

Hartalega Holdings

HART MK / HTHB.KL

FLASH NOTE

Market Cap US\$1,355m <small>RM4,093m</small>	Avg Daily Turnover US\$1.10m <small>RM3.35m</small>	Free Float 32.4% <small>726.9 m shares</small>	Current RM5.58 Target RM6.11 Prev. Target RM6.11 Up/Downside 9.5%	SHORT TERM (3 MTH) LONG TERM
				TRADING BUY OUTPERFORM TRADING SELL NEUTRAL UNDERPERFORM

CIMB Analyst



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	1.6	8	32.3
Absolute	6.1	18	47.6

Major shareholders

	% held
Kuan family	55.1
BNP Paribas	7.4
EPF	5.1

Welcome to the family!

EPF is now a substantial shareholder, having amassed 1.8m shares or 0.2% just days after GE13. This is a positive surprise as EPF has a good reputation in Malaysia and this should enhance Hartalega's investor image as some see the company as a tightly-held, family-run business.

Our EPS and target price are unchanged, the latter still based on 16.8x CY14 P/E or a 15% premium to Top Glove's 2-year rolling average; it is also within its historical range. Retain Outperform. Strong demand and the start of construction of a next-generation glove complex are catalysts, in our view. Hartalega remains our top pick in the sector.

What Happened

Malaysia's Employees Provident Fund (EPF) is now a substantial shareholders of Hartalega with a 5.1% equity interest. EPF is Hartalega's third-largest shareholder, after the Kuan family (55.1%) and BNP Paribas (7.4%). Also, based on Apr 13 data, Hartalega's foreign shareholding was 15.9%, an all-time high and 4.9% pts higher yoy (Figure 1). Bursa Malaysia filings show that in May 13, EPF raised its stake in Hartalega by 1.8m shares or 0.2%, crossing the 5% mark. This was soon after it reduced its interest in Supermax by 3% (21m shares) over Feb-Apr 13. News reports suggest EPF sold down its stake in Supermax due to controversial statements by Supermax's founder and CEO. It is

unclear to us whether the two events were related. During this period, we understand the Kuan family has maintained its 55.1% effective stake in Hartalega and has not sold shares.

What We Think

The emergence of EPF as a substantial shareholder is a positive surprise as the fund has a good reputation as Malaysia's social security institution with AUMs exceeding RM500bn. We believe this and the uptrend in foreign shareholdings will enhance Hartalega's image among investors. While the company is revered among its peers in the glovemaking industry, the stock is viewed by some as a tightly-held family-run business, which in the past had deterred some funds with strict mandates from buying Hartalega's shares.

What You Should Do

Accumulate Hartalega as the company is the best proxy for the growing glove sector and high demand for synthetic gloves.

Financial Summary

	Mar-12A	Mar-13A	Mar-14F	Mar-15F	Mar-16F
Revenue (RMm)	931	1,032	1,175	1,290	1,673
Operating EBITDA (RMm)	289.2	338.7	376.0	429.6	509.7
Net Profit (RMm)	201.6	234.7	253.9	279.5	333.0
Core EPS (RM)	0.28	0.32	0.35	0.38	0.46
Core EPS Growth	7.2%	15.1%	8.2%	10.1%	19.1%
FD Core P/E (x)	19.89	18.15	17.58	15.97	13.41
DPS (RM)	0.16	0.14	0.16	0.17	0.21
Dividend Yield	2.87%	2.54%	2.82%	3.10%	3.69%
EV/EBITDA (x)	13.55	11.48	10.46	9.00	7.59
P/FCFE (x)	33.35	36.96	90.33	96.84	28.72
Net Gearing	(22.4%)	(22.2%)	(11.8%)	(14.0%)	(12.1%)
P/BV (x)	6.55	5.30	3.84	2.98	2.63
Recurring ROE	36.6%	33.9%	27.9%	23.2%	23.0%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.00	1.01	1.07

SOURCE: CIMB, COMPANY REPORTS

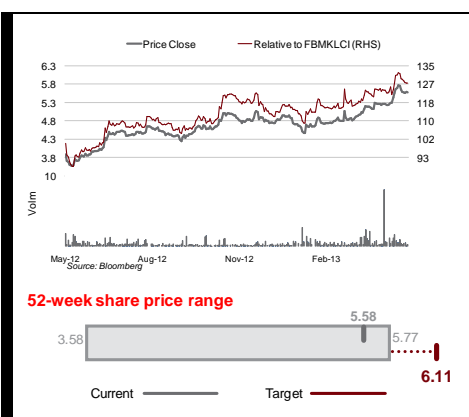
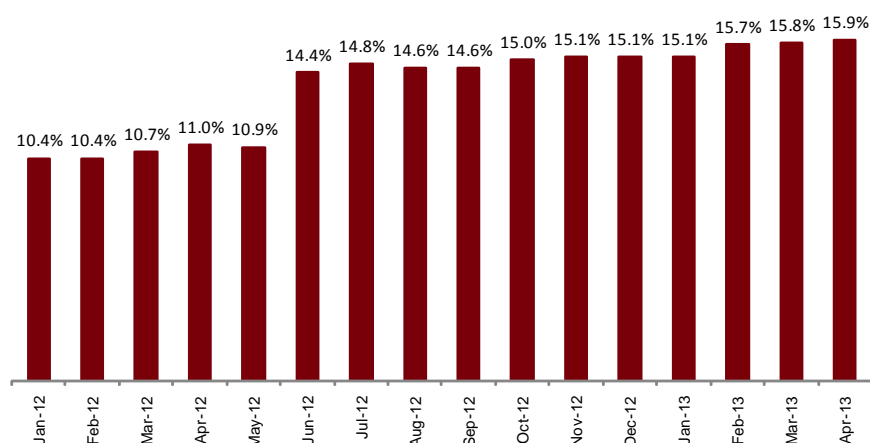


