10 May 2011

AFFIN INVESTMENT BANK
KDN:PQ/PP1505(10251)

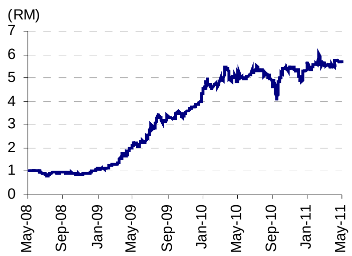
Initiating Coverage

Hartalega

HARTA MK
RM5.70

BUY (Initiating coverage)

Target Price: RM7.46



Price Performance

	1M	3M	12M
Absolute	+3.8%	+0.9%	+14.6%
Rel to KLCI	+6.4%	+2.0%	+0.5%

Stock Data

Issued shares (m)	363.6
Mkt cap (RMm)	2,072.3
Avg daily vol - 6mth (m)	0.34
52-wk range (RM)	6.08 – 4.04
Est free float	48.3%
NTA per share (RM) (3Q11)	1.25
P/NTA (x)	4.56
Net cash/ (debt) (RMm) (3Q11)	87.6
ROE (FY11F)	45.6%
Derivatives	Nil

Key Shareholders

Hartalega Industries	50.6%

Earnings & Valuation Revisions

	11E	12E	13E
Prev EPS (sen)	-	-	-
Curr EPS (sen)	53.0	57.4	66.8
Chg (%)	-	-	-
Prev target price (RM)			-
Curr target price (RM)			7.46

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Keeping a firm grip on the nitrile glove market

Setting itself apart from its peers

On average, Hartalega's superior margins are almost double that of its peers (30% vs 15%). This is attributed to: 1) Hartalega's concentration in the production of higher-margin nitrile gloves (90% of total glove production); 2) steadier production costs due to lower volatility in NBR prices; 3) Hartalega's status as a low cost producer, thanks to high productivity, efficiency improvements via new technology innovations and lower staff costs, and; 4) an established status as the world's largest producer of synthetic gloves.

A bright outlook for nitrile gloves

Going forward, management stated that growth would stem primarily from the EU. As at end-2010, 51% of Japan and US imports of rubber gloves from Malaysia were nitrile gloves. In comparison, only 22% of EU's rubber gloves imports were nitrile. The shift in demand to nitrile gloves will likely gain momentum, triggered by the now-cheaper ASPs and sustained by the steadier pricing schedule. Other demand catalysts include: 1) increased global healthcare awareness, prompting stronger demand from BRIC nations; 2) the emergence of viral outbreaks such as SARS and A(H1N1), and; 3) typical and certainly sustainable underlying global demand growth of 8-10%. We forecast EPS growth of +8.4% for FY12, but a sharper +16.4% in FY13, as additional capacity from Plant 12 comes onstream.

Key risks

Similar to natural rubber glove manufacturers, the strengthening RM/US$ exchange rate is a key risk for Hartalega, as it pares down absolute RM revenue. However, the company is spared from the volatility of latex prices, as price increases for NBR are steadier and at a slower pace. Other risks include margin erosion, as stronger demand for nitrile gloves induces other glove manufacturers to ramp up production of nitrile gloves. As a direct result, management estimates a 1.5-2ppt compression in FY12 margins. Nevertheless, we believe Hartalega's established presence and ongoing efficiency initiatives will keep EBITDA margin above the 30% mark.

Initiating coverage with a BUY recommendation and target price of RM7.46

We are initiating coverage on Hartalega Holdings with a BUY recommendation and target price of RM7.46, pegged to a target PE multiple of 13x on CY12 EPS. Our PE target is two standard deviations above Hartalega's average PE of 7x, and on par with Top Glove's average PE of 13x. Given Hartalega's undemanding valuations with CY12 PE of 8.8x (Top Glove: 16.3x, sector average: 9.3x), but stronger ROE of 38.5% (Top Glove: 16.2%, sector average: 22.9%), we believe there is room for upside. Hartalega also offers stronger dividend yields of 3.5-3.9%, vis-à-vis sector average of 3.1-3.6%.

