

UOBKH Highlights**Hartalega (HART MK/SELL/RM6.30/Target: RM4.57)****NGC Project Finally Kicks Off**

What's New: Hartalega is buying a 120ha land site from Kumpulan Tanjung Balai Sdn Bhd for RM97m, funded by internal funds and bank borrowings. We understand the land is for its RM1.9b Next Generation Integrated Glove Manufacturing Complex (NGC), which will see its production glove capacity rise by 28.4b pieces annually upon completion in two phases over four years. (Source: Bursa Malaysia)

- i) First phase (2013-17) – Targets to add 16.5b pieces of gloves p.a. via 42 interchangeable production lines.
- ii) Second phase (2018-21) – Expect another additional 12b pieces of gloves p.a. via 30 interchangeable production lines.

Comments: The delay in the NGC plant which was initially slated to commence operation in 1H13 is well within our and street's expectations. We understand the land purchase is conditional upon the cost of land-filling to be borne by the seller. We reckon the construction of the NGC to kick off in early-4Q13 once the land is filled. We expect the first eight production lines to be commissioned by FY15, which will raise its current production capacity of 13b pieces of gloves p.a. by 24.2% in FY15. Some of the new findings on the NGC plant include:

- i) **Higher capex.** The earlier estimated capex of RM1.5b is now revised to RM1.7b-1.9b due to slightly higher land cost and the cost of setting up the plant.
- ii) **Increase production capacity.** The NGC will now house seven production plants with 72 interchangeable production lines, running at 45,000 pcs of gloves/line/hour (previous plan of seven production plants with 70 interchangeable production lines, running at 40,000 pcs of gloves/line/hour).

Recommendation: Maintain SELL and target price of RM4.57, based on 13x 2014F PE. We foresee a rather aggressive industry capacity expansion within the nitrile glove segment towards 4Q13. Thus, we think the average selling price (ASP) for nitrile gloves will fall, possibly suppressing Hartalega's EBIT margins to 28.0% in FY14 and 26.8% in FY15 (FY13: 29.7%).

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

Suite 19-01/02 19th Floor, Menara Keck Seng, 203 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

Tel: (603) 2143 1180, Fax: (603) 2143 0298

<http://research.uobkayhian.com>