



Hartalega Holdings

Long Term Play

Buy ◀ ▶

Price: RM4.46

Target Price: (+13.9% Upside) RM5.08

Stock Data

Bloomberg Ticker	HART MK	Altman Z-score	17.4
Market Cap	3,241.7	YTD price chg	51.7%
Issued shares	731.8	YTD KLCI chg	8.4%
52-week range (H)	4.73	Beta	0.8
52-week range (L)	2.69	Major Shareholders	
3-mth avg daily volume	341,681	Hartalega Industries	27.6%
Free Float	71.4%	Franklin Resources	0.6%
Shariah Compliant	Y	Deutsche Bank AG	0.4%
Financial Derivatives	Warrants		

Share Performance (%)

	1mth	3mth	12mth
Absolute	(2.0)	2.6	68.1
vs. KLCI	33.4	(0.9)	33.4

Consensus

	2013	2014
Net Profit	227.7	254.1
EPS (sen)	31.0	34.4

Historical Price Ratio (x)

	FY 2010	FY 2011	FY 2012
Price Earnings	15.0	11.0	22.0
Price to Book	5.4	4.2	4.9

Financial Highlights

	2010	2011	2012	2013E	2014E
FYE 31 Mar					
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
Net Profit	142.9	190.2	201.6	238.4	250.6
CY Net Profit	178.3	198.8	229.2	247.6	285.7
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)	22.8	17.1	16.2	13.7	13.0
DPS (sen)	7.0	10.0	10.0	13.5	14.0
Div. Yield (%)	1.6%	2.2%	2.2%	3.0%	3.1%
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	net cash	net cash	net cash	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%

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Hartalega is the world's largest nitrile gloves producer with production capacity of 10bn pieces per annum. We like Hartalega's extensive exposure in the nitrile segment which is less elastic to the volatility in production cost. Its "next generation integrated glove manufacturing complex" will be the future key growth driver. Being in the premium grade segment is also beneficial where Hartalega has greater bargaining power when determining its selling prices due to limited supply. Maintain BUY with a revised target price of RM5.08.

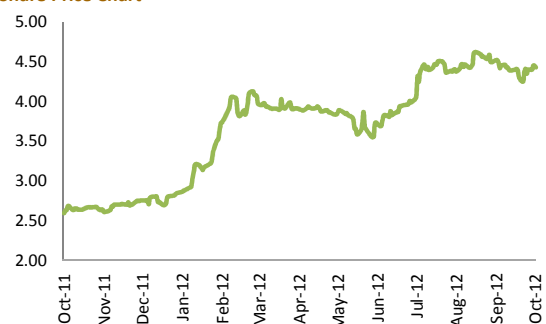
A New Production Complex. Hartalega has unveiled its new expansion plan to set up a RM1.5bn "Next Generation Integrated Glove Manufacturing Complex" (NGC) in Sepang. Construction is scheduled to begin in 2013 with completion target by 2021. Upon full completion, the NGC will have 70 new high tech production lines with total installed production capacity for the group will jump to more than 40bn pieces per annum, nearly 4 times its current size.

Highly efficient. Hartalega has set the benchmark glove manufacturing with production lines able to produce 40,000 pieces per hour, far above the industry's average.

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 18 sen.

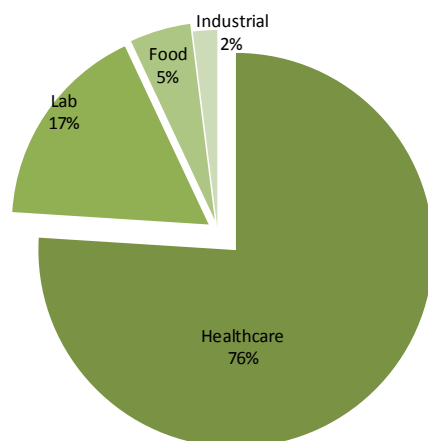
View & Valuation. We increased our target price at RM5.08 based on a revised 3-year average PER of 15x (FY10-FY12) over its CY13 EPS of 33.9 sen. We maintain our **BUY** recommendation on Hartalega.