Earnings and valuation summary

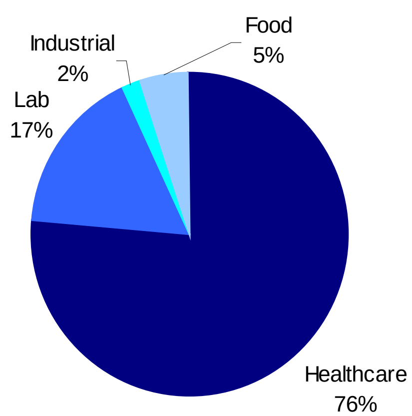
FYE Mar	2009	2010	2011E	2012E	2013E
Revenue (RMm)	443.2	571.9	754.6	881.4	1,064.2
EBITDA (RMm)	117.7	196.7	258.5	278.9	322.8
Pretax profit (RMm)	95.5	177.8	240.2	260.2	302.6
Net profit (RMm)	84.5	142.9	192.5	208.6	242.8
EPS (sen)	23.3	39.3	53.0	57.4	66.8
EPS growth (%)	21.5	69.1	34.7	8.4	16.4
PER (x)	24.5	14.5	10.8	9.9	8.5
Core net profit (RMm)	84.5	142.9	192.5	208.6	242.8
Core EPS (sen)	23.3	39.3	53.0	57.4	66.8
Core PER (x)	24.5	14.5	10.8	9.9	8.5
DPS (sen)	7.7	13.3	20.0	22.0	26.0
Dividend Yield (%)	1.3	2.3	3.5	3.9	4.6
ROE (%)	66.4	47.0	45.6	38.0	35.4
Consensus profit (RMm)			185.0	211.4	244.0
Affin/Consensus (x)			1.0	1.0	1.0

Background

Hartalega – the world's largest synthetic glove manufacturer

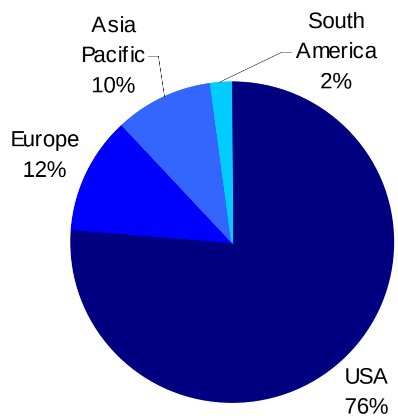
Established in 1988 and listed in 2008, Hartalega initially started out as a natural rubber glove manufacturer. However, strong competition prompted the company to venture into the nitrile glove market in 2003. Since then, Hartalega's sales of nitrile gloves have increased by 43-fold (see Fig 4) while market share in the US nitrile glove market has surged from a mere 2% to 29% currently. Its share of the global nitrile market is estimated at 17%. This makes Hartalega the world's largest producer of synthetic nitrile gloves. Nitrile gloves account for 90% of Hartalega's total glove sales – the remaining 10% consists primarily of natural rubber gloves, followed by nitrile cleanroom gloves and NR surgical gloves.

Fig 1: FY03/10 sales breakdown (user group)



