



BIMB SECURITIES RESEARCH MARKET INSIGHT

PP16795/03/2012(029624)

Results Review –Hartalega Holdings

Buy

1H Earnings In line

Price: RM5.46

Target Price: RM6.92

Stock Data

Bloomberg Ticker	HART MK	Altman Z-score	11.9
Market Cap	1,987.5	YTD price chg	2.2%
Issued shares	364.0	YTD KLCI chg	-2.5%
52-week range (H)	6.08	Beta	0.7
52-week range (L)	4.85	Major Shareholders	
3-mth avg daily volume	252,633	Hartalega Industries	50.5%
Free Float	43.8%	Budi Tenggara SB	5.0%
Shariah Compliant	Y		

Share Performance (%)

	1mth	3mth	12mth
Absolute	(1.8)	2.4	2.5
vs. KLCI	1.8	0.7	1.8

Financial Highlights

FYE 31 Mar	2009	2010	2011	2012E	2013E
Turnover	443.2	571.9	734.9	808.4	966.0
EBIT	97.9	181.2	245.7	274.9	303.1
Pretax profit	95.5	177.8	243.3	272.3	300.4
Net Profit	84.5	142.9	190.2	212.3	234.3
EPS (sen)	23.3	39.3	52.3	58.4	64.5
EPS growth (%)	110.2%	69.1%	33.1%	11.7%	10.3%
PER (x)	23.5	13.9	10.4	9.3	8.5
DPS (sen)	7.7	20.0	21.0	22.0	22.0
Div. Yield (%)	1.4%	3.7%	3.8%	4.0%	4.0%
NTA/share (RM)	0.70	0.97	1.36	1.72	2.15
EBIT margin	22.1%	31.7%	33.4%	34.0%	31.4%
Pretax margin	21.5%	31.1%	33.1%	33.7%	31.1%
Effective tax rate	11.5%	19.5%	21.8%	22.0%	22.0%
ROE	33.2%	40.4%	38.5%	37.9%	33.3%
ROA	26.4%	33.5%	34.3%	30.3%	27.5%
Net Gearing (x)	0.08	net cash	net cash	net cash	net cash

Growth ratios

Turnover	56.5%	29.0%	28.5%	10.0%	19.5%
EBIT	105.2%	85.0%	35.7%	11.9%	10.3%
Pretax profit	104.6%	86.2%	36.8%	11.9%	10.3%
Core Net profit	110.2%	69.1%	33.1%	11.7%	10.3%

Share Price Chart



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Hartalega's 1HFY12 net earnings of RM100.9m, 32.1% higher than the previous year is in line with our forecast. 1H total quantity sold increased by 28.8% with a product mix of 94% nitrile and 6% natural latex gloves. QoQ, net profit was 15.8% lower due to higher production cost and stiff competition. 1H EBIT margin although slightly lower; is still strong at 29.2% compared to industry's average of between 15%-16%. No change to our earnings forecast and target price is unchanged at RM6.92 based on 3-year average PER band of 11x over CY12 EPS of 62.9 sen. **Maintain BUY.**

Lower QoQ. Despite the stronger 1H, QoQ net earnings declined by 15.8% as: i) both nitrile and natural latex prices were high during the quarter resulted in lower profit margin; and ii) other glove makers switched their production into nitrile gloves due to the high latex price in the past 12 months hence a certain degree of price war thus lower profit margin. Nevertheless, we believe this is just a short term problem for Hartalega as latex price has begun to fall in the past few weeks; and other industry players who switch into nitrile gloves may revert into natural latex gloves, which may reduce the competition within the nitrile segment.

The worst is over? Latex price has peaked in early 2011 at RM10.90/kg. It has since moved south to around 7.50/kg level recently. If this level can be sustained for a longer period, it would be a welcome reprieve for other rubber glove makers as well. Technically, the price level of RM8.50/kg which formed the critical support has been violated and is highly likely to hit the RM6.50/kg level in the medium term.

Strong financials. We maintain our net earnings estimates for FY12 and FY13 of RM212.3m and RM234.3m respectively. Balance sheet is strong with a net cash position, while its ROE is highest in the industry circa. 34.3% for FY11.

View & Valuation. Our target price remains unchanged at RM6.92 based on its 3 year average PE Band of 11x over its CY12 EPS of 62.9 sen. We reiterate our **BUY** recommendation on Hartalega.

