Malaysia
MARKET DATELINE ● PP 7767/09/2012(030475)

RHB Research
Institute Sdn Bhd
A member of the
RHB Banking Group
Company No: 233327 -M

Corporate Highlights

Results Note

9 November 2011

Hartalega

Core Net Profit Up 1.7% Qoq

Share Price	:	RM5.46
Fair Value	:	RM6.06
Recom	:	**Market Perform** (Maintained)

Table 1 : Investment Statistics (HARTA; Code: 5168) — **Bloomberg: HART MK**

FYE Mar	Turnover (RMm)	Net Profit (RMm)	EPS (sen)	Core EPS# (sen)	EPS Growth# (%)	PER# (x)	C.EPS* (sen)	P/NTA (x)	Net Gearing (x)	ROE (%)	NDY (%)
2011	734.9	194.1	53.4	52.2	241.7	10.4	-	4.0	0.0	44.7	3.9
2012f	926.4	218.7	60.1	60.1	15.2	9.1	58.0	3.2	0.0	39.2	4.8
2013f	1051.4	253.5	69.7	69.7	15.9	7.8	66.0	2.6	0.0	36.3	5.1
2014f	1307.5	313.0	86.0	86.0	23.5	6.3	85.0	2.1	0.0	36.1	6.4

Main Market Listing /Non- Trustee Stock / Syariah-Approved Stock By The SC *# Ex-EI* ** Consensus Based On IBES Estimates*

- **Results in line …** Hartalega's 2QFY03/12 core net profit of RM54.8m (+24.8% yoy; +1.7% qoq) came in within our and consensus expectations with 6M net profit of RM107.9m (+24.0% yoy) accounting for 49.3% of our and consensus estimates respectively.

- **… with 2Q core net profit up 24.8% yoy and 1.7% qoq.** QoQ, sales volume remained relatively flat at 1.95bn pcs (vs. 1.98 bn pcs in the previous quarter) as more producers shifted production from latex gloves to nitrile gloves, resulting in stiffer competition and pricing pressure. The situation was further aggravated by the increase in raw material costs which accounted for 59% of 2QFY12 cost of sales (vs. 56% in the previous quarter). Hence, despite upward adjustments in ASPs (+8.5% qoq) to pass on the higher raw material costs, EBIT margin contracted to 29.6% in 2QFY12 vs. 32.0% in 1QFY12. Stripping off net unrealised forex losses and changes in fair value in forward forex contracts of RM8.7m in the quarter (vs. a net unrealised gain of RM0.8m in the previous quarter), Hartalega's core net profit rose 1.7% qoq.

- **Declares a first interim single-tier DPS of 6 sen.** Hartalega declared a first interim single-tier DPS of 6 sen (2Q11:4 sen), which translates to a net yield of 1.1%. We have projected full-year tax-exempt DPS of 26 sen, which implies a net payout ratio of 43.2% (FY11: 40.2%) and net yield of 4.8%.

- **Capacity expansion remains on track.** Management guided that plans to add two new lines in Plant 5 remains on track. The new lines will increase annual production capacity by 400m pieces to 10bn pieces upon full commissioning by 1Q 2012. As for the new Plant 6, the company is still awaiting regulatory approval for the construction works. In total, capacity expansion plans in both Plant 5 and Plant 6 will raise Hartalega's annual capacity to 13.5bn pieces from 9.6bn pieces currently.

- **Risks.** 1) higher-than-expected raw material prices, which may result in margin contraction; 2) appreciating RM against the US$; and 3) execution risk from capacity expansion.

- **Forecasts.** No change to our earnings forecasts for now.

- **Investment case.** We have maintained our fair value of RM6.06, which is based on unchanged target CY12 PER of 9.0x. As the potential upside to our fair value is still in line with our expected market return, we maintain our **Market Perform** call on the company.

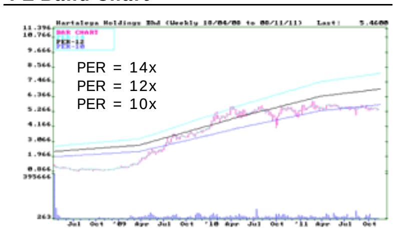
Please read important disclosures at the end of this report.

