



## HARTALEGA HOLDINGS BERHAD

*Neutral*

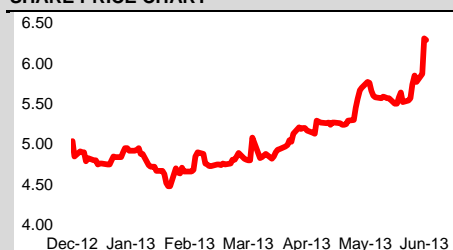
### DESCRIPTION

The world's largest nitrile glove manufacturer. Renowned for its innovative technological methods.

**12-Month Target Price** RM5.59  
**Current Price** RM6.30  
**Expected Return** -11.3%

**Market** Main  
**Sector** Rubber Gloves  
**Bursa Code** 5168  
**Bloomberg Ticker** HART MK

### SHARE PRICE CHART



**52 Week Range (RM)** 3.80-6.40  
**3-Month Average Vol ('000)** 712.6

### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	11.4	31.7	27.2
Relative Returns	10.1	21.9	15.2

### KEY STOCK DATA

**Market Capitalisation (RM m)** 4616.7  
**No. of Shares (m)** 734.0

### MAJOR SHAREHOLDERS

	%
Hartalega Industries	50.1
Budi Tenggara	4.9
BNP Paribas Wealth Management	7.7
EPF	5.1

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## Signed, Sealed, Delivering

Hartalega announced the signing of their land acquisition sales and purchase agreement (SPA) for their Next Generation Integrated Glove Manufacturing Complex (NGC) development in Sepang yesterday. The acquisition will cost RM96.9m for c.112acres. We are reaffirmed of the group's long term structured growth plan to quadruple their rubber gloves capacity (<42.5bn within next 5 to 8years), thus continue to recommend Hartalega with a **Neutral** view at unchanged TP of RM5.59. As the effect on earnings will only be recognized in FYE15 from the commissioned NGC coupled with no near-term increase in capacity, we believe any fundamental hike in price performance would be in the long-term.

- **Project Updates.** The commissioning of the NGC Project is expected by August of 2014 with a slated capex of c.RM1.9bn. Upon completion, the project would house 72 high-tech production lines with total installed capacity of 28.5bn pcs/yr.
- **The funding process.** The acquisition will be funded internally through Group funds and bank borrowings. The major shareholders (mainly Kuan family) have accumulated funds to exercise the warrants to the mother shares to reassure the settling of the frontload capex. Converting 40.7m shares at RM4.14 per share, we expect some RM168m to be raised. The acquisition has no current impact on the group's share capital, EPS or gearing.
- **NGC to sustain margins.** i.) Economies of scale - although we are expecting average selling price to gradually decrease over time for the rubber glove industry, however Hartalega's growth in scale and size would reduce the cost per unit of raw material prices, and ii.) translate to higher earnings from tax savings via capital allowance. These reductions to costs and tax would offset losses in ASP to maintain the group's bottom-line margins.
- **Progressive investments.** The group is also increasing its product range variants, including expanding its specialty gloves offering. Hartalega's recent investment in a coating technology endorses its focus on innovation and plans to maintain its competitive edge. This trend would follow in the upcoming NGC development.

### KEY FORECAST TABLE (RM m)

FYE Mar (RM m)	2011A	2012A	2013F	2014F	2015F	CAGR
Revenue	734.9	931.1	1,032.0	1,175.5	1,263.9	11.5%
Gross Profit	273.1	296.6	344.2	392.1	403.2	8.1%
Pre-tax Profit	242.8	258.4	305.9	345.1	351.3	7.7%
Net Profit	190.3	201.4	234.7	268.9	273.8	7.5%
EPS (Sen)	26.2	27.6	32.0	34.9	33.9	5.3%
P/E (x)	24.1	22.8	19.7	18.1	18.6	
DPS (Sen)	10.4	11.9	14.5	16.5	16.8	
Dividend Yield (%)	1.7	1.9	2.3	2.5	2.4	

Source: Company, PublicInvest Research estimates

*The project will be spread over 2 phases, with each duration of about 4 years*

*First Phase – (2013 to 2017) – 42 production lines with total annual capacity of 16.5bn gloves*

*Second Phase – (2018 to 2021) – 30 production lines with total annual capacity of 12bn*

**Project details.** The project will be spread over 2 phases, with each duration of about 4 years. Approximately 5,000 workers are expected to be employed.

**First Phase.** (2013 to 2017) – 42 production lines with total annual capacity of 16.5bn gloves.

**Second Phase.** (2018 to 2021) – 30 production lines with total annual capacity of 12bn gloves.

**Delays to be rectified?** The delay of constructing the NGC stems from the lengthy and appropriate approvals required to be in place to ensure that there would be no hindrances during the construction and commissioning process. To mitigate the occurred delay, Hartalega has the option of completing the entire NGC project (Phase 1 and 2) without the 6 months hiatus (initially planned for 2017). This would re-align the development to be completed towards the initial scheduled date.

