

Hartalega Holdings Bhd

COMPANY UPDATE

NEUTRAL

Target Price **RM 6.26**
Current Price **RM 6.34**
Consensus Target Price **RM 5.79**

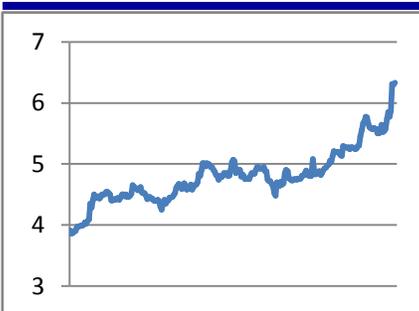
Key Statistics

Bloomberg Ticker	HART MK
Masa Ticker / Stock Code	HARTA/5168
Shares Issued (m)	734
Market Capitalisation (RM'm)	4,668
52 Week Hi/Lo Price (RM)	6.40/3.83
Avg Trading Volume (3-mth)	742,142
Est Free Float (m)	329.6
YTD Returns (%)	33.89
Beta (x)	0.77

Major Shareholders (%)

Hartalega Holdings	50.2
Budi Tenggara	5.0
EPF	5.2

1-Year Share Price Performance



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Dynamism and Innovation on Track

Hartalega cleared the mist surrounding its expansion plan by successfully sealing its land purchase agreement for its Next Generation Integrated Glove Manufacturing Complex (NGC). We downgrade to NEUTRAL with a target price of RM6.26 (pegged to 16x PER FY14 EPS), given the recent run up in its share price. The main catalysts for the share price upside potential are : 1) lower than expected raw material costs; and 2) USD appreciation against Ringgit.

Highlights:

- ◆ Hartalega entered into a land purchase agreement with Kumpulan Tanjung Balai Sdn. Bhd for a total cash consideration of about RM96.7m. The land is approximately 120 hectares and is located in Mukim Labu, Daerah Sepang, Negeri Sembilan. The acquisition of land will be funded by internally generated funds of the Group and bank borrowings.

Table 1: Earnings Forecasts

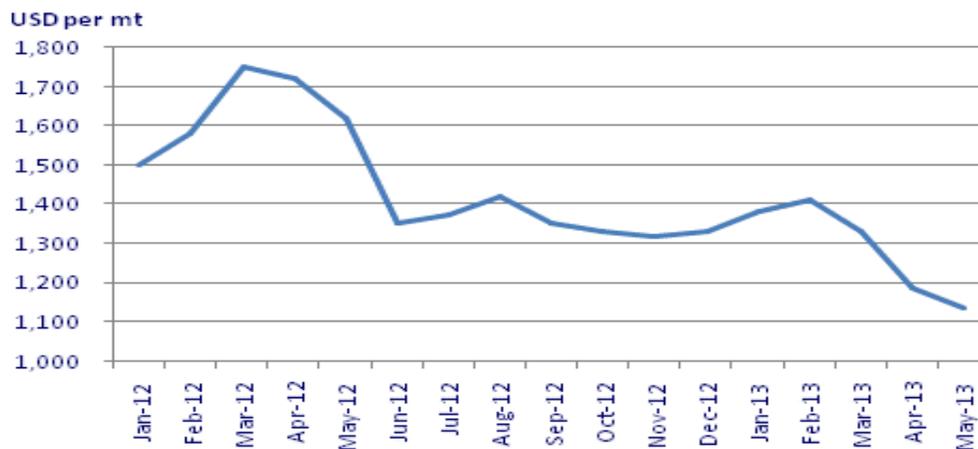
FYE Mar	FY11	FY12	FY13M	FY14(F)	FY15(F)
Revenue (m)	735	931	1,032	1,195	1,356
Pretax Profit (m)	243	258	306	368	401
Net Profit (m)	190	201	235	287	312
EPS (sen)	26.0	27.5	32.0	39.1	42.6
Pretax margin (%)	33.0	27.8	29.6	30.8	29.6
Net Profit margin (%)	25.9	21.6	22.8	24.0	23.1
PER (x)	24.4	23.1	19.8	16.2	14.9
DPS (sen)	10.5	10.8	14.5	17.6	19.2
Dividend Yield (%)	1.7	1.7	2.3	2.8	3.0
ROE (%)	38.5	32.5	37.9	37.3	33.8
ROA (%)	30.0	26.6	31.0	30.6	26.1
Net Gearing Ratio (%)	Net Cash				
BV/Share	0.7	0.8	0.8	1.4	1.6
Price/Book Ratio (x)	9.4	7.5	7.5	4.5	4.0

Source: *Inter-Pacific*

◆ **NGC Update**

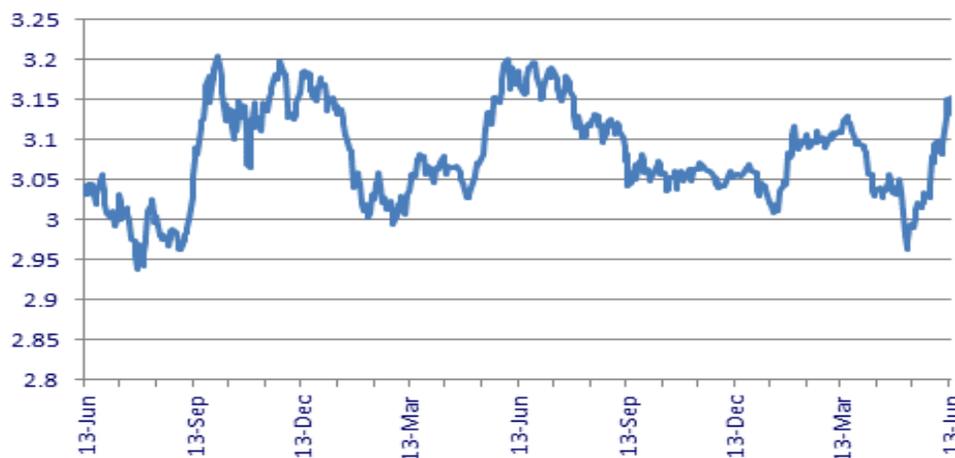
The (NGC) will have annual capacity of 28.3b pieces of gloves and is expected to progressively increase its production from CY2014 till CY2021. There will be 6 plants with 12 lines each totaling 72 lines running at 45,000 pieces per hour. Upon completion, Hartalega will have a total installed capacity of 42.5b pieces per annum. The production facility will also include a Research and Development centre, Renewable Energy Complex, Training and Development Centre, Sports and Recreational Centre and Eco-friendly Workers Quarters. The estimated CAPEX range between RM1.5b to RM1.9b and the initial cost will be funded will be funded via corporate funding (warrants) which is estimated to raise a maximum of RM308m.

Chart 1: Nitrile Butadiene Rubber Prices



Source: Company

Chart 2: USD/MYR



Source: Inter-Pacific

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		

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