an additional 580-600m pieces of gloves in 2HFY03/13, thanks to the successful commissioning of its first two production lines (out of ten) at Plant 6 on Oct 2012. (Note that Harta's production lines are the fastest, running at a speed of 45k pieces/hour vs its peers; with an average speed of about 28k pieces/hour) Coupled with the improvement in all its existing 21 production lines' speed, Harta's actual production capacity in FY03/13 is projected to reach 10.2bn pieces, a step up from 8.2bn pieces in FY03/12. Harta also highlighted that they had successfully secured at least 60% of the total orders for Plant 6 from their existing customers.

### Earnings and valuation summary

FYE Mar	2011	2012	2013E	2014E	2015E
Revenue (RMm)	734.9	931.1	1,093.8	1,258.0	1,392.1
EBITDA (RMm)	267.2	295.0	329.0	383.8	427.5
Pretax profit (RMm)	242.8	258.4	280.3	327.4	364.6
Net profit (RMm)	190.3	201.4	224.2	255.3	284.3
EPS (sen)	26.0	27.6	30.7	34.9	38.9
PER (x)	18.8	17.7	15.9	14.0	12.6
Core net profit (RMm)	187.2	207.2	224.2	255.3	284.3
Core EPS (sen)	25.6	28.3	30.7	34.9	38.9
Core EPS chg (%)	31.0	10.7	8.2	13.9	11.4
Core PER (x)	19.1	17.3	15.9	14.0	12.6
DPS (sen)	10.5	12.0	14.0	16.0	18.0
Dividend Yield (%)	2.1	2.5	2.9	3.3	3.7
EV/EBITDA (x)	13.1	11.6	11.1	9.5	8.4
Consensus profit (RMm)			227.5	256.2	283.5
Affin/Consensus (x)			1.0	1.0	1.0

### Upgrade to ADD with a higher TP of RM5.15, peg to 15x CY13 EPS

In view of the early ramp-up in production capacity through technology advancement and also considering management's earnings growth guidance of 10-20% in FY03/13, we are upgrading our capacity growth assumption by 5% and utilization rate improvement by 3%-point to 88%. As a result, our revenue and net profit forecast are lifted by +2-5% and +4-7% respectively for FY03/13-15. In tandem with the earnings upgrade, we have lifted our TP to RM5.15, pegging it at a higher PE of 15x on CY13 EPS, and hence an upgrade in our rating to ADD. (Previous rating was REDUCE, TP of RM4.41) Key risks to our view are: 1) further weakening of the US\$ against RM, which will affect ASPs. We have assumed an exchange rate of RM/US\$ of RM3.00 for CY12-14, in line with our in-house economist projections, 2) sharper-than-expected resurgence in nitrile and latex prices should China's auto industry stage a strong recovery and, 3) stiffer than expected pricing competition among glove manufacturers.

Fig 1: Quarterly results comparison

FYE Mar (RMm)	2QFY12	1QFY13	2QFY13	QoQ % chg	YoY % chg	Comment
Revenue	229.5	247.7	255.0	3.0	11.1	Driven by higher sales volume
Operating cost	(164.0)	(177.6)	(180.1)	1.4	9.8	
<b>EBIT</b>	<b>66.6</b>	<b>71.6</b>	<b>76.0</b>	<b>6.2</b>	<b>14.1</b>	
<i>EBIT margin (%)</i>	<i>29.0</i>	<i>28.9</i>	<i>29.8</i>	<i>0.9</i>	<i>0.8</i>	Yoy margin expansion is attributed to improved operating efficiencies and lower nitrile latex costs.
Int expense	(0.4)	(0.3)	(0.2)	(22.3)	(47.8)	
Int and other inc	0.0	0.0	0.0	nm	nm	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional items	(6.6)	(1.3)	0.5	nm	nm	Net gain in foreign exchange in forward contracts of RM0.5m
<b>Pretax profit</b>	<b>59.6</b>	<b>69.9</b>	<b>76.3</b>	<b>9.1</b>	<b>28.1</b>	
Tax	(13.4)	(16.5)	(17.7)	7.5	(32.3)	
<i>Tax rate (%)</i>	<i>22.5</i>	<i>23.6</i>	<i>23.2</i>	<i>Nm</i>	<i>Nm</i>	
MI	(0.0)	(0.1)	(0.0)	0.0	0.0	
<b>Net profit</b>	<b>46.1</b>	<b>53.4</b>	<b>58.5</b>	<b>9.7</b>	<b>26.9</b>	
EPS (sen)	6.3	7.3	8.0	9.7	26.9	
<b>Core net profit</b>	<b>52.7</b>	<b>54.7</b>	<b>58.1</b>	<b>6.1</b>	<b>10.1</b>	3QFY03/13 accounts for 28% and 26% of our and consensus full year estimates

Source: Affin

Fig 2: Cumulative results comparison

FYE Dec (RMm)	1HFY12	1HFY13	YTD % chg	Comment
Revenue	448.9	502.7	12.0	Driven by increased sales volume, and of which supported by additional production capacity from Plant 5 (improvement in production line speed)
Operating cost	(316.9)	(357.7)	12.9	
<b>EBIT</b>	<b>134.2</b>	<b>147.6</b>	<b>9.9</b>	
<i>EBIT margin (%)</i>	<i>29.9</i>	<i>29.4</i>	<i>(0.5)</i>	Impacted marginally by lower ASPs. 1HFY03/13's ASP was down by -9.2% yoy
Int expense	(0.9)	(0.5)	(43.4)	
Int and other inc	0.0	0.0	nm	
Associates	0.0	0.0	nm	
Exceptional items	(3.1)	(0.9)	nm	
<b>Pretax profit</b>	<b>130.2</b>	<b>146.2</b>	<b>12.3</b>	
Tax	(29.3)	(34.2)	16.7	
<i>Tax rate (%)</i>	<i>22.5</i>	<i>23.4</i>	<i>Nm</i>	
MI	(0.0)	(0.1)	0.0	
<b>Net profit</b>	<b>100.9</b>	<b>111.9</b>	<b>10.9</b>	
EPS (sen)	13.8	15.3	10.9	
<b>Core net profit</b>	<b>104.0</b>	<b>112.8</b>	<b>8.4</b>	Within expectations, accounts for 54% of our full year forecast

Source: Affin

## Equity Rating Structure and Definitions

---

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

---

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such, Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinions presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its affiliates and related companies, their directors, associates, connected parties and/or employees be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities.

Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. Further, Affin Investment Bank, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this research report and may from time to time assume 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 or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entities mentioned in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence, an independent evaluation is essential. In addition, this report is general in nature and it is intended for circulation for Affin Investment Bank and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situations and the particular needs of any specific person who may receive this report. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Simulations or model portfolio are prepared on a hypothetical basis and are for illustrations only.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, transmitted to, photocopied or reproduced in any form - sold or redistributed, directly or indirectly in whole or in part without the prior written express consent of Affin Investment Bank.

This report is printed and published by:  
**Affin Investment Bank Bhd (9999-V)**  
 A Participating Organisation of Bursa Malaysia Securities Bhd  
 Chulan Tower Branch,  
 3rd Floor, Chulan Tower,  
 No 3, Jalan Conlay,  
 50450 Kuala Lumpur.

[www.affininvestmentbank.com.my](http://www.affininvestmentbank.com.my)  
 Email: [research@affininvestmentbank.com.my](mailto:research@affininvestmentbank.com.my)  
 Tel : + 603 2143 8668  
 Fax : + 603 2145 3005

**7 November 2012**
**Analyst**
**Ian Wan**

ianwwk@alliancefg.com

+603 2604 3919

**12-month upside potential**

Previous target price	4.64
Revised target price	5.26
Current price (as at 6 Nov 2012)	4.89
Capital upside (%)	7.6
Net dividends (%)	2.9
Total return (%)	10.5

**Key stock information**

Syariah-compliant?	Yes
Market Cap (RM m)	3,264.2
Shares outstanding (m)	731.1
Free float (%)	71.6%
52-week high / low (RM)	4.51 / 2.58
3-mth avg volume ('000)	289.6
3-mth avg turnover (RM m)	1.2

**Share price performance**

	1M	3M	6M
Absolute (%)	2.3	15.9	14.5
Relative (%)	1.6	12.8	9.0

**Share price chart**


Source: Bloomberg

**Hartalega Holdings**
**Trading Buy↑**
**Glove**
**Bloomberg Ticker: HART MK | Bursa Code: 5168**

## 2QFY13: Solid numbers justified an upgrade

Hartalega's 2QFY13 results came in better than expected, bringing its 1HFY13 core earnings to 52.5% and 48.6% of ours and consensus full year estimates. We upgrade the stock from Neutral to TRADING BUY as we raised our TP by 13.4% to RM5.26, underpinned by higher earnings (+8-9% p.a.) over the next 3 years. We remain positive on Hartalega's medium to long term prospect and suggest investors to accumulate on any price weakness, as we believe the group will emerge as a game-changer in the glove sector once its new NGC plant kicks start by 2014.

### 2QFY13 came in better than expected

- Hartalega's 2QFY13 results came in better than expected, bringing its 1HFY13 to 48.6% and 52.5% of our full year revenue and core profit estimates. We believe the group could achieve stronger 2HFY13, due to lower raw material cost as well as additional capacity coming on stream.
- 2QFY13 revenue grew by 11.1% y-o-y and 3.0% q-o-q, underpinned by higher sales volume (+24.1% y-o-y, +5.8% q-o-q) which was partially offset by lower ASP (-10.1% y-o-y, -2.5% q-o-q) due to substantial easing of nitrile and latex input costs as well as manageable price competition.
- The group reported net profit growth of 26.9% y-o-y and 9.7% q-o-q in 2QFY13, which was mainly driven by RM5m fair value gain on derivatives, as compared to RM10.9m fair value loss on derivatives in 2QFY12.
- Excluding the unrealised gain and loss on the derivatives, Hartalega's 1HFY13 core profit represents 52.5% and 48.6% of ours and consensus full year forecasts.
- In terms of absolute core PBT, the group achieved RM29.40 per thousand gloves in 2QFY13, which is 7.9% lower than 1QFY13. Nonetheless, it is inline with our full year estimates of RM29-30 per thousand gloves.
- The group declared its first interim DPS of 3.5 sen during the quarter. We project full year DPS of 14.1 sen for FY13, based on 45% payout ratio.

### No price war in 2HFY13, expansion plan is well on track

- Again, Hartalega indicates that there is no price war in the nitrile glove segment, though price competition has picked up in the industry. Management anticipates that nitrile glove demand to continue to grow by 20% annually over the medium term.
- Based on our estimate, nitrile glove still enjoys cost advantage of more than 10% over natural rubber (NR) glove as of Nov 2012. We believe NR glove will only regain its price competitiveness, if latex price falls below RM5.00/kg, which is unlikely over the next 12 months, in our opinion.
- With regards to its progress on Plant 6, the group has already commissioned its first production line in Sept 2012. We understand that the group will commission one production line each month from Oct 2012 onwards, and complete the whole Plant 6 (total 10 lines) by June 2013. This could add another 9-10% sales volume in 2HFY13 (assuming running at 87% utilisation rate), from the 4.71bn sales volume achieved in 1HFY13.
- Once Hartalega completes Plant 6 which adds 30% capacity to the group, it will ground breaks its mega plant, Next Generation Glove Manufacturing Complex (NGC), which we view as a game-changer in the glove sector that will underpin the group's 8-year capacity CAGR of 15.7%.

### Forecasts raised by 8-9% due to improving cost structure

- In view of improving cost structure due to lower raw material as well as better production efficiency underpinned by new production lines commissioned in Plant 6, we raised our profit margin forecasts by about 1 percentage point.



- Apart from that, we have also raised our sales volume estimate by 3.5% p.a. as the group continues to achieve better utilisation rate in 2QFY13.
- All in, we raised our earnings forecasts for FY13, FY14 and FY15 by 8-9% p.a.

**Upgrade from neutral to TRADING BUY with higher TP of RM5.26 (+13.4%)**

- As such, we upgrade our recommendation on the stock from neutral to TRADING BUY with higher TP of RM5.26 (+13.4%), as we rollover our 12-month TP by another 3 months (Dec 2012 to Nov 2013 period) with unchanged target P/E of 15x.
- Our TP implies 10.5% upside, including 2.9% yield for FY13.
- Again, we are positive on the company's medium to long term prospect and suggest investors to accumulate on any share price weakness going forward. We believe the group will emerge as a game-changer in the glove sector once its new NGC plant starts commissioning by 2014.
- Key risks include slower than expected take-up of additional capacity.



## SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	2QFY13	2QFY12	% y-o-y change	% q-o-q change	6MFY13	6MFY12	% y-o-y change	Comments
<b>Key financial highlights</b>								
Revenue (RM m)	255.0	229.5	11.1	3.0	502.7	448.9	12.0	1HFY13 revenue represents 48.0% of our full year forecasts. The topline growth was mainly driven by higher sales volume (24.1% y-o-y, +5.8% q-o-q), which was partially offset by lower ASP (-10.1% y-o-y, -2.5% q-o-q) due to substantial easing of nitrile and latex input costs as well as manageable price competition.
Operating profit (RM m)	71.3	70.7	0.8	-2.6	144.5	142.4	1.4	
Pretax profit (RM m)	76.3	59.6	28.1	9.1	146.2	130.2	12.3	
Net profit (RM m)	58.5	46.1	26.9	9.7	111.9	130.2	-14.1	Strong reported net profit (+28.1% y-o-y, +9.1% q-o-q) in 2QFY13 was mainly due to fair value gain on derivatives (RM5m), as compared to fair value loss on derivatives (RM10.9m) in 2QFY12.
Core profit (RM m)	54.7	54.6	0.1	-2.0	110.5	110.0	0.5	Excluding the derivatives gain/loss impact, 2QFY13 core profit came in slightly better than expected, bringing its 1HFY13 core profit to 52.5% and 48.6% of ours and consensus full year forecasts.
<b>Per share data</b>								
EPS (sen)	8.0	6.3	26.4	9.7	15.3	13.9	10.5	
Core EPS (sen)	7.5	7.5	-0.3	-2.1	15.1	15.1	0.0	
Net DPS (sen)	3.5	3.0			3.5	6.0		First interim DPS was declared during the quarter.
BV/share (RM)	0.94	0.76			0.94	0.76		
<b>Margins</b>								
Pretax (%)	29.9	25.9			29.1	29.0		
Core profit (%)	21.4	23.8			22.0	24.5		Core profit margin drop slightly from 22.5% in 1QFY13 to 21.4% in 2QFY13, which is inline with our full year estimate of 21.0%.
<b>Other highlights</b>								
Utilisation rate (%)	90.7	80.7			90.1	81.9		
Sales volume (bn pieces)	2.4	2.0	24.1	5.8	4.7	3.9	19.7	1HFY13 sales volume makes up 50.4% of our full year estimate. Nitrile glove volume grew slower in 2QFY13 (+24.0% y-o-y and 5.6% q-o-q), as compared to NR glove which grew by 26.7% y-o-y and 8.7% q-o-q.
ASP (RM/ k gloves)	105.3	117.2	-10.1	-2.5	106.7	113.3	-5.9	
Average blended latex price (RM/kg)	9.7	13.5	-28.1	-16.7	10.7	12.5	-14.6	
Absolute core PBT/k gloves (RM)	29.4	36.1	-18.6	-7.9	30.7	36.1	-15.0	Absolute core PBT per thousand gloves contracted by 18.6% y-o-y and 7.9% q-o-q in 2QFY13. However, it is inline with our full year estimates of RM29-30 per thousand gloves.
USD:MYR	3.1	3.0	3.2	0.0	3.1	3.0	3.3	

Source: Company, Alliance Research



**Figure 2 : Earnings revision**

	Previous EPS Sen	Revised EPS Sen	Change
2013F	28.9	31.4	+8.8%
2014F	33.8	36.9	+9.2%
2015F	38.6	42.2	+9.2%

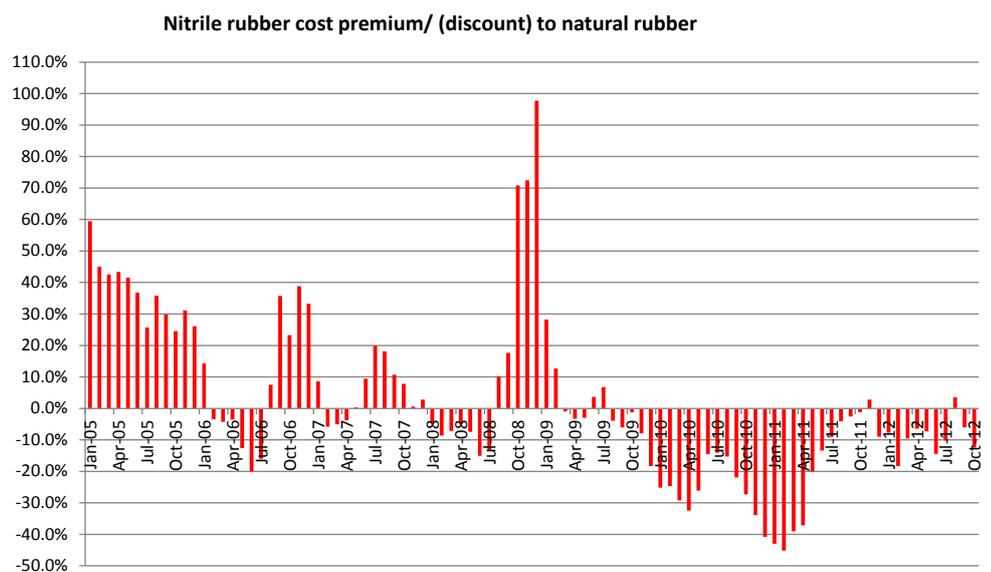
Source: Alliance Research

**Figure 3 : Key financial data**

FYE 31 March	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	734.9	931.1	1,084.9	1,329.6	1,513.2
EBITDA (RM m)	268.2	288.2	335.6	402.9	463.2
EBIT (RM m)	243.3	259.2	299.4	354.6	404.3
Pretax profit (RM m)	242.8	258.4	297.4	350.3	400.1
Reported net profit (RM m)	190.3	201.4	229.0	269.7	308.0
Core net profit (RM m)	190.6	201.4	229.0	269.7	308.0
EPS (sen)	26.2	27.6	31.4	36.9	42.2
Core EPS (sen)	26.2	27.6	31.4	36.9	42.2
Alliance / Consensus ()			100.6	105.3	108.6
Core EPS growth ()	33.1	5.0	13.7	7.1	14.2
P/E (x)	18.7	17.7	15.6	13.2	11.6
EV/EBITDA (x)	6.7	6.0	10.9	9.3	8.2
ROE ()	44.9	36.2	33.5	32.9	31.5
Net gearing ()	Net cash				
Net DPS (sen)	10.5	12.5	14.1	16.6	19.0
Net dividend yield ()	2.1	2.6	2.9	3.4	3.9
BV/share (RM)	0.68	0.85	1.02	1.22	1.46
P/B (x)	7.2	5.7	4.8	4.0	3.4

Source: Alliance Research, Bloomberg

**Figure 4 : Nitrile butadiene rubber cost is still 12% cheaper than natural rubber in Oct 2012**

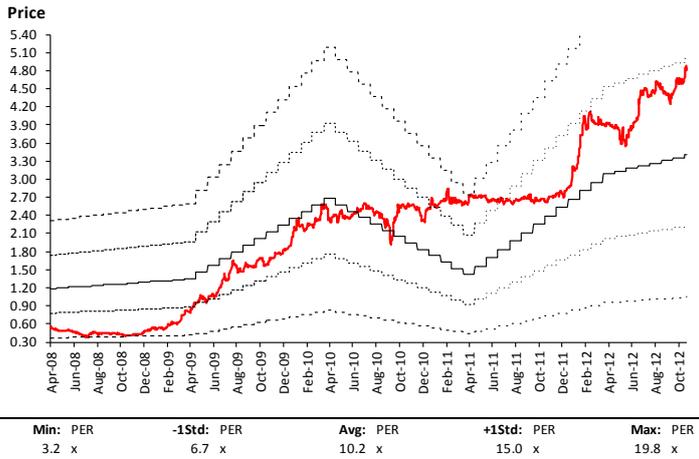


\*Adjusted for latex content for nitrile butadiene rubber (45) and natural rubber (60).

Source: Bloomberg data, Alliance Research

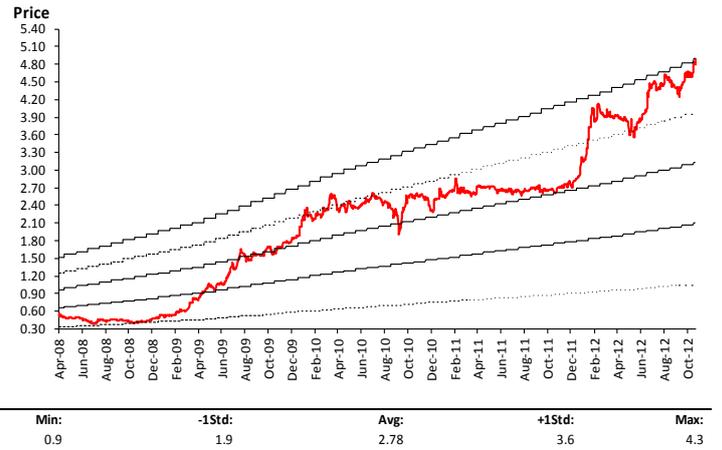


**Figure 5 : Hartalega P/E Band**



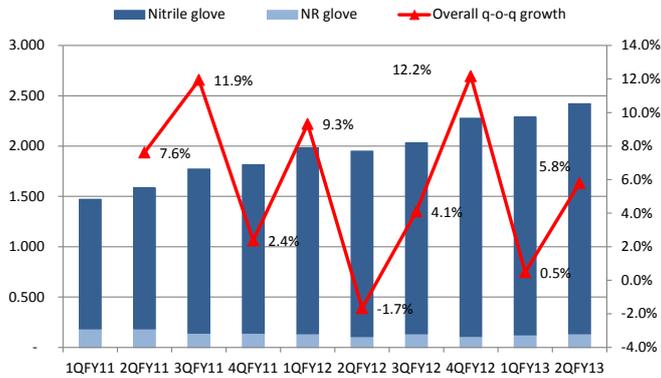
Source: Bloomberg data, Alliance Research

**Figure 6 : Hartalega P/B Band**



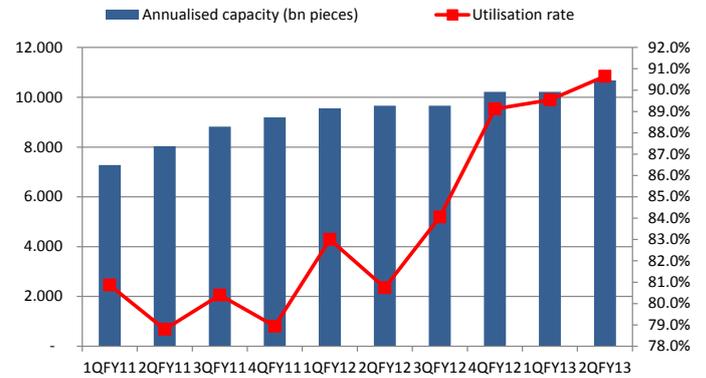
Source: Bloomberg data, Alliance Research

**Figure 7 : Quarterly sales volume growth**



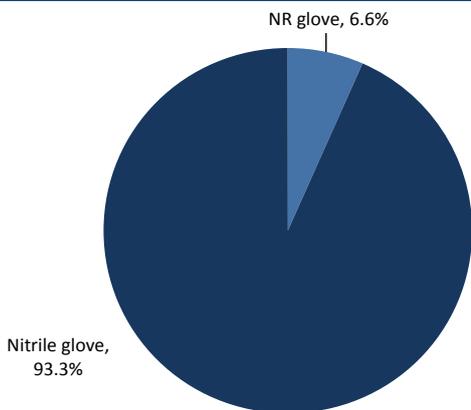
Source: Company data, Alliance Research

**Figure 8 : Quarterly capacity utilisation rate**



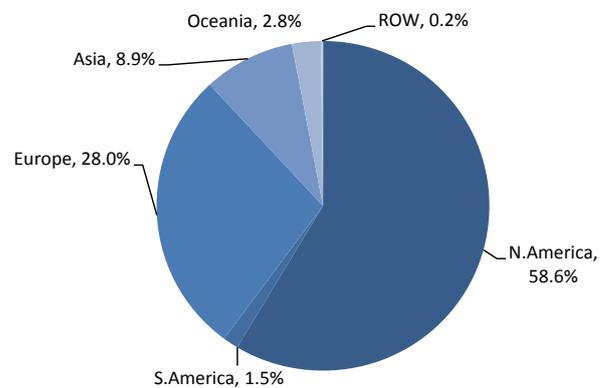
Source: Company data, Alliance Research

**Figure 9 : 2QFY13 revenue breakdown by product**



Source: Company data, Alliance Research

**Figure 10 : 2QFY13 revenue breakdown by market**



Source: Company data, Alliance Research



## DISCLOSURE

### Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30 or more
- Buy - Expected 12-month total return of 15 or more
- Neutral - Expected 12-month total return between -15 and 15
- Sell - Expected 12-month total return of -15 or less
- Trading buy - Expected 3-month total return of 15 or more arising from positive newsflow. However, upside may not be sustainable

### Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



## DISCLAIMER

This report has been prepared for information purposes only by Alliance Research Sdn Bhd (Alliance Research), a subsidiary of Alliance Investment Bank Berhad (AIBB). This report is strictly confidential and is meant for circulation to clients of Alliance Research and AIBB only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of Alliance Research.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by Alliance Research's affiliates and/or related parties. Alliance Research does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither Alliance Research nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. Alliance Research prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

Alliance Research, its directors, representatives and employees or any of its affiliates or its related parties may, from time to time, have an interest in the securities mentioned in this report. Alliance Research, its affiliates and/or its related persons may do and/or seek to do business with the company(ies) covered in this 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 or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting 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.

