

07 August 2012 | Visit Note

## Hartalega Holdings Berhad

*The nitrile king*

**Upgrade to BUY**

**Increased Target Price (TP):RM5.10  
(Previous: RM3.75)**

- We met with Hartalega Holdings Bhd (Hartalega)'s management recently. Pursuant to the meeting, we remain upbeat about the company's growth as underlined by these key takeaways:
  1. Recession proof nature of the industry;
  2. Impressive profitability to be sustained;
  3. Boasting efficiency above the market;
  4. Switching trend in demand from NR glove to NBR glove;
  5. Demand growth from new markets;
  6. Aggressive expansion plan in the pipeline;
- World's largest nitrile glove producer.** For FY12, Hartalega sold 7.75bln pieces of nitrile gloves, more than any other company in the world. This would translate into an outstanding 30.4%yoy growth. As for CY11, Hartalega held 16% of the synthetic exam gloves market share in the US. Meanwhile, sales of its nitrile gloves to the EU region surged 168.7%yoy to 2.44bln pieces.
- The most profitable glove producer.** Hartalega's net profit came at RM201.4m for FY12, a growth of 5.8% y-o-y growth. This translates into an impressive net profit margin of 21.6%. At the operating level, Hartalega registered an operating profit of RM260.1m, with a margin of 27.9%. In terms of both profitability and absolute amount, Hartalega's achievement for FY12 was the best among its peers. Based on its track record for the past 5 years, we believe the management would be able to maintain this commendable performance in the upcoming years.
- Dividend policy to be maintained.** The company has reiterated its commitment to distribute at least 45% of its net earnings as dividends to shareholders. With its strong operating cash flow, we are confident that the company will be capable of sustaining the attractive payout ratio in the foreseeable future.
- FY2013 prospect.** The operating environment of for the glove producers has improved substantially in the last few months, contributed by the easing of key commodity prices and the strengthening of USD against the MYR. As the nitrile latex makes up 50% of the production cost for Hartalega, we expect the easing of butadiene price, a key material of nitrile, would boost the profitability of the company.
- Upgrade to BUY with a revised TP of RM5.10.** We rollover our valuation to FY13, with a revised target price of RM5.10. Our valuation is derived from 17x FY13F EPS, based on the weighted average mean of its peers. We are confident with the management's capability of sustaining the growth and profitability of the company. Therefore, although the price has appreciated 52.1% YTD, we believe there is still ample upside potential to the stock price.