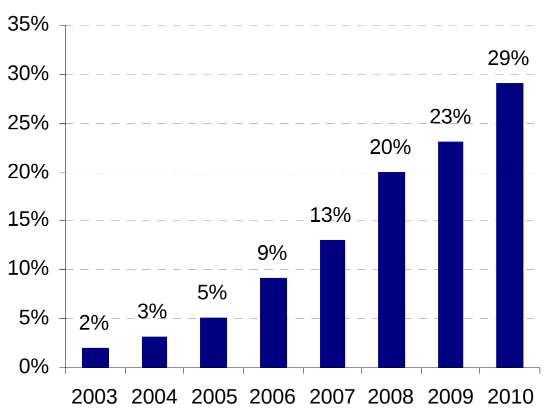
Source: Company

Fig 2: FY03/10 export markets



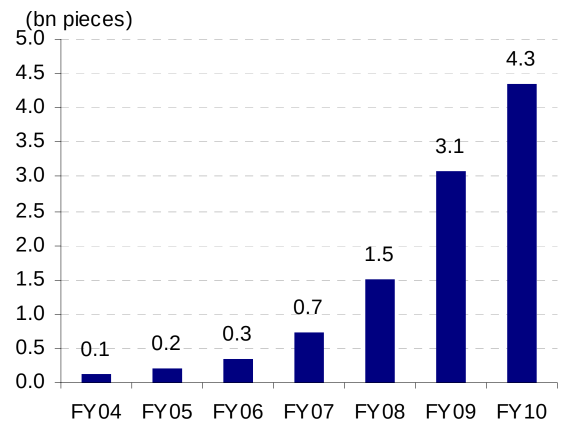
Source: Company

Fig 3: Market share of nitrile gloves in the US



Source: Company

Fig 4: Hartalega's sales of nitrile gloves



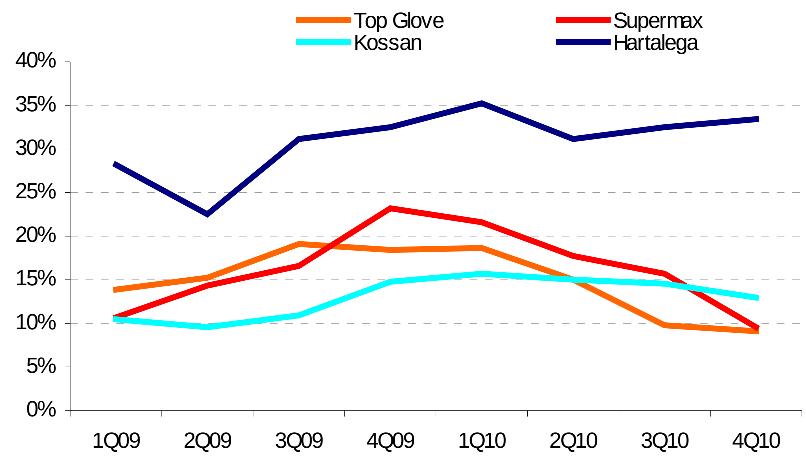
Source: Company

Setting itself apart from its peers

2010 - a difficult year for natural rubber glove manufacturers…

2010 started off as a bullish year for the rubber glove industry, with most manufacturers experiencing extraordinary lead times of over 100 days. This was due to a surge in demand in tandem with the A(H1N1) virus outbreak. 2H2010, however, was the antithesis, plagued by a trio of headwinds: 1) normalization of demand post the A(H1N1) crisis; 2) skyrocketing latex prices, and; 3) the strengthening RM/US$ exchange rate. Consequently, EBIT margins for major natural rubber glove manufacturers (namely, Supermax and Top Glove) were impacted, sliding by 10-12-ppt from their respective peaks. Margin compression for Kossan was significantly less, as Kossan has a 40% allocation for nitrile gloves and is thus less exposed to latex price volatility.

Fig 5: EBIT margin comparison



Source: Company, Affin estimates

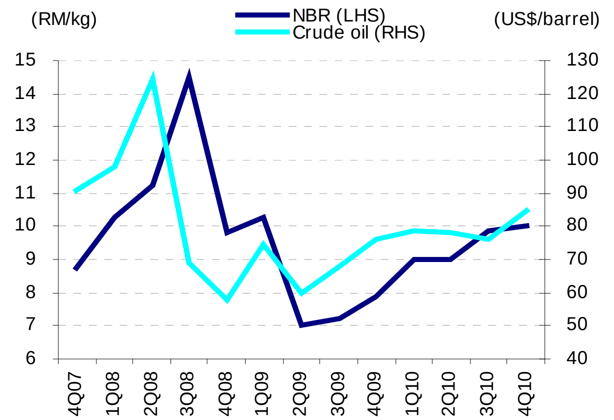
…but a year of improvement for Hartalega

In contrast, despite a dip in 2Q10, Hartalega had managed to grow its EBIT margin. This was no mean feat, as the company's average EBIT margin is already double that of its peers (c. 31% vs average of 15%). We identify three key strategic advantages that have allowed Hartalega to do so: 1) its main concentration in the nitrile glove market; 2) its status as a low cost producer, and; 3) its dominant market share and global presence.

1) Buffered up by a steadier NBR prices

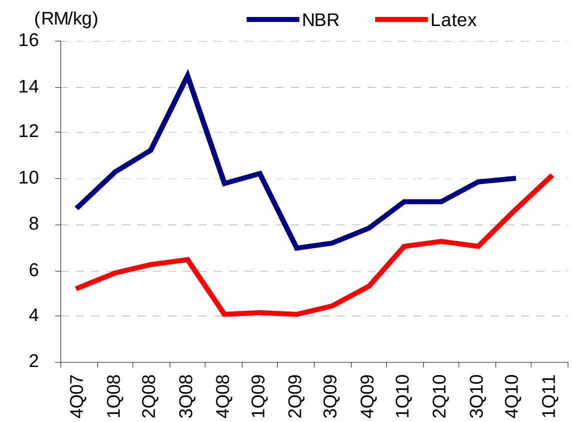
As Hartalega's production consists primarily of nitrile gloves, the company has been left relatively unscathed by the biggest threat in the rubber glove industry – high and volatile natural latex prices. Nitrile latex (better known as nitrile butadiene rubber, or NBR) is a byproduct of crude oil. Although NBR itself is not a traded commodity, it is, to a certain extent, subject to speculative trading by virtue of crude oil price fluctuations. Nevertheless, we gather that the increase in NBR prices has been at a much steadier rate compared to natural latex prices. The latter shot up by +60% in 2010, whereas NBR prices increased by a much lesser +27%. Benefits of a steadier increase in NBR prices (and intuitively, lower volatility) are twofold: 1) better management and control of production costs, and; 2) fewer ASP adjustments. The latter allows customers better control over their own inventory and certainty in purchasing costs, compared to natural rubber gloves, which undergo more frequent ASP adjustments. Thus, customers would be more inclined to purchase nitrile gloves.