AIBB (which carries on, inter alia, corporate finance activities) and its activities are separate from Alliance Research. AIBB may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by Alliance Research) and Alliance Research does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

In reviewing this 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 overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.

Published & printed by:

ALLIANCE RESEARCH SDN BHD (290395-D)  
Level 19, Menara Multi-Purpose  
Capital Square  
8, Jalan Munshi Abdullah  
50100 Kuala Lumpur, Malaysia  
Tel: +60 (3) 2604 3333  
Fax: +60 (3) 2604 3921  
Email: [allianceresearch@alliancefg.com](mailto:allianceresearch@alliancefg.com)

Bernard Ching  
Executive Director / Head of Research



# BIMB SECURITIES RESEARCH MARKET INSIGHT

PP16795/03/2013(031743)

Go to <https://www.bisonline.com.my/>

Wednesday, 7 November, 2012

**Results Review**

**2QFY13**

## Hartalega Holdings

**Neutral ▼**

**Inline**

**Numbers are Growing Steadily**

**Price:**

**RM4.89**

**Target Price:**

**(+3.9% upside) RM5.08**

### Stock Data

Bloomberg Ticker	HART MK	Altman Z-score	17.4
Market Cap	3,578.5	YTD price chg	67.5%
Issued shares	731.8	YTD KLCI chg	7.5%
52-week range (H)	4.94	Beta	0.7
2-week range (L)	2.71	<b>Major Shareholders</b>	
3-mth avg daily volume	287,136	Hartalega Industries	27.6%
Free Float	71.4%	Franklin Resources	0.6%
Shariah Compliant	Y		
Financial Derivatives	Warrants		

### Share Performance (%)

	1mth	3mth	12mth
Absolute	8.9	9.5	86.9
vs. KLCI	62.3	7.7	62.3

### Consensus

	2013	2014
Net Profit	227.5	256.2
EPS (sen)	30.9	34.4

### Historical Price Ratio (x)

	FY 2010	FY 2011	FY 2012
Price Earnings	17.5	14.1	22.4
Price to Book	5.4	4.2	4.9

### Financial Highlights

FYE 31 Mar	2010	2011	2012	2013E	2014E
Turnover	571.9	734.9	931.1	991.5	1076.0
EBIT	181.2	245.7	260.3	307.5	327.4
Pretax profit	177.8	243.3	258.6	305.7	325.5
<b>Net Profit</b>	<b>142.9</b>	<b>190.2</b>	<b>201.6</b>	<b>238.4</b>	<b>250.6</b>
<b>CY Net Profit</b>	<b>178.3</b>	<b>198.8</b>	<b>229.2</b>	<b>247.6</b>	<b>285.7</b>
EPS (sen)	19.5	26.0	27.6	32.6	34.3
CY EPS (sen)	24.4	27.2	31.4	33.9	39.1
PER (x)	25.0	18.8	17.7	15.0	14.3
DPS (sen)	7.0	10.0	10.0	13.5	14.0
Div. Yield (%)	1.4%	2.0%	2.0%	2.8%	2.9%
NTA/share (RM)	0.48	0.68	0.85	1.04	1.24

### Margins

EBIT margin	31.7%	33.4%	28.0%	31.0%	30.4%
Pretax margin	31.1%	33.1%	27.8%	30.8%	30.3%
Effective tax rate	19.5%	21.8%	22.0%	22.0%	23.0%
ROE	40.4%	38.5%	32.5%	34.6%	30.1%
ROA	33.5%	34.3%	29.2%	29.0%	25.9%
Net Gearing (x)	net cash				

### Growth ratios

Turnover	29.0%	28.5%	26.7%	6.5%	8.5%
EBIT	85.0%	35.7%	5.9%	18.1%	6.5%
Pretax profit	86.2%	36.8%	6.3%	18.2%	6.5%
Core Net profit	69.1%	33.1%	6.0%	18.2%	5.1%
Core EPS	69.1%	33.1%	6.0%	18.2%	5.1%

**Thong Pak Leng**

[pakleng.thong@bimbsec.com.my](mailto:pakleng.thong@bimbsec.com.my)

03-26918887 ext 186

**Hartalega 1HFY13 net earnings of RM112m is in line with our forecast. YoY and QoQ earnings are 27.1% and 9.9% higher. Margins remained stable given its high level of production efficiency. The company has declared its first interim single tier dividend of 3.5sen. We maintained our FY13 and FY14 earnings forecasts with our target price unchanged at RM5.08. Due to the limited potential upside, we downgrade Hartalega to NEUTRAL. Nonetheless, we still like stock and would recommend investors to accumulate the stock at lower levels.**

**Better earnings.** YoY net earnings is 27.1% higher driven by higher production capacity as total output has improved by 24% while utilisation rate is over 90%. As a result, 1H earnings is 11% higher. QoQ also saw improvement with a 9.9% growth in net earnings.

**Better margins.** 1H EBIT margin is maintained at 29.1%, similar to previous year. Meanwhile YoY and QoQ EBIT margins have improved from 26.1% and 28.3% respectively to the current 30%. We expect this level of margins to be maintained in the next quarters as latex and nitrile prices have stabilised.

**Interim dividend declared.** The board declared its first interim dividend of 3.5 sen (single tier). We expect a total dividend of 13.5 sen to be paid for FY13 based on a payout ratio of 40%; and this would translate into yield of 2.8%.

**Maintaining our forecasts.** We are maintaining our FY13 and FY14 net earnings forecasts at RM238.4m and RM250.6m respectively. Balance sheet remains solid with net cash per share of 20 sen.

**View & Valuation.** Our target price is unchanged at RM5.08 based on 3-year average PER of 15x over its CY13 EPS of 33.9 sen. Share price has reached our target and does not offer much upside; hence we downgrade Hartalega to **NEUTRAL**. Nonetheless, we still like stock and we recommend investors to accumulate the stock at lower level.

### Share Price Chart



## Quarterly figures

FY 31 Mar (RMm)	2QFY012	3QFY12	4QFY12	1QFY13	2QFY013	QoQ Chg	YoY Chg	1HFY12	1HFY13	YTD Chg
Revenue	229.5	242.0	240.2	247.7	255.0	3.0%	11.1%	448.9	502.7	12.0%
EBIT	60.0	64.5	64.7	70.2	76.5	9.0%	27.5%	131.2	146.7	11.9%
<b>Pretax profit</b>	<b>59.6</b>	<b>64.1</b>	<b>64.3</b>	<b>69.9</b>	<b>76.3</b>	<b>9.1%</b>	<b>28.1%</b>	<b>130.2</b>	<b>146.2</b>	<b>12.3%</b>
Taxation	(13.4)	(13.2)	(14.4)	(16.5)	(17.7)	7.5%	32.3%	(29.3)	(34.2)	16.7%
Minority Interest	(0.0)	(0.1)	0.1	(0.1)	0.1	-177.9%	-236.4%	(0.0)	(0.0)	6.3%
<b>Net Profit</b>	<b>46.1</b>	<b>50.7</b>	<b>50.0</b>	<b>53.4</b>	<b>58.6</b>	<b>9.9%</b>	<b>27.1%</b>	<b>100.9</b>	<b>112.0</b>	<b>11.0%</b>
EPS (sen)	6.3	6.9	6.8	7.3	8.0	9.9%	27.1%	13.8	15.3	11.0%
Net gearing (x)	net cash	n.a.	n.a.	net cash	net cash	n.a.				
EBIT margin (%)	26.1%	26.7%	26.9%	28.3%	30.0%	5.8%	14.8%	29.2%	29.2%	-0.1%
PBT margin (%)	25.9%	26.5%	26.8%	28.2%	29.9%	6.0%	15.3%	29.0%	29.1%	0.3%
Net profit margin (%)	20.1%	21.0%	20.8%	21.5%	23.0%	6.7%	14.4%	22.5%	22.3%	-0.9%
Effective tax rate (%)	22.5%	20.7%	22.4%	23.6%	23.2%	-1.5%	3.3%	22.5%	23.4%	3.9%

Source: BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>NEUTRAL</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

**Disclaimer**

The investments discussed or recommended in this report not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of BIMB securities Sdn Bhd may from time to time have a position in or either the securities mentioned herein. Members of the BIMB Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgements as of this and are subject to change without notice. BIMB Securities Sdn Bhd accepts no liability for any direct, indirect or consequential loss arising from use of this report.

**Published by**

بي اى سي بيرد سيكوريتيس سنديرين برود

**BIMB SECURITIES SDN BHD (290163-X)**

*A Participating Organisation of Bursa Malaysia Securities Berhad  
Level 32, Menara Multi Purpose, Capital Square,*

*No. 8 Jalan Munshi Abdullah,  
50100 Kuala Lumpur*

*Tel: 03-2691 8887, Fax: 03-2691 1262*

<http://www.bimbsec.com.my>

Kenny Yee  
Head of Research

## Hartalega Holdings

HART MK / HTHB.KL

## 2Q13 RESULTS NOTE

▶ **Market Cap**  
**US\$1,147m**  
RM3,512m

▶ **Avg Daily Turnover**  
**US\$0.39m**  
RM1.21m

▶ **Free Float**  
**42.9%**  
726.9 m shares

Current **RM4.80**  
Target **RM5.66**   
Previous Target **RM5.01**  
Up/downside **17.8%**

**SHORT TERM (3 MTH)** **LONG TERM**

TRADING BUY	<b>OUTPERFORM</b>
TRADING SELL	NEUTRAL
	UNDERPERFORM

**CIMB Analyst**

**Yeoh Yung-Juen CFA**  
T (60) 3 20849911  
E yungjuen.yeoh@cimb.com

---

**Share price info**

Share price perf. (%)	1M	3M	12M
Relative	7.3	7.6	65.5
Absolute	6.9	8.8	77.4

**Major shareholders**

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

## Leading the pack

At 49% of our and consensus FY13 numbers, 1H core EPS was broadly in line. We expect a stronger 2H when Plant-6 starts. Nitrile demand is robust as glove sales rose 20%, offsetting a 6.5% fall in ASPs. Despite Semperit's entry, we expect rational behaviour from glovemakers.

The 3.5 sen interim net DPS was also in line. Hartalega remains an Outperform and our top glove pick. Strong nitrile demand will catalyse the stock. We cut FY13-14 core EPS for higher expansion costs. After rolling our valuations over to CY14, our target price rises, still based on 14.15x P/E, on par with Top Glove's historical average.

### 1H13 core EPS +8% yoy ▶

1H revenue rose by 12% yoy to RM503m as utilisation hit 90% (1H12: 82%) due to strong demand. Total gloves sold in 1H rose by 20% to 4.7bn pieces, offsetting a 6.5% decline in blended selling prices to RM107/1k pieces. The higher output drove 1H EBITDA 11% higher to RM161m on stable margins. Core net profit rose by 8% to RM113m.

### Rationality will prevail ▶

Since its offer for Latexx, Semperit has told its existing contract

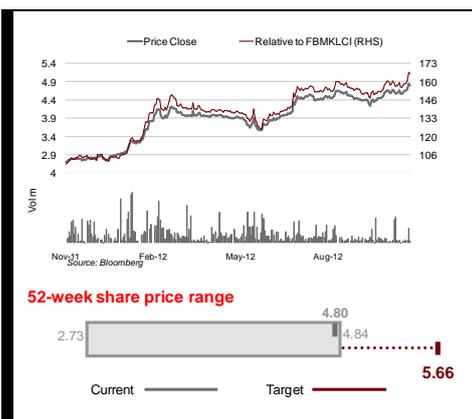
gloves that there will be no knee-jerk withdrawal of contract capacity. This gives its partners time to plan for an eventual pullout as Semperit enhances Latexx's 40-50% utilisation. We expect the withdrawal to take place in Dec 13 as Semperit needs time to clear regulatory hurdles and integrate operations. Overall, we believe that the impact on the sector will be minimal as Semperit's OEM production is spread out. For example, Semperit's volume with Hartalega and Top Glove is less than 1% of total output.

### Strong demand for nitrile ▶

Despite fears of overcapacity and competition, 1H glove sales rose by 20% yoy. Hartalega has turned away clients due to lack of capacity and the start of Plant-6 will help meet rising demand. Also, nitrile gloves remain competitive relative to natural rubber equivalents as nitrile cash costs are 12% below natural rubber.

Results Comparison										
FYE Mar (RM m)	2Q FY13	2Q FY12	yoy % chg	1QFY13	qoq % chg	2QFY13 cum	2QFY12 cum	yoy % chg	Prev. FY13F	Comments (cum yoy comparison)
Revenue	255.0	229.5	11.1	247.7	3.0	502.7	448.9	12.0	933.0	Glove output +20% offsets 6.5% fall in selling price
Operating costs	(171.1)	(162.4)	5.4	(165.0)	3.7	(341.3)	(303.7)	12.4	(608.5)	Higher output plus costs for Plant-6 expansion
EBITDA	83.9	67.1	24.9	82.7	1.4	161.4	145.3	11.1	324.5	Increase in utilisation rates (1H13: 90%)
EBITDA margin (%)	32.9	29.3	12.4	33.4	(1.5)	32.1	32.4	(0.8)	34.8	Some costs incurred ahead of plant start date
Depn & amort.	(7.4)	(7.1)	3.0	(11.3)	(34.6)	(14.6)	(14.1)	3.9	(29.0)	Total PPE of RM363m as at 30 Sep 2012
EBIT	74.9	65.5	14.3	71.5	4.8	145.0	132.0	9.8	295.5	Increase in utilisation rates (1H13: 90%)
Interest expense	(0.2)	(0.4)	(47.8)	(0.3)	(22.3)	(0.5)	(0.9)	(43.4)	(6.9)	Total borrowings of RM18m as at 30 Sep 2012
Interest & invt inc	1.1	1.1	2.8	0.1	1,089.6	2.6	2.2	17.5	0.3	Cash balance of RM165m as at 30 Sep 2012
Associates' contrib	-	-	na	-	na	-	-	na	-	No ownership of associates
Exceptionals (loss)/gain	0.5	(6.6)	107.4	(1.3)	136.3	(0.9)	(3.1)	(72.2)	-	Due to movement in FX and derivative contracts
<b>Pretax profit</b>	<b>76.3</b>	<b>59.6</b>	<b>28.1</b>	<b>69.9</b>	<b>9.1</b>	<b>146.2</b>	<b>130.2</b>	<b>12.3</b>	<b>288.8</b>	1H13 accounted for 51% of our full-year estimate
Tax	(17.7)	(13.4)	32.3	(16.5)	7.5	(34.2)	(29.3)	16.7	(57.8)	Lower than Malaysia's statutory tax rate of 25% due to allowances from the export of gloves
Tax rate (%)	23.2	22.5	3.3	23.6	(1.5)	23.4	22.5	3.9	20.0	
Minority interests	(0.0)	(0.0)	(25.0)	(0.1)	(57.1)	(0.1)	(0.0)	587.5	(0.0)	From Chinese and Indian distribution subsidiaries
<b>Net profit</b>	<b>58.5</b>	<b>46.1</b>	<b>26.9</b>	<b>53.4</b>	<b>9.7</b>	<b>111.9</b>	<b>100.9</b>	<b>10.9</b>	<b>231.0</b>	1H13 accounted for 48% of our full-year estimate
<b>Core net profit</b>	<b>58.1</b>	<b>52.7</b>	<b>10.1</b>	<b>54.7</b>	<b>6.1</b>	<b>112.8</b>	<b>104.0</b>	<b>8.4</b>	<b>231.0</b>	1H13 accounted for 49% of our full-year estimate
EPS (sen)	7.3	5.8	26.9	6.7	9.7	14.0	12.6	10.9	28.9	800m FD shares (+73m warrants at RM4.14 strike)
Core EPS (sen)	7.3	6.6	10.1	6.8	6.1	14.1	13.0	8.4	28.9	Excluding movements in FX and derivative contracts

SOURCE: CIMB, COMPANY REPORTS



### Financial Summary

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue (RMm)	735	931	933	1,063	1,237
Operating EBITDA (RMm)	274.4	290.7	328.0	384.3	450.6
Net Profit (RMm)	189.7	201.6	231.0	262.5	310.4
Core EPS (RM)	0.26	0.28	0.32	0.36	0.43
Core EPS Growth	32.1%	7.5%	13.3%	13.6%	18.3%
FD Core P/E (x)	18.39	17.11	15.86	14.63	12.37
DPS (RM)	0.10	0.13	0.14	0.16	0.19
Dividend Yield	2.18%	2.68%	2.98%	3.38%	4.00%
EV/EBITDA (x)	12.43	11.32	10.15	8.81	7.24
P/FCFE (x)	34.57	19.20	21.96	49.32	13.61
Net Gearing	(15.8%)	(32.5%)	(21.7%)	(11.7%)	(21.6%)
P/BV (x)	7.06	5.73	4.74	3.96	3.32
Recurring ROE	44.7%	37.0%	34.4%	32.5%	32.1%
% Change In Core EPS Estimates			0.00%	(3.63%)	(5.99%)
CIMB/consensus EPS (x)			1.02	1.04	1.12

SOURCE: CIMB, COMPANY REPORTS

### Figure 1: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		2-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY12	CY13		CY12	CY13	CY12	CY13	CY12	CY13
Adventa	ADV MK	Trading Buy	1.89	2.10	94	13.9	11.6	26.8%	0.91	0.78	7.1%	7.2%	2.2%	2.6%
Hartalega Holdings	HART MK	Outperform	4.89	5.66	1,168	15.8	14.0	14.5%	5.05	4.21	35.0%	32.9%	2.9%	3.2%
Kossan Rubber Industries	KRI MK	Outperform	3.14	3.69	328	9.6	7.8	15.6%	1.66	1.42	18.7%	19.6%	2.6%	3.2%
Latexx Partners	LTX MK	Neutral	2.27	2.30	165	11.7	9.9	4.4%	1.56	1.37	13.9%	14.8%	1.7%	2.0%
Supermax Corp	SUCB MK	Outperform	2.08	2.64	462	10.1	8.3	15.5%	1.40	1.22	15.0%	15.7%	2.0%	2.4%
Top Glove Corporation	TOPG MK	Neutral	5.58	5.51	1,127	16.4	14.7	21.8%	2.55	2.30	16.5%	16.5%	3.0%	3.4%
<b>Average</b>						<b>13.8</b>	<b>11.9</b>	<b>11.6%</b>	<b>2.39</b>	<b>2.09</b>	<b>18.6%</b>	<b>18.7%</b>	<b>2.7%</b>	<b>3.1%</b>

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)
Malaysia	CIMB Investment Bank Berhad	Securities Commission Malaysia
Singapore	CIMB Research Pte. Ltd.	Monetary Authority of Singapore
Thailand	CIMB Securities (Thailand) Co. Ltd.	Securities and Exchange Commission Thailand

(i) As of November 5, 2012 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 November 6, 2012, 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).

**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 November 5, 2012, CIMBR does not have a proprietary position in the recommended securities in this report.

**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 be 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 30 September 2012		
793 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	56%	3%
Neutral	33%	1%
Underperform/Sell/Trading Sell	11%	3%

**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.

**Recommendation Framework #2 \*\***

**Stock**

**OUTPERFORM:** Expected positive total returns of 10% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -10% and +10% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 10% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 10% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 10% or more over the next 3 months.

**Sector**

**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:** 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.

**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:** 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:** 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.**

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:

# Hartalega Holdings

**Hold**

GLOVES

Bloomberg Ticker: HART MK | Bursa Code: 5168

## 1HFY13 results came in within expectations

Hartalega's 1HFY2013 net profit of RM111m (+10% y-o-y) came in within expectations, making up 50% of our and consensus full-year net profit forecasts. However, Hartalega's growth trajectory is already reflected in its financials which appears fully valued. The stock is currently trading at 16.4x CY12 and 14.8x CY13 EPS, compared to average net profit growth of 11%. Maintain Hold with target price of RM4.34 based on 13x CY13 EPS.

### Results highlights

- **2Q FYE March 2013 results explained.** 2QFY13 revenue rose 3.1% q-o-q due to higher sales volume (+6%) in the nitrile glove segment, which accounts for 94% of sales. However, this was offset by a 9% decrease in latex gloves ASPs which only accounts for 6% of sales. ASPs for nitrile gloves are flat q-o-q. The quarter's capacity utilization rate stood at 90.6% (1QFY13: 89.4%). Despite stiff competition, operating margins improve marginally from 28.8% to 29.7% due to the easing in raw material prices, namely nitrile and natural latex. However, we believe the margin improvement is not sustainable in subsequent quarters as other players are likely to ramp up the production of nitrile gloves and also due to higher production cost from high energy prices and the minimum wage policy (which will be implemented by 1 Jan 2013).
- 2QFY13 net profit came in at RM58.5m (+9.7% q-o-q) driven by a 3% increase in turnover and solid profit margins thanks to the easing of raw material cost input as well as improved efficiency resulting from faster production lines.
- A first single-tier interim dividend of 3.5 sen/share was declared.

### Outlook

- **Pedestrian growth in FY13 but FY14 to be driven by new capacity.** Hartalega will embark on a major capacity expansion in FY13 as it anticipates higher-than-expected demand for nitrile gloves. For FY13-14, Hartalega has earmarked capex of RM100m and RM70m respectively, which includes the establishment of a new plant—Plant 6. Plant 6 will have 10 production lines for nitrile gloves at 40,000 pieces/hour/line, 14% more than the current ones. This brings total production capacity in Plant 6 to 3.5 billion pieces p.a. to be fully completed in 2013. The first line has commenced production in September 2012. The construction of the 10 production lines in Plant 6 is expected to be fully completed in June 2013.
- **Demand for gloves intact, moving towards nitrile gloves.** The low input latex and nitrile price over the last several months is positive to glove makers including Hartalega. This is expected to be offset by the stronger Ringgit. Input latex price has been trading between RM5.50/kg and RM6.30/kg over the last several months which is positive for glove makers but is expected to be offset by the strengthening of the Ringgit against the USD. Moving into 2013, we may see upwards pressure on latex prices between February and May due to seasonally low production period. Furthermore, the operating environment could remain tough going forward as rubber glove players face higher production costs from the minimum wage policy (effective 1 Jan 2013) and higher natural gas prices.