Figure 1: Hartalega's foreign shareholding (%)



SOURCES: CIMB, COMPANY REPORTS, HARTALEGA

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY13	CY14		CY13	CY14	CY13	CY14	CY13	CY14
Hartalega Holdings	HART MK	Outperform	5.58	6.11	1,355	16.3	14.8	13.3%	4.12	3.16	28.7%	24.0%	2.7%	3.0%
Kossan Rubber Industries	KRI MK	Outperform	4.12	4.81	434	10.3	8.5	16.2%	1.86	1.58	19.6%	20.2%	2.0%	2.4%
Supermax Corp	SUCB MK	Outperform	1.98	2.37	445	8.8	7.5	9.2%	1.18	1.04	14.3%	14.7%	2.5%	2.9%
Top Glove Corporation	TOPG MK	Neutral	6.04	5.97	1,239	15.9	14.3	12.8%	2.49	2.24	16.5%	16.5%	4.2%	4.7%
Average						13.8	12.1	9.0%	2.46	2.10	19.2%	18.6%	3.1%	3.5%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Description:		Excellent	Very Good	Good	N/A

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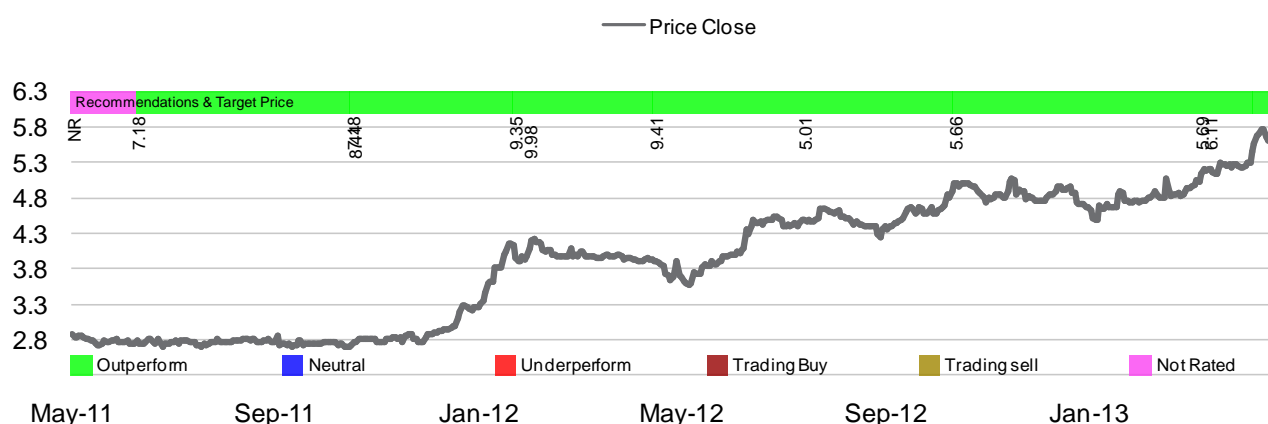
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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 30 April 2013 1002 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	51.4%	7.8%
Neutral	35.1%	4.7%
Underperform/Sell/Trading Sell	13.5%	4.9%

Recommendation Framework #1 *

Stock

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

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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Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

Sector

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 +10% 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 +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

that will range from +10% to -10%; 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 -10% 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 +10% 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 -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, ADVANC – Excellent, AEONTS – Good, AMATA – Very Good, ANAN – not available, AOT – Excellent, AP – Very Good, BANPU – Excellent, BAY – Excellent, BBL – Excellent, BCH – not available, BCP – Excellent, BEC – Very Good, BGH – not available, BJC – Very Good, BH – Very Good, BIGC – Very Good, BTS – Excellent, CCET – Good, CENTEL – Very Good, CK – Very Good, CPALL – Very Good, CPF – Very Good, CPN – Excellent, DELTA – Very Good, DTAC – Very Good, EGCO – Excellent, ERW – Excellent, GLOBAL – Good, GLOW – Very Good, GRAMMY – Excellent, HANA – Very Good, HEMRAJ – Excellent, HMPRO – Very Good, INTUCH – Very Good, ITD – Very Good, IVL – Very Good, JAS – Very Good, KAMART – not available, KBANK – Excellent, KK – Excellent, KTB – Excellent, LH – Very Good, LPN – Excellent, MAJOR – Good, MAKRO – Very Good, MCOT – Excellent, MINT – Very Good, PS – Excellent, PSL – Excellent, PTT – Excellent, PTTGC – Excellent, PTTEP – Excellent, QH – Excellent, RATCH – Excellent, ROBINS – Excellent, RS – Excellent, SAMART – Excellent, SC – Excellent, SCB – Excellent, SCC – Excellent, SCCC – Very Good, SIRI – Good, SPALI – Very Good, SRICHA – not available, SSI – not available, STA – Good, STEC – Very Good, TCAP – Very Good, THAI – Excellent, THCOM – Very Good, TICON – Very Good, TISCO – Excellent, TMB – Excellent, TOP – Excellent, TRUE – Very Good, TTW – Very Good, TUF – Very Good, VGI – not available, WORK – Good.