Fig 6: Crude oil prices vs NBR prices



Source: Bloomberg, MREPC

Fig 7: Natural latex prices vs. NBR prices



Source: Bloomberg, MREPC

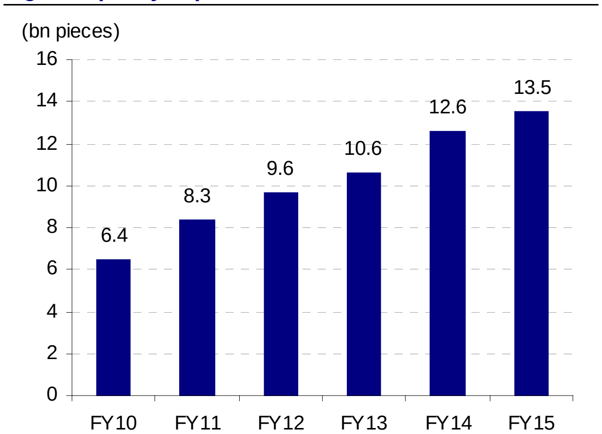
2) Low cost producer = stronger margins

Although nitrile gloves return higher margins than natural rubber gloves, we gather that Hartalega's above-average margins are also a function of its lower production costs (on a per unit basis) and high operational efficiency. This is achieved via:

i) **Consistently high productivity.** In term of utilization rates, management guided that production lines are currently operating at 83% capacity. The lowest utilization rate recorded was c. 70-75% during the financial crisis, while the highest was 87%. The relatively steady utilization rate indicates consistent demand for Hartalega's nitrile gloves, and maximum utilization of its production lines.

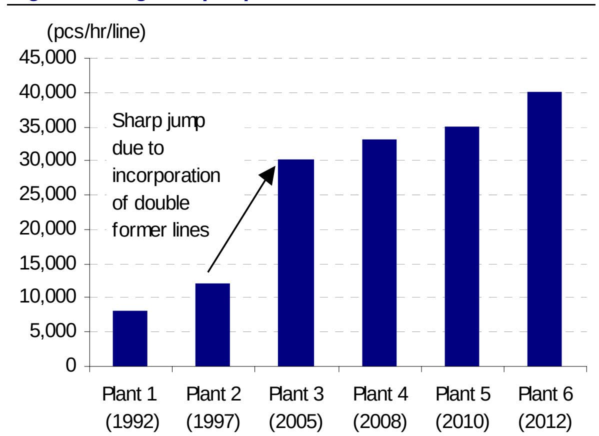
ii) **Efficiency improvements with every capacity expansion**. Currently, Hartalega has 5 factories housing 43 lines, with a production capacity of 9.6bn pieces per annum. Plant 6, slated to commence production in 1Q2012, will roll out another 10 lines, bringing the total annual production capacity to 13.54bn in 2014. More importantly, Hartalega has traditionally managed to raise productivity and efficiency in its new lines. For example, Plant 1's lines have a production capacity of 8,000 pieces/hour. However, the upcoming lines in Plant 6 will have a production capacity of 40,000 pieces/hour. The higher production capabilities are achieved via new technology innovations, the result of extensive R&D activities.

