

23 February 2012
Analyst

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12-month upside potential

Target price	8.00
Current price (as at 22 Feb)	7.97
Capital upside (%)	0.4
Net dividends (%)	3.1
Total return (%)	3.5

Key stock information

Syariah-compliant?	Yes
Market cap (RM m)	2,906
Issued shares (m)	365
Free float (%)	43
52-week high / low (RM)	8.30 / 5.38
3-mth avg volume ('000)	351
3-mth avg turnover (RM m)	2

Share price performance

	1M	3M	6M
Absolute (%)	22.6	43.9	43.6
Relative (%)	19.6	32.0	34.8

Share price chart


Source: Bloomberg

Hartalega Holdings

Rubber Glove

Neutral

Bloomberg Ticker: HART MK | Bursa Code: 5168

Results inline, bonus and free warrant surprise

Hartalega's 9MFY12 results came in within our expectation, making up 74.6% and 75.6% of our full-year revenue and earnings forecasts on an annualized basis. The good performance was mainly due to higher sales volume as the group expands its production capacity by 10% y-o-y. The company proposed 1:1 bonus issues together with 1 free warrant for every 5 existing shares held. Although we are pleased with the corporate exercise, we still maintain our Neutral recommendation as we expect a tough time ahead for Hartalega, given the cost of feedstock for nitrile latex, butadiene has surged to USD3,920/T as at 17 Feb 2012, almost back to its previous peak of USD4,000/T in Aug 2011!!!

9MFY12 results are inline, thanks to higher sales volume

- Hartalega's 9MFY12 results came in within our expectation, making up 74.6% and 75.6% of our full-year revenue and earnings forecasts on an annualized basis.
- The group's 3QFY12 revenue surged by 28.6% y-o-y and 5.4% q-o-q, thanks to its sales volume growth of 15% y-o-y and 4% q-o-q.
- However, normalised net profit only increased marginally by 4.7% y-o-y and contracted by 3.7% q-o-q, after adjusting for forex loss. Anyhow, net margin compression from 25.8% to 21.0% is pretty much within the market and our expectation as management has earlier hinted that the "good old day's" high margin would not be sustainable. Management targets to maintain its net margin at about 20% going forward.
- The company declares 6 sen DPS, bringing its 9MFY12 DPS to 18 sen, making up 72.5% of our full year forecasts.

Reward shareholders with bonus issue (1:1) plus free warrants (1:5)

- Hartalega proposed a bonus issue of up to 371m ordinary shares on the basis of 1 bonus share for every 1 existing share held, together with a free warrants issue of up to 74m warrants on the basis of 1 warrant for every 5 existing share held.
- Post the bonus issue, Hartalega's share base would be expanded up to 742m shares, which is more than Top Glove and Supermax's existing outstanding shares of 618m and 680m respectively. We see this as a positive as it might improve its trading liquidity, which could be a re-rating catalyst for the company over the medium to long term.

No change to our forecasts

- We keep our forecasts unchanged as earnings came in within expectation.

Tough time ahead, remain Neutral on the company

- Although we are pleased with the corporate exercise, we still remain cautious on the company as well as the sector in 2012. We expect tough time ahead for Hartalega, given (1) the cost of feedstock for nitrile latex, butadiene has surged to USD3,920/T as at 17 Feb 2012, almost back to its previous peak of USD4,000/T in Aug 2011, (2) USD has reversed course is now depreciating against Ringgit, and (3) increasing competition in the nitrile glove segment due to capacity expansion.
- Hence, we maintain our Neutral recommendation on Hartalega with a target price of RM8.00, translating to a 13x 12-month forward PER with 3.5% yield for FY03/13.



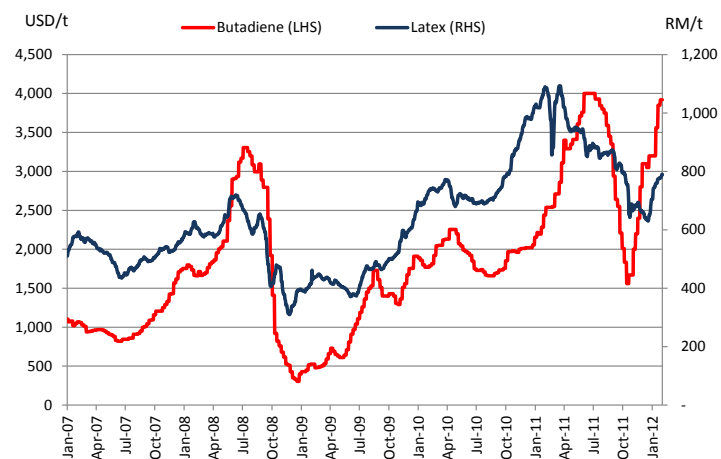
SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	3QFY12	3QFY11	% y-o-y change	% q-o-q change	9MFY12	9MFY11	% y-o-y change	Comments
Key financial highlights								
Revenue	242.0	188.1	28.6	5.4	690.9	542.4	27.4	Sales volume +15% y-o-y, +4% q-o-q
Operating profit	64.3	61.4	4.7	-6.3	203.4	175.9	15.6	
Pretax profit	63.9	62.2	2.7	7.3	194.1	177.0	9.7	
Net profit	50.7	49.2	3.0	9.9	151.5	137.7	10.1	
Core net profit	50.9	48.6	4.7	-3.7	157.8	135.9	16.2	Core net profit contracted q-o-q after adjusting for forex loss
Per share data								
EPS (sen)	13.9	13.5	2.9	9.9	41.6	42.6	-2.3	
Core EPS (sen)	14.0	13.4	4.5	-3.8	43.4	42.0	3.1	
Net DPS (sen)	6.0	6.0	0.0	0.0	18.0	15.0	20.0	
BV/share (RM)	1.61	1.26	28.0	5.7	2.79	2.41	16.0	
Margins								
Pretax (%)	26.4	33.1	-20.1	1.8	28.1	32.6	-13.9	
Core net profit (%)	21.0	25.8	-18.6	-8.7	22.8	25.0	-8.8	Core net margin maintained above 20%

Source: Company, Alliance Research

Figure 2 : Butadiene price vs Latex price

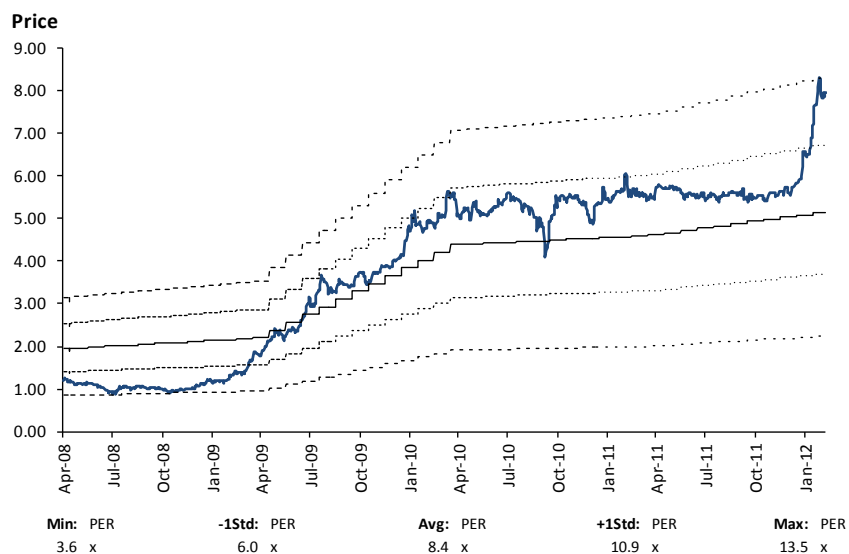


Source: Bloomberg data, Alliance Research

Figure 3 : USD vs Ringgit



Source: Bloomberg data, Alliance Research

**Figure 4 : Hartalega's historical PER band**

Source: Bloomberg data, Alliance Research

Figure 5 : Key financial data

FYE 31 March	FY10	FY11	FY12F	FY13F	FY14F
Revenue (RM m)	571.9	734.9	925.8	1,026.7	1,216.2
EBITDA (RM m)	200.1	267.3	285.5	319.1	366.3
EBIT (RM m)	180.3	242.4	259.4	294.0	336.1
Pretax profit (RM)	177.8	242.8	260.2	296.0	340.2
Reported net profit (RM m)	142.9	190.3	200.3	227.9	261.9
Core net profit (RM m)	143.2	189.9	200.3	227.9	261.9
EPS (sen)	39.3	52.4	55.1	62.7	72.0
Core EPS (sen)	39.4	52.3	55.1	62.7	72.0
Alliance / Consensus (%)			97.3	96.2	96.5
Core EPS growth (%)	81.7	32.6	5.4	13.8	14.9
P/E (x)	19.4	14.6	13.9	12.2	10.6
EV/EBITDA (x)	9.1	10.3	9.4	8.3	7.0
ROE (%)	47.1	44.8	36.5	34.2	32.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net DPS (sen)	13.3	21.0	24.8	28.2	32.4
Net dividend yield (%)	1.7	2.7	3.2	3.7	4.2
BV/share (RM)	1.46	1.36	1.66	2.01	2.40
P/B (x)	5.2	5.6	4.6	3.8	3.2

Source: Alliance Research, Bloomberg

DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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