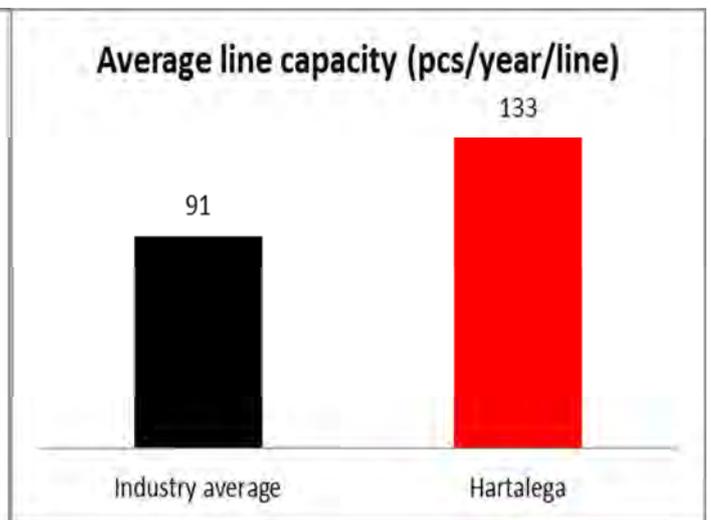
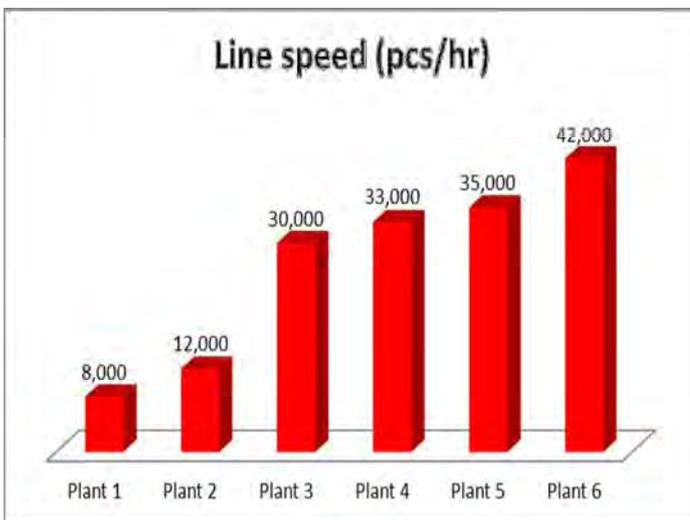
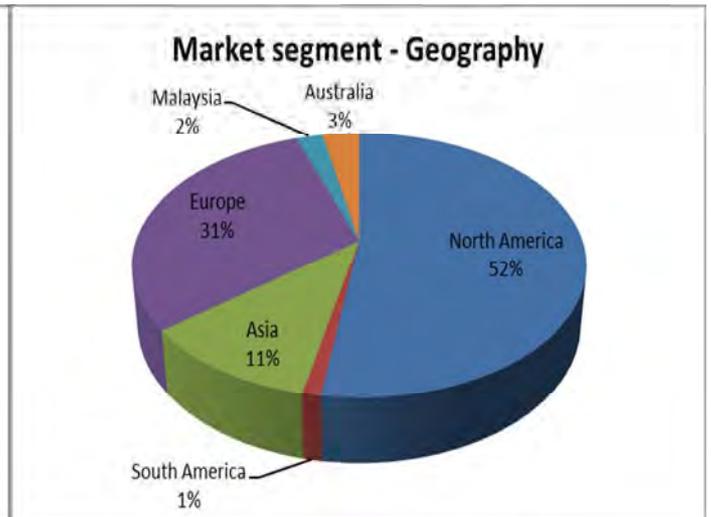
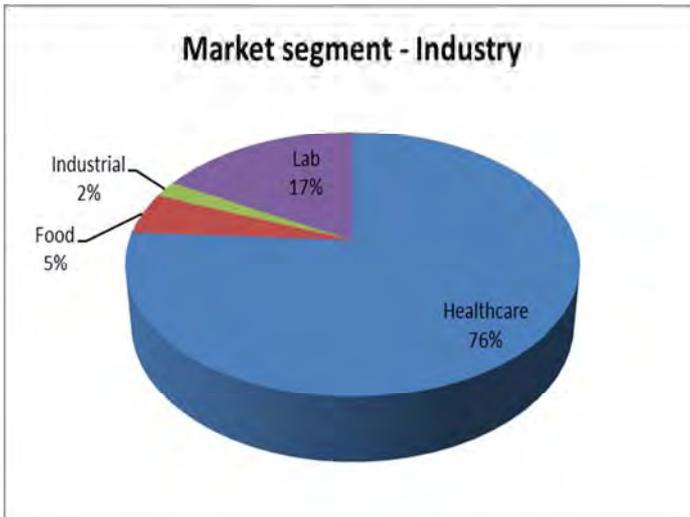
RETURN STATS	
Price (6 Aug12)	RM4.44
Target Price	RM5.10
Expected Share Price Return	14.9%
Expected Dividend Yield	3.0%
<b>Expected Total Return</b>	<b>%17.9</b>
STOCK INFO	
KLCI	
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main/ Glove
Syariah Compliant	Yes
Issued shares (mil)	731.1
Par Value (RM)	0.50
Market cap. (RM'm)	3,245.9
Price over NA	5.23x
52-wk price Range	RM2.69–RM4.54
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	0.48m
3-mth Avg Daily Value	RM1.95m
Major Shareholders	
Hartalega Industries	27.6%