Fig 8: Capacity expansion



Source: Company

Fig 9: Average output per line

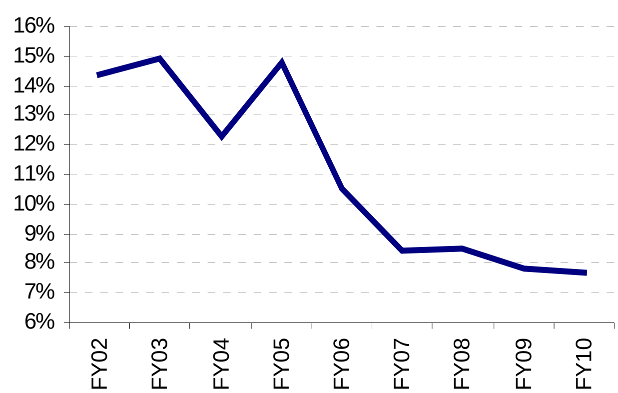


Source: Company

iii) New technology innovations. Through its own R&D activities, Hartalega has automated most of its production process. In 1995, the company implemented the first robotic glove removal system, eliminating the need for manual labour to strip the gloves from the hand formers. 2003 saw the installation of a double former production line, which essentially doubled the output per line. Other innovations include the industry's first glove stacking device (prior to packaging) and a dipping simulator for research purposes. By automating the production process, Hartalega is able to run the lines at a faster speed, thus maximizing productivity and reducing the need for manual labour.

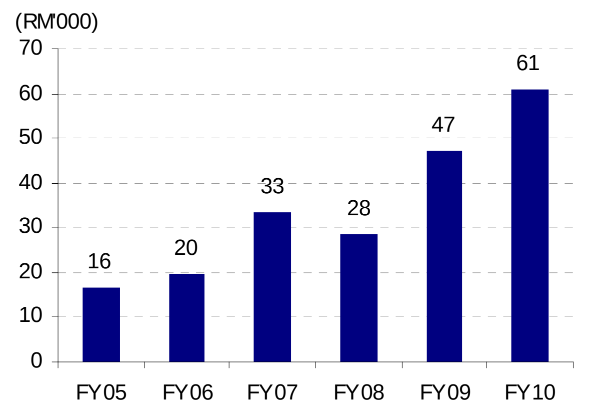
iv) Lower staff costs and higher output per employee. Since 2005, Hartalega has halved its staff costs (as a percentage of sales) from 14.3% to 7.7% in FY10. This was achieved via automation of the production process, allowing the company to cut back on unskilled workers and increase the number of skilled workers. The proportion of employees in technical and management roles has increased to 35% in FY11 from 21% in FY06.

Fig 10: Staff costs (% of sales)



Source: Company

Fig 11: Profit per employee



Source: Company, Affin

3) Strong global market share

Currently, Hartalega is the world's largest synthetic glove manufacturer, commanding a 17% of share of the global nitrile glove market (29% of the US nitrile glove market). As a dominant global player in a smaller market, we believe Hartalega is less susceptible to price wars. Recently, several natural rubber glove manufacturers have announced that they will be expanding production of nitrile gloves. However, we believe that these manufacturers will not be able to price their gloves at a significant discount to Hartalega, as it would pare down the desired margins. Furthermore, quality and type of glove is also a key factor – here, Hartalega's years of experience and scale of production (assuring supply and quality consistency) justifies a premium on its nitrile glove ASPs.

Earnings outlook

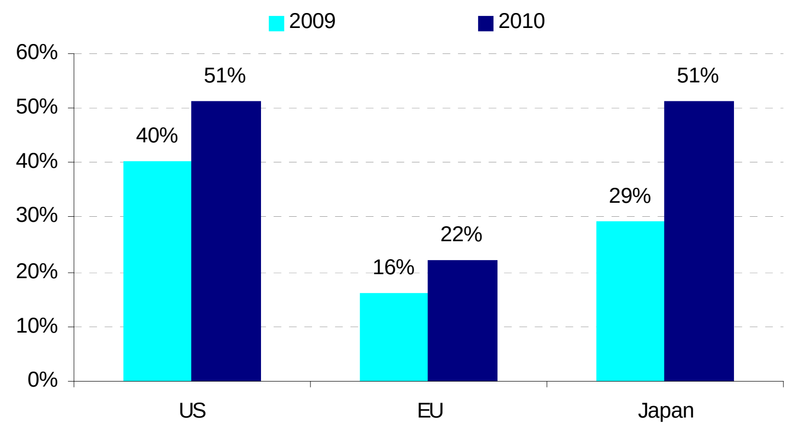
Beating out its peers

We have always held the view that demand in the rubber glove industry is relatively resilient in the long run, driven by: 1) rising health awareness and, consequently, increased hygiene standards; 2) the emergence of virus outbreaks such as SARS and A(H1N1), and; 3) increased demand from emerging countries (BRIC nations). With demand from developed nations shifting away from natural latex gloves, we expect the nitrile glove market to fare better. According to the Malaysian Rubber Export Promotion Council (MREPC), exports of synthetic gloves from the US, EU, Japan, Canada, Australia, China and Brazil surged by +58% yoy in 2010. In comparison, exports of natural latex gloves declined slightly by –2.3% yoy.