### 12-month upside potential

Target price	4.34
Current price	4.89
Capital upside (%)	-11.2
Net dividends (%)	2.8
Total return (%)	-8.4

### Key stock statistics

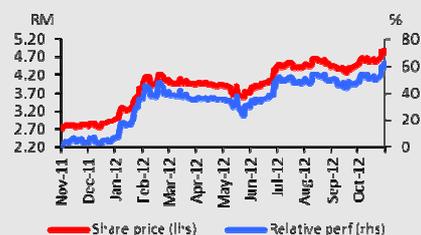
Market cap (RM m)	3,578.5
Issued shares (m)	731.8
Free float (%)	71.6

### Share price performance

52-week range (RM)	2.71 – 4.89
3-mth avg volume ('000)	289.6
3-mth avg turnover (RM m)	1.3

	1M	3M	6M
Absolute (%)	8.9	9.4	25.2
Relative (%)	9.9	9.2	29.6

### Share price chart



Source: Bloomberg

### Key financial data

FY Mar	FY11	FY12	FY13F	FY14F
EPS (sen)	26.1	27.7	30.6	34.0
CY EPS (sen)	27.3	29.9	33.1	37.0
EPS growth %	33	6	11	11
PER (x)	15.0	14.2	12.8	11.5
CY PER (x)	17.9	16.4	14.8	13.2
Net DPS (sen)	21.0	10.8	13.8	15.3
Div yield (%)	4.3	2.2	2.8	3.1
BVPS (RM)	0.68	0.85	1.02	1.20
P/B (x)	7.2	5.8	4.8	4.1

### Team Coverage

research@ecmlibra.com  
+603 2089 2990



**Figure 1 : Earnings Review (YTD)**

<b>FY Mar (RMm)</b>	<b>2012 6M</b>	<b>2013 6M</b>	<b>Y-o-Y Chg (%)</b>	<b>Comments</b>
Turnover	448.9	502.7	12.0	Largely due to a 19% increase in volume sales.
EBIT	130.7	146.3	12.0	
Finance cost	(0.5)	(0.1)	(70.2)	
Pretax profit	130.2	146.2	12.3	Filtered down from EBIT and remain stable due to lower input raw material cost.
Taxation	(29.3)	(34.2)	16.7	
Minority interest	(0.0)	(0.1)	NM	
Net profit	100.9	111.9	10.9	
EPS (sen)	13.9	15.3	10.4	
EBIT margin (%)	29.1	29.1		Solid margin due to higher volume sales but offset by reduction in ASPs and falling input raw material cost.
Pretax margin (%)	29.0	29.1		
Effective tax rate (%)	22.5	23.4		

Source: ECM Libra, Bursa Malaysia

**Figure 1 : Earnings review (Q-o-Q)**

<b>FY Mar (RMm)</b>	<b>2013 1Q</b>	<b>2013 2Q</b>	<b>Q-o-Q Chg (%)</b>	<b>Comments</b>
Turnover	247.7	255.0	3.0	Due to a 6% increase in sales volume and offset by a 8% decrease in ASPs due to substantial easing of nitrile and latex input costs as well as price competition. 1Q and 2Q utilization rate is 89.5% and 90.6% respectively.
EBIT	71.3	75.9	6.4	Filtered down from turnover and further boosted by the easing in raw material prices of nitrile and natural latex.
Finance cost	(0.1)	(0.1)	7.7	
Currency gain/(loss)	(1.3)	0.5	NM	
Pretax profit	69.9	76.3	9.1	
Taxation	(16.5)	(17.7)	7.4	
Minority interest	(0.1)	(0.0)	NM	
Net profit	53.4	58.5	9.7	
EPS (sen)	7.3	8.0	9.7	
EBIT margin (%)	28.8	29.7		
Pretax margin (%)	28.2	29.9		
Effective tax rate (%)	23.6	23.2		

Source: ECM Libra, Bursa Malaysia



## DISCLOSURE & DISCLAIMER

### Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 10% or more
- Hold - Expected 12-month total return between -10% and 10%
- Sell - Expected 12-month total return of -10% or less
- Trading buy - Expected 6-month total return of 10% or more arising from positive newsflow. However, upside may not be sustainable.

### Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

### Disclaimer

This report is for information purposes only and general in nature. The information contained in this report is based on data and 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, is made with respect to the accuracy, completeness or reliability of the information or opinions in this report. Accordingly, neither we nor any of our related companies and associates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use of or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice.

It is not possible to have regard to the specific investment objectives, the financial situation and the particular needs of each person who may receive or read this report. As such, investors should seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

Under no circumstances should this report be considered as an offer to sell or a solicitation of an offer to buy any securities referred to herein. This company 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 deal with such securities and provide advisory, investment or other services for any company or entity mentioned in this report. In reviewing this 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.

Published & printed by:

ECM Libra Capital Sdn Bhd (579116-A)  
2nd Floor, West Wing, Bangunan ECM Libra  
No. 8 Jalan Damansara Endah  
Damansara Heights  
50490 Kuala Lumpur  
Tel: (603) 2089 1888  
Fax: (603) 2096 1868

# Result Snapshot Hartalega Holdings

Bloomberg: HART MK EQUITY | Reuters: HTHB.KL

Malaysia Equity Research PP 17581/11/2012(031103)

7 Nov 2012

**HOLD RM4.89** KLCI : 1,645.63

Price Target : 12-Month RM 4.70

## Analyst

HON Seow Mee +603 2711 2222  
seowmee@hwangdbsvickers.com.my

## Result Summary

FY Mar (RM m)	2Q2013	2Q2012	1Q2013	% Chg y-o-y	% Chg q-o-q
<b>P&amp;L Items</b>					
Turnover	255.0	229.5	247.7	11.1	3.0
Gross Profit	74.9	65.5	70.1	14.3	6.8
Opg Profit	76.5	60.0	70.2	27.5	9.0
EBITDA	76.5	60.0	70.2	27.5	9.0
Net Profit	58.5	46.1	53.4	26.9	9.7
<b>Other Data</b>					
Gross Margin (%)	29.4	28.5	28.3		
Opg Margin (%)	30.0	26.1	28.3		
Net Margin (%)	23.0	20.1	21.5		

## Financial Summary

FY Mar (RM m)	2012A	2013F	2014F	2015F
Turnover	931	1,075	1,274	1,460
Operating Profit	260	286	334	393
EBITDA	281	315	370	444
Net Pft (Pre Ex.)	202	219	253	292
EPS (sen)	29.1	30.1	31.6	36.5
EPS Pre Ex. (sen)	29.1	30.1	31.6	36.5
EPS Gth (%)	(12)	3	5	16
EPS Gth Pre Ex (%)	(12)	3	5	16
PE Pre Ex. (X)	16.8	16.3	15.5	13.4
EV/EBITDA (X)	11.5	10.7	10.1	8.4
Net Div Yield (%)	2.4	2.8	2.9	3.4
P/Book Value (X)	5.5	4.8	4.5	3.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	36.3	32.4	31.4	30.6

## At A Glance

Issued Capital (m shrs)	732
Mkt. Cap (RMm/US\$m)	3,578 / 1,166
Avg. Daily Vol.('000)	271

## Price Relative



Source: Company, DBS Vickers

## Strong quarter as expected

- **1HFY13 net profit is c.50% of our and consensus' full year forecasts**
- **Higher sales volume (+6% q-o-q) lifted revenues and margins**
- **Declared 3.5 sen DPS (single tier)**
- **Maintain HOLD rating and RM4.70 TP; positives have been priced in**

## Highlights

**Higher sales volume and lower raw material costs lifted margins.** 2QFY13 net profit of RM58.5m (+10% q-o-q) took 6MFY13 earnings to RM112m (+11% y-o-y). Revenue inched up 3% q-o-q as sales volume grew 6% in the quarter. ASP for nitrile gloves was stable, averaging USD35 per box. Sales to North America continued to gain traction, now comprising 59% of total revenue (from 52% in the previous quarter). Capacity utilisation was stable at c.90%. Operating margin improved to 30% from 28% in 1QFY13, thanks to higher sales volume and lower raw material costs. Butadiene (proxy to nitrile raw material) prices fell 14% in 2QFY13 (-28% q-o-q in 1QFY13).

**Balance sheet remains strong.** Net cash rose to RM148m (1QFY13: RM129m). The company declared a 1st interim 3.5sen DPS (single tier). Ex-date is 21 Nov.

## Our View

**Factory 6 to boost FY14 earnings.** Hartalega commissioned its 1st production line in Factory 6 in September. We understand Line 1 can produce up to 45,000 pieces per hour compared to its original target of 42,000. The remaining lines will be commissioned progressively (adding one line each month up to 10 lines). Upon completion, Hartalega's production capacity should be at least 13bn pieces (currently 9.7bn pieces). No change to our forecast earnings at this juncture.

## Recommendation

**Maintain HOLD rating.** Our RM4.70 TP is based on 15x CY13 fully diluted EPS. The stock is trading at 15x forward PE and we think the positives have been priced in at current valuation.

DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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*

DBS Vickers Research is available on the following electronic platforms: DBS Vickers ([www.dbsvresearch.com](http://www.dbsvresearch.com)); Thomson ([www.thomson.com/financial](http://www.thomson.com/financial)); Factset ([www.factset.com](http://www.factset.com)); Reuters ([www.rbr.reuters.com](http://www.rbr.reuters.com)); Capital IQ ([www.capitaliq.com](http://www.capitaliq.com)) and Bloomberg (DBSR GO). For access, please contact your DBSV salesperson.

#### GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Vickers Research (Singapore) Pte Ltd ("DBSVR"), a direct wholly-owned subsidiary of DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") and an indirect wholly-owned subsidiary of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). This report is intended for clients of DBSV Group only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVR. It is being distributed in the United States by DBSV US, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBS Vickers Securities (USA) Inc ("DBSVUSA") directly and not its affiliate.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBSVR, DBSVS, and/or DBSVH) do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. DBSVR accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. DBSVR, DBSVS, DBS Bank Ltd and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by DBSVR, DBSVS and/or DBSVH (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

#### ANALYST CERTIFICATION

The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of 7 Nov 2012, the analyst and his / her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities, directorships and trustee positions).

#### COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Vickers Securities (Singapore) Pte Ltd and its subsidiaries do not have a proprietary position in the company mentioned as of 05-Nov-2012
2. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the company mentioned as of 7 Nov 2012.
3. Compensation for investment banking services:
  - i. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBSVUSA may have received compensation, within the past 12 months, and within the next 3 months receive or intends to seek compensation for investment banking services from the company mentioned.
  - ii. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

#### RESTRICTIONS ON DISTRIBUTION

General	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.
Australia	This report is being distributed in Australia by DBSVR and DBSVS, which are exempted from the requirement to hold an Australian financial services licence under the Corporation Act 2001 ["CA"] in respect of financial services provided to the recipients. DBSVR and DBSVS are regulated by the Monetary Authority of Singapore ["MAS"] under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Singapore	This report is being distributed in Singapore by DBSVR, which holds a Financial Adviser's licence and is regulated by the MAS. This report may additionally be distributed in Singapore by DBSVS (Company Regn. No. 198600294G), which is an Exempt Financial Adviser as defined under the Financial Advisers Act. Any research report produced by a foreign DBS Vickers entity, analyst or affiliate is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, Chap. 289 of Singapore. Any distribution of research reports published by a foreign-related corporation of DBSVR/DBSVS to "Accredited Investors" is provided pursuant to the approval by MAS of research distribution arrangements under Paragraph 11 of the First Schedule to the FAA.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.
Dubai/ United Arab Emirates	This report is being distributed in Dubai/United Arab Emirates by DBS Bank Ltd, Dubai (PO Box 506538, 3 <sup>rd</sup> Floor, Building 3, Gate Precinct, DIFC, Dubai, United Arab Emirates) and is intended only for clients who meet the DFSA regulatory criteria to be a Professional Client. It should not be relied upon by or distributed to Retail Clients. DBS Bank Ltd, Dubai is regulated by the Dubai Financial Services Authority.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

#### DBS Vickers Research (Singapore) Pte Ltd

12 Marina Boulevard, Level 40, Marina Bay Financial Central Tower 3, Singapore 018982  
Tel. 65-6327 2288  
Company Regn. No. 198600295W

# Hartalega (HOLD ↓, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

7 November 2012

Price Target: RM5.16 (↔)

Share Price: RM4.89

## In Line, superior net profit margins intact

### Results

- 2QFY13 net profit of RM58.5m (+10% qoq, +27% yoy) which took 1HFY13 to RM111.9m (+11% yoy) was in line with our expectations, accounting for 49% of both HLIB and consensus forecasts.

### Deviations

- In line

### Dividends

- Declared a first interim single-tier DPS of 3.5 sen, translating into a net yield of 0.7%. We have projected a full-year tax-exempt DPS of 14.5 sen or a 46% payout ratio.

### Highlights

- Higher revenue was driven by increased demand leading to higher sales volume (+24% yoy), additional capacity (+11% yoy) and higher yoy utilization rates (91% vs 82.3%).
- Earnings growth was driven by higher sales and lower nitrile latex prices.
- Nitrile latex remains relatively cheaper to natural latex. Qoq nitrile latex prices have declined 12% to US\$1.38 (RM4.22) per kg, but prices have remained flat yoy. Natural latex is trading at about RM5.60 per kg.
- Due to lower latex prices, ASPs for nitrile gloves (which account for almost 95% of Hartalega's sales) have been lowered. ASPs for nitrile gloves in 2QFY13 fell by 9% yoy to RM105 (per 1000 gloves) vs. RM115 a year ago. Qoq ASPs declined about 1%.
- Management anticipates nitrile glove demand growth to be sustainable at 20% annually for the mid-term.
- Hartalega's net cash position grew to RM147.7m as at end-Sept 2012 compared to RM129.4m as at end-June.

### 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.

### Forecasts

- Unchanged.

### Rating

#### HOLD (↓)

- Positives – Dominant position in nitrile glove market. High 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

- Target price maintained at RM5.16 based on a 15.5x FY03/14 EPS. However, we are downgrading our recommendation from a Buy to Hold in view of the recent price surge.

### Low Yee Huap, CFA

[yhlow@hlib.hongleong.com.my](mailto:yhlow@hlib.hongleong.com.my)

(603) 2168 1078

KLCI	1645.63
Expected share price return	5.5%
Expected dividend return	3.5%
Expected total return	9%

### Share price



### Information

Bloomberg Ticker	HART MK
Bursa Code	5168
Issued Shares (m)	732
Market cap (RM m)	3,579
3-mth avg. volume ('000)	290

### Price Performance

	1M	3M	12M
Absolute	8.9	9.9	80.8
Relative	9.9	9.5	62.3

### Major Shareholders

Hartalega Industries	27.6%
Franklin Resources Inc	0.6%
Deutsche Bank AG	0.4%

### Summary Earnings Table

FYE Mar (RM m)	2012A	2013E	2014E	2015E
Turnover	931.1	1023.7	1288.2	1509.5
EBITDA	289.2	329.4	405.1	465.1
PBT	258.4	294.8	343.8	382.3
Net profit	201.4	229.9	268.1	298.1
EPS (sen)	27.5	31.4	34.7	37.0
Diluted EPS (sen)	25.0	28.6	33.3	37.0
P/E	19.5	17.1	14.7	13.2
BV/share (RM)	0.85	1.04	1.34	1.71
P/BV	5.8	4.7	3.7	2.9
Net DY (%)	2.2	3.0	3.5	3.9
ROE (%)	32.5	30.2	24.9	21.6
ROA (%)	26.6	22.8	20.0	18.1
HLIB				

**Figure 1: Quarterly Results Comparison**

FYE Mar (RMm)	2QFY12	1QFY13	2QFY13	QoQ (%)	YoY (%)	Comments
Revenue	229.5	247.7	255.0	3.0	11.1	Qoq: Higher sales volume (+6%) contributed by increased capacity. Yoq: Higher sales volume (+24%) due to increased demand, capacity expansion, and higher utilisation rates.
EBITDA	73.6	78.6	83.2	5.9	13.1	Lifted by lower raw material prices of nitrile and natural latex but also offset by more competitive sales pricing. ASPs for nitrile gloves in 2QFY13 have fallen 9% yoy to RM105 (per 1000 pcs) from RM115, while natural latex gloves have fallen 14.4% yoy to RM125 from RM146.
EBITDA margin (%)	32.0	31.7	32.6	0.9	0.6	
EBIT (Operating profit)	66.4	71.3	75.9	6.4	14.2	Filtered down from EBITDA level.
EBIT margin (%)	28.9	28.8	29.7	1.0	0.8	
Net interest exp	-0.3	-0.1	-0.1	7.7	-72.7	
Exceptionals	-6.6	-1.3	0.5			Mainly due to fair value gain on derivatives of RM5m in 2QFY13 compared to a loss of RM10.9m in 2QFY12.
PBT	59.6	69.9	76.3	9.1	28.1	Filtered down from EBIT
PBT margin (%)	25.9	28.2	29.9	1.7	4.0	
Tax	-13.4	-16.5	-17.7	7.5	32.3	
Minority Interest	0.0	0.1	0.0			
Net profit	46.2	53.4	58.5	9.7	26.8	Filtered down from PBT
Net profit margin (%)	20.1	21.5	23.0	1.4	2.8	
Net profit (ex-exceptionals)	52.8	54.7	58.1	6.1	10.0	
EPS (sen)	6.3	7.3	8.0	9.7	26.3	

**Figure 2: Cumulative Results Comparison**

FYE Mar (RMm)	6MFY12	6MFY13	YoY (%)	Comments
Revenue	448.9	502.7	12.0	Improve in demand and capacity expansion
EBITDA	147.8	161.8	9.5	Lower raw material prices of nitrile latex
EBITDA margin (%)	32.9	32.2	-0.7	
Operating profit (EBIT)	133.8	147.2	10.0	
EBIT margin (%)	29.8	29.3	-0.5	
Net interest exp	-0.5	-0.1	-70.2	
Exceptionals	-3.1	-0.9		
PBT	130.2	146.2	12.3	Filtered down from EBIT
PBT margin (%)	29.0	29.1	0.1	
Tax	-29.3	-34.2	16.7	
Minority Interest	0.0	0.0		
Net profit	100.9	111.9	10.9	Filtered down from PBT
Net profit margin (%)	22.5	22.3	-0.2	
Net profit (ex-exceptionals)	104.0	112.8	8.4	
EPS (sen)	13.9	15.3	10.4	

**Figure 3: Actual Results Vs. Consensus and HLIB's Estimates**

	Actual	Consensus	% of	HLIB	% of HLIB's
	6MFY13	Estimates	Full-Year Est	FY12	Full-Year Est.
		FY13			
Revenue	502.7	1055.0	47.6	1023.7	49.1
Pretax profit	146.2	290.7	50.3	294.8	49.6
Core net profit	111.9	227.5	49.2	229.9	48.7

## Financial Projections

### Income statement

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
<b>Revenue</b>	<b>734.9</b>	<b>931.1</b>	<b>1023.7</b>	<b>1288.2</b>	<b>1509.5</b>
<b>EBITDA</b>	<b>270.3</b>	<b>289.2</b>	<b>329.4</b>	<b>405.1</b>	<b>465.1</b>
Dept. & Amort.	-24.9	-29.0	-33.3	-55.1	-77.1
Interest income	2.4	0.9	5.1	4.5	5.0
Interest expense	-2.5	-1.7	-1.2	-6.2	-5.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>242.8</b>	<b>258.4</b>	<b>294.8</b>	<b>343.8</b>	<b>382.3</b>
Taxation	-52.5	-57.0	-64.9	-75.6	-84.1
Minorities	0.03	0.05	0.05	0.05	0.05
<b>Net profit</b>	<b>190.3</b>	<b>201.4</b>	<b>229.9</b>	<b>268.1</b>	<b>298.1</b>
No. of shares (m)	731.1	731.1	731.1	771.8	805.1
<b>Basic EPS (sen)</b>	<b>26.0</b>	<b>27.5</b>	<b>31.4</b>	<b>34.7</b>	<b>37.0</b>
<b>Diluted EPS (sen)</b>	<b>23.6</b>	<b>25.0</b>	<b>28.6</b>	<b>33.3</b>	<b>37.0</b>

### Cashflow

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Pretax profit	242.8	258.4	294.82	343.77	382.25
Dep. and Amort.	25.0	29.0	33.3	55.1	77.1
Changes in working cap	-40.9	-44.5	-14.7	-44.8	-41.4
Net interest received/(paid)	-0.1	1.9	3.8	-1.7	-0.7
Tax paid	-47.8	-48.8	-64.9	-75.6	-84.1
Others	5.7	4.3	-3.8	1.7	0.7
<b>Operating Cash Flow</b>	<b>184.8</b>	<b>200.3</b>	<b>248.6</b>	<b>278.4</b>	<b>333.9</b>
Capex	-81.3	-60.2	-275.0	-300.0	-250.0
Others	0.3	0.1	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-81.0</b>	<b>-60.1</b>	<b>-275.0</b>	<b>-300.0</b>	<b>-250.0</b>
Div paid	-56.9	-87.4	-91.3	-120.5	-135.1
Changes in borrowings	-2.5	-14.6	100.0	-10.0	-10.0
Issuance of shares	0.3	6.9	0.0	168.5	137.9
Others	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-59.1</b>	<b>-95.0</b>	<b>8.7</b>	<b>38.0</b>	<b>-7.2</b>
Net cash flow	44.7	45.2	-17.7	16.4	76.6
Forex	-2.3	1.0	0.0	0.0	0.0
<b>Beginning cash</b>	<b>38.2</b>	<b>74.6</b>	<b>117.0</b>	<b>163.2</b>	<b>145.5</b>
<b>Ending cash</b>	<b>117.0</b>	<b>163.2</b>	<b>145.5</b>	<b>161.9</b>	<b>238.5</b>

### Balance sheet

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Fixed assets	348.6	379.7	611.9	856.9	1029.7
Other long-term assets	0.3	0.5	0.0	0.0	0.0
Other short-term assets	3.4	0.1	0.0	0.0	0.0
<b>Working capital</b>	<b>108.5</b>	<b>154.2</b>	<b>168.9</b>	<b>213.7</b>	<b>255.1</b>
Receivables	101.0	117.1	168.3	212.5	254.1
Payables	-57.2	-60.4	-84.1	-106.2	-127.1
Inventories	64.7	97.5	84.8	107.5	128.1
<b>Net cash</b>	<b>78.0</b>	<b>138.6</b>	<b>20.8</b>	<b>47.2</b>	<b>133.9</b>
Cash	117.0	163.2	145.5	161.9	238.5
ST debt	-14.5	-12.6	-12.6	-12.6	-12.6
LT debt	-24.5	-12.1	-112.1	-102.1	-92.1
<b>Shareholder's funds</b>	<b>494.4</b>	<b>619.5</b>	<b>760.9</b>	<b>1077.0</b>	<b>1377.9</b>
Share capital	181.8	182.5	365.5	385.9	402.5
Reserves	312.7	437.0	395.4	691.1	975.4
Minorities	0.4	0.6	0.6	0.6	0.6
Other liabilities	44.0	53.0	40.1	40.2	40.2

### Valuation Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
EPS (sen)	26.0	27.5	31.4	34.7	37.0
Diluted EPS (sen)	23.6	25.0	28.6	33.3	37.0
P/E (x)	20.7	19.5	17.1	14.7	13.2
Net DPS (sen)	10.5	10.8	14.5	17.0	19.0
Net DY (%)	2.1	2.2	3.0	3.5	3.9
BV/share (RM)	0.68	0.85	1.04	1.34	1.71
P/BV (x)	7.2	5.8	4.7	3.7	2.9
FCF/share (sen)	14.2	19.2	-3.6	-2.8	10.4
FCF yield (%)	2.9	3.9	-0.7	-0.6	2.1
Market cap	3575.0	3575.0	3575.0	3774.1	3936.9
Net cash	78.0	138.6	20.8	47.2	133.9
EV	3497.0	3436.5	3554.2	3726.8	3803.0
EV/EBITDA	12.9	11.9	10.8	9.2	8.2
ROE (%)	38.5	32.5	30.2	24.9	21.6
ROA (%)	30.0	26.6	22.8	20.0	18.1

### Assumption Metrics

FYE 31 Mar (RMm)	2011A	2012A	2013E	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

### Other Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
<b>Growth (%)</b>					
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
<b>Margins (%)</b>					
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, is 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 represent 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, is 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 7 November 2012, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 7 November 2012, 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

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

## Industry rating definitions

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

## Hartalega Holdings Bhd

### RESULTS UPDATE

**Current Price** RM 5.02  
**Consensus Target Price** RM 4.96

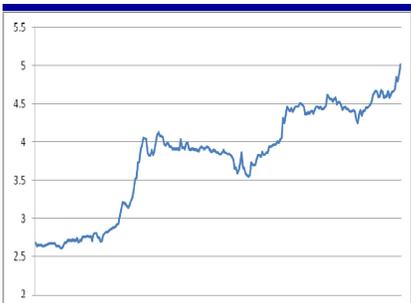
#### Key Statistics

Bloomberg Ticker	HART MK
Masa Ticker / Stock Code	HARTA/5168
Shares Issued (m)	731.8
Market Capitalisation (RM'm)	3,673
52 Week Hi/Lo Price (RM)	5.02/2.70
Avg Trading Volume (3-mth)	485,899
Est Free Float (m)	523.6
YTD Returns (%)	82
Beta (x)	0.72

#### Major Shareholders (%)

Hartalega Holdings	50.1
--------------------	------

#### 1-Year Share Price Performance



**Analyst:** David Lai

**Email:** davidlai@interpac.com.my

## Hartalega Moving Strongly

### Highlights:

- Revenue was stronger YoY mainly due to increased in nitrile gloves output. Revenue grew to RM255m from RM229m, up 11.1%MoM. PBT margins have improved marginally due to lower raw material cost. A price war between nitrile glove makers drove ASP (average selling price) lower but trailed the easing of raw material costs. PBT therefore increased to RM76.3m from RM59.5, up 28.2%YoY.
- The company's newly constructed plant has commenced production. Output has increased to a pace of 2,555m per month from 2,670m per month. The company will add a new line every month which will significantly raise production. The company is on track to increase its number of production lines to 72, increasing glove output 4-fold.
- The board has declared a first interim dividend of 3.5 sen per share single tier in respect of the financial year ending 31 March 2013 and payable on 13 December 2012, with the entitlement date fixed on 23 November 2012. The dividend yield is about 2.1% for 2012.

