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1HFY12 Results Review

Hartalega Holdings

Forex Loss Knocks Off 2Q Net Profit

Hartalega's 1HFY12 results were within expectations. Nevertheless, the 2QFY12 net profit was lower owing to the negative impact of an unrealized forex loss. Revenue, however, continued to go up q-o-q, bolstered by higher sales volume and higher selling prices of its gloves, which helped to pass on some the cost increase to its customers. We continue to like Hartalega's market leadership in the production of nitrile gloves. Maintain Buy, with an unchanged fair value of RM7.40.

BUY ↻

Fair Value **RM7.40**
 Previous Price **RM7.40**
 Price **RM5.46**

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)	363.94	
Market Cap	1987.11	
52 week H L Price	6.08	6.08
3mth Avg Vol (000)	262.7	
YTD Returns	4.3	
Beta (x)	0.79	

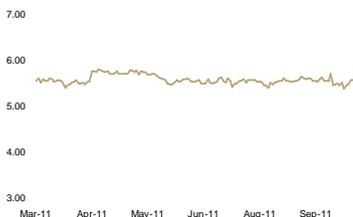
Major Shareholders (%)

Hartalega Industries	50.6
Budi Tenqgara Sdn Bhd	5.0

Share Performance (%)

Month	Absolute	Relative
1m	-0.5	4.7
3m	0.2	13.2
6m	3.6	13.2
12m	13.4	15.9

6-month Share Price Performance



Within projections. The 1HFY12 results were within consensus and our expectations, making 48% and 49% of the FY12 forecasts respectively. Overall, although the numbers were within expectations, the company's 2QFY12 net profit of RM46.2m was lower by 15.7% q-o-q due to the negative impact from an unrealized forex loss amounting to RM8.7m. Other than that, net profit also took a knock since the company was only able to partially pass on the higher latex cost (for both natural rubber and nitrile) to its customers. The 2QFY12 revenue of RM229.5m was, however, marginally higher by 4.6% q-o-q, attributed to the higher sales arising from new expansion and higher selling prices of gloves, which helped to partially pass on the increase in nitrile latex cost to its customers.

Finally, on a YTD comparison, both Hartalega's revenue and net profit jumped 26.7% and 14.0% respectively. The higher revenue was contributed by the higher sales volume and higher selling prices of its gloves, which helped pass on some of the cost increase to customers. Net profit, meanwhile, rose on a higher revenue, more production efficiency and better cost control.

Maintain Buy. Our target price for Hartalega remains unchanged at RM7.40 based on the existing PER of 13x FY12 EPS. We like the company's market leadership in the production of nitrile gloves.

FYE Mar (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	443.2	571.9	734.9	767.9	866.3
Net Profit	84.5	143.1	190.1	206.9	227.6
% chg y-o-y	21.5	69.3	32.8	8.8	10.0
Consensus	-	-	-	209.0	235.0
EPS (sen)	23.3	39.4	52.3	56.9	62.6
DPS (sen)	12.0	20.0	22.0	25.0	25.0
Dividend yield (%)	2.2	3.7	4.0	4.6	4.6
ROE (%)	38.9	46.9	44.8	36.7	31.9
ROA (%)	26.3	33.7	34.3	29.8	27.0
PER (x)	23.5	13.9	10.4	9.6	8.7
BV/share (RM)	0.70	0.97	1.36	1.74	2.19
P/BV (x)	8.6	6.2	4.4	3.4	2.6
EV/ EBITDA (x)	17.7	9.9	7.5	7.2	6.5

Results Table (RMm)**Results Table (RMm)**

FYE Mar	2Q12	1Q12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	229.5	219.4	4.6%	448.9	354.3	26.7%	Higher due to higher selling prices of gloves and higher production capacity.
EBIT	60.0	71.2	-15.7%	131.2	116.1	13.0%	
Net interest expense	-0.4	-0.5	-10.0%	-0.9	-1.3	-26.4%	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	59.6	70.7	-15.7%	130.2	114.8	13.5%	Lower q-o-q due to the negative impact from the unrealized forex loss amounting to RM8.7m. Also, there was margin erosion as only part of the higher latex cost (both natural rubber and nitrile) was passed on to customers. Higher YTD in line with higher revenue, more efficient production and better cost control.
Tax	-13.4	-15.9	-16.0%	-29.3	-26.2	11.8%	
MI	0.0	0.0	-	0.0	0.0	-	
Net profit	46.2	54.8	-15.7%	100.9	88.5	14.0%	
EPS (sen)	12.7	15.1		27.7	24.4		
DPS (sen)	6.0	0.0		6.0	4.0		
EBIT margin	26.1%	32.4%		29.2%	32.8%		
NTA/share (RM)	1.53	1.45		1.53	1.36		

EARNINGS FORECAST

FYE Mar (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	443.2	571.9	734.9	767.9	866.3
EBITDA	113.5	197.9	254.9	263.3	288.0
PBT	95.5	177.9	243.3	241.4	264.6
Net Profit	84.5	143.1	190.1	206.9	227.6
EPS (sen)	23.3	39.4	52.3	56.9	62.6
DPS (sen)	12.0	20.0	22.0	25.0	25.0
Margin					
EBITDA (%)	25.6	34.6	34.7	30.0	30.0
PBT (%)	21.6	31.1	33.1	31.4	30.5
Net Profit (%)	19.1	25.0	25.9	26.9	26.3
ROE (%)	38.9	46.9	44.8	36.7	31.9
ROA (%)	26.3	33.7	34.3	29.8	27.0
Balance Sheet					
Fixed Assets	246.4	292.9	348.9	359.5	382.7
Current Assets	126.2	183.5	282.4	399.2	542.4
Total Assets	372.6	476.5	631.3	758.7	925.1
Current Liabilities	49.4	66.4	75.4	63.2	69.2
Net Current Assets	76.8	117.1	207.0	336.0	473.2
LT Liabilities	67.5	55.5	61.3	61.3	61.3
Shareholders Funds	255.6	354.3	494.3	634.0	794.3
Net Gearing (%)	7.6	net cash	net cash	net cash	net cash

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