Focusing on EU

Going forward, Hartalega's management stated that growth would stem primarily from the EU. As at end-2010, 51% of Japan and US imports of rubber gloves from Malaysia comprised of nitrile gloves. In comparison, only 22% of EU's rubber gloves imports were nitrile. Management believes the shift in demand to nitrile gloves will gain momentum, triggered by the now-cheaper ASPs and sustained by the steadier pricing schedule compared to natural latex gloves. Other targeted areas of growth include Brazil, China and India, although these markets are still in the preliminary stages.

Fig 12: Exports of nitrile gloves from Malaysia



Source: Company

Projecting sharper EPS growth of +16.4% in FY13

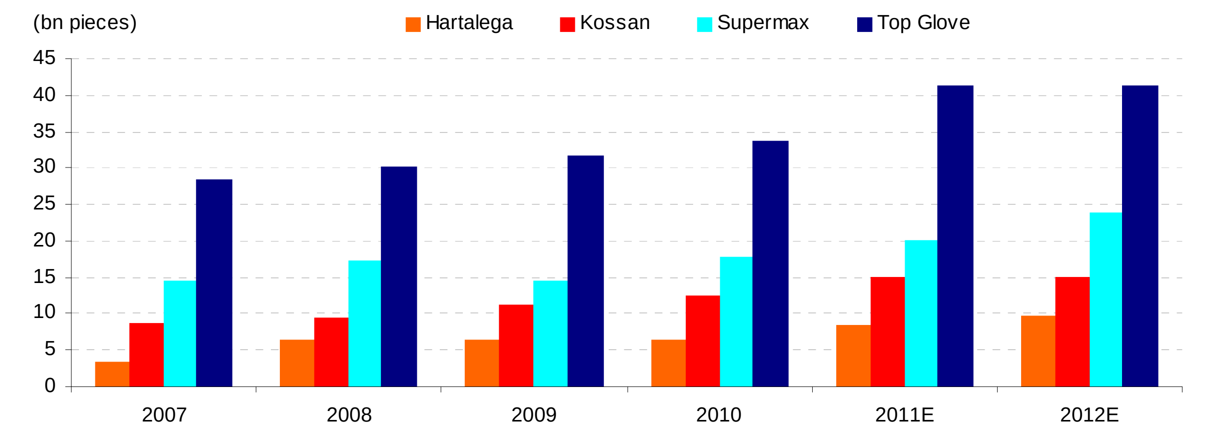
Taking into account the influx of nitrile glove production from other glove players, we expect Hartalega's EBITDA margin to moderate from 34.3% in FY11 to 31.6% in FY12. Nevertheless, Hartalega's continuous focus on maximizing operational efficiencies and minimizing costs will likely keep EBITDA margin above the 30% mark. Although net profit has grown at a compounded average growth rate of 67% over the past five years, we forecast a slower EPS growth of +8.4% for FY12, due to the lack of new capacity. However, we expect earnings to pick up by a sharper +16.4% in FY13, as additional capacity from Plant 12 comes onstream. Key demand drivers for Hartalega are: 1) stronger momentum in the shift in demand from natural rubber gloves to nitrile gloves, particularly in Europe; 2) competitive and steadier ASPs, and; 3) typical and certainly sustainable underlying global demand growth of 8-10%.

Key risks

Margin erosion from additional players

With the surge in latex prices, ASPs of latex gloves (US$38-46/1,000 pieces) have surpassed ASPs of nitrile gloves (US$31-38/1,000 pieces), prompting a shift in demand. As such, other glove manufacturers are ramping up production of nitrile gloves, to capitalize on the increase in demand, as well as to preserve margins. Kossan is increasing its proportion of nitrile glove production to 50% from 40%, by adding on c. 5bn pieces worth of new capacity in 2011. Top Glove, on the other hand, is increasing its nitrile glove production from 15% to 20% (via an additional 4.5bn pieces of capacity). Supermax has switched several of its production lines to nitrile gloves and will add another 1.2bn pieces of capacity. Although we do not expect significant price undercutting activities, we gather that margin pressure is unavoidable. Hartalega's management stated that they expect margins to be compressed by c. 1.5-2ppt in FY12.