FYE Dec	2009	2010	2011	2012
Revenue (m)	443	572	735	931
Pretax Profit (m)	95	178	243	258
Net Profit (m)	85	143	190	201
EPS (sen)	11.5	19.5	25.9	27.4
Pretax margin (%)	21.5	31.1	33.0	27.8
Net Profit margin (%)	19.1	25.0	25.9	21.6
PER (x)	43.6	25.8	19.4	18.3
DPS (sen)	0.0	10.0	10.5	10.8
Dividend Yield (%)	0.0	2.0	2.1	2.1
ROE (%)	69.8	118.1	38.5	32.5
ROA (%)	22.6	29.9	30.0	26.6
Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash
BV/Share	0.3	0.5	0.7	0.8
Price/Book Ratio (x)	14.5	10.4	7.4	5.9

\* Diluted number of shares

FYE 31st Dec (RM m)	2Q2013	2Q2012	YoY chg (%)	1Q2013	QoQ chg (%)	YTD2013	YTD2012	YTD chg (%)
Revenue	255.0	229.5	11.1	247.7	3.0	502.7	448.9	12.0
Operating expenses	(178.7)	(170.0)	5.1	(177.6)	0.7	(356.5)	(318.7)	11.9
Profit before tax	76.3	59.5	28.2	69.9	9.1	146.2	130.2	12.3
Tax Expenses	(17.7)	(13.4)	32.3	(16.5)	7.4	(34.2)	(29.3)	16.7
PAT	58.6	46.2	26.8	53.4	9.6	112.0	100.9	11.0
PBT margin	29.9	25.9	15.4	28.2	6.0	29.1	29.0	0.3
PAT margin	23.0	20.1	14.1	21.6	6.5	22.3	22.5	(0.9)
EPS (sen)*	8.0	6.3	25.9	7.3	9.5	15.2	13.8	10.1

\*Diluted number of shares

- ◆ Nitrile raw material prices continue to ease due to weaker commodity prices in general and a slower automobile industry especially in China. Nitrile raw material is a feedstock of rubber tires and a weakening in the automobile industry favours lower input cost for nitrile gloves. Nitrile latex prices are current lower than latex prices, RM3.05 per kg against RM5.70 per kg, plus nitrile gloves can be lighter weight than latex gloves. In all, glove sentiments are currently positive for nitrile glove producers.

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

**IMPORTANT:** This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. Inter-Pacific Research Sdn Bhd and or its associates may from time to time have interest and/or underwriting commitments in the company being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

### Published and Printed by:

**Inter-Pacific Research Sdn Bhd (449005-X)**  
West Wing, Level 13,  
Berjaya Times Square,  
No.1, Jalan Imbi,  
55100 Kuala Lumpur  
General Line : 03-2117 1888 Fax : 03-2142 7678

Result Update

7 November 2012

# Hartalega Holdings Berhad

**BUY**

Never Stop Improving

**Maintained**

Share Price	RM4.89
Target Price	RM5.12

## Company Description

Hartalega Holdings Bhd. manufactures a wide range of latex gloves. The Company's products include natural rubber examination gloves, nitrile examination gloves, nitrile clean room gloves and natural rubber surgical gloves.

## Stock Data

Bursa / Bloomberg code	5168 / HART MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	731.76
Par Value (RM)	0.50
Market cap. (RM'm)	3578.51
52-week price Range(RM)	2.71-4.94
Beta (against KLCI)	0.72
3-m Average Daily Volume	0.29m
3-m Average Daily Value^	RM1.31m

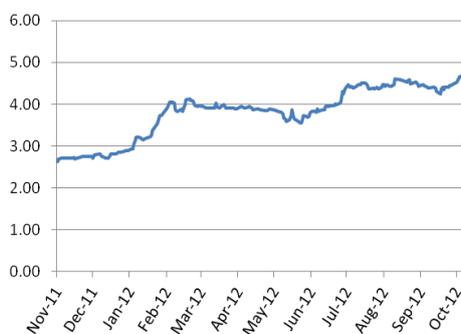
## Share Performance

	1m	3m	12m
Absolute (%)	-1.55	1.60	-31.35
Relative (%-pts)	-1.13	-0.87	7.38

## Major Shareholders

Major Shareholders	%
Hartalega Industries	27.6
Franklin Resource	0.6

## Historical Chart



Source: Bloomberg

## Team Coverage

**03-87361118, ext. 754**

**research.dept@jfpapex.com.my**

## Result

- **Within expectations.** Hartalega recorded RM255m and RM58.5m in revenue and net profit respectively in 2QFY2013, which bring 1HFY2013 revenue to RM502.7m (+12% yoy) and net earnings to RM112m (+11% yoy). Revenue was accounted for 47.6% of our and street's full-year estimates while net profit was 48.5% of our forecast and 49.2% of consensus'.

## Comment

- **Cheaper gloves narrowing the margin** – Total gloves sold in 1HFY2013 jumped 20% to 4.71 bil pcs from 3.93 bil pcs in 1HFY2012, while the topline was 12% higher yoy as the surge in sales volume was partially offset by the lower ASP as a result of lower price of raw material. Average nitrile price in 2QFY2013 slid 11.6% qoq and 32.3% yoy to USD1382/tonnes. The slump in nitrile price was probably attributable to the continued lackluster performance of automotive industry in China. However, the competitive pricing started to pressurize the Group's earnings margin, PBT margin eroded to 28.1% from 29% a year ago.
- **Operationally efficient** – Two production lines in the latest Plant 6 began operation earlier this month. With the additional record-breaking speed of producing 42k pieces of gloves per hour in Plant 6, the Group has improved its total average plant's (Plant 1 to 6) speed to 24k pcs per hour, which is well ahead of the industry average speed of 13-15k pcs per hour. The commissioning of new line is timely as Hartalega's production utilization rate breached the 90% level in 2QFY2013, suggesting the robust demand of nitrile gloves.
- **M&A triggers a re-rating** – We believe the recent series of consolidations in the glove industry, such as privatization of Adventa and takeover of Latexx Partners by Semperit, would trigger a re-rating to the sector. Taking a cue from the offer price of RM2.10 for Adventa and RM2.30 for Latexx Partners which translate into a consensus forward PER of 16x and 12x respectively, we reckon that Hartalega's current valuation is undemanding (trading at only 15.3x PER FY2013F with closing price of RM4.89) considering its niche position as the most profitable and efficient glovemaking in the industry with relatively larger market cap of over RM3.5b.
- **Dividend of 3.5 sen per share declared** – The Group has declared a first interim net dividend of 3.5 sen per share. Moving forward, we expect the Group to give out a total 14sen /share of dividend in FY2013 based on the 45% dividend payout ratio, which translates to a yield of 2.86% (last closing price of RM4.89).

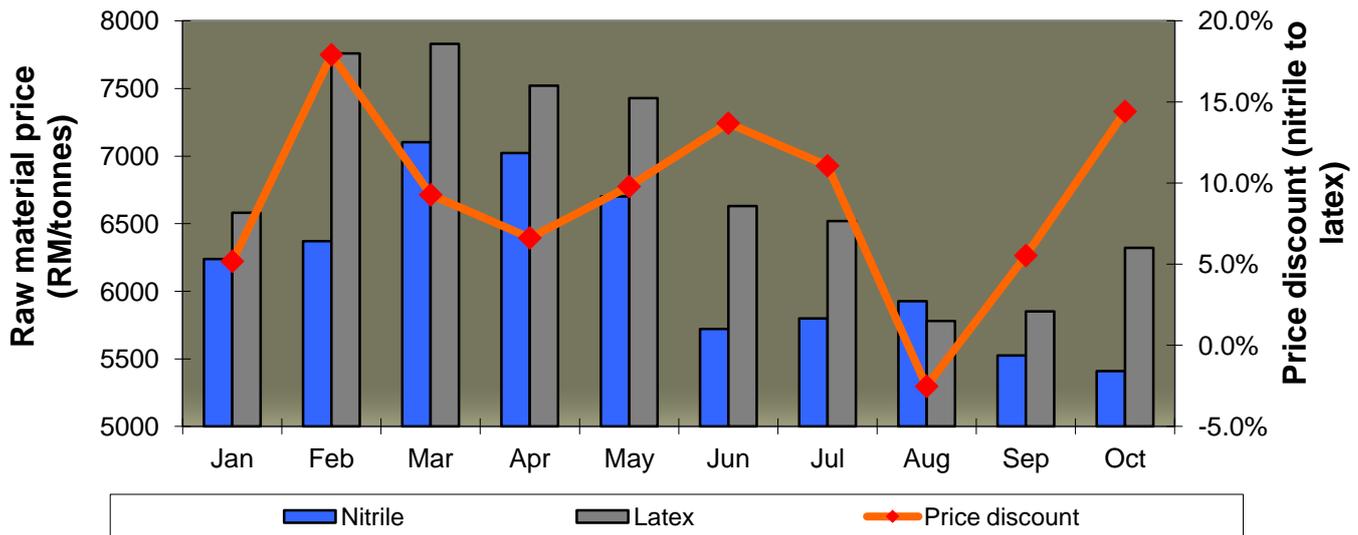
### Earnings Outlook/Revision

- **We make no changes to our earnings forecasts** as we have factored in the topline contribution from the newly commenced 2 production lines of the Plant 6.

### Valuation & Recommendation

- **Maintain BUY with Target Price of RM5.12** – We remain optimistic on the stock as the new lines in Plant 6 suggesting the ever improving of Hartalega’s efficiency as well as its dominant position in the industry. Furthermore, the sector consolidation triggers a re-rating of Hartalega’s valuation. Thus, we apply PER of 16x FY2013F to derive our TP of RM5.12, which is slightly over +1 SD above mean PE.
- **Fundamental long term buy.** As the share price has surged c.7% to a new high of RM4.89 from RM4.58 since we upgraded the stock under our result preview report on 25 Oct 2012, upside to our TP was limited to 4.7%. Nevertheless, we are maintaining our BUY call as we believe the rising demand of nitrile gloves and lower raw material price will continue to spur Hartalega’s future earnings momentum. Furthermore, we view Hartalega as a long term investment opportunity on the back of impressive 21% earnings growth in FY2014 once Plant 6 is fully operational by next calendar year.

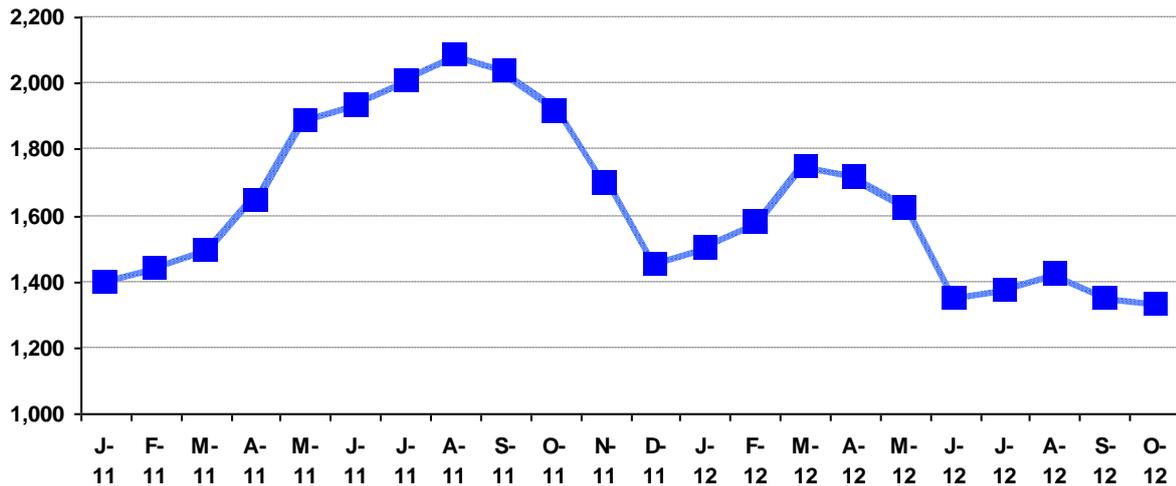
### Latex and rubber price, price discount (nitrile to latex)



Source: Hartalega, JF Apex

**Nitrile decline outpacing latex** – Both of the raw material prices have eased as compared to the start of the year, nitrile has declined by 11.3% whilst latex dropped by 4%. The main rubber consumer, the tyre manufacturers’ demand is still weak as the automotives industry in China continues to struggle. As a result, the poor demand has led to the fall of the prices of both natural and synthetic rubber. Nevertheless, nitrile cost is still priced at a discount to the latex cost in all months except August in CY2012, which indicates better margin for nitrile gloves as the selling prices of both nitrile and latex gloves are close to each other.

### Nitrile price movement



Source: Hartalega, JF Apex

### Quarterly Figures

Year Ending 31 Mac	2QFY13	1QFY13	2QFY12	Q-o-Q	Y-o-Y	1HFY2013	1HFY2012	Y-o-Y
Revenue (RMm)	255.0	247.7	229.5	2.9%	11.1%	502.7	448.9	12.0%
Operating Profit (RMm)	74.9	70.2	60.0	6.7%	24.8%	145	132	9.8%
Profit Before Taxation (RMm)	76.3	69.9	59.6	9.2%	28.0%	141.2	130.2	8.4%
Net Profit (RMm)	58.5	53.4	46.2	9.6%	26.6%	112	100.9	11.0%
EPS(sen)	8.0	7.3	6.3	9.6%	26.6%	15.3	13.8	11.0%
Operating Margin	29.4%	28.3%	26.1%	0.9ppts	3.3ppts	28.8%	29.4%	-0.6ppts
Profit Before Tax Margin	29.9%	28.2%	26.0%	1.7ppts	3.9ppts	28.1%	29.0%	-0.9ppts
Net Profit Margin	22.9%	21.6%	20.1%	1.3ppts	2.8ppts	22.3%	22.5%	-0.2ppts

Source: Company, JF Apex

### Financial Summary

Year Ending 31 Mac	2011	2012	FY2013F	FY2014F	FY2015F
Revenue (RM'm)	734.9	931.1	1056.0	1312.5	1482.3
EBITDA (RM'm)	262.8	290.7	356.2	451.7	490.5
Operating profit (RM'm)	237.9	261.7	311.2	386.7	432.9
Net profit (RM'm)	190.3	201.7	231.0	279.8	326.0
EPS	0.26	0.28	0.32	0.38	0.45
P/E (x)	18.8	17.7	15.5	12.8	11.0
Dividend yield	2.1%	2.5%	2.9%	3.5%	4.1%
EBITDA margin	35.8%	31.2%	33.7%	34.4%	33.1%
PBT margin	33.0%	27.8%	28.0%	27.3%	28.2%
Net profit margin	25.9%	21.7%	21.9%	21.3%	22.0%

Source: Company, JF Apex

### JF APEX SECURITIES BERHAD – CONTACT LIST

#### JF APEX SECURITIES BHD

**Head Office:**

6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 8736 1118  
Facsimile: (603) 8737 4532

**PJ Office:**

15<sup>th</sup> Floor, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 7620 1118  
Facsimile: (603) 7620 6388

#### DEALING TEAM

**Head Office:**

Kong Ming Ming (ext 3237)  
Shirley Chang (ext 3211)  
Norisam Bojo (ext 3233)  
Derrick Ng Wei Yee (ext 3239)  
Edwin Loh Ming Hon (ext 3236)  
Wong Wing Haur, Alvin (ext 3226)  
Koh Lie Ching, Ally (ext 3231)  
Tew Li Mei (ext 3288)

**Institutional Dealing Team:**

Lim Teck Seng  
Sanusi Bin Mansor (ext 740)  
Edy Sukasma (ext 745)  
Fathul Rahman Buyong (ext 741)  
Ramlee Sulaiman (ext 742)  
Ahmad Mansor (ext 744)  
Lum Meng Chan (ext 743)

**PJ Office:**

Mervyn Wong (ext 363)  
Mohd Hanif Wan Said (ext 111)  
Fong Jia Wen (ext 822)  
Farriz Bin Ghazali (ext 812)  
Lai Yee Sam (ext 362)

#### RESEARCH TEAM

**Head Office:**

Lee Chung Cheng (ext 758)  
Lee Cherng Wee (ext 759)  
Jessica Low Jze Tieng (ext 756)  
Soong Wei Siang (ext 754)  
Mohd Shawal Sidek (ext 755)  
Gabriela Fang Minn Fern (ext 753)

### JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

#### STOCK RECOMMENDATIONS

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

#### SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

### JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:  
**JF Apex Securities Berhad** (47680-X)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

07 November 2012

# Hartalega Holdings

## 1HFY13 within expectations

- |                                |  |
|--------------------------------|--|
| <b>Period</b>                  | <ul style="list-style-type: none"> <li>1HFY13</li> </ul>   |
| <b>Actual vs. Expectations</b> | <ul style="list-style-type: none"> <li>The reported 1HFY13 net profit of RM111.9m accounted for 50% and 49% of our full year forecast and the consensus estimates respectively.</li> </ul>   |
| <b>Dividends</b>               | <ul style="list-style-type: none"> <li>The company has declared a first single tier interim dividend of 3.5 sen per share. The entitlement date has been fixed on 23 November 2012.</li> </ul>   |
| <b>Key Results Highlights</b>  | <ul style="list-style-type: none"> <li><b>QoQ</b>, the revenue increased 3% but net profit grew at a faster rate of 9.8% due to the improvement in the net margin by 150bps. We understand that the improved profitability was due mainly to better operation efficiency i.e. improved line speeds as well as cost-containment measures alongside the lower raw material cost. As for the top line, while the growth rate seems marginal, it is somewhat impressive against the declining trend in ASP. The lower ASP (-0.9% for nitrile and -9.4% for latex gloves QoQ) is due to the substantial easing of nitrile and latex input costs as well as price competition. During the quarter, the utilisation rate further improved to 90.7% from 89.5% (vs. our expectation of 85%) despite the increase in capacity by two production lines or 285m pieces glove p.a. during the quarter.</li> <li><b>YoY</b>, the revenue and net profit jumped 11% and 27%, respectively due to the abovementioned reasons (nitrile and latex dropped &gt;20% and &gt;30% YoY respectively) and also the weaker ringgit (2QFY13: RM3.12 vs. 2QFY12: RM3.02).</li> </ul> |
| <b>Outlook</b>                 | <ul style="list-style-type: none"> <li>With the completion and commencement of Plant 6, there will be some 680m pieces of additional glove capacity, lifting the total capacity to more than 10b pieces p.a.. This should further boost its revenue in 2HFY13.</li> <li>Coupled with the improved efficiency and the continued downtrend in latex (&lt;RM6.00/kg currently) and nitrile prices, we reckon the net margin should be able to be supported/hovering around the 20% levels.</li> </ul>   |
| <b>Change to Forecasts</b>     | <ul style="list-style-type: none"> <li>We have fine-tuned our earnings estimates after adjusting our assumptions on the utilisation rates, ASPs and profit margins. Our FY13 and FY14 net earnings have been revised to RM229.2m and RM256.5m respectively from RM 225.8m and 245.3m, representing marginal adjustments of 2% and 5% respectively.</li> </ul>  |
| <b>Rating</b>                  | <p><b>Maintaining MARKET PERFORM</b> as the stock offers a &lt;10% total return even after our Target Price revision.</p>  |
| <b>Valuation</b>               | <ul style="list-style-type: none"> <li>In line with our earnings revision and the revived investment sentiment in the sector, we have revised up our Target Price to RM5.12 from RM4.65, implying 15x CY13 PER, which is the +1 standard deviation above the 3-year average PER and also in line with the valuation of FBM KLCI.</li> </ul>  |
| <b>Risks</b>                   | <ul style="list-style-type: none"> <li>(i) Lower utilisation rate (ii) squeeze in margin &amp; (iii) fluctuation in ringgit and commodity prices.</li> </ul>   |

## MARKET PERFORM ↔

**Price: RM4.89**  
**Target Price: RM5.12 ↑**

### Share Price Performance



KLCI	1645.63
YTD KLCI chg	7.5%
YTD stock price chg	67.5%

### Stock Information

Bloomberg Ticker	HART MK Equity
Market Cap (RM m)	3,578.5
Issued shares	731.8
52-week range (H)	4.94
52-week range (L)	2.71
3-mth avg daily vol:	289,625
Free Float	71%
Beta	0.7

### Major Shareholders

HARTALEGA IND.	27.6%
FRANKLIN RESOURCES	0.6%
DEUTSCHE BANK AG	0.4%

### Summary Earnings Table

FY Mar (RM'm)	2012A	2013E	2014E
Turnover	931.1	1,083.9	1,290.2
EBIT	257.9	296.2	333.5
PBT	258.4	295.8	332.7
<b>Net Profit (NP)</b>	<b>201.4</b>	<b>229.2</b>	<b>256.5</b>
Consensus (NP)	-	227.5	256.2
Earnings Revision	-	+2%	+5%
EPS (sen)	27.6	31.4	35.1
EPS growth (%)	5%	14%	12%
DPS (sen)	12.5	13.5	13.5
NTA/Share (RM)	0.85	1.03	1.24
PER	17.7	15.6	13.9
Price/NTA (x)	5.8	4.8	3.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	2.6	2.8	2.8

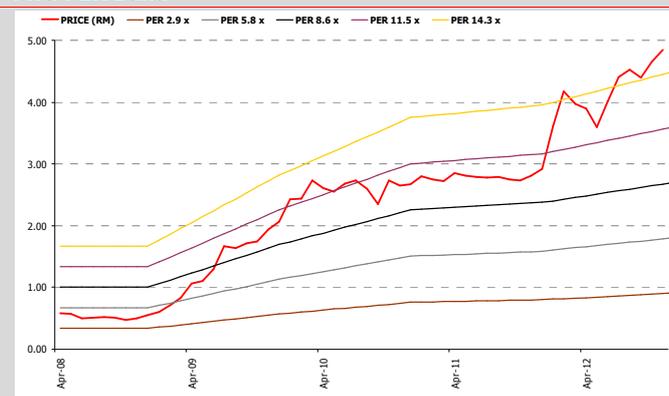
The Research Team  
[research@kenanga.com.my](mailto:research@kenanga.com.my)  
 +603 2713 2292

**Result Highlight**

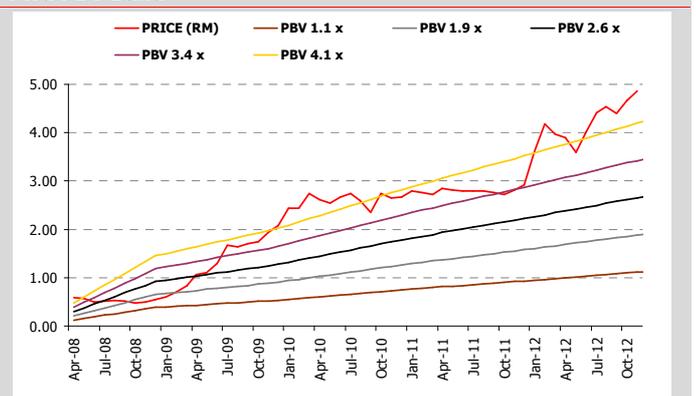
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
<b>FY Mar (RM 'm)</b>	<b>FY13</b>	<b>FY12</b>	<b>Chg</b>	<b>FY12</b>	<b>Chg</b>	<b>FY13</b>	<b>FY12</b>	<b>Chg</b>
<b>Turnover</b>	<b>255</b>	<b>248</b>	<b>3.0</b>	<b>230</b>	<b>11</b>	<b>503</b>	<b>449</b>	<b>12.0</b>
EBITDA	84	77	8.2	67	25	161	145	11.1
EBIT	77	70	9.0	60	28	147	131	11.9
PBT	76	70	9.1	60	28	146	130	12.3
<b>Net Profit (NP)</b>	<b>59</b>	<b>53</b>	<b>9.8</b>	<b>46</b>	<b>27</b>	<b>112</b>	<b>101</b>	<b>10.9</b>
EPS (sen)	8.0	7.3	9.8	6.3	27	15.3	13.9	10.4
DPS (sen)	3.5	0.0	N.M.	3.0	N.M.	3.5	3.0	N.M.
EBITDA margin	32.9%	31.3%		29.3%		32.1%	32.4%	
EBIT margin	30.0%	28.3%		26.1%		29.2%	29.2%	
PBT margin	29.9%	28.2%		25.9%		29.1%	29.0%	
NP margin	23.0%	21.5%		20.1%		22.3%	22.5%	
Effective tax rate	23.2%	23.6%		22.5%		23.4%	22.5%	
Net Gearing (x)	Net Cash	Net Cash		Net Cash		Net Cash	Net Cash	
BV/Share (sen)	94.0	89.4		76.3		94.0	76.3	

Source: Company, Kenanga Research

**Fwd PER Band**



**Fwd PBV Band**



Source: Kenanga Research

**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in suBangsar South Citytitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 WeBangsar South Cityite: [www.kenangaresearch.com](http://www.kenangaresearch.com)



Chan Ken Yew  
Head of Research

### Buy (unchanged)

Share price: MYR4.58  
Target price: MYR5.40 (from MYR5.00)

Lee Yen Ling  
lee.yl@maybank-ib.com  
(03) 2297 8691



#### Stock Information

**Description:** World's biggest OEM nitrile glove manufacturer

Ticker:	HART MK
Shares Issued (m):	731.8
Market Cap (MYR m):	3,351.5
3-mth Avg Daily Turnover (US\$ m):	0.46
ST Index:	1,669.76
Free float (%):	71.6

<b>Major Shareholders:</b>	%
Hartalega Industries	51.0

#### Key Indicators

ROE – annualised (%)	30.0
Net cash (MYR m):	129.4
NTA/shr (MYR):	0.89

#### Historical Chart



#### Performance:

52-week High/Low	MYR4.73/MYR2.685				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	5.0	1.8	16.7	65.6	56.8
Relative (%)	1.9	(0.3)	11.0	51.1	47.8

## Hartalega Onward and Upward

**Scaling greater heights.** Upcoming results are likely to come in within our and market expectations. We expect 2QFY3/13 net profit to grow 9% QoQ and 26% YoY. Earnings growth in the sequential quarters will be stronger owing to contributions from its new capacity at Plant 6. We continue to like Hartalega's growth (projected 3-year earnings CAGR of 10%) and decent 3% dividend yield. Our 12M TP is raised to MYR5.40 (+8%) as we roll over the base for our target PER of 15x to CY14.