Share Price Chart

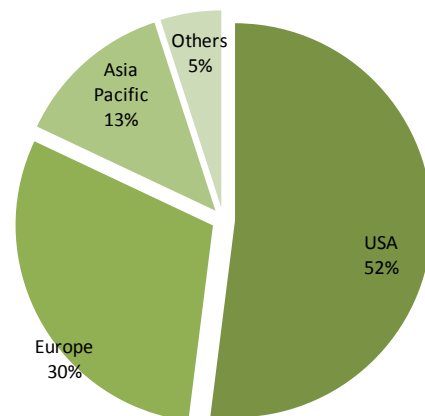


Supply mainly to developed market. Hartalega's gloves are sold to developed countries where more than 80% are catered for the healthcare sector. The emergence of new diseases such as SARS, variants of the bird flu and bioterrorism have resulted in heightened awareness of hygiene in the developing countries and their usage is being made mandatory in developed nations particularly the US and EU countries. As rubber gloves constitute less than 1% of the total cost of healthcare centres, any increase in the selling price is deemed insignificant to adversely affect overall demand.

Product applications



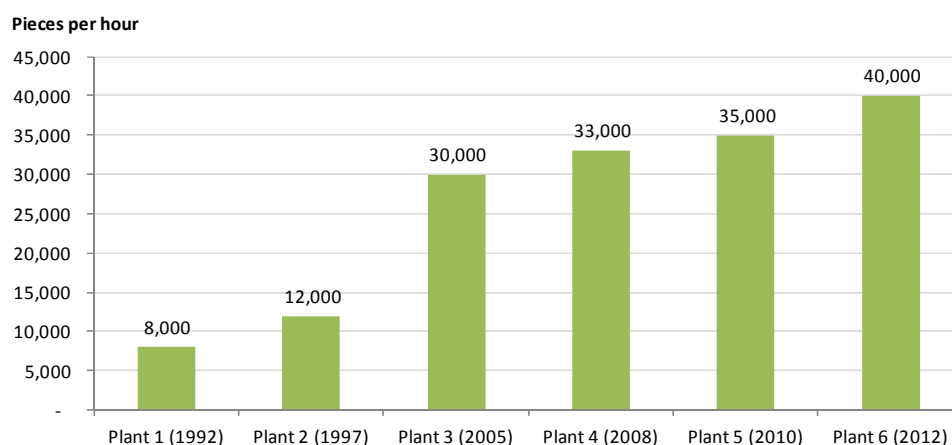
Segmental breakdown



Source: Company

Highly efficient. Hartalega has set the benchmark glove manufacturing with production lines able to produce 40,000 pieces per hour, far above the industry average. The company believes in high automation and invented the 1st automated mechanical stripping system in the industry enabling the removal of nitrile gloves from hand moulds since 1995. As a result, Hartalega's plants are able to produce far more gloves than industry's average.

Production Speed per line



Source: Company

Production monitoring system. Managers have better control on production with stable operating process parameters, which are controlled and monitored by the Supervisory Control and Data Acquisition (SCADA) system. Every critical parameter measured and acquired by programmable logic controls is communicated to the SCADA and later fed to the Data Management System for trending and other analytical auditing.

Automated glove removal system. Hartalega believes on automation to reduce the reliance on manual workforce. The company invented the first automatic glove removal system, designed to remove latex and nitrile gloves from hand moulds. This system is capable of removing not only latex but also nitrile gloves up to a speed more than 30,000 pieces of gloves per hour.

First in the industry

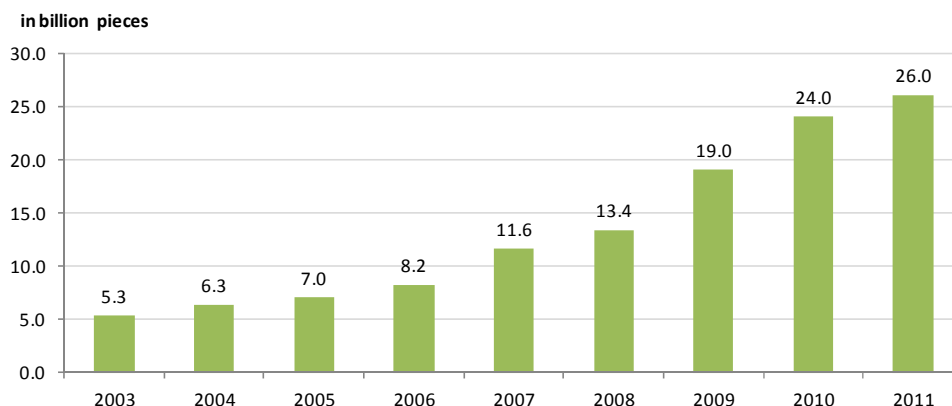
- **FIRST** to develop Polymer Coated Powder-Free Examination Gloves in 1994, and also one of the first to receive FDA 510k to market Low Protein Latex Examination Gloves.
- **FIRST** Malaysian company to develop and implement a Robotic Glove Stripping System in 1995, which mimics the human hand motion to strip gloves off from the production lines.
- **FIRST** to commercially produce High-Stress-Relaxation NBR Examination and Surgical Gloves in 2002 and 2006 respectively.
- **FIRST** in the industry to use industrial barcoding for product traceability and stock management with RFID Tags.
- **FIRST** recipient of the Inaugural Award for Best Factory in 2005 in Commodity Based Industries by Malaysian Government.
- **FIRST** recipient of the Inaugural Award for Innovation in 2005 by the Rubber Research Institute of Malaysia.
- **FIRST** in the industry to use oil palm empty fruit bunches as biomass fuel to generate heat for production processes.
- **FIRST** in the industry to have successfully registered our biomass energy plants to the United Nations Framework Convention on Climate Change (UNFCCC) or KYOTO Protocol.
- **FIRST** biomass energy plant in Malaysia registered to the United Nations Framework Convention on Climate Change (UNFCCC) or KYOTO Protocol that is in operation, running mainly on oil palm empty fruit bunches.