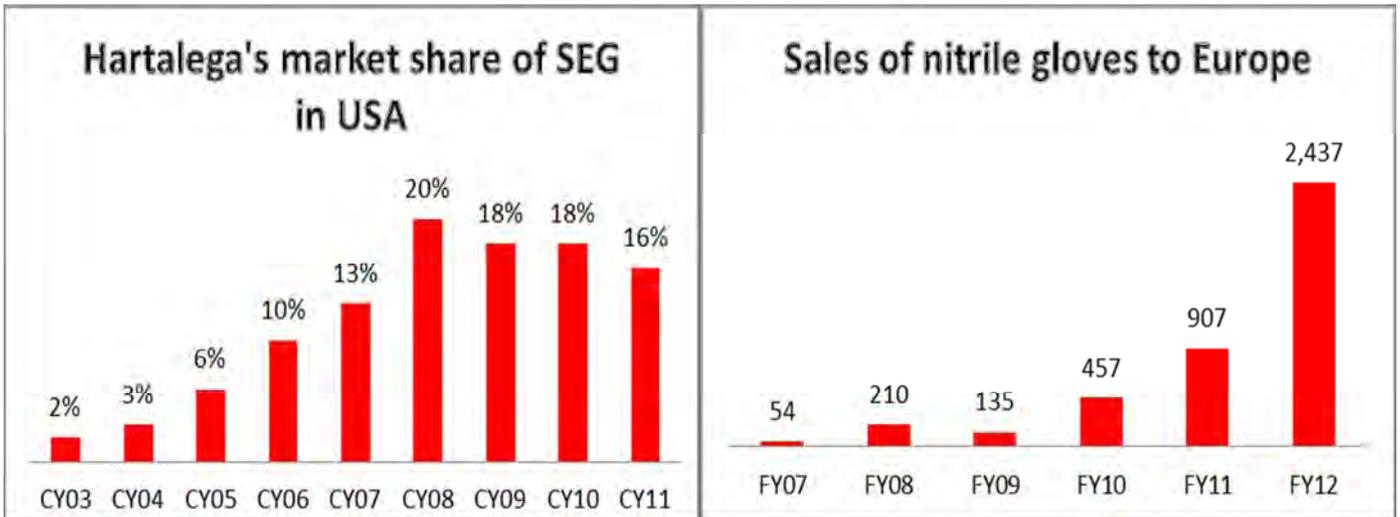
## INVESTMENT STATISTICS

FYE Mar	FY11	FY12	FY13F	FY14F
Revenue (RM'm)	734.9	931.1	1,015.3	1,173.8
EBIT (RM'm)	245.3	260.1	284.3	328.7
Pretax Profit (RM'm)	242.8	258.4	281.2	325.1
Net Profit (RM'm)	190.3	201.4	219.4	253.6
EPS (sen)	26.18	27.65	30.01	34.69
EPS growth (%)	33.2	5.6	8.5	15.6
PER(x)	17.1	16.1	14.8	12.8
Net Dividend (sen)	10.5	10.8	13.5	15.6
Net Dividend Yield (%)	2.4	2.4	3.0	3.5