**Expect good growth in 2QFY3/13.** 2QFY3/13 results are scheduled to be released on 6 Nov 2012. We expect the company to post a net profit of around MYR55-60m (+9% QoQ, +26% YoY) on: (i) higher sales volume of 2.3b pcs (+3% QoQ, +17% YoY); (ii) a slightly higher EBITDA margin as the cut in ASP of its nitrile gloves was less than the fall in NBR cost (-13% QoQ, -33% YoY). This would lift 1HFY3/13 net profit to MYR108-113m (+7-12% YoY). We also expect Hartalega to declare its first interim dividend for FY3/13 (2QFY3/12: 6sen/shr).

**Aggressive expansion on track.** Hartalega has commissioned its first two production lines (out of ten) at Plant 6 at end-2QFY3/13; full commercialisation (+36% to 14b pcs p.a.) is expected by 1QFY3/14. We understand that bookings have already been secured for half of the planned new capacity at Plant 6 from existing customers, while the balance will only be taken up when the plant is closer to full completion.

**No fear of overcapacity.** The industry-wide expansion into the production of nitrile gloves will see Malaysia's supply of nitrile gloves increase by c.10b pcs in 2013. However, we believe nitrile glove demand will continue to grow, absorbing the new capacities; Malaysia alone exported 7b pcs more nitrile gloves in 2011. Moreover, glove-makers are rational, in our view, and would scale down their expansion if demand is weaker than expected.

**Potential upside to forecasts.** Our forecasts are conservative: FY3/14 earnings growth of 14% is almost certain, based on orders in hand; but FY3/15 earnings growth of 8% is based on a sales volume growth assumption of just 8%, well below its planned capacity expansion of 26%. We retain our forecasts for now but believe Hartalega's share price will continue to rise to reflect its ever-rising earnings.

#### Hartalega – Summary Earnings Table

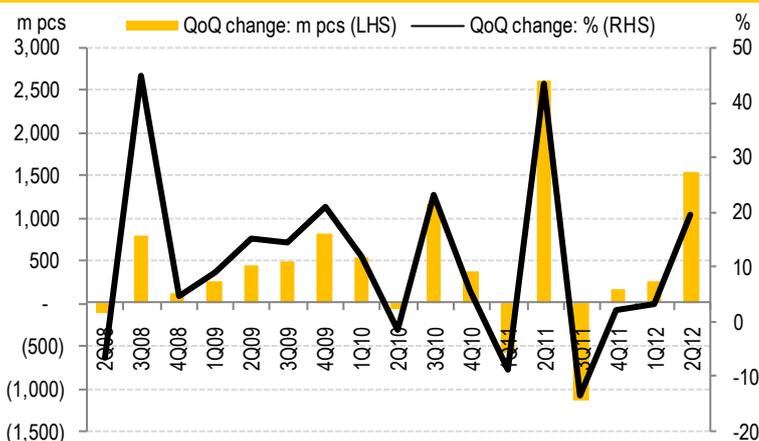
Source: Maybank KE

FYE Mar (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	734.9	931.1	1,035.8	1,266.7	1,369.3
EBITDA	267.9	286.7	323.9	377.9	407.3
Recurring Net Profit	190.3	208.3	217.1	248.0	267.8
Recurring Basic EPS (cents)	26.2	28.6	29.9	34.1	36.8
EPS growth (%)	33.1	9.5	4.2	14.2	8.0
DPS (cents)	10.5	10.8	13.4	15.3	16.6
PER	17.6	16.1	15.4	13.5	12.5
EV/EBITDA (x)	12.2	11.2	10.3	8.9	8.0
Div Yield (%)	2.3	2.3	2.9	3.3	3.6
P/BV(x)	6.8	5.4	4.5	3.8	3.3
Net Gearing (%)	Cash	Cash	Cash	2.0	Cash
ROE (%)	38.5	32.5	29.4	28.3	26.2
ROA (%)	30.1	26.8	22.2	22.0	22.5
Consensus Net Profit (MYR m)	-	-	226.1	254.1	287.9

## Other updates

**Strong nitrile glove demand.** In 2Q12, Malaysia's export of synthetic gloves was at a historical high of 9.4b pcs (+19% QoQ, +9% YoY), driven by the demand switch in the US and Europe to the lower-priced nitrile gloves. The split between latex and nitrile glove sales in the global glove market is around 70:30, implying more room for growth in nitrile glove sales. Additionally, Hartalega is also developing some new types of nitrile gloves to satisfy demand from the emerging markets over the longer-term.

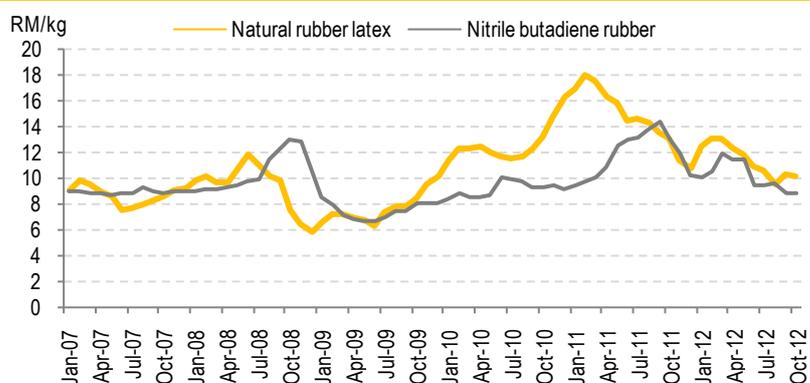
### Malaysia: Export of synthetic glove



Sources: MREPC, Maybank KE

**NBR input cost below that of latex.** NBR's price discount to latex has widened to 12% (vs. a 2% premium in Aug 2012) as NBR prices fell (-6% in the last two months) while latex prices rebounded (+7% in 2-month). Presently, the ASP of premium quality nitrile gloves is on par to similar quality latex powder-free gloves, ensuring the competitiveness of nitrile gloves.

### Input cost comparison: NBR is at 12% discount to latex currently



Sources: Company, Bloomberg, Maybank KE

**Plant 6 coming onstream, planning for Plant 7.** Hartalega has commissioned the first two of a total of ten production lines at Plant 6 at end-2QFY3/13 (Jul-Sep 2012); full commercialisation (+36% to 14b pcs p.a.) is expected by 1QFY3/14. Thereafter, new capacity from Plant 7 at Sepang will come on stream gradually from 4QFY3/14 (Jan-Mar 2014) onwards. Construction of Plant 7 will begin in 4QFY3/13 (Jan-Mar 2013) and full commercialisation (+32% to 18.4b pcs p.a.) is expected by end-FY3/15.

**Hartalega: Planned expansion (installed capacity in b pcs p.a.)**

Timeline	End-FY12	End-FY13	End-FY14	End-FY15
	Plant 1-5	Plant 6	Plant 6 + Plant 7	Plant 7
Total capacity	10.4	12.9	15.1	18.4
New capacity	-	+2.6	+2.2	+3.3

Sources: Company, Maybank KE

**To pass on structural cost inflation.** We think the imminent hikes in minimum wages (wef Jan 2013) and gas prices (timing unknown) will likely be passed on, as the cost inflation is industry-wide and Malaysia controls 65% of the global glove market.

- We estimate that the new minimum wage of MYR900/month will result in a total cost increase of MYR8m p.a. for Hartalega (or a 1% increase in total production cost), as labour accounts for 11% of Hartalega's total production cost.
- Two scheduled bi-annual MYR6/mmbtu gas price hikes were missed (Dec 2011 and Jun 2012) and the government is likely to delay another scheduled gas price hike in Dec 2012. The total quantum of the delayed gas price increases will amount MYR18/mmbtu (+120% from the current gas price of MYR15/mmbtu) by Dec 2012. We believe the government will phase out gas price hikes in 2013, and not implement a steep rise in gas prices. Assuming a 120% increase in gas prices, we estimate that Hartalega will experience a 10% rise in total costs. Note that gas accounts for 8% of Hartalega's total production cost.

Our earnings forecasts have imputed the minimum wage hike but not the potential gas price hike in 2013.

**INCOME STATEMENT (MYR m)**

FYE Mar	2012A	2013F	2014F	2015F
Revenue	931.1	1,035.8	1,266.7	1,369.3
EBITDA	286.7	323.9	377.9	407.3
Depreciation & Amortisation	(27.3)	(46.0)	(58.0)	(64.6)
<b>Operating Profit (EBIT)</b>	<b>259.4</b>	<b>277.9</b>	<b>319.9</b>	<b>342.6</b>
Interest (Exp)/Inc	(0.8)	(3.1)	(6.0)	(3.6)
Associates	0.0	0.0	0.0	0.0
One-offs	(6.7)	0.0	0.0	0.0
<b>Pre-Tax Profit</b>	<b>258.6</b>	<b>274.8</b>	<b>313.9</b>	<b>339.0</b>
Tax	(56.9)	(57.7)	(65.9)	(71.2)
Minority Interest	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>201.6</b>	<b>217.1</b>	<b>248.0</b>	<b>267.8</b>
<b>Recurring Net Profit</b>	<b>208.3</b>	<b>217.1</b>	<b>248.0</b>	<b>267.8</b>
Revenue Growth %	26.7	11.2	22.3	8.1
EBITDA Growth (%)	7.0	13.0	16.7	7.8
EBIT Growth (%)	6.8	7.1	15.1	7.1
Net Profit Growth (%)	5.9	7.7	14.2	8.0
Recurring Net Profit Growth (%)	9.5	4.2	14.2	8.0
Tax Rate %	22.0	21.0	21.0	21.0

**CASH FLOW (MYR m)**

FYE Mar	2012A	2013F	2014F	2015F
Profit before taxation	258.6	274.8	313.9	339.0
Depreciation	27.3	46.0	58.0	64.6
Net interest receipts/(payments)	0.8	3.1	6.0	3.6
Working capital change	(45.9)	(17.4)	(38.3)	(17.0)
Cash tax paid	(49.1)	(57.7)	(65.9)	(71.2)
Others (incl'd exceptional items)	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>191.7</b>	<b>248.8</b>	<b>273.7</b>	<b>319.1</b>
Capex	(60.2)	(280.0)	(180.0)	(100.0)
Disposal/(purchase)	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(60.1)</b>	<b>(280.0)</b>	<b>(180.0)</b>	<b>(100.0)</b>
Debt raised/(repaid)	(4.1)	100.0	0.0	(90.0)
Equity raised/(repaid)	2.0	3.0	4.0	5.0
Dividends (paid)	(87.4)	(97.7)	(111.6)	(120.5)
Interest payments	(0.8)	(3.1)	(6.0)	(3.6)
Others	4.9	(3.0)	(4.0)	(5.0)
<b>Cash flow from financing</b>	<b>(85.4)</b>	<b>(0.8)</b>	<b>(117.6)</b>	<b>(214.1)</b>
Change in cash	46.2	(32.0)	(23.9)	4.9

Source: Company, Maybank KE

**BALANCE SHEET (MYR m)**

FYE Mar	2012A	2013F	2014F	2015F
Fixed Assets	379.7	613.7	735.8	771.1
Other LT Assets	0.4	0.4	0.4	0.4
Cash/ST Investments	163.2	131.2	107.3	112.2
Other Current Assets	208.6	232.0	283.7	306.7
<b>Total Assets</b>	<b>752.0</b>	<b>977.4</b>	<b>1,127.3</b>	<b>1,190.5</b>
ST Debt	12.6	12.6	12.6	12.6
Other Current Liabilities	67.4	73.4	86.9	92.8
LT Debt	12.1	112.1	112.1	22.1
Other LT Liabilities	39.7	39.7	39.7	39.7
Minority Interest	0.5	0.5	0.5	0.5
Shareholders' Equity	619.7	739.1	875.5	1,022.8
<b>Total Liabilities-Capital</b>	<b>752.0</b>	<b>977.4</b>	<b>1,127.3</b>	<b>1,190.5</b>
Share Capital (m)	727.1	727.1	727.1	727.1
Net Cash/(Debt)	138.6	6.6	(17.3)	77.6
Working capital	154.4	171.8	210.1	227.1
Net gearing (%)	Cash	Cash	0.02	Cash

**RATES & RATIOS**

FYE Mar	2012A	2013F	2014F	2015F
EBITDA Margin %	30.8	31.3	29.8	29.7
Op. Profit Margin %	27.9	26.8	25.3	25.0
Net Profit Margin %	21.7	21.0	19.6	19.6
ROE %	32.5	29.4	28.3	26.2
ROA %	26.8	22.2	22.0	22.5
Net Margin Ex. EI %	21.7	21.0	19.6	19.6
Dividend Cover (x)	2.7	2.2	2.2	2.2
Interest Cover (x)	116.1	53.3	36.4	61.6
Asset Turnover (x)	1.2	1.1	1.1	1.2
Asset/Debt (x)	30.5	7.8	9.0	34.4
Debtors Turn (days)	43.5	43.5	43.5	43.5
Creditors Turn (days)	21.2	21.2	21.2	21.2
Inventory Turn (days)	38.2	38.2	38.2	38.2
Net Gearing %	Cash	Cash	Cash	Cash
Debt/EBITDA (x)	0.1	0.4	0.3	0.1
Debt/Market Cap (x)	0.0	0.0	0.0	0.0

## RESEARCH OFFICES

## REGIONAL

## P K BASU

*Regional Head, Research & Economics*  
(65) 6432 1821 pk.basu@maybank-ke.com.sg

## WONG Chew Hann, CA

*Acting Regional Head of Institutional Research*  
(603) 2297 8686 wchewh@maybank-ib.com

## THAM Mun Hon, CFA

*Regional Strategist*  
(852) 2268 0630 thammunhon@kimeng.com.hk

## ONG Seng Yeow

*Regional Products & Planning*  
(852) 2268 0644 ongsengyeow@maybank-ke.com.sg

## MALAYSIA

**WONG Chew Hann, CA** *Head of Research*  
(603) 2297 8686 wchewh@maybank-ib.com

- Strategy
- Construction & Infrastructure

## Desmond CH'NG, ACA

(603) 2297 8680 desmond.chng@maybank-ib.com

- Banking - *Regional*

## LIAW Thong Jung

(603) 2297 8688 tjliaw@maybank-ib.com

- Oil & Gas

- Automotive

- Shipping

## ONG Chee Ting, CA

(603) 2297 8678 ct.ong@maybank-ib.com

- Plantations

## Mohshin AZIZ

(603) 2297 8692 mohshin.aziz@maybank-ib.com

- Aviation

- Petrochem

- Power

## YIN Shao Yang, CPA

(603) 2297 8916 samuel.y@maybank-ib.com

- Gaming - *Regional*

- Media

- Power

## TAN CHI WEI, CFA

(603) 2297 8690 chiwei.t@maybank-ib.com

- Construction & Infrastructure

- Power

## WONG Wei Sum, CFA

(603) 2297 8679 weisum@maybank-ib.com

- Property & REITs

## LEE Yen Ling

(603) 2297 8691 lee.yl@maybank-ib.com

- Building Materials

- Manufacturing

- Technology

LEE Cheng Hooi *Head of Retail*

chenghooi.lee@maybank-ib.com

- Technicals

## HONG KONG / CHINA

Edward FUNG *Head of Research*

(852) 2268 0632 edwardfung@kimeng.com.hk

- Construction

## Ivan CHEUNG

(852) 2268 0634 ivancheung@kimeng.com.hk

- Property

- Industrial

## Ivan LI

(852) 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

## Jacqueline Ko

(852) 2268 0633 jacquelineko@kimeng.com.hk

- Consumer Staples

## Andy POON

(852) 2268 0645 andypoon@kimeng.com.hk

- Telecom & equipment

## Alex YEUNG

(852) 2268 0636 alexyeung@kimeng.com.hk

- Industrial

## INDIA

Jigar SHAH *Head of Research*

(91) 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas

- Automobile

- Cement

## Anubhav GUPTA

(91) 22 6623 2605 anubhav@kimeng.co.in

- Metal & Mining

- Capital goods

- Property

## Ganesh RAM

(91) 226623 2607 ganeshram@kimeng.co.in

- Telecom

- Contractor

## ECONOMICS

## Suhaimi ILIAS

*Chief Economist*  
▪ Singapore | Malaysia  
(603) 2297 8682 suhaimi\_iliass@maybank-ib.com

## Luz LORENZO

*Economist*  
▪ Philippines | Indonesia  
(63) 2 849 8836 luz\_lorenzo@maybank-atrke.com

## SINGAPORE

Stephanie WONG *Head of Research*

(65) 6432 1451 swong@maybank-ke.com.sg

- Strategy
- Small & Mid Caps

## Gregory YAP

(65) 6432 1450 gyap@maybank-ke.com.sg

- Technology & Manufacturing

- Telcos - *Regional*

## Wilson LIEW

(65) 6432 1454 wilsonliaw@maybank-ke.com.sg

- Hotel & Resort

- Property & Construction

## James KOH

(65) 6432 1431 jameskoh@maybank-ke.com.sg

- Logistics

- Resources

- Consumer

- Small & Mid Caps

## YEAK Chee Keong, CFA

(65) 6433 5730 yeakcheekeong@maybank-ke.com.sg

- Healthcare

- Offshore & Marine

## Alison FOK

(65) 6433 5745 alisonfok@maybank-ke.com.sg

- Services

- S-chips

## Bernard CHIN

(65) 6433 5726 bernardchin@maybank-ke.com.sg

- Transport (Land, Shipping & Aviation)

## ONG Kian Lin

(65) 6432 1470 ongkianlin@maybank-ke.com.sg

- REITs / Property

## Wei Bin

(65) 6432 1455 weibin@maybank-ke.com.sg

- S-chips

- Small & Mid Caps

## INDONESIA

Katarina SETIAWAN *Head of Research*

(62) 21 2557 1125 ksetiawan@kimeng.co.id

- Consumer

- Strategy

- Telcos

## Lucky ARIESANDI, CFA

(62) 21 2557 1127 lariesandi@kimeng.co.id

- Base metals

- Coal

- Oil & Gas

## Rahmi MARINA

(62) 21 2557 1128 rmarina@kimeng.co.id

- Banking

- Multifinance

## Pandu ANUGRAH

(62) 21 2557 1137 panugrah@kimeng.co.id

- Auto

- Heavy equipment

- Plantation

- Toll road

## Adi N. WICAKSONO

(62) 21 2557 1130 anwicaksono@kimeng.co.id

- Generalist

## Anthony YUNUS

(62) 21 2557 1134 ayunus@kimeng.co.id

- Cement

- Infrastructure

- Property

## Arwani PRANADJAYA

(62) 21 2557 1129 apranadjaya@kimeng.co.id

- Technicals

## PHILIPPINES

Luz LORENZO *Head of Research*

(63) 2 849 8836 luz\_lorenzo@maybank-atrke.com

- Strategy

## Laura DY-LIACCO

(63) 2 849 8840 laura\_dyliacco@maybank-atrke.com

- Utilities

- Conglomerates

- Telcos

## Lovell SARREAL

(63) 2 849 8841 lovell\_sarreal@maybank-atrke.com

- Consumer

- Media

- Cement

## Kenneth NERECINA

(63) 2 849 8839 kenneth\_nerecina@maybank-atrke.com

- Conglomerates

- Property

- Ports/Logistics

## Katherine TAN

(63) 2 849 8843 kat\_tan@maybank-atrke.com

- Banks

- Construction

## Ramon ADVIENTO

(63) 2 849 8842 ramon\_adviento@maybank-atrke.com

- Mining

## THAILAND

Mayuree CHOWWIKRAN *Head of Research*

(66) 2658 6300 ext 1440 mayuree.c@maybank-ke.co.th

- Strategy

Maria BRENDA SANCHEZ LAPIZ *Co-Head of Research*

Dir (66) 2257 0250 | (66) 2658 6300 ext 1399

Maria.L@maybank-ke.co.th

- Consumer/ Big Caps

Andrew STOTZ *Strategist*

(66) 2658 6300 ext 5091

Andrew@maybank-ke.co.th

## Suttatip PEERASUB

(66) 2658 6300 ext 1430 suttatip.p@maybank-ke.co.th

- Media

- Commerce

## Sutthichai KUMWORACHAI

(66) 2658 6300 ext 1400 sutthichai.k@maybank-ke.co.th

- Energy

- Petrochem

## Termporn TANTIVVAT

(66) 2658 6300 ext 1520 termporn.t@maybank-ke.co.th

- Property

## Woraphon WIROONSRI

(66) 2658 6300 ext 1560 woraphon.w@maybank-ke.co.th

- Banking & Finance

## Jaroonpan WATTANAWONG

(66) 2658 6300 ext 1404 jaronpan.w@maybank-ke.co.th

- Transportation

- Small cap.

## Chatchai JINDARAT

(66) 2658 6300 ext 1401 chatchai.j@maybank-ke.co.th

- Electronics

## Pongrat RATANATAVANANANDA

(66) 2658 6300 ext 1398 pongrat.R@maybank-ke.co.th

- Services/ Small Caps

## VIETNAM

Michael KOKALARI, CFA *Head of Research*

(84) 838 38 66 47 michael.kokalari@kimeng.com.vn

- Strategy

## Nguyen Thi Ngan TUYEN

(84) 844 55 58 88 x 8081 tuyen.nguyen@kimeng.com.vn

- Food and Beverage

## § Oil and Gas

## Ngo Bich Van

(84) 844 55 58 88 x 8084 van.ngo@kimeng.com.vn

- Banking

## Trinh Thi Ngoc Diep

(84) 844 55 58 88 x 8242 diep.trinh@kimeng.com.vn

- Technology

- Utilities

- Construction

## Dang Thi Kim THOA

(84) 844 55 58 88 x 8083 thoa.dang@kimeng.com.vn

- Consumer

## Nguyen Trung HOA

+84 844 55 58 88 x 8088 hoa.nguyen@kimeng.com.vn

- Steel

- Sugar

- Resources

## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

### DISCLAIMERS

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank Investment Bank Berhad, its subsidiary and affiliates (collectively, "MKE") and consequently no representation is made as to the accuracy or completeness of this report by MKE and it should not be relied upon as such. Accordingly, MKE and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. MKE expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

MKE and its officers, directors and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. MKE may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of MKE may be a director of the issuers of the securities mentioned in this report.

This report is prepared for the use of MKE's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of MKE and MKE and its Representatives accepts no liability whatsoever for the actions of third parties in this respect.

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. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

#### Malaysia

Opinions or recommendations contained herein are in the form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from Bursa Malaysia Securities Berhad in the equity analysis.

#### Singapore

This report has been produced as of the date hereof and the information herein may be subject to change. Maybank Kim Eng Research Pte. Ltd. ("Maybank KERPL") in Singapore has no obligation to update such information for any recipient. For distribution in Singapore, recipients of this report are to contact Maybank KERPL in Singapore in respect of any matters arising from, or in connection with, this report. If the recipient of this report is not an accredited investor, expert investor or institutional investor (as defined under Section 4A of the Singapore Securities and Futures Act), Maybank KERPL shall be legally liable for the contents of this report, with such liability being limited to the extent (if any) as permitted by law.