Source: Company

Nitrile gloves getting more popular. Nitrile gloves are gaining popularity with other major players have begun switching their production into nitrile gloves. Hartalega which has ventured into nitrile gloves 10 years ago will have a better advantage in their product quality and market positioning. The import of nitrile gloves in the USA has been growing by almost 20% CAGR from 2003 to 2011.

What are Nitrile gloves? Nitrile gloves are made of synthetic polymer that exhibit rubber like characteristics. They contain no latex proteins and offer excellent resistance to punctures and tears. Nitrile gloves are three times more puncture resistant than rubber and can be used to offer superior resistance to many types of chemicals such as greases, solvents, and oils. Many laboratories are now switching from the latex gloves to nitrile in an attempt to reduce latex allergy occurrence. The laboratory nitrile gloves with high stage of dexterity are essential needs in order to reduce the risk of accidents & injuries.

Total Import of Synthetic Exam Gloves in USA

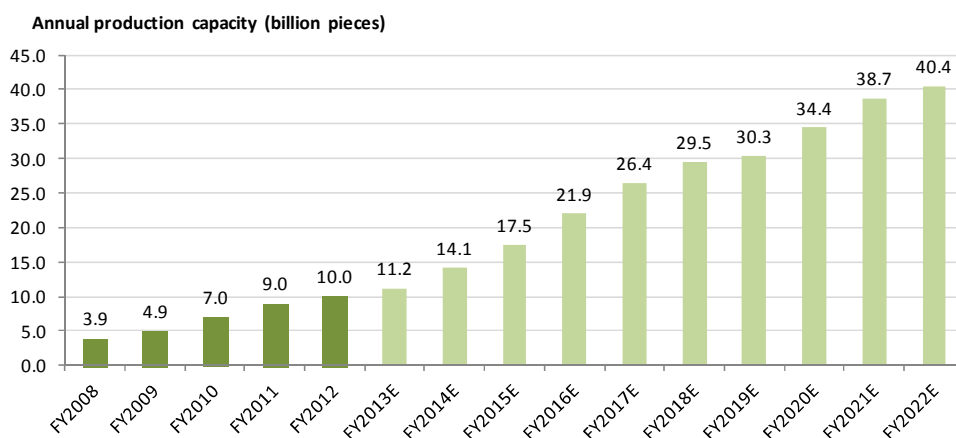


Source: Company

Expansion at Plant 6. Hartalega's 6th production plant has begun construction in January 2012 and is expected to be completed by early 2013. This plant comprises of 10 production lines and each line is capable of producing 40,000 pieces of gloves per hour. Plant 6 will boost Hartalega's production capacity by about 20% to 12bn pieces per annum once completed.

Next Generation Integrated Glove Manufacturing Complex (NGC). Hartalega has unveiled its new expansion plan to set up the "next generation integrated glove manufacturing complex" comprising of 70 new high tech production lines. Total investment for this project is estimated at RM1.5bn, located at Sepang, Selangor. Construction is scheduled to begin in 2013, divided into 2 phases with completion target by 2021. The first phase will begin in 2013 and scheduled for completion by 2017; will have 40 production lines with total annual capacity of 15bn pieces while the second phase (from 2017 to 2021) will add another 30 production lines with total annual capacity of 13bn pieces. Upon full completion, the total installed production capacity for the Hartalega group including the current factories in Batang Berjuntai will jump to more than 40bn pieces per annum, nearly 4 times its current size.