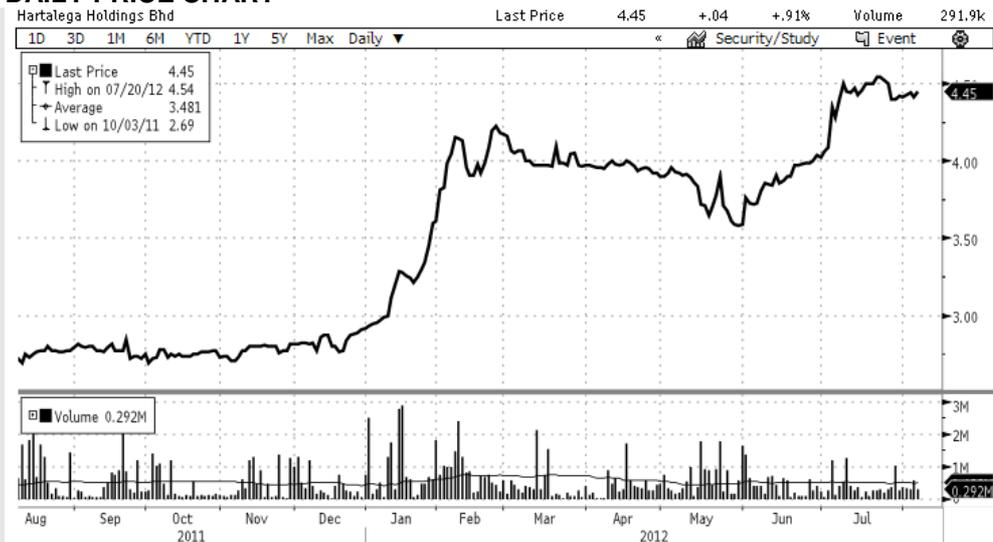
Source: Company, Forecasts by MIDFR

- Recession proof industry.** The global demand for rubber gloves is poised for a steady growth of 8% per year, driven by the increasing affluence and health awareness among the world population. As the bulk of the products are consumed by the healthcare industry, glove is a consumable necessity regardless of the economic condition, thus making it a virtually recession proof industry.
- Switching trend continues.** The switching trend from the latex gloves to nitrile gloves continued in 2011. Referring to Table x, in 2011, all the major markets registered contraction in import volume of NR gloves from Malaysia, with the biggest drop coming from USA and EU. On the other hand, all those markets registered a growth in imports of nitrile glove from Malaysia. The biggest increase in demand came from the EU region, growing 81.2%yoy to 4.4 bln pairs in 2011. However, even with this jump in demand, the nitrile gloves still make up only 41% of the total volume for EU, as opposed to 68% in the USA. This would mean that assuming the EU consumption of nitrile glove would catch up to the US level of 68% of total glove consumption, the EU region offers a huge growth potential for the nitrile gloves. Based on the latest record, we believe the switching trend to continue in the coming few years.
- The most efficient glove manufacturer.** One of the main reasons for Hartalega's outstanding performance is its state-of-the-art production lines, which produce gloves at a greater speed relative to the industry average. This has been achieved through innovation, as most of the glove-producing machineries are designed by the company itself, via its in-house research and development. The more efficient production lines have enabled Hartalega to benefit from economies of scale, leading to lower fixed costs per glove and better profitability.
- Innovation leads to better efficiency and productivity.** Hartalega has been coming up with a few of industry's technological breakthrough throughout the years. It was the first producer to successfully implement the double former production line in the world. It also came up with the first automated mechanical stripping system in the industry able to remove nitrile gloves of hand molds, and also the first to come up with an automated glove stacking device. These innovations have allowed Hartalega to have a production capacity of more than 30,000 pieces per hour for each of its in-house designed line, which is the highest in the industry.
- Expansion plan in the pipeline.** Hartalega's Plant 6 is expected to commence operation in Sep 12 and to be fully completed in Jun 2013. It will have, in total, 10 lines and a total capacity of 3.7 bln pieces per annum, with line speed up to 42,000 pieces per hour. With the new plant, the total installed capacity of Hartalega will be 10.37bln pieces per annum. In the longer run, Hartalega has laid down its long-term expansion plan via the Next Generation Integrated Glove Manufacturing Complex (NGC).The project will involve RM1.5bln investment, with two phases over a duration of eight years, which is slated for completion in 2022. Once completed, the new facility will have a total of 72 lines and a total installed capacity of 24.4bln pieces per year. We expect the new facility will boost Hartalega's growth, and cement its position as the leader in the nitrile glove segment. 





## DAILY PRICE CHART



Zulkifli Hamzah  
 Azman Hussin  
 azman@midf.com.my  
 03-2772 1663

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.