#### Thailand

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 may be changed after that date. Maybank Kim Eng Securities (Thailand) Public Company Limited ("MBKET") does not confirm nor certify the accuracy of such survey result.

Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of MBKET. MBKET accepts no liability whatsoever for the actions of third parties in this respect.

#### US

This research report prepared by MKE is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Maybank Kim Eng Securities USA Inc ("Maybank KESUSA"), a broker-dealer registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if MKE is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Maybank KESUSA is permitted to provide research material concerning investments to you under relevant legislation and regulations.

#### UK

This document is being distributed by Maybank Kim Eng Securities (London) Ltd ("Maybank KESL") which is authorized and regulated, by the Financial Services Authority and is for Informational Purposes only. This document is not intended for distribution to anyone defined as a Retail Client under the Financial Services and Markets Act 2000 within the UK. Any inclusion of a third party link is for the recipients convenience only, and that the firm does not take any responsibility for its comments or accuracy, and that access to such links is at the individuals own risk. Nothing in this report should be considered as constituting legal, accounting or tax advice, and that for accurate guidance recipients should consult with their own independent tax advisers.

## DISCLOSURES

### Legal Entities Disclosures

**Malaysia:** This report is issued and distributed in Malaysia by Maybank Investment Bank Berhad (15938-H) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets and Services License issued by the Securities Commission in Malaysia. **Singapore:** This material is issued and distributed in Singapore by Maybank KERPL (Co. Reg No 197201256N) which is regulated by the Monetary Authority of Singapore. **Indonesia:** PT Kim Eng Securities ("PTKES") (Reg. No. KEP-251/PM/1992) is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Thailand:** MBKET (Reg. No.0107545000314) is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Philippines:** MATRKES (Reg. No.01-2004-00019) is a member of the Philippines Stock Exchange and is regulated by the Securities and Exchange Commission. **Vietnam:** Kim Eng Vietnam Securities Company ("KEVS") (License Number: 71/UBCK-GP) is licensed under the State Securities Commission of Vietnam. **Hong Kong:** KESHK (Central Entity No AAD284) is regulated by the Securities and Futures Commission. **India:** Kim Eng Securities India Private Limited ("KESI") is a participant of the National Stock Exchange of India Limited (Reg No: INF/INB 231452435) and the Bombay Stock Exchange (Reg. No. INF/INB 011452431) and is regulated by Securities and Exchange Board of India. KESI is also registered with SEBI as Category 1 Merchant Banker (Reg. No. INM 000011708) **US:** Maybank KESUSA is a member of/ and is authorized and regulated by the FINRA – Broker ID 27861. **UK:** Maybank KESL (Reg No 2377538) is authorized and regulated by the Financial Services Authority.

### Disclosure of Interest

**Malaysia:** MKE and its Representatives may from time to time have positions or be materially interested in the securities referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such securities and may also perform or seek to perform investment banking services, advisory and other services for or relating to those companies.

**Singapore:** As of 29 October 2012, Maybank KERPL and the covering analyst do not have any interest in any companies recommended in this research report.

**Thailand:** MBKET may have a business relationship with or may possibly be an issuer of derivative warrants on the securities /companies mentioned in the research report. Therefore, Investors should exercise their own judgment before making any investment decisions. MBKET, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.

**Hong Kong:** KESHK may have financial interests in relation to an issuer or a new listing applicant referred to as defined by the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

As of 29 October 2012, KESHK and the authoring analyst do not have any interest in any companies recommended in this research report.

MKE may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

## OTHERS

### Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

### Reminder

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct its own analysis of the product and consult with its own professional advisers as to the risks involved in making such a purchase.

**No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior consent of MKE.**

### Definition of Ratings

Maybank Kim Eng Research uses the following rating system:

<b>BUY</b>	Total return is expected to be above 10% in the next 12 months (excluding dividends)
<b>HOLD</b>	Total return is expected to be between -10% to +10% in the next 12 months (excluding dividends)
<b>SELL</b>	Total return is expected to be below -10% in the next 12 months (excluding dividends)

### Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

### Some common terms abbreviated in this report (where they appear):

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

 **Malaysia**

**Maybank Investment Bank Berhad**  
(A Participating Organisation of  
Bursa Malaysia Securities Berhad)  
33rd Floor, Menara Maybank,  
100 Jalan Tun Perak,  
50050 Kuala Lumpur  
Tel: (603) 2059 1888;  
Fax: (603) 2078 4194

Stockbroking Business:  
Level 8, Tower C, Dataran Maybank,  
No.1, Jalan Maarof  
59000 Kuala Lumpur  
Tel: (603) 2297 8888  
Fax: (603) 2282 5136

 **Philippines**

**Maybank ATR Kim Eng Securities  
Inc.**  
17/F, Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 849 8888  
Fax: (63) 2 848 5738

 **South Asia Sales Trading**

Connie TAN  
connie@maybank-ke.com.sg  
Tel: (65) 6333 5775  
US Toll Free: 1 866 406 7447

 **Singapore**

**Maybank Kim Eng Securities Pte Ltd  
Maybank Kim Eng Research Pte Ltd**  
9 Temasek Boulevard  
#39-00 Suntec Tower 2  
Singapore 038989

Tel: (65) 6336 9090  
Fax: (65) 6339 6003

 **Hong Kong**

**Kim Eng Securities (HK) Ltd**  
Level 30,  
Three Pacific Place,  
1 Queen's Road East,  
Hong Kong

Tel: (852) 2268 0800  
Fax: (852) 2877 0104

 **Thailand**

**Maybank Kim Eng Securities  
(Thailand) Public Company  
Limited**  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road Pathumwan,  
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)  
Tel: (66) 2 658 6801 (research)

 **North Asia Sales Trading**

Eddie LAU  
eddielau@kimeng.com.hk  
Tel: (852) 2268 0800  
US Toll Free: 1 866 598 2267

 **London**

**Maybank Kim Eng Securities  
(London) Ltd**  
6/F, 20 St. Dunstan's Hill  
London EC3R 8HY, UK

Tel: (44) 20 7621 9298  
Dealers' Tel: (44) 20 7626 2828  
Fax: (44) 20 7283 6674

 **Indonesia**

**PT Kim Eng Securities**  
Plaza Bapindo  
Citibank Tower 17<sup>th</sup> Floor  
Jl Jend. Sudirman Kav. 54-55  
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188  
Fax: (62) 21 2557 1189

 **Vietnam**

*In association with*  
**Kim Eng Vietnam Securities  
Company**  
1st Floor, 255 Tran Hung Dao St.  
District 1  
Ho Chi Minh City, Vietnam

Tel : (84) 838 38 66 36  
Fax : (84) 838 38 66 39

 **New York**

**Maybank Kim Eng Securities  
USA Inc**  
777 Third Avenue, 21st Floor  
New York, NY 10017, U.S.A.

Tel: (212) 688 8886  
Fax: (212) 688 3500

 **India**

**Kim Eng Securities India Pvt Ltd**  
2nd Floor, The International 16,  
Maharishi Karve Road,  
Churchgate Station,  
Mumbai City - 400 020, India

Tel: (91).22.6623.2600  
Fax: (91).22.6623.2604

 **Saudi Arabia**

*In association with*  
**Anfaal Capital**  
Villa 47, Tujjar Jeddah  
Prince Mohammed bin Abdulaziz  
Street P.O. Box 126575  
Jeddah 21352

Tel: (966) 2 6068686  
Fax: (966) 26068787

### Buy (unchanged)

Share price: MYR4.89  
Target price: MYR5.40 (unchanged)

Lee Yen Ling  
lee.yl@maybank-ib.com  
(03) 2297 8691



#### Stock Information

**Description:** World's biggest OEM nitrile glove manufacturer

Ticker:	HART MK
Shares Issued (m):	731.8
Market Cap (MYR m):	3,578.5
3-mth Avg Daily Turnover (US\$ m):	0.42
ST Index:	1,645.63
Free float (%):	71.6

<b>Major Shareholders:</b>	%
Hartalega Industries	51.0

#### Key Indicators

ROE – annualised (%)	32.0
Net cash (MYR m):	147.7
NTA/shr (MYR):	0.94

#### Historical Chart



#### Performance:

52-week High/Low	MYR4.94/MYR2.705				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	8.9	9.9	24.7	80.8	67.5
Relative (%)	9.8	9.5	21.3	69.4	60.0

## Hartalega

### Proxy To Strong Nitrile Glove Demand

**Growth within expectations.** 6M12 core net profit of MYR113m (+8% YoY) made up 52% and 50% of our and market's full-year forecasts respectively. We expect earnings growth momentum to sustain on contributions from its new capacity at Plant 6. We continue to like Hartalega for its growth (projected 3-year EPS CAGR of 10%) and decent dividend yield of 3%. Moreover, trading at CY14 PER of 13.6x, valuation is still below Top Glove's historical average of 16x. Maintain BUY and TP of MYR5.40 (15x CY14).

**Decent growth in 2QFY3/13.** Stronger core net profit of MYR58m (+6% QoQ, +10% YoY) was derived from: (i) a higher sales volume of 2.4b pcs (+9% QoQ, +24% YoY) on greater purchase from US; and (ii) a higher EBIT margin of 30% (+0.9-ppt QoQ, +0.7-ppt YoY) as the cut in ASP of its nitrile gloves was less than the fall in NBR cost (-13% QoQ, -33% YoY). Overall, Hartalega has seen improvement in the efficiency of its production lines, which also resulted in greater economies of scale and higher margins.

Additionally, Hartalega declared its first interim dividend of 3.5sen/shr (2QFY3/12: 3sen/shr).

**Expect growth momentum to sustain.** Hartalega has commissioned its first two production lines (out of ten) at Plant 6 at end-Sep 2012 while full commercialisation (+36% to 14b pcs p.a.) is expected by 1QFY3/14. We understand that bookings have already been secured for half of the planned new capacity at Plant 6 from existing customers, and the balance will only be taken up when the plant is closer to full completion.

**Maintain forecasts.** We are projecting FY3/14 earnings growth of 14%, underpinned by new capacity from Plant 6. Additionally, our FY3/15 earnings growth of 8% is conservative, based on a sales volume growth assumption of just 8%, well below its planned capacity expansion of 26% and management's expected global nitrile glove demand growth of 20% p.a. over the medium term.

#### Hartalega – Summary Earnings Table

FYE Mar (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	734.9	931.1	1,035.8	1,266.7	1,369.3
EBITDA	267.9	288.2	323.9	377.9	407.3
Recurring Net Profit	190.3	201.4	215.7	246.6	266.5
Recurring Basic EPS (cents)	26.2	27.7	29.7	33.9	36.6
EPS growth (%)	33.1	5.8	7.1	14.3	8.0
DPS (cents)	10.5	10.8	13.4	15.3	16.5
PER	18.7	17.7	16.5	14.4	13.3
EV/EBITDA (x)	13.0	11.9	11.0	9.4	8.5
Div Yield (%)	2.1	2.2	2.7	3.1	3.4
P/BV(x)	7.2	5.7	4.8	4.1	3.5
Net Gearing (%)	Cash	Cash	Cash	2.0	Cash
ROE (%)	38.5	32.5	29.4	28.3	26.2
ROA (%)	30.1	26.8	22.2	22.0	22.5
Consensus Net Profit (MYR m)	-	-	227.5	256.2	283.5

Source: Maybank KE

## Hartalega: Results Summary Table

FY Mar (RM m)	Quarterly					Cumulative		
	2QFY13	2QFY12	% YoY	1QFY13	% QoQ	6M12	6M11	% YoY
Turnover	255.0	229.5	11.1	247.7	3.0	502.7	448.9	12.0
EBIT	75.6	66.4	13.9	71.3	6.0	147.0	133.8	9.9
Net interest exp	0.2	(0.2)	n.m.	(0.1)	n.m.	0.1	(0.5)	n.m.
Exceptionals (forex gain/(losses), fair value gain/(losses) on derivatives)	0.5	(6.6)	n.m.	(1.3)	n.m.	(0.9)	(3.1)	n.m.
<b>Pre-tax profit</b>	<b>76.3</b>	<b>59.6</b>	<b>28.1</b>	<b>69.9</b>	<b>9.1</b>	<b>146.2</b>	<b>130.2</b>	<b>12.3</b>
Tax	(17.7)	(13.4)	32.3	(16.5)	7.5	(34.2)	(29.3)	16.7
Minority Interest	(0.0)	0.0	n.m.	(0.1)	n.m.	(0.1)	0.0	n.m.
<b>Net profit</b>	<b>58.5</b>	<b>46.2</b>	<b>26.8</b>	<b>53.4</b>	<b>9.7</b>	<b>111.9</b>	<b>100.9</b>	<b>10.9</b>
<b>Net profit (ex-exceptionals)</b>	<b>58.1</b>	<b>52.8</b>	<b>10.0</b>	<b>54.7</b>	<b>6.1</b>	<b>112.8</b>	<b>104.0</b>	<b>8.4</b>
	<b>2QFY13</b>	<b>2QFY12</b>	<b>+/- ppt</b>	<b>1QFY13</b>	<b>+/- ppt</b>	<b>6M12</b>	<b>6M11</b>	<b>+/- ppt</b>
EBIT margin (%)	29.7	28.9	0.7	28.8	0.9	29.2	29.8	(0.6)
Tax rate (%)	23.2	22.5	0.7	23.6	(0.4)	13.2	22.5	(9.3)

Source: Company, Maybank KE

FYE Mar	2012A	2013F	2014F	2015F
Revenue	931.1	1,035.8	1,266.7	1,369.3
EBITDA	288.2	323.9	377.9	407.3
Depreciation & Amortisation	(29.0)	(47.7)	(59.7)	(66.4)
<b>Operating Profit (EBIT)</b>	<b>259.2</b>	<b>276.2</b>	<b>318.2</b>	<b>340.9</b>
Interest (Exp)/Inc	(0.8)	(3.1)	(6.0)	(3.6)
Associates	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0
<b>Pre-Tax Profit</b>	<b>258.4</b>	<b>273.1</b>	<b>312.2</b>	<b>337.3</b>
Tax	(57.0)	(57.3)	(65.6)	(70.8)
Minority Interest	(0.1)	0.0	0.0	0.0
<b>Net Profit</b>	<b>201.4</b>	<b>215.7</b>	<b>246.6</b>	<b>266.5</b>
<b>Recurring Net Profit</b>	<b>201.4</b>	<b>215.7</b>	<b>246.6</b>	<b>266.5</b>
Revenue Growth %	26.7	11.2	22.3	8.1
EBITDA Growth (%)	7.6	12.4	16.7	7.8
EBIT Growth (%)	6.7	6.5	15.2	7.1
Net Profit Growth (%)	5.8	7.1	14.3	8.0
Recurring Net Profit Growth (%)	5.8	7.1	14.3	8.0
Tax Rate %	22.0	21.0	21.0	21.0

## CASH FLOW (MYR m)

FYE Mar	2012A	2013F	2014F	2015F
Profit before taxation	258.6	274.8	313.9	339.0
Depreciation	27.3	46.0	58.0	64.6
Net interest receipts/(payments)	0.8	3.1	6.0	3.6
Working capital change	(45.9)	(17.4)	(38.3)	(17.0)
Cash tax paid	(49.1)	(57.7)	(65.9)	(71.2)
Others (incl'd exceptional items)	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>191.7</b>	<b>248.8</b>	<b>273.7</b>	<b>319.1</b>
Capex	(60.2)	(280.0)	(180.0)	(100.0)
Disposal/(purchase)	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(60.1)</b>	<b>(280.0)</b>	<b>(180.0)</b>	<b>(100.0)</b>
Debt raised/(repaid)	(4.1)	100.0	0.0	(90.0)
Equity raised/(repaid)	2.0	3.0	4.0	5.0
Dividends (paid)	(87.4)	(97.7)	(111.6)	(120.5)
Interest payments	(0.8)	(3.1)	(6.0)	(3.6)
Others	4.9	(3.0)	(4.0)	(5.0)
<b>Cash flow from financing</b>	<b>(85.4)</b>	<b>(0.8)</b>	<b>(117.6)</b>	<b>(214.1)</b>
Change in cash	46.2	(32.0)	(23.9)	4.9

Source: Company, Maybank KE

## BALANCE SHEET (MYR m)

FYE Mar	2012A	2013F	2014F	2015F
Fixed Assets	379.7	613.7	735.8	771.1
Other LT Assets	0.4	0.4	0.4	0.4
Cash/ST Investments	163.2	131.2	107.3	112.2
Other Current Assets	208.6	232.0	283.7	306.7
<b>Total Assets</b>	<b>752.0</b>	<b>977.4</b>	<b>1,127.3</b>	<b>1,190.5</b>
ST Debt	12.6	12.6	12.6	12.6
Other Current Liabilities	67.4	73.4	86.9	92.8
LT Debt	12.1	112.1	112.1	22.1
Other LT Liabilities	39.7	39.7	39.7	39.7
Minority Interest	0.5	0.5	0.5	0.5
Shareholders' Equity	619.7	739.1	875.5	1,022.8
<b>Total Liabilities-Capital</b>	<b>752.0</b>	<b>977.4</b>	<b>1,127.3</b>	<b>1,190.5</b>
Share Capital (m)	727.1	727.1	727.1	727.1
Net Cash/(Debt)	138.6	6.6	(17.3)	77.6
Working capital	154.4	171.8	210.1	227.1
Net gearing (%)	Cash	Cash	0.02	Cash

## RATES &amp; RATIOS

FYE Mar	2012A	2013F	2014F	2015F
EBITDA Margin %	31.0	31.3	29.8	29.7
Op. Profit Margin %	27.8	26.7	25.1	24.9
Net Profit Margin %	21.6	20.8	19.5	19.5
ROE %	32.5	29.2	28.2	26.1
ROA %	26.8	22.1	21.9	22.4
Net Margin Ex. EI %	21.6	20.8	19.5	19.5
Dividend Cover (x)	2.6	2.2	2.2	2.2
Interest Cover (x)	116.0	52.9	36.2	61.3
Asset Turnover (x)	1.2	1.1	1.1	1.2
Asset/Debt (x)	30.5	7.8	9.0	34.3
Debtors Turn (days)	43.5	43.5	43.5	43.5
Creditors Turn (days)	21.2	21.2	21.2	21.2
Inventory Turn (days)	38.2	38.2	38.2	38.2
Net Gearing %	Cash	Cash	Cash	Cash
Debt/EBITDA (x)	0.1	0.4	0.3	0.1
Debt/Market Cap (x)	0.0	0.0	0.0	0.0

## RESEARCH OFFICES

## REGIONAL

## P K BASU

*Regional Head, Research & Economics*  
(65) 6432 1821 pk.basu@maybank-ke.com.sg

## WONG Chew Hann, CA

*Acting Regional Head of Institutional Research*  
(603) 2297 8686 wchewh@maybank-ib.com

## THAM Mun Hon, CFA

*Regional Strategist*  
(852) 2268 0630 thammunhon@kimeng.com.hk

## ONG Seng Yeow

*Regional Products & Planning*  
(852) 2268 0644 ongsengyeow@maybank-ke.com.sg

## MALAYSIA

**Wong Chew Hann, CA** *Head of Research*  
(603) 2297 8686 wchewh@maybank-ib.com

- Strategy
- Construction & Infrastructure

## Desmond CH'NG, ACA

(603) 2297 8680 desmond.chng@maybank-ib.com

- Banking - Regional

## LIAW Thong Jung

(603) 2297 8688 tjliaw@maybank-ib.com

- Oil & Gas

- Automotive

- Shipping

## ONG Chee Ting, CA

(603) 2297 8678 ct.ong@maybank-ib.com

- Plantations

**Mohshin Aziz** (603) 2297 8692 mohshin.aziz@maybank-ib.com

- Aviation

- Petrochem

- Power

## YIN Shao Yang, CPA

(603) 2297 8916 samuel.y@maybank-ib.com

- Gaming - Regional

- Media

- Power

## TAN Chi Wei, CFA

(603) 2297 8690 chiwei.t@maybank-ib.com

- Construction & Infrastructure

- Power

## WONG Wei Sum, CFA

(603) 2297 8679 weisum@maybank-ib.com

- Property & REITs

## LEE Yen Ling

(603) 2297 8691 lee.yl@maybank-ib.com

- Building Materials

- Manufacturing

- Technology

LEE Cheng Hooi *Head of Retail*

chenghooi.lee@maybank-ib.com

- Technicals

## HONG KONG / CHINA

**Edward FUNG** *Head of Research*  
(852) 2268 0632 edwardfung@kimeng.com.hk

- Construction

## Ivan CHEUNG

(852) 2268 0634 ivancheung@kimeng.com.hk

- Property

- Industrial

## Ivan Li

(852) 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

## Jacqueline Ko

(852) 2268 0633 jacquelineko@kimeng.com.hk

- Consumer Staples

## Andy POON

(852) 2268 0645 andypoon@kimeng.com.hk

- Telecom & equipment

## Alex YEUNG

(852) 2268 0636 alexyeung@kimeng.com.hk

- Industrial

## INDIA

Jigar SHAH *Head of Research*

(91) 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas

- Automobile

- Cement

## Anubhav GUPTA

(91) 22 6623 2605 anubhav@kimeng.co.in

- Metal & Mining

- Capital goods

- Property

## Ganesh RAM

(91) 226623 2607 ganeshram@kimeng.co.in

- Telecom

- Contractor

## ECONOMICS

## Suhaimi ILIAS

*Chief Economist*

- Singapore | Malaysia  
(603) 2297 8682 suhaimi\_iliass@maybank-ib.com

## Luz LORENZO

*Economist*

- Philippines | Indonesia  
(63) 2 849 8836 luz\_lorenzo@maybank-atrke.com

## SINGAPORE

Stephanie WONG *Head of Research*

(65) 6432 1451 swong@maybank-ke.com.sg

- Strategy

- Small & Mid Caps

## Gregory YAP

(65) 6432 1450 gyap@maybank-ke.com.sg

- Technology & Manufacturing

- Telcos - Regional

## Wilson LIEW

(65) 6432 1454 wilsonliaw@maybank-ke.com.sg

- Hotel & Resort

- Property & Construction

## James KOH

(65) 6432 1431 jameskoh@maybank-ke.com.sg

- Logistics

- Resources

- Consumer

- Small & Mid Caps

## YEAK Chee Keong, CFA

(65) 6433 5730 yeakcheekeong@maybank-ke.com.sg

- Healthcare

- Offshore & Marine

## Alison FOK

(65) 6433 5745 alisonfok@maybank-ke.com.sg

- Services

- S-chips

## Bernard CHIN

(65) 6433 5726 bernardchin@maybank-ke.com.sg

- Transport (Land, Shipping & Aviation)

## ONG Kian Lin

(65) 6432 1470 ongkianlin@maybank-ke.com.sg

- REITs / Property

## Wei Bin

(65) 6432 1455 weibin@maybank-ke.com.sg

- S-chips

- Small & Mid Caps

## INDONESIA

Katarina SETIAWAN *Head of Research*

(62) 21 2557 1125 ksetiawan@kimeng.co.id

- Consumer

- Strategy

- Telcos

## Lucky ARIESANDI, CFA

(62) 21 2557 1127 lariesandi@kimeng.co.id

- Base metals

- Coal

- Oil & Gas

## Rahmi MARINA

(62) 21 2557 1128 rmarina@kimeng.co.id

- Banking

- Multifinance

## Pandu ANUGRAH

(62) 21 2557 1137 panugrah@kimeng.co.id

- Auto

- Heavy equipment

- Plantation

- Toll road

## Adi N. WICAKSONO

(62) 21 2557 1130 awicaksono@kimeng.co.id

- Generalist

## Anthony YUNUS

(62) 21 2557 1134 ayunus@kimeng.co.id

- Cement

- Infrastructure

- Property

## Arwani PRANADJAYA

(62) 21 2557 1129 apranadjaya@kimeng.co.id

- Technicals

## PHILIPPINES

Luz LORENZO *Head of Research*

(63) 2 849 8836 luz\_lorenzo@maybank-atrke.com

- Strategy

## Laura DY-LIACCO

(63) 2 849 8840 laura\_dyliacco@maybank-atrke.com

- Utilities

- Conglomerates

- Telcos

## Lovell SARREAL

(63) 2 849 8841 lovell\_sarreal@maybank-atrke.com

- Consumer

- Media

- Cement

## Kenneth NERECINA

(63) 2 849 8839 kenneth\_nerecina@maybank-atrke.com

- Conglomerates

- Property

- Ports/ Logistics

## Katherine TAN

(63) 2 849 8843 kat\_tan@maybank-atrke.com

- Banks

- Construction

## Ramon ADVIENTO

(63) 2 849 8842 ramon\_adviento@maybank-atrke.com

- Mining

## THAILAND

Mayuree CHOWVIKIRAN *Head of Research*

(66) 2658 6300 ext 1440 mayuree.c@maybank-ke.co.th

- Strategy

Maria BRENDA SANCHEZ LAPIZ *Co-Head of Research*

Dir (66) 2257 0250 | (66) 2658 6300 ext 1399  
Maria.L@maybank-ke.co.th

- Consumer/ Big Caps

Andrew STOTZ *Strategist*

(66) 2658 6300 ext 5091  
Andrew@maybank-ke.co.th

## Suttatip PEERASUB

(66) 2658 6300 ext 1400 suttatip.p@maybank-ke.co.th

- Media

- Commerce

## Sutthichai KUMWORACHAI

(66) 2658 6300 ext 1400 sutthichai.k@maybank-ke.co.th

- Energy

- Petrochem

## Termporn TANTIVIVAT

(66) 2658 6300 ext 1520 termporn.t@maybank-ke.co.th

- Property

## Woraphon WIROONSRI

(66) 2658 6300 ext 1560 woraphon.w@maybank-ke.co.th

- Banking & Finance

## Jaroontan WATTANAWONG

(66) 2658 6300 ext 1404 jaroontan.w@maybank-ke.co.th

- Transportation

- Small cap.

