

Hartalega Holdings

Ending the year with the upper hand

OUTPERFORM

Maintained

RM5.70

Target: RM8.23

Mkt.Cap: RM2,072m/US\$694m

Rubber Gloves

HART MK / HTHB.KL

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- **In line; maintain OUTPERFORM.** At 103% of our and consensus numbers, Hartalega's FY3/11 net profit was broadly in line, thanks to stable margins. The slight deviation came from higher-than-expected revenues. The 6 sen interim DPS was above our 5 sen forecast and took full-year DPS to 21 sen. We maintain our FY12-13 forecasts and introduce an FY14 net profit of RM283m, which works out to 19% growth coming from Plant 6. Our DPS projections and 40% payout assumption are unchanged, being in line with Hartalega's dividend policy. Also unchanged is our RM8.23 target price, still based on 13.05x CY12 P/E, a 10% discount to Top Glove's 14.5x target P/E. The FY12 gross yield of 5% is the highest in the sector. Hartalega remains an OUTPERFORM. Potential catalysts include 1) positive newsflow on its expansion, 2) higher output from efficiency gains, and 3) higher ASPs.
- **Strong 4Q11 results.** 4QFY3/11 revenues rose 2% qoq (18% yoy) to RM193m due to a 7% qoq rise in output to 1.9bn pieces of gloves. The utilisation rate for FY11 was 81%, slightly lower than the 83% guided previously as two lines at Plant 4 were refurbished to increase their speed. As the refurbishment was completed in Apr 2011, we expect output to normalise in the quarters ahead. 4Q EBITDA margin came in at 29%, which was 0.3% pts higher qoq but 3% pts down yoy due to higher input costs. 4Q net profit rose 7% qoq and 13% yoy, translating into a full-year net profit of RM190m, up 33%.
- **Margin compression in FY12.** We are projecting a 1-2% pt drop in FY12 EBITDA margin to 34% as Plant 6 will only be fully commissioned in FY13 even though construction will be completed in FY12. As a result, the company will not be able to benefit much from economies of scale in FY12 as it had in FY10 when production at Plant 5 was gradually ramped up. That said, we expect Hartalega to expand capacity by 700m-800m pieces of gloves in FY12 to 9.5bn pieces of gloves through the debottlenecking of existing plants and contribution from 1-2 lines at Plant 6 in 4Q12.

Results comparison

FYE Mar (RM m)	4QFY11	4QFY10	yoy % chg	qoq % chg	4QFY11 Cum	4QFY10 Cum	yoy % chg	Prev. FY11F	Comments
Revenue	192.5	163.4	17.8	2.3	734.9	571.9	28.5	711.5	Higher due to higher capacity and demand
Operating costs	(130.0)	(106.3)	22.3	2.3	(497.9)	(394.1)	26.3	(472.7)	Higher raw material costs and output
EBITDA	55.1	51.2	7.8	(20.3)	207.8	151.6	37.1	254.2	New lines are more efficient, higher speed
EBITDA margin (%)	28.6	31.3	(8.5)	(22.2)	28.3	26.5	6.7	35.7	
Depn & amort.	7.4	5.9	25.0	189.6	29.1	25.8	12.5	(22.6)	
EBIT	62.5	57.0	9.6	2.5	236.9	177.4	33.5	231.6	
Interest expense	(0.6)	(0.8)	(30.9)	(9.7)	(2.5)	(3.4)	(27.0)	(2.1)	Borrowings of RM39.0m as at end-Mar 11
Interest & invt inc	4.3	0.3	1,490.8	150.6	8.7	3.4	156.8	1.7	Cash position of RM117.0m as at Mar 11
Exceptionals	0.0	0.1	(71.4)	(82.0)	0.2	0.3	(50.3)	-	
Pretax profit	66.3	56.6	17.2	6.6	243.3	177.8	36.8	231.1	Higher capacity and more efficient plants
Tax	(13.9)	(10.1)	37.1	6.6	(53.1)	(34.7)	52.9	(46.2)	Below statutory tax rate due to allowances
Tax rate (%)	20.9	17.9	17.0	0.1	21.8	19.5	11.7	20.0	
Minority interests	(0.0)	(0.0)	(21.7)	350.0	(0.0)	(0.2)	(78.4)	(0.2)	
Net profit	52.4	46.4	12.9	6.5	190.2	142.8	33.1	184.7	3% above our forecast
Core net profit	52.4	46.4	13.0	6.7	190.0	142.5	33.3	184.7	
EPS (sen)	14.4	12.8	12.9	6.5	52.3	39.3	33.1	50.8	
Core EPS (sen)	14.4	12.8	13.0	6.7	52.3	39.2	33.3	50.8	

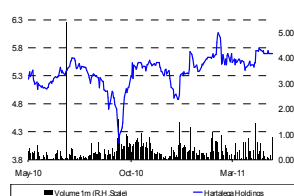
Source: Company, CIMB Research

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Financial summary

FYE Mar	2010	2011	2012F	2013F	2014F
Revenue (RM m)	571.9	734.9	821.7	905.5	1,067.2
EBITDA (RM m)	202.7	266.1	279.1	326.2	384.0
EBITDA margins (%)	35.4%	36.2%	34.0%	36.0%	36.0%
Pretax profit (RM m)	177.8	243.4	253.4	298.1	353.5
Net profit (RM m)	142.9	190.3	202.5	238.3	282.6
EPS (sen)	39.3	52.4	55.7	65.6	77.7
EPS growth (%)	69.1%	33.2%	6.4%	17.7%	18.6%
P/E (x)	14.5	10.9	10.2	8.7	7.3
Core EPS (sen)	40.0	52.4	55.7	65.6	77.7
Core EPS growth (%)	82.2%	31.0%	6.4%	17.7%	18.6%
Core P/E (x)	14.3	10.9	10.2	8.7	7.3
Gross DPS (sen)	13.3	27.0	29.7	35.0	41.5
Dividend yield (%)	2.3%	4.7%	5.2%	6.1%	7.3%
P/BV (x)	5.9	4.2	3.5	2.8	2.3
ROE (%)	47.0%	44.9%	37.5%	36.2%	34.7%
Net cash per share (RM)	0.09	0.21	0.47	0.63	1.00
P/FCFE (x)	25.1	20.9	13.7	16.1	9.3
EV/EBITDA (x)	10.1	7.5	6.8	5.6	4.4
% change in EPS estimates			N/A	N/A	N/A
CIMB/Consensus (x)			0.95	0.96	0.59

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target	Mkt cap	Core	3-yr EPS	P/BV	ROE	Div	
	ticker	Recom.	(Local)	price	(US\$ m)	P/E (x)	CAGR	(x)	(%)	yield (%)	
				(Local)		CY2011	CY2012	(%)	CY2011	CY2011	CY2011
Hartalega	HART MK	O	5.70	8.23	694	10.4	9.0	14.1	3.7	39.0	5.1
Adventa	ADV MK	O	2.18	2.98	112	11.4	7.4	7.3	1.2	11.3	3.5
Kossan	KRI MK	O	3.17	5.14	339	7.6	6.3	14.6	1.8	25.7	3.2
Latexx	LTX MK	N	2.65	3.10	197	7.1	6.4	15.0	1.9	30.0	4.2
Supermax	SUCB MK	O	4.02	5.84	458	8.5	8.0	4.7	1.6	20.0	2.7
Top Glove	TOPG MK	N	5.20	5.98	1,077	17.6	12.6	7.6	2.6	15.6	4.3
Simple average						10.4	8.3	10.6	2.1	23.6	3.8

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

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.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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