RHBRI	Vs.	Consensus
	Above	
√	In Line	√
	Below	

Issued Capital (m shares)	364.0
Market Cap (RMm)	1,987.5
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	4.85-6.08
Major Shareholders:	**(%)**
Hartalega Industries	50.5
Budi Tenggara	5.0

FYE Mar	FY12	FY13	FY14
EPS chg (%)	-	-	-
Var to Cons (%)	3.7	5.6	1.2

PE Band Chart



Relative Performance To FBM KLCI

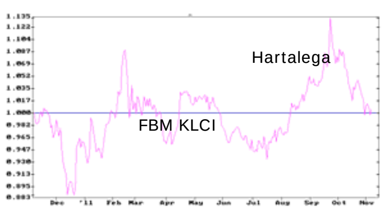


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Table 2: Earnings Review

FYE Mar (RMm)	2Q11	1Q12	2Q12	QoQ (%)	YoY (%)	6MFY11	6MFY12	YoY (%)	Comments
Revenue	**184.3**	**219.4**	**229.5**	**4.6**	**24.5**	**354.3**	**448.9**	**26.7**	Yoy growth on the back of capacity expansion of 10 new lines in Plant 5 while qoq growth was largely due to the increase in selling prices for nitrile gloves to pass on the higher raw material cost.
EBIT	**60.1**	**70.4**	**68.7**	**(3.1)**	**14.3**	**114.5**	**139.0**	**21.4**	Weaker due higher nitrile raw material prices.
Int exp	(0.6)	(0.5)	(0.4)	(10.0)	(28.1)	(1.3)	(0.9)	(26.4)	Total debt at end-2QFY12 was RM32.6m (1QFY12: RM35.4m and 2QFY11: RM47.0m).
Exceptionals	1.6	0.8	(8.7)	nm	nm	1.6	(7.9)	(100.0)	Relates to the gains/losses from recognition of financial derivative instruments.
Pre-tax profit	**61.0**	**70.7**	**59.6**	**(15.7)**	**(2.4)**	**114.8**	**130.2**	**13.5**	Largely filtered down from EBIT level.
Tax	(13.9)	(15.9)	(13.4)	(16.0)	(3.8)	(26.2)	(29.3)	11.8	
Minority interest	(0.0)	(0.0)	(0.0)	57.1	>100	(0.0)	(0.1)	>100	
Net profit	**45.5**	**54.7**	**46.1**	**(15.7)**	**(2.1)**	**88.6**	**100.8**	**13.9**	
Core net profit	**43.9**	**53.9**	**54.8**	**1.7**	**24.8**	**87.0**	**107.9**	**24.0**	
Margins (%)									
EBIT	32.6	32.0	29.9			32.3	31.0		Qoq margin contraction due to: 1) intensified competition with more producers shifting production from latex to nitrile; and 2) higher raw material costs.
Pre-tax	32.2	32.2	25.9			32.4	29.0		
Effective tax rate	23.4	22.5	22.5			22.8	22.5		Effective tax rate remained lower than the statutory rate due to availability of tax incentives.
Net profit	24.7	24.9	20.1			25.0	22.5		
Core net profit	23.8	24.2	23.9			24.5	24.0		

Source: Company data, RHBRI

Table 3: Earnings Forecasts

FYE Mar (RMm)	FY11a	FY12F	FY13F	FY14F
Turnover	**734.9**	**926.4**	**1,051.4**	**1,307.5**
Turnover growth (%)	*358.5*	*26.1*	*13.5*	*24.4*
EBITDA	**270.3**	**313.9**	**364.2**	**447.0**
EBITDA margin (%)	*36.8*	*33.9*	*34.6*	*34.2*
Dep. & amort.	(25.0)	(30.9)	(36.6)	(43.1)
EBIT	**245.3**	**283.0**	**327.6**	**403.9**
EBIT margin (%)	*33.4*	*30.5*	*31.2*	*30.9*
Net interest expense	(2.5)	(2.4)	(2.4)	(2.4)
Associates	0.0	0.0	0.0	0.0
Exceptionals	4.4	0.0	0.0	0.0
Pretax Profit	**247.2**	**280.6**	**325.2**	**401.5**
Tax	(53.1)	(61.7)	(71.5)	(88.3)
Minorities	(0.0)	(0.1)	(0.1)	(0.1)
Net Profit	**194.1**	**218.7**	**253.5**	**313.0**
Core Net Profit	**189.7**	**218.7**	**253.5**	**313.0**

Source: Company data, RHBRI estimates

Table 4: Forecast Assumptions

FYE Mar	FY12F	FY13F	FY14F
Average capacity (bn pcs)	9.6	10.6	12.6
Utilisation rate (%)	84.0	83.0	85.0
Average selling price (per'000 pcs)	119.15	123.58	125.94

Source: RHBRI estimates

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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