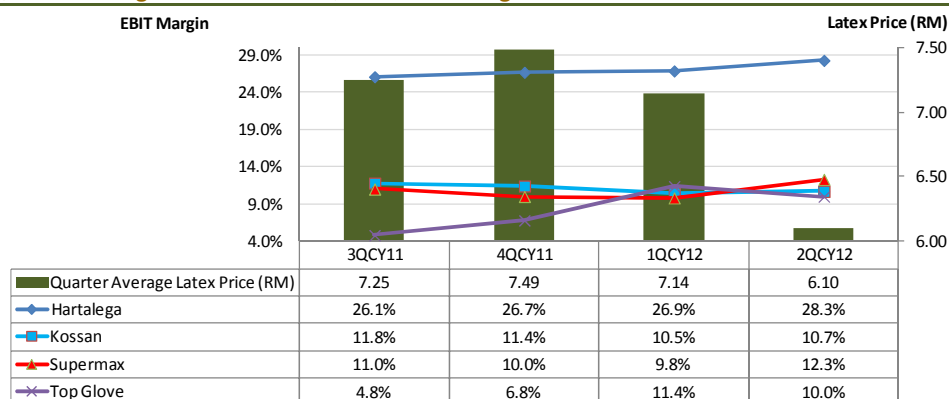
Total Import of Synthetic Exam Gloves in USA



Source: Company

Very resilient. The volatility of natural latex price over the past 2 years had caused many rubber glove producers to suffer in maintaining their profit margins. Nevertheless, Hartalega's margin remains stable and earnings are still growing QoQ during the adverse macro environment. While the success can be attributed to its accurate industry position, which has more stable pricing, however, its production efficiency is also another vital factor.

Quarter Average Latex Price vs. Quarter EBIT margins



Source: BIMB Securities/ Bloomberg

Maintaining our forecasts. We are maintaining our FY13 and FY14 net earnings forecasts at RM238.4m and RM250.5m respectively. Balance sheet remains solid with net cash per share of 18 sen. Meanwhile, its ROE remains the highest in the industry of more than 30% for the next 2 years.

View & Valuation. We have increased our target price at RM5.08 based on a revised 3-year average PER of 15x (FY10-FY12) over its CY13 EPS of 33.9 sen. We maintain our **BUY** recommendation on Hartalega.

Income Statement

FY 31 Mar (RMm)	2010	2011	2012	2013E	2014E
Revenue	571.9	734.9	931.1	991.5	1,076.0
EBITDA	201.0	270.7	289.3	343.7	367.0
Pretax profit	177.8	243.3	258.6	305.7	325.5
Tax	(34.7)	(53.1)	(56.9)	(67.3)	(74.9)
MI	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Net profit	142.9	190.2	201.6	238.4	250.6
CY Net profit	178.3	198.8	229.2	247.6	285.7
EPS (sen)	19.5	26.0	27.6	32.6	34.3
EPS growth (%)	69.1%	33.1%	6.0%	18.2%	5.1%
CY EPS	24.4	27.2	31.4	33.9	39.1
DPS (sen)	7.0	10.0	10.0	13.5	14.0
NTA/ share (RM)	0.5	0.7	0.8	1.0	1.2
Net gearing (x)	net cash	net cash	net cash	net cash	net cash
PER (x)	22.8	17.1	16.2	13.7	13.0
Div. yield (%)	1.6%	2.2%	2.2%	3.0%	3.1%
P/ NTA (x)	9.2	6.6	5.3	4.3	3.6
ROE (%)	40.4%	38.5%	32.5%	34.6%	30.1%

Source: BIMB Securities

Balance Sheet

FYE 31 Mar (RMm)	2010	2011	2012	2013E	2014E
Non Current Assets	293.0	348.9	380.1	394.1	404.5
Current Assets	185.8	282.4	371.8	497.2	640.3
Total Assets	478.9	631.3	751.9	891.3	1,044.7
Current Liabilities	69.0	75.4	79.9	79.7	84.9
Non Current Liabilities	55.5	61.3	51.7	51.7	51.7
Shareholders' Fund	354.1	494.3	619.7	759.5	907.7
Minority Interests	0.3	0.4	0.5	0.4	0.4
Equity & Liabilities	478.9	631.3	751.9	891.3	1,044.7

Source: BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in 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. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

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

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.

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