Quarterly figures

FY 31 Mar (RMm)	1QFY11	2QFY011	3QFY11	4QFY11	1QFY12	2QFY012	QoQ Chg	YoY Chg	1HFY11	1HFY12
Revenue	170.0	184.3	188.1	192.5	219.4	229.5	4.6%	24.5%	354.3	448.9
EBIT	54.4	61.6	62.0	67.7	71.2	60.0	-15.7%	-2.7%	116.1	131.2
Pretax profit	53.8	61.0	62.2	66.3	70.7	59.6	-15.7%	-2.4%	114.8	130.2
Taxation	(12.3)	(13.9)	(13.0)	(13.9)	(15.9)	(13.4)	-16.0%	-3.8%	(26.2)	(29.3)
Minority Interest	0.0	(0.0)	(0.0)	(0.0)	0.0	(0.0)	-257.1%	266.7%	(0.0)	(0.0)
Net Profit	41.5	47.1	49.2	52.4	54.8	46.1	-15.8%	-2.1%	88.6	100.9
EPS (sen)	11.4	13.0	13.5	14.4	15.1	12.7	-15.8%	-2.1%	24.4	27.8
Net gearing (x)	net cash	net cash	net cash	net cash	net cash	net cash	n.a.	n.a.	net cash	net cash
EBIT margin (%)	32.0%	33.4%	33.0%	35.1%	32.4%	26.1%	-19.4%	-21.8%	32.8%	29.2%
PBT margin (%)	31.6%	33.1%	33.1%	34.4%	32.2%	25.9%	-19.5%	-21.6%	32.4%	29.0%
Net profit margin (%)	24.4%	25.6%	26.2%	27.2%	25.0%	20.1%	-19.5%	-21.4%	25.0%	22.5%
Effective tax rate (%)	22.9%	22.8%	20.9%	20.9%	22.5%	22.5%	-0.3%	-1.4%	22.8%	22.5%

Source: BIMB Securities

Income Statement

FY 31 Mar (RMm)	2009	2010	2011	2012E	2013E
Revenue	443.2	571.9	734.9	808.4	966.0
EBITDA	113.5	201.0	265.6	299.1	330.0
Pretax profit	95.5	177.8	243.3	272.3	300.4
Tax	(11.0)	(34.7)	(53.1)	(59.9)	(66.1)
MI	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Net profit	84.5	142.9	190.2	212.3	234.3
CY Net profit	128.3	178.3	206.8	228.8	269.6
EPS (sen)	23.3	39.3	52.3	58.4	64.5
EPS growth (%)	110.2%	69.1%	33.1%	11.7%	10.3%
CY EPS	35.3	49.1	56.9	62.9	74.2
DPS (sen)	7.7	20.0	21.0	22.0	22.0
NTA/ share (RM)	0.7	1.0	1.4	1.7	2.1
Net gearing (x)	0.1	net cash	net cash	net cash	net cash
PER (x)	23.5	13.9	10.4	9.3	8.5
Div. yield (%)	1.4%	3.7%	3.8%	4.0%	4.0%
P/ NTA (x)	7.8	5.6	4.0	3.2	2.5
ROE (%)	33.2%	40.4%	38.5%	37.9%	33.3%

Source: BIMB Securities

Balance Sheet

FYE 31 Mar (RMm)	2009	2010	2011	2012E	2013E
Non Current Assets	246.4	293.0	348.9	348.4	371.5
Current Assets	128.4	185.8	282.4	419.7	565.4
Total Assets	374.8	478.9	631.3	768.1	937.0
Current Liabilities	52.8	69.0	75.4	80.0	94.5
Non Current Liabilities	67.5	55.5	61.3	61.3	61.3
Shareholders' Fund	254.4	354.1	494.3	626.7	781.0
Minority Interests	0.1	0.3	0.4	0.2	0.3
Equity & Liabilities	374.8	478.9	631.3	768.1	937.0

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
OUTPERFORM	The stock is expected to perform ahead of the market in the next 12 months
TRADING BUY	The stock is expected to outperform the market in the next 3 months
NEUTRAL	The stock is expected to perform in line with the market in the next 12 months
TRADING SELL	The stock is expected to underperform the market in the next 3 months
SELL	An expected price depreciation of more than 10% in the next 12 months

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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