Fig 13: Peers production capacity

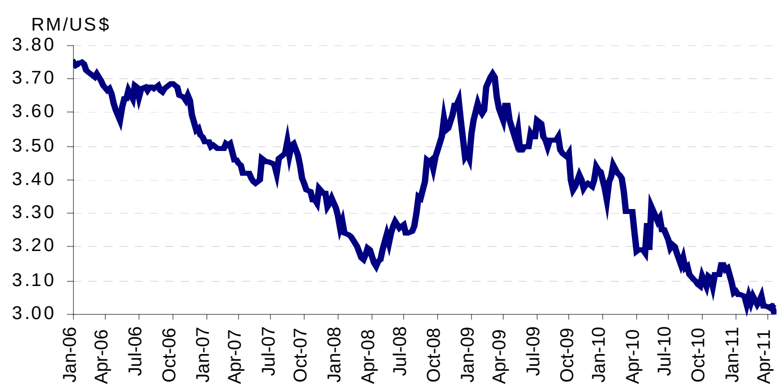


Source: Company, Affin estimates

A strengthening RM/US$ exchange rate

In this aspect, Hartalega faces the same threat, albeit lower given its high dependency on NBR prices, as the rest of the industry. A stronger RM/US$ exchange rate will reduce the absolute RM revenue, as sales are denoted in US$. In terms of production costs, NBR costs are naturally hedged as purchases are also denoted in US$. Our house economist currently forecasts an end-year 2011 exchange rate of RM3.00-3.05/US$ and RM2.95-3.00/US$ for 2012.

Fig 14: RM/US$ exchange rate



Source: Bloomberg

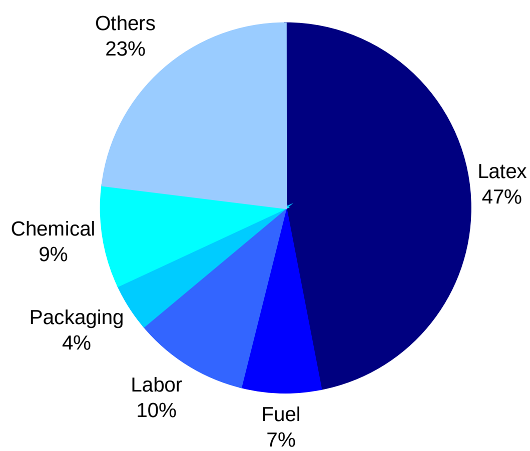
An increase in crude oil prices

Surging crude oil prices would also constitute a key risk for Hartalega. As reflected in Fig 6, NBR prices typically track crude oil prices. However, given that NBR is only a byproduct of crude oil, we gather from management that NBR price increases are steadier and not subject to severe volatility. Hence, we believe Hartalega would be better able to manage its costs via timely ASP adjustments.

Natural gas supply constraints and potential tariff hikes

Supply of natural gas, as well as potential increases in tariffs, are another industry-wide threat. Hartalega's Plant 1 and 2 are run on biomass while the remainder, Plants 3-5 are powered by natural gas. However, we gather from management that there is enough gas supply for Hartalega's planned future expansion. All five plants, as well as the upcoming Plant 6, are centrally located on a 37-acre piece of land. In terms of tariffs, any increase in the current RM15/mmbtu gas price (via removal of government subsidies) would likely be absorbed by Hartalega. Anyway, fuel costs are relatively small, accounting for only 7% of total production costs.