## Chatchai JINDARAT

(66) 2658 6300 ext 1401 chatchai.j@maybank-ke.co.th

- Electronics

## Pongrat RATANATAVANANANDA

(66) 2658 6300 ext 1398 pongrat.R@maybank-ke.co.th

- Services/ Small Caps

## VIETNAM

Michael KOKALARI, CFA *Head of Research*

(84) 838 38 66 47 michael.kokalari@kimeng.com.vn

- Strategy

## Nguyen Thi Ngan TUYEN

(84) 844 55 58 88 x 8081 tuyen.nguyen@kimeng.com.vn

- Food and Beverage

- Oil and Gas

## Ngo Bich Van

(84) 844 55 58 88 x 8084 van.ngo@kimeng.com.vn

- Banking

## Trinh Thi Ngoc Diep

(84) 844 55 58 88 x 8242 diep.trinh@kimeng.com.vn

- Technology

- Utilities

- Construction

## Dang Thi Kim Thoa

(84) 844 55 58 88 x 8083 thoa.dang@kimeng.com.vn

- Consumer

## Nguyen Trung Hoa

+84 844 55 58 88 x 8088 hoa.nguyen@kimeng.com.vn

- Steel

- Sugar

- Resources

## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

### DISCLAIMERS

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank Investment Bank Berhad, its subsidiary and affiliates (collectively, "MKE") and consequently no representation is made as to the accuracy or completeness of this report by MKE and it should not be relied upon as such. Accordingly, MKE and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. MKE expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

MKE and its officers, directors and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. MKE may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of MKE may be a director of the issuers of the securities mentioned in this report.

This report is prepared for the use of MKE's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of MKE and MKE and its Representatives accepts no liability whatsoever for the actions of third parties in this respect.

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. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

#### Malaysia

Opinions or recommendations contained herein are in the form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from Bursa Malaysia Securities Berhad in the equity analysis.

#### Singapore

This report has been produced as of the date hereof and the information herein may be subject to change. Maybank Kim Eng Research Pte. Ltd. ("Maybank KERPL") in Singapore has no obligation to update such information for any recipient. For distribution in Singapore, recipients of this report are to contact Maybank KERPL in Singapore in respect of any matters arising from, or in connection with, this report. If the recipient of this report is not an accredited investor, expert investor or institutional investor (as defined under Section 4A of the Singapore Securities and Futures Act), Maybank KERPL shall be legally liable for the contents of this report, with such liability being limited to the extent (if any) as permitted by law.

#### Thailand

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 may be changed after that date. Maybank Kim Eng Securities (Thailand) Public Company Limited ("MBKET") does not confirm nor certify the accuracy of such survey result.

Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of MBKET. MBKET accepts no liability whatsoever for the actions of third parties in this respect.

#### US

This research report prepared by MKE is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Maybank Kim Eng Securities USA Inc ("Maybank KESUSA"), a broker-dealer registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if MKE is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Maybank KESUSA is permitted to provide research material concerning investments to you under relevant legislation and regulations.

#### UK

This document is being distributed by Maybank Kim Eng Securities (London) Ltd ("Maybank KESL") which is authorized and regulated, by the Financial Services Authority and is for Informational Purposes only. This document is not intended for distribution to anyone defined as a Retail Client under the Financial Services and Markets Act 2000 within the UK. Any inclusion of a third party link is for the recipients convenience only, and that the firm does not take any responsibility for its comments or accuracy, and that access to such links is at the individuals own risk. Nothing in this report should be considered as constituting legal, accounting or tax advice, and that for accurate guidance recipients should consult with their own independent tax advisers.

## DISCLOSURES

### Legal Entities Disclosures

**Malaysia:** This report is issued and distributed in Malaysia by Maybank Investment Bank Berhad (15938-H) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets and Services License issued by the Securities Commission in Malaysia. **Singapore:** This material is issued and distributed in Singapore by Maybank KERPL (Co. Reg No 197201256N) which is regulated by the Monetary Authority of Singapore. **Indonesia:** PT Kim Eng Securities ("PTKES") (Reg. No. KEP-251/PM/1992) is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Thailand:** MBKET (Reg. No.0107545000314) is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Philippines:** MATRKES (Reg. No.01-2004-00019) is a member of the Philippines Stock Exchange and is regulated by the Securities and Exchange Commission. **Vietnam:** Kim Eng Vietnam Securities Company ("KEVS") (License Number: 71/UBCK-GP) is licensed under the State Securities Commission of Vietnam. **Hong Kong:** KESHK (Central Entity No AAD284) is regulated by the Securities and Futures Commission. **India:** Kim Eng Securities India Private Limited ("KESI") is a participant of the National Stock Exchange of India Limited (Reg No: INF/INB 231452435) and the Bombay Stock Exchange (Reg. No. INF/INB 011452431) and is regulated by Securities and Exchange Board of India. KESI is also registered with SEBI as Category 1 Merchant Banker (Reg. No. INM 000011708) **US:** Maybank KESUSA is a member of/ and is authorized and regulated by the FINRA – Broker ID 27861. **UK:** Maybank KESL (Reg No 2377538) is authorized and regulated by the Financial Services Authority.

### Disclosure of Interest

**Malaysia:** MKE and its Representatives may from time to time have positions or be materially interested in the securities referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such securities and may also perform or seek to perform investment banking services, advisory and other services for or relating to those companies.

**Singapore:** As of 6 November 2012, Maybank KERPL and the covering analyst do not have any interest in any companies recommended in this research report.

**Thailand:** MBKET may have a business relationship with or may possibly be an issuer of derivative warrants on the securities /companies mentioned in the research report. Therefore, Investors should exercise their own judgment before making any investment decisions. MBKET, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.

**Hong Kong:** KESHK may have financial interests in relation to an issuer or a new listing applicant referred to as defined by the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

As of 6 November 2012, KESHK and the authoring analyst do not have any interest in any companies recommended in this research report.

MKE may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

## OTHERS

### Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

### Reminder

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct its own analysis of the product and consult with its own professional advisers as to the risks involved in making such a purchase.

**No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior consent of MKE.**

### Definition of Ratings

Maybank Kim Eng Research uses the following rating system:

<b>BUY</b>	Total return is expected to be above 10% in the next 12 months (excluding dividends)
<b>HOLD</b>	Total return is expected to be between -10% to +10% in the next 12 months (excluding dividends)
<b>SELL</b>	Total return is expected to be below -10% in the next 12 months (excluding dividends)

### Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

### Some common terms abbreviated in this report (where they appear):

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

 **Malaysia**

**Maybank Investment Bank Berhad**  
(A Participating Organisation of  
Bursa Malaysia Securities Berhad)  
33rd Floor, Menara Maybank,  
100 Jalan Tun Perak,  
50050 Kuala Lumpur  
Tel: (603) 2059 1888;  
Fax: (603) 2078 4194

Stockbroking Business:  
Level 8, Tower C, Dataran Maybank,  
No.1, Jalan Maarof  
59000 Kuala Lumpur  
Tel: (603) 2297 8888  
Fax: (603) 2282 5136

 **Philippines**

**Maybank ATR Kim Eng Securities  
Inc.**  
17/F, Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 849 8888  
Fax: (63) 2 848 5738

 **South Asia Sales Trading**

Connie TAN  
connie@maybank-ke.com.sg  
Tel: (65) 6333 5775  
US Toll Free: 1 866 406 7447

 **Singapore**

**Maybank Kim Eng Securities Pte Ltd  
Maybank Kim Eng Research Pte Ltd**  
9 Temasek Boulevard  
#39-00 Suntec Tower 2  
Singapore 038989

Tel: (65) 6336 9090  
Fax: (65) 6339 6003

 **Hong Kong**

**Kim Eng Securities (HK) Ltd**  
Level 30,  
Three Pacific Place,  
1 Queen's Road East,  
Hong Kong

Tel: (852) 2268 0800  
Fax: (852) 2877 0104

 **Thailand**

**Maybank Kim Eng Securities  
(Thailand) Public Company  
Limited**  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road Pathumwan,  
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)  
Tel: (66) 2 658 6801 (research)

 **North Asia Sales Trading**

Eddie LAU  
eddielau@kimeng.com.hk  
Tel: (852) 2268 0800  
US Toll Free: 1 866 598 2267

 **London**

**Maybank Kim Eng Securities  
(London) Ltd**  
6/F, 20 St. Dunstan's Hill  
London EC3R 8HY, UK

Tel: (44) 20 7621 9298  
Dealers' Tel: (44) 20 7626 2828  
Fax: (44) 20 7283 6674

 **Indonesia**

**PT Kim Eng Securities**  
Plaza Bapindo  
Citibank Tower 17<sup>th</sup> Floor  
Jl Jend. Sudirman Kav. 54-55  
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188  
Fax: (62) 21 2557 1189

 **Vietnam**

*In association with*  
**Kim Eng Vietnam Securities  
Company**  
1st Floor, 255 Tran Hung Dao St.  
District 1  
Ho Chi Minh City, Vietnam

Tel : (84) 838 38 66 36  
Fax : (84) 838 38 66 39

 **New York**

**Maybank Kim Eng Securities  
USA Inc**  
777 Third Avenue, 21st Floor  
New York, NY 10017, U.S.A.

Tel: (212) 688 8886  
Fax: (212) 688 3500

 **India**

**Kim Eng Securities India Pvt Ltd**  
2nd Floor, The International 16,  
Maharishi Karve Road,  
Churchgate Station,  
Mumbai City - 400 020, India

Tel: (91).22.6623.2600  
Fax: (91).22.6623.2604

 **Saudi Arabia**

*In association with*  
**Anfaal Capital**  
Villa 47, Tujjar Jeddah  
Prince Mohammed bin Abdulaziz  
Street P.O. Box 126575  
Jeddah 21352

Tel: (966) 2 6068686  
Fax: (966) 26068787

07 November 2012 | 2QFY13 Results Review

## Hartalega Holdings Berhad

*All good things have been priced in*

*Downgrade to NEUTRAL*

*Unchanged Target Price (TP):RM5.10*

### HIGHLIGHTS

- 1HFY13 earnings kept pace with expectations, growing 10.9%yoy to RM111.9m.
- Revenue growth still at double digit, gaining 12.0%yoy in 1HFY13 to RM502.7m.
- Operating profit margin maintained for 1HFY13 at 29.2%.
- Plant 6 commenced operations in September 2012.
- A 3.5sen single tier dividend declared.
- Downgrade to NEUTRAL due to recent run-up of stock price.

**Results within expectations.** Hartalega's 1HFY13 net earnings grew 10.9%yoy to RM111.9m. This is in line with expectations, accounting for 51.0% and 49.2% of ours and consensus estimates respectively. A first interim single tier dividend of 3.5sen per share has been declared.

**Revenue grew.** Hartalega's revenue for 1HFY13 increased 12.0%yoy to RM502.7m, while revenue for 2QFY13 expanded 11.1%yoy and 3.0%qoq to RM255.0m. The revenue growth was attributed to the company's continuous expansion in production capacity and increase in demand of the company's products.

**Profitability stable.** Year to date, Hartalega's has been able to maintain its impressive operating profit margin compared to the same period last year at 29.2%. On a more positive note, its operating profit margin for 2QFY13 improved 3.9%-points and 1.7%-point on a yearly and quarterly basis. The improvement was due to easier raw material prices of nitrile and natural latex, but was offset by more competitive sales pricing

**Expansion on overdrive mode.** Hartalega's new plant, Plant 6, was commissioned and commenced operations of its first production line at end September 2012. In total, Plant 6 will have 10 production lines with a total installed capacity of 3.9b pieces per annum. The construction of the whole plant is expected to be fully completed by July 2013. Upon completion, the new plant is expected to increase Hartalega's total production capacity by 39%, adding another 3.9b pieces of gloves per annum.

**Demand growing substantially.** In 2011, global demand for nitrile gloves jumped 29%, mainly due to the switching trend from natural rubber gloves to nitrile gloves. For the foreseeable future, the demand growth for nitrile gloves is anticipated to be sustained at around 20% annually.

RETURN STATS	
Price (6 Nov 12)	RM4.89
Target Price	RM5.10
Expected Share Price Return	4.3%
Expected Dividend Yield	2.8%
<b>Expected Total Return</b>	<b>7.1%</b>
STOCK INFO	
KLCI	1,653.80
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main/ Glove
Syariah Compliant	Yes
Issued shares (mil)	731.8
Par Value (RM)	0.50
Market cap. (RM'm)	3,578.5
Price over NA	5.47x
52-wk price Range	RM2.73–RM4.89
Beta (against KLCI)	0.72
3-mth Avg Daily Vol	0.29m
3-mth Avg Daily Value	RM1.30m
Major Shareholders	
Hartalega Industries	27.6%

**INVESTMENT STATISTICS**

<b>FYE Mar</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>
Revenue (RM'm)	734.9	931.1	1,015.3	1,173.8
EBIT (RM'm)	245.3	260.1	284.3	328.7
Pretax Profit (RM'm)	242.8	258.4	281.2	325.1
Net Profit (RM'm)	190.3	201.4	219.4	253.6
EPS (sen)	26.18	27.65	30.01	34.69
EPS growth (%)	33.2	5.6	8.5	15.6
PER(x)	17.1	16.1	14.8	12.8
Net Dividend (sen)	10.5	10.8	13.5	15.6
Net Dividend Yield (%)	2.4	2.4	3.0	3.5

Source: Company, Forecasts by MIDFR

**FY2013 prospect.** The operating environment for the glove producers has improved substantially in the last few months, contributed by the easing of raw material prices. The easing in price of butadiene, which is a key component for nitrile, and natural rubber latex, has been attributed to the slowdown in global economy. On the view that the world economic condition is not going to show substantial improvement in the next 12 months, we expect the prices for both commodities to remain depressed. As nitrile latex and natural rubber latex each makes up 45% and 5% of the total production cost for Hartalega, we expect Hartalega would be able to maintain its impressive profitability performance over the foreseeable future.

**Downgrade to NEUTRAL with an unchanged Target Price of RM5.10.** We maintain our target price for the stock at RM5.10, which is derived from 17x FY13F EPS, based on the weighted average mean of the company's peers. Based on its track record, we are pretty confident that the management is more than capable of sustaining the growth and profitability of the company. Nonetheless, the share price has increased significantly in the last few months, appreciating 67.5%ytd with the share currently trading at its highest ever level. Hence, at the current juncture, we believe there is limited upside potential for the further stock price appreciation over the near term.



**Table 1: Hartalega's 2QFY13 Results Review**

FYE Mar (RM mln)	Quarterly results			Year to date		
	2QFY13	%YoY	%QoQ	1HFY13	1HFY12	%YoY
Revenue	255.0	11.1%	3.0%	502.7	448.9	12.0%
Operating expenses	(180.1)	9.8%	1.5%	(357.7)	(316.9)	12.9%
Other operating income	1.6	-129.7%	1599.0%	1.7	(0.9)	-296.5%
EBIT	76.5	27.5%	9.0%	146.7	131.2	11.9%
Finance costs	(0.2)	-47.8%	-22.3%	(0.5)	(0.9)	-43.4%
PBT	76.3	28.1%	9.1%	146.2	130.2	12.3%
Taxation	(17.7)	32.3%	7.5%	(34.2)	(29.3)	16.7%
Net profit	58.5	26.9%	9.7%	111.9	100.9	10.9%
Basic EPS (sen)	8.01	26.3%	9.7%	15.31	13.87	10.4%
FD EPS (sen)	7.96	25.9%	9.5%	15.22	13.82	10.1%
		<b>+/-ppt</b>	<b>+/-ppt</b>			<b>+/-ppt</b>
EBIT margin	30.0%	3.9	1.7	29.2%	29.2%	0.0
PBT margin	29.9%	4.0	1.7	29.1%	29.0%	0.1
Net profit margin	23.0%	2.9	1.5	22.3%	22.5%	0.8
Tax rate	23.2%	0.7	(0.4)	23.4%	22.5%	0.9

**Chart 1: Latex Price and USD-RM exchange rate**





MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

Jerry Lee  
+60 (3) 9207 7622  
jerry.lee@my.oskgroup.com

**TRADING BUY**

Fair Value **RM5.20**  
Previous **RM4.83**  
Price **RM4.89**

**RUBBER GLOVES**

Hartalega's principal activity is in the manufacture of premium medical grade rubber gloves.

**Stock Statistics**

Bloomberg Ticker	HART MK
Share Capital (m)	731.8
Market Cap	3,578.5
52 week H   L Price	4.94   2.71
3mth Avg Vol (000)	289.6
YTD Returns	67.5
Beta (x)	0.72
Shariah Compliant	YES

**Major Shareholders (%)**

Hartalega Industries SB	27.6
-------------------------	------

**Share Performance (%)**

Month	Absolute	Relative
1m	6.9	9.9
3m	9.7	9.5
6m	23.2	19.5
12m	83.5	62.3

**6-month Share Price Performance**

**1HFY13 Results Review**
**Hartalega Holdings**
**On Track**

Hartalega's 1HFY13 net profit of RM111.9m was largely in line with our and consensus estimates. The commendable results were mainly attributed to higher sales, easing of raw material prices and higher efficiency in its production lines. Its expansion plan is on track, with total capacity expected to reach 13.5bn pieces p.a. by June 2013. We think that margin erosion is still a concern for the company as other major players are ramping up their nitrile gloves capacity but the full effect may only come in by 2HCY13. As we revise our earnings estimates and roll over our valuation, we derive a new FV of RM5.20 and upgrade our call to Trading BUY, backed by its potential decent earnings albeit with an embedded risk of narrower margins.

**Results in line.** Hartalega's 2QFY13 results were largely in line with our and street estimates. Its revenue improved 3.0% q-o-q and 11.1% y-o-y, mainly attributed to an increase in sales volume, continuous expansion in its production capacity, as well as rising demand. Meanwhile, thanks to the easing of raw material prices of nitrile and natural latex, Hartalega was able to record a revenue growth of 9.7% q-o-q and 10.9% y-o-y. Although its EBIT margin has declined y-o-y mainly due to intense price competition, we reckon that the margin has actually improved slightly q-o-q, which we think was attributable to the enhanced efficiency at its production plants, coupled with a decline in ASP that was less than the easing of raw material prices.

**Expansion plans on track.** Hartalega started construction on its Plant 6 in February 2012 and to date, two out of the 10 production lines there have commenced operation. Upon the completion of Plant 6, the company's production capacity is expected to swell by 3.5bn pieces p.a. to reach 13.5bn pieces p.a. by June 2013.

**Margin erosion may get intense in 2HCY13.** Although the company is ramping up its production with more innovated production lines, the emergence of new capacity in the nitrile gloves market may still create price competition among the glove makers and that may somehow impact its earnings margin. Nonetheless, we believe that its competitors' capacity may materialise and pose a threat to Hartalega only by 2HCY13.

**Model reviewed and earnings revised.** We upgrade the company's FY13 and FY14 earnings forecasts to RM230.3m and RM252.4m, from RM212.5m and RM246.7m respectively, after incorporating the additional production from Plant 6. Moving into FY14, we think that competition may become more intense due to the additional capacity entering the market and narrowing margins. As such, we forecast a slower earnings growth.

FYE Mar (RMm)	FY10	FY11	FY12	FY13f	FY14f
Revenue	571.9	734.9	931.1	1,034.7	1,138.3
Net Profit	142.9	190.3	201.4	230.3	252.4
% chg y-o-y	69.1%	33.2%	5.8%	14.4%	9.6%
Consensus	-	-	-	227.5	255.1
EPS	19.7	26.2	27.7	31.7	34.7
DPS	20.0	21.0	18.0	28.5	31.3
Dividend yield (%)	4.1%	4.3%	3.7%	5.8%	6.4%
ROE (%)	66.4%	47.0%	44.9%	36.2%	36.5%
ROA (%)	45.1%	33.5%	34.2%	28.9%	29.8%
PER (x)	24.9	18.7	17.7	15.4	14.1
BV/share	0.57	0.80	1.00	1.04	1.08
P/BV (x)	8.54	6.12	4.88	4.71	4.53
EV/EBITDA (x)	40.3	17.9	13.4	12.2	11.1

**Results Table (RMm)**

FYE Mar	2Q13	1Q13	Q-o-Q chg	YTD FY13	YTD FY12	Y-o-Y chg	Comments
Revenue	255.0	247.7	3.0%	502.7	448.9	12.0%	Higher sales volume
EBIT	74.9	70.1	6.8%	145.0	132.0	9.8%	
Net interest expense	-0.2	-0.3	-22.3%	-0.5	-0.9	-43.4%	
Associates	0.0	0.0	n.m.	0.0	0.0	n.m.	
PBT	76.3	69.9	9.1%	146.2	130.2	12.3%	
Tax	-17.7	-16.5	7.5%	-34.2	-29.3	16.7%	
MI	0.0	-0.1	-57.1%	-0.1	0.0	-787.5%	
Net profit	58.5	53.4	9.7%	111.9	100.9	10.9%	Within expectation
EPS	8.0	7.3		15.3	13.8		
DPS	3.5	0.0		0.0	6.0		The Board has declared a first interim dividend of 3.5 sen per share single tier
EBIT margin	29.4%	28.3%		28.8%	29.4%		Improved q-o-q due to a decline in ASP that was less than that of raw material prices and higher efficiency
NTA/Share	0.94	0.90		0.94	0.76		

**Upgrade to Trading BUY.** We derive a new FV for Hartalega at RM5.20 as we roll over our valuation, pegging it at 15x FY14 PE. We believe that the company may be able to deliver decent earnings in the coming quarters, albeit with an embedded risk that its margin may be squeezed when the price competition gets more intense in 2HCY13. As such, we believe Hartalega deserves our Trading BUY recommendation.

**EARNINGS FORECAST**

<b>FYE Mar (RMm)</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13f</b>	<b>FY14f</b>
Turnover	571.9	734.9	931.1	1,034.7	1,138.3
EBITDA	197.6	260.7	282.7	311.6	342.9
PBT	177.8	242.8	258.4	270.2	294.4
Net Profit	142.9	190.3	201.4	230.3	252.4
EPS	19.7	26.2	27.7	31.7	34.7
DPS	20.0	21.0	18.0	28.5	31.3
Margin					
EBITDA (%)	34.6	35.5	30.4	30.1	30.1
PBT (%)	31.1	33.0	27.8	26.1	25.9
Net Profit (%)	25.0	25.9	21.6	22.3	22.2
ROE (%)	66.4	47.0	44.9	36.2	36.5
ROA (%)	45.1	33.5	34.2	28.9	29.8
Balance Sheet					
Fixed Assets	293.0	348.9	380.2	392.2	399.1
Current Assets	185.8	286.1	377.9	395.9	421.0
Total Assets	478.9	635.0	758.1	788.1	820.1
Current Liabilities	69.0	78.9	85.5	92.4	99.1
Net Current Assets	116.8	207.2	292.4	303.5	321.9
LT Liabilities	55.5	61.3	52.6	52.6	52.6
Shareholders Funds	354.1	494.4	619.5	642.5	667.8
Net Gearing (%)	7.7	Net Cash	Net Cash	Net Cash	Net Cash

**OSK Research Guide to Investment Ratings**

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated (NR):** Stock is not within regular research coverage

All research is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change at short notice, and no part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report. The company, its directors, officers, employees and/or connected persons may periodically hold an interest and/or underwriting commitments in the securities mentioned.

Distribution in Singapore

This research report produced by OSK Research Sdn Bhd is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with, this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd ("DMG").

All Rights Reserved. No part of this publication may be used or re-produced without expressed permission from OSK Research.

Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur  
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

**OSK RESEARCH SDN. BHD. (206591-V)**

*(A wholly-owned subsidiary of OSK Investment Bank Berhad)*

Kuala Lumpur	Hong Kong	Singapore
<b>Malaysia Research Office</b> OSK Research Sdn. Bhd. 6 <sup>th</sup> Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	<b>OSK Securities Hong Kong Ltd.</b> 12 <sup>th</sup> Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	<b>DMG &amp; Partners Securities Pte. Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
<b>PT OSK Nusadana Securities Indonesia</b> Plaza CIMB Niaga, 14 <sup>th</sup> Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	<b>OSK (China) Investment Advisory Co. Ltd.</b> Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	<b>OSK Indochina Securities Limited</b> No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
<b>OSK Securities (Thailand) PCL</b> 10 <sup>th</sup> Floor ,Sathorn Square Office Tower, 98, North Sathorn Road,Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		

# Corporate Highlights



**RHB Research  
Institute Sdn Bhd**  
A member of the  
RHB Banking Group  
Company No: 233327 -M

## Results Note

7 November 2012

# Hartalega

*Still The Most Efficient*

Share Price : RM4.89  
Fair Value : RM5.07  
Recom : **Market Perform**  
(Maintained)

**Table 1 : Investment Statistics (HARTA; Code: 5168)**

**Bloomberg: HART MK**

FYE	Turnover	Net Profit	EPS	Core EPS#	EPS Growth#	PER#	C.EPS*	P/NTA	Net Gearing	ROE	NDY
	(RMm)	(RMm)	(sen)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2012	931.1	201.5	27.5	28.6	-	17.1	-	4.5	Net cash	32.5	2.6
2013f	1112.4	243.7	33.3	33.3	16.4	14.7	30.8	3.8	Net cash	28.1	2.7
2014f	1356.8	299.6	40.9	40.9	22.9	11.9	34.3	3.2	Net cash	29.0	3.2
2015f	1474.0	302.3	41.3	41.3	0.9	11.8	38.7	2.7	Net cash	24.8	3.4

Main Market Listing /Non- Trustee Stock / Syariah-Approved Stock By The SC

# Ex-EI

\* Consensus Based On IBES Estimates

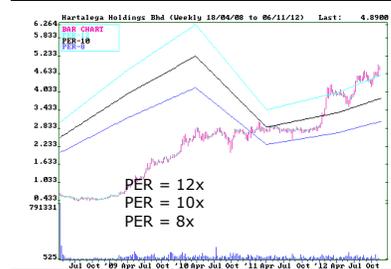
- ◆ **Within expectations.** Hartalega's 2QFY03/12 core net profit of RM58.1m (+6.0% yoy; +6.1% qoq) was within our and consensus expectations with 6M core net profit of RM113.2m (+3.7% yoy) accounting for 47.6% and 50% of our and consensus estimates respectively.
- ◆ **Core net profit increased 6.1% qoq due to lower raw material cost.** Qoq, sales volume grew by 5.8% thanks to an increase in production arising from two new lines in Plant 6, which began its maiden production in Sep '12. Together with a flat US\$ rate of RM3.12/US\$ qoq, and a slight downward revision in nitrilre gloves ASPs (-0.9% qoq) to pass on lower raw material costs, sequential revenue increased by 3.0%. Despite the cut in ASPs, EBIT margin expanded by 0.9%-pts qoq thanks to the timelag in passing on the lower nitrile raw material cost (-11.6% qoq), thus lifting core net profit by 6.1% qoq.
- ◆ **Declares a first interim single-tier DPS of 3.5 sen.** Hartalega declared a first interim single-tier DPS of 3.5 sen (2Q12: 3 sen), which translates into a net yield of 0.7%. We project full-year tax-exempt DPS of 13 sen, which implies a net payout ratio of 40% (FY12: 43.7%) and net yield of 2.7%.
- ◆ **Raising production with better efficiency.** Management said that Plant 6 has been installed with new lines that are capable of running at a production rate of 45,000 pcs/hour, higher than the initial guidance of 40,000 pcs/hour. The remaining eight new lines in Plant 6 would also be installed with the group's latest lines and would be commissioned progressively. With the installation of more efficient production lines, the expansion plans in Plant 6 would raise Hartalega's annual production capacity from 10.6bn pieces currently to 15.0bn pieces (from 13.7 bn earlier) by end-FY14. Beyond that, earnings growth hinges upon the successful execution of Hartalega's NGC project (see report dated 16 Apr).
- ◆ **Risks.** 1) Lower-than-expected raw material prices, which may result in margin expansion; 2) depreciating RM against the US\$; and 3) well executed capacity expansion plans.
- ◆ **Tweaked forecasts.** We tweak our FY13-15 earnings forecasts up by 2.8-5.4% after factoring in the additional production from the installation of more-efficient lines at Plant 6. Our numbers have yet to factor in the additional capacity arising from the NGC project.
- ◆ **Investment case.** We believe that the improvement in efficiency arising from the new lines could help mitigate against potential margin compression arising from the industry's buildup in nitrile glove production capacity. As such, we raised our valuation benchmark to 13x CY13 PER (from 12x). Together with our earnings revision, our fair value is raised to RM5.07 (from RM 4.47) but no change to our **Market Perform** call.

RHBRI	Vs.	Consensus
√	Above In Line Below	√

Issued Capital (m shares)	731.8
Market Cap (RMm)	3,373.6
Daily Trading Vol (m shs)	0.5
52wk Price Range (RM)	2.69-4.73
<b>Major Shareholders:</b>	<b>(%)</b>
Hartalega Industries	55.3

FYE Mar	FY13	FY14	FY15
EPS chg (%)	2.8	5.4	5.4
Var to Cons (%)	8.1	19.3	6.8

### PE Band Chart



### Relative Performance To FBM KLCI



**David Chong, CFA**  
(603) 92802584  
david.chong@rhb.com.my

**Please read important disclosures at the end of this report.**

**Table 2: Earnings Review**

FYE Mar (RMm)	2Q12	1Q13	2Q13	QoQ (%)	YoY (%)	6MFY12	6MFY13	YoY (%)	Comments
<b>Revenue</b>	<b>229.5</b>	<b>247.7</b>	<b>255.0</b>	<b>3.0</b>	<b>11.1</b>	<b>448.9</b>	<b>502.7</b>	<b>12.0</b>	YoY growth on the back of capacity expansion from the 10 new lines in Plant 5 while qoq growth was due to maiden contribution from two new lines in Plant 6, partly offset against a lower ASP.
<b>EBIT</b>	68.7	71.6	76.0	6.2	10.7	139.0	147.6	6.1	Stronger qoq due to slight margin expansion.
Int exp	(0.4)	(0.3)	(0.2)	(22.3)	(47.8)	(0.9)	(0.5)	(43.4)	Total debt at end-2QFY13 was RM17.5m (1QFY12: RM21.2m and 2QFY12: RM32.6m).
Exceptionals	(8.7)	(1.3)	0.5	>100	>100	(7.9)	(0.9)	(89.1)	Relates to the gains/losses from recognition of financial derivative instruments.
<b>Pre-tax profit</b>	59.6	69.9	76.3	9.1	28.1	130.2	146.2	12.3	Largely filtered down from EBIT level.
Tax	(13.4)	(16.5)	(17.7)	7.5	32.3	(29.3)	(34.2)	16.7	
Minority Interest	(0.0)	(0.1)	(0.0)	(57.1)	(25.0)	(0.0)	(0.1)	>100	
<b>Net profit</b>	<b>46.1</b>	<b>53.4</b>	<b>58.5</b>	<b>9.7</b>	<b>26.9</b>	<b>100.9</b>	<b>111.9</b>	<b>10.9</b>	
<b>Core net profit</b>	<b>54.8</b>	<b>54.7</b>	<b>58.1</b>	<b>6.1</b>	<b>6.0</b>	<b>108.8</b>	<b>112.8</b>	<b>3.7</b>	
<b>Margins (%)</b>									
EBIT	29.9	28.9	29.8			31.0	29.4		QoQ margin expansion due to time lag in passing on lower nitrile prices (+11.6% yoy).
Pre-tax	25.9	28.2	29.9			29.0	29.1		
Effective tax rate	22.5	23.6	23.2			22.5	23.4		Effective tax rate remained lower than the statutory rate due to availability of tax incentives.
Net profit	20.1	21.5	23.0			22.5	22.3		
Core net profit	23.9	22.1	22.8			24.2	22.4		

Source: Company data, RHBRI

**Table 3: Hartalega Earnings Forecasts**

FYE Mar (RMm)	FY12a	FY13f	FY14f	FY15f
<b>Turnover</b>	<b>931.1</b>	<b>1,112.4</b>	<b>1,356.8</b>	<b>1,474.0</b>
Turnover growth (%)	26.7	19.5	22.0	8.6
<b>EBITDA</b>	<b>299.1</b>	<b>370.6</b>	<b>459.8</b>	<b>475.5</b>
EBITDA margin (%)	32.1	33.3	33.9	32.3
Dep. & amort.	(30.9)	(52.5)	(66.9)	(80.3)
<b>EBIT</b>	<b>268.2</b>	<b>318.1</b>	<b>392.9</b>	<b>395.2</b>
EBIT margin (%)	28.8	28.6	29.0	26.8
Net interest expense	(1.7)	(5.6)	(8.7)	(8.7)
Associates	0.0	0.0	0.0	0.0
Exceptionals	(7.9)	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>258.6</b>	<b>312.6</b>	<b>384.2</b>	<b>386.5</b>
Tax	(56.9)	(68.8)	(84.5)	(85.0)
Minorities	(0.1)	(0.1)	(0.1)	0.9
<b>Net Profit</b>	<b>201.5</b>	<b>243.7</b>	<b>299.6</b>	<b>302.3</b>
<b>Core Net Profit</b>	<b>209.4</b>	<b>243.7</b>	<b>299.6</b>	<b>302.3</b>

Source: Company data, RHBRI estimates

**Table 4: Forecast Assumptions**

FYE Mar	FY13f	FY14f	FY15f
Average capacity (bn pcs)	11.5	13.8	15.0
Utilisation rate (%)	83.0	83.0	83.0
Average selling price (per'000 pcs)	134.6	137.2	139.2

Source: RHBRI estimates



## IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank (previously known as RHB Sakura Merchant Bankers). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

The recommendation framework for stocks and sectors are as follows : -

### Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

### Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

RHBRI is a participant of the CMDP-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.

This report may not be reproduced or redistributed, in whole or in part, without the written permission of RHBRI and RHBRI accepts no liability whatsoever for the actions of third parties in this respect.

## Hartalega Holdings (HART MK)

### 2QFY13: Margins Under Pressure Ahead

1HFY13 net profit came in slightly above our expectation. We raise our FY13, FY14 and FY15 net profit forecasts by 6%, 4% and 7% respectively after adjusting production costs and slightly higher utilisation rate assumptions. We remain cautious due to rising competition and margin contraction within the nitrile glove market. Hence, maintain SELL with a revised target price of RM3.58 (previously RM3.37).

### 2QFY13 Results

Year to 31 Mar (RMm)	2QFY13	qoq % chg	yoy % chg	1HFY13	yoy % chg
Turnover	255.0	3.0	11.1	502.7	12.0
COGS	(180.1)	1.5	9.8	(357.7)	12.9
EBIT	76.0	9.2	28.7	145.7	12.7
Finance costs	(0.2)	(22.3)	28.7	(0.5)	(43.4)
Pre-Tax Profit	76.3	9.1	28.1	146.2	12.3
Tax	(17.7)	7.5	32.3	(34.2)	16.7
Net Profit	58.5	9.7	11.0	112.0	4.3
EPS (sens)	8.0	9.7	11.0	15.3	10.8
		+/- ppts	+/- ppts		+/- ppts
PBT Margins (%)	29.9	6.0	4.0	29.1	0.1
Net Margin (%)	23.0	6.6	2.9	22.2	(1.6)

Source: Hartalega

### Results

- Results slightly above expectations.** Hartalega Holdings (Hartalega) reported stronger 2QFY13 revenue and core net profit of RM255m (+3% qoq, +11% yoy) and RM58.5m (+9.7% qoq, +11% yoy) respectively, slightly above our expectation but broadly within consensus estimates.
- Improved earnings from raw material cost savings.** The better earnings performance is attributed to substantially lower raw material cost - nitrile butadiene (NBR) of US\$1,375/tonne, a decline of 24% from its peak in Apr 12 and improved efficiency of production lines by 3-10% across its Plant 3, 4 and 5.

### Key Financials

Year to 31 Mar (RMm)	2011	2012	2013F	2014F	2015F
Net turnover	735	931	1,077	1,269	1,477
EBITDA	274	299	302	343	378
Operating profit	245	260	260	290	314
Net profit (rep./act.)	190	202	211	233	250
Net profit (adj.)	190	202	211	233	250
EPS (sen)	26.1	27.7	29.0	32.0	34.3
PE (x)	18.7	17.6	16.8	15.3	14.2
P/B (x)	7.2	5.7	4.7	3.9	3.3
EV/EBITDA (x)	12.5	11.5	11.4	10.0	9.1
Dividend yield (%)	1.6	1.9	2.0	2.2	2.4
Net margin (%)	25.8	21.7	19.6	18.3	16.9
Net debt/(cash) to equity (%)	(15.8)	(22.4)	(20.5)	(10.0)	(13.1)
Interest cover (x)	n.a	n.a	n.a	n.a	n.a
ROE (%)	44.7	36.2	30.6	27.8	25.0
Consensus net profit	-	-	228	256	284
UOBKH/Consensus (x)	-	-	0.93	0.91	0.88

Source: Hartalega, Bloomberg, UOB Kay Hian

**SELL**  
(Maintained)

### Company Results

Share Price **RM4.89**  
Target Price **RM3.58**  
Upside **-26.8%**  
(Previous TP **RM3.37**)

### Company Description

Rubber gloves manufacturer

### Stock Data

GICS sector Health Care  
Bloomberg ticker: HART MK  
Shares issued (m): 731.8  
Market cap (RMm): 3,578.5  
Market cap (US\$m): 1,167.9  
3-mth avg daily t'over (US\$m): 0.4

### Price Performance (%)

52-week high/low RM4.89/RM2.73  
1mth 8.9 3mth 9.9 6mth 23.6 1yr 80.8 YTD 67.5

### Major Shareholders

Hartalega Industries Sdn Bhd 50.6%  
Budi Tenggara Sdn Bhd 5.0%

FY13 NAV/Share (RM) 1.04  
FY13 Net Cash/Share (RM) 0.21

### Price Chart



Source: Bloomberg

### Analysts

**Vincent Khoo, CFA**  
+603 2147 1998  
vincentkhoo@uobkayhian.com

**Siew Vanice**  
+603 2147 1996  
siewvanice@uobkayhian.com

- **Small dividend.** Hartalega has announced its first interim net dividend of 3.5sen/share vs 6.0sen/share in 2QFY12. Hartalega has revised its dividend payout policy to 45% (previously at 35%), which suggests prospective minimal yield of about 2.1-2.5% based on our FY13-FY14F forecasts.

**Stock Impact**

- **NBR price likely to trend south...** Current NBR price is favourable as it has eased 36% to US\$1,330/tonne in Oct 12 from its peak in Aug 11. Based on industry checks, we understand that NBR price is likely to continue to trend downward due to weakened global commodity prices.
- **...but overcapacity of nitrile glove could overwhelm.** However, we continue to expect declining margins for the nitrile glove market due to an expected sharp rise in industry capacity, which suggests that producers would lower prices to fully pass on raw material cost savings. Hence, we are maintaining our view that Hartalega's EBIT margin will gradually contract to about 21-24% (from current 29.8%) in FY13-15F.
- **Continuing rising supply from Plant 6 and future mega NGC.** Plant 6 started commissioning its two production lines in Sep 12 at 45,000 pcs gloves/line/hour, and we expect contribution to gradually kick in from 3QFY13 onwards. The expected additional 3.5b pcs p.a. will increase Hartalega's installed production capacity to about 13.2b pcs p.a by Jul 13. This will complement the additional capacity from the upcoming Next Generation Integrated Glove Manufacturing Complex (NGC) to a potential 43b pcs p.a by 2020, slated to commence operation in 2013.
- **Slower nitrile glove growth to pressure margin.** This segment continues to feature above industry demand growth of over 10% as the substitution effect (of natural latex gloves) is still ongoing in the US and Europe. However, the global nitrile demand growth will eventually slow as the substitution effect in the US, the largest nitrile glove consumption nation, is already close to saturation point. The current glove consumption split of nitrile vs latex gloves in the US is 70:30. Slowing demand coupled with increasing market supply will inevitably suppress pricing and hence erode margins.

**Earnings Revision/Risk**

- We have tweaked our earnings forecasts upwards by 6% in FY12F after adjusting for the lower incremental labour and fuel cost increases, which were initially expected to kick in by 2012. Subsequently, we have also raised our FY14 and FY15 net profit forecasts by 4% and 7% respectively after imputing higher utilisation rates from 80% to 82% and 83% for FY14 and FY15 respectively to reflect the new capacity from Plant 6.

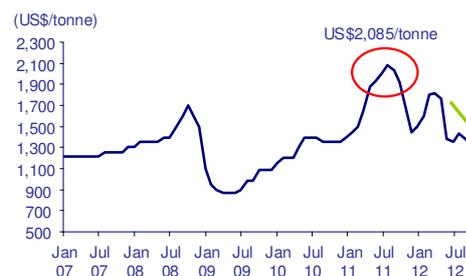
**Valuation/Recommendation**

- **Maintain SELL, but raise our target price to RM3.58** (previously RM3.37) based on 11x 2014F PE, which is close to 0.5SD above its historical mean PE. Our key concerns are rising competition and margin contraction, and Hartalega's lofty prospective PE of 16.8x even based on the more optimistic consensus forecast. For exposure to the sector, we prefer Top Glove which trades at a cheaper prospective PE of 14.0x.

**Share Price Catalyst**

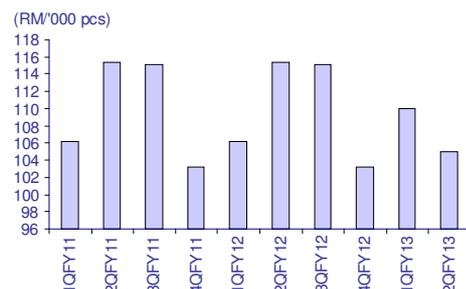
- The downside catalysts to the share price will include a) potential price competition within the nitrile glove segment which will erode earnings margin and b) overcapacity in the nitrile glove market.

**NBR Price Trend**



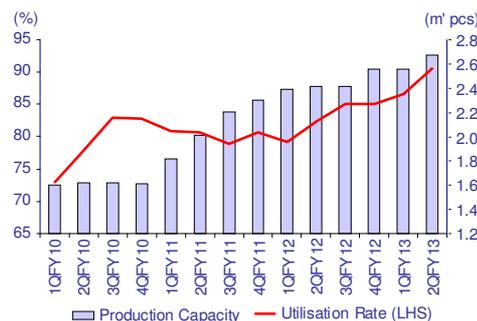
Source: Hartalega

**Nitrile Glove ASP**



Source: Hartalega

**Quarterly Production Capacity And Utilisation Rate**



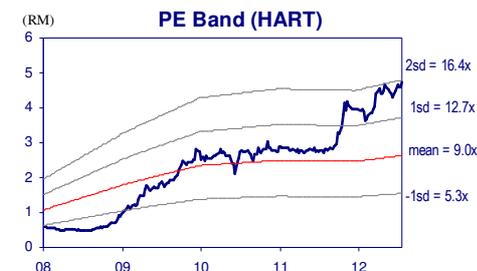
Source: Hartalega

**Key Assumption**

	FY13F	FY14F	FY15F
Sales volume growth	16%	18%	16%
Utilisation rate	80%	82%	83%
ASP (RM/ 000' pcs)	113	113	113
NBR price (RM/kg)	5.00	5.00	5.00

Source: UOB Kay Hian

**Forward PE Band**



Source: Bloomberg, UOB Kay Hian

**Profit & Loss**

Year to 31 Mar (RMm)	2012	2013F	2014F	2015F
<b>Net turnover</b>	<b>931</b>	<b>1,077</b>	<b>1,269</b>	<b>1,477</b>
EBITDA	299	302	343	378
Deprec. & amort.	38	43	54	64
EBIT	260	260	290	314
Net interest income/(expense)	(2)	4	1	(2)
<b>Pre-tax profit</b>	<b>259</b>	<b>264</b>	<b>291</b>	<b>312</b>
Tax	(57)	(53)	(58)	(62)
<b>Net profit</b>	<b>202</b>	<b>211</b>	<b>233</b>	<b>250</b>
Net profit (adj.)	202	211	233	250

**Balance Sheet**

Year to 31 Mar (RMm)	2012	2013F	2014F	2015F
Other LT assets	380	487	597	686
Cash/ST investment	163	181	316	367
Other current assets	209	204	316	351
<b>Total assets</b>	<b>752</b>	<b>872</b>	<b>1,228</b>	<b>1,403</b>
ST debt	13	13	213	213
Other current liabilities	67	48	50	60
LT debt	12	12	12	12
Other LT liabilities	40	40	40	40
Shareholders' equity	620	760	914	1,079
Minority interest	1	0	0	0
<b>Total liabilities &amp; equity</b>	<b>752</b>	<b>872</b>	<b>1,228</b>	<b>1,403</b>

**Cash Flow**

Year to 31 Mar (RMm)	2012	2013F	2014F	2015F
<b>Operating</b>	<b>201</b>	<b>239</b>	<b>264</b>	<b>285</b>
Pre-tax profit	259	264	291	312
Tax	(49)	(53)	(58)	(62)
Deprec. & amort.	38	43	54	64
Working capital changes	(25)	(11)	(23)	(30)
Other operating cashflows	(22)	(4)	0	2
<b>Investing</b>	<b>(60)</b>	<b>(150)</b>	<b>(150)</b>	<b>(150)</b>
Capex (growth)	(35)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(25)	0	0	0
<b>Financing</b>	<b>(95)</b>	<b>(71)</b>	<b>21</b>	<b>(84)</b>
Dividend payments	(87)	(71)	(79)	(84)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	100	0
Loan repayment	(14)	0	0	0
Others/interest paid	7	0	0	0
<b>Net cash inflow (outflow)</b>	<b>46</b>	<b>17</b>	<b>135</b>	<b>51</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>117</b>	<b>163</b>	<b>181</b>	<b>316</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>163</b>	<b>181</b>	<b>316</b>	<b>367</b>

**Key Metrics**

Year to 31 Mar (%)	2012	2013F	2014F	2015F
<b>Profitability</b>				
EBITDA margin	32.1	28.1	27.1	25.6
Pre-tax margin	27.8	24.5	22.9	21.1
Net margin	21.7	19.6	18.3	16.9
ROA	29.2	26.0	22.2	19.0
ROE	36.2	30.6	27.8	25.0
<b>Growth</b>				
Turnover	26.7	15.6	17.9	16.4
EBITDA	8.9	1.2	13.6	10.0
Pre-tax profit	6.5	2.1	10.2	7.3
Net profit	6.3	4.7	10.2	7.3
Net profit (adj.)	6.3	4.7	10.2	7.3
EPS	6.3	4.7	10.2	7.3
<b>Leverage</b>				
Debt to total capital	3.8	3.1	19.7	17.2
Debt to equity	4.0	3.2	24.6	20.8
Net debt/(cash) to equity	(22.4)	(20.5)	(10.0)	(13.1)
Interest cover (x)	171.9	n.a.	n.a.	211.7

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of UOB Kay Hian Research Pte Ltd only and are subject to change without notice. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of the addressee only and is not to be taken as substitution for the exercise of judgement by the addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. UOB Kay Hian and its affiliates, their Directors, officers and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add to or dispose of any such securities. UOB Kay Hian and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

UOB Kay Hian (U.K.) Limited, a UOB Kay Hian subsidiary which distributes UOB Kay Hian research for only institutional clients, is an authorised person in the meaning of the Financial Services and Markets Act 2000 and is regulated by Financial Services Authority (FSA).

In the United States of America, this research report is being distributed by UOB Kay Hian (U.S.) Inc ("UOBKHUS") which accepts responsibility for the contents. UOBKHUS is a broker-dealer registered with the U.S. Securities and Exchange Commission and is an affiliate company of UOBKH. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact UOBKHUS, not its affiliate. The information herein has been obtained from, and any opinions herein are based upon sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions and estimates herein reflect our judgement on the date of this report and are subject to change without notice. This report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, the firm preparing this report or its affiliates or the principals or employees of such firm or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such non-U.S. persons may have purchased securities referred to herein for their own account in advance of release of this report. Further information on the securities referred to herein may be obtained from UOBKHUS upon request.

**UOB Kay Hian (Malaysia) Holdings Sdn Bhd (210102-T)**

Suite 19-02, 19th Floor, Menara Keck Seng, 203 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

Tel: (603) 2147 1988, Fax: (603) 2147 1983

<http://research.uobkayhian.com>