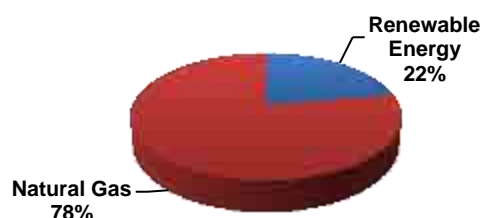
**Figure 1: Key Differences In The Current Plan Vs. Initial Plan**

	<u>Initial Plan</u>	<u>Current Plan</u>
<b>Capital Expenditure</b>	RM1.5bn Approx. RM175m/factory	<RM1.9bn Approx. RM215m/factory
<b>Construction Commencing</b>	Early 2013	September 2013
<b>1<sup>st</sup> Line Commissioning</b>	January 2014	August 2014
<b>Total Installed Capacity</b>	24.4bn pcs/yr Based on 40,000 pcs/hr	28.5bn pcs/yr Based on 45,000 pcs/hr
<b>Total Group Installed Capacity</b>		42.5bn pcs/yr
<b>Plants</b>	7 Plants with 10 lines each	6 Plants with 12 lines each

Source: Company

**6 Plants.** The consolidation of the number of plants from 7 to 6 is to create space for potentially more biomass storage. The NGC will consume about 7.4Sm<sup>3</sup>/1000pcs of natural gas, between 17% - 20% less than its current operations (8.8 Sm<sup>3</sup>), through the increase of biomass renewable energy. The installation capacity of 58MW biomass renewable energy plants can support about 22% (Figure 2) of NGC's energy requirement which would translate to a c.2% reduction of gas costs to 6% (current gas component is 8% of COGS).

**Figure 2: Energy Source For NGC**

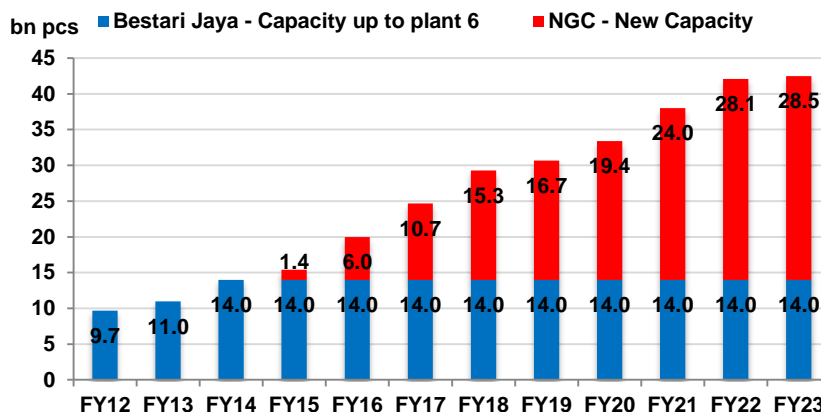


Source: Company

## Updates

**Mitigating skill workforce shortage.** The group has increased its current workforce by about 1000 workers (3,100 to 4,100) in anticipation for the increased labour required to operate the NGC. Hartalega's decision is premised on the belief that quality and effective labour is difficult to obtain and has therefore hired ahead of time to train its new workforce.

**Figure 3: NGC Capacity Growth**



Source: Company

**Figure 4: Artist Impressions of NGC**



Source: Company

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

<b>FYE Mar (RM m)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Revenue	734.9	931.1	1,032.0	1,175.5	1,263.9
Cost of sales	-461.9	-634.4	-687.8	-783.4	-860.7
Operating Profit	273.1	296.6	344.2	392.1	403.2
Other Gains / (Losses)	-27.8	-36.5	-38.3	-51.7	-55.6
Finance Costs	-2.5	-1.7	-0.1	4.7	3.7
Pre-tax Profit	242.8	258.4	305.9	345.1	351.3
Income Tax	-52.5	-57.0	-70.8	-75.9	-77.3
Effective Tax Rate (%)	21.6	22.0	23.2	22.0	22.0
Minorities	0.0	-0.1	-0.3	-0.3	-0.3
<b>Net Profit</b>	<b>190.3</b>	<b>201.4</b>	<b>234.7</b>	<b>268.9</b>	<b>273.8</b>

### Growth

Revenue	29%	27%	11%	14%	8%
Operating Profit	33%	8%	18%	14%	2%
Net Profit	33%	6%	17%	15%	2%

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

<b>FYE Mar (RM m)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Property, Plant & Equipment	348.7	370.3	485.8	678.0	915.2
Cash and Cash Equivalents	117.0	163.2	182.4	164.7	291.7
Receivables, deposits and prepayment	101.0	117.1	124.7	142.6	153.3
Other Assets	68.4	107.5	143.4	281.4	228.7
<b>Total Assets</b>	<b>635.0</b>	<b>758.2</b>	<b>936.3</b>	<b>1,266.6</b>	<b>1,588.9</b>
Payables	57.2	60.4	92.8	105.7	113.7
Borrowings	39.0	24.6	12.2	23.0	24.4
Deferred tax	36.9	40.5	50.3	50.3	50.3
Other Liabilities	7.5	13.1	15.5	25.2	21.6
<b>Total Liabilities</b>	<b>140.5</b>	<b>138.7</b>	<b>170.8</b>	<b>204.1</b>	<b>210.0</b>
Shareholders' Equity	494.4	619.5	765.5	1,062.5	1,378.9
<b>Total Equity and Liabilities</b>	<b>635.0</b>	<b>758.2</b>	<b>936.3</b>	<b>1,266.6</b>	<b>1,588.9</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

<b>FYE Mar</b>	<b>2011A</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Book Value Per Share	0.7	0.8	1.0	1.4	1.7
NTA Per Share	2.7	3.4	2.1	2.7	3.4
EPS (Sen)	24.1	22.8	19.7	18.1	18.6
DPS (Sen)	10.4	11.9	14.5	16.5	16.8
Payout Ratio	40%	44%	45%	45%	45%
ROA	34%	29%	28%	24%	19%
ROE	45%	36%	34%	29%	22%

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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