Fig 15: Breakdown of costs



Source: Company

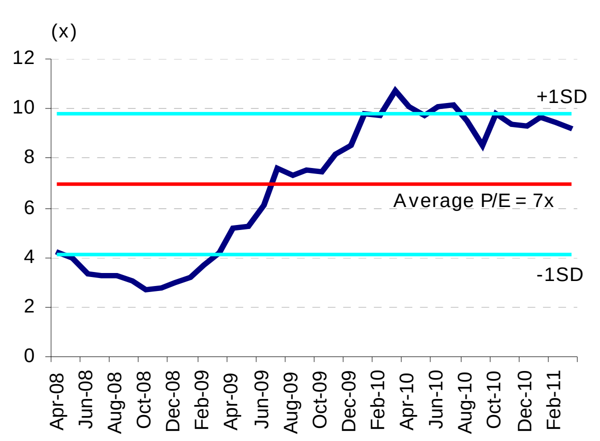
Valuations and recommendation

Initiating coverage with a BUY recommendation and target price of RM7.46

We are initiating coverage on Hartalega with a BUY recommendation and target price of RM7.46, pegged to a target PE multiple of 13x on CY12 EPS. Our PE target is two standard deviations above Hartalega's average PE of 7x, and on par with Top Glove's average PE of 13x. On a calendarized basis, Top Glove has a higher revenue base than Hartalega. However, volatility in latex prices and a tougher operating environment means that Hartalega will likely surpass Top Glove's net profit in 2011 and 2012. Given Hartalega's undemanding valuations with CY12 PE of 8.8x (Top Glove: 16.3x, sector average: 9.3x), but stronger ROE of 38.5% (Top Glove: 16.2%, sector average: 22.9%), we believe there is room for upside.

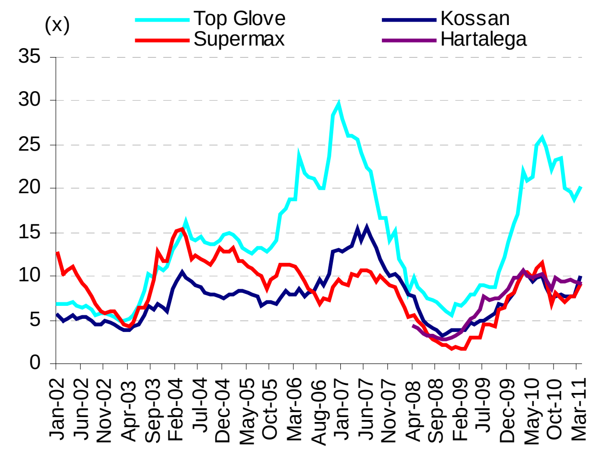
In terms of liquidity, Hartalega falls just short of Kossan, with a 6-month daily average volume of only 314,278 shares (Kossan: 419,618 shares, Top Glove and Supermax: >1.1m shares). Foreign shareholdings stands at c. 7-8%, while 50.6% of total shares are held by the holding company, Hartalega Industries Sdn Bhd. Re-rating catalysts include: 1) improvement in liquidity and; 2) sustained margins despite stronger competition in the nitrile glove market.

Fig 16: Hartalega 1-year rolling forward PE



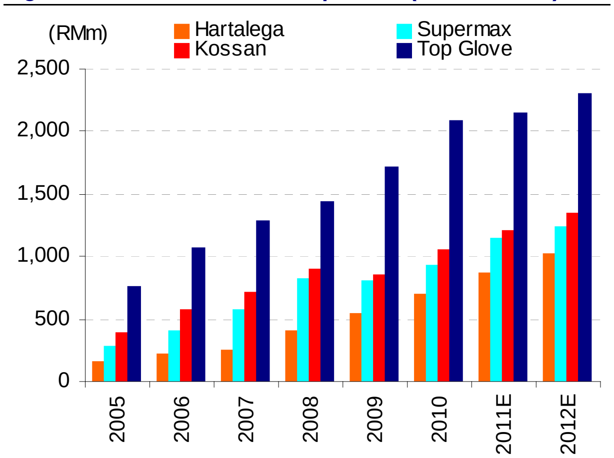
Source: Bloomberg, Affin estimates

Fig 17: Peers' 1-year rolling forward PE



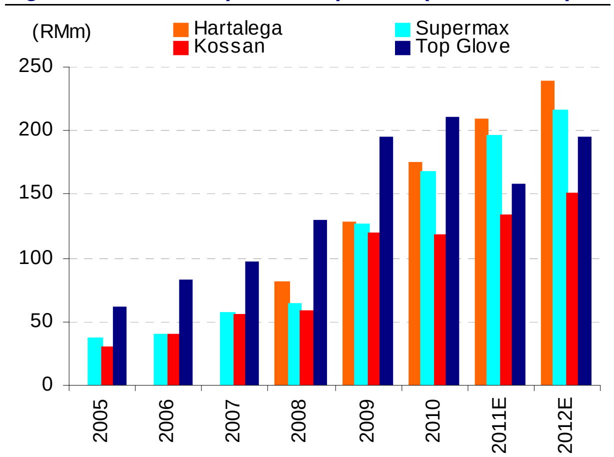
Source: Bloomberg, Affin estimates

Fig 18: Absolute revenue comparison (calendarized)



Source: Company, Affin estimates

Fig 19: Absolute net profit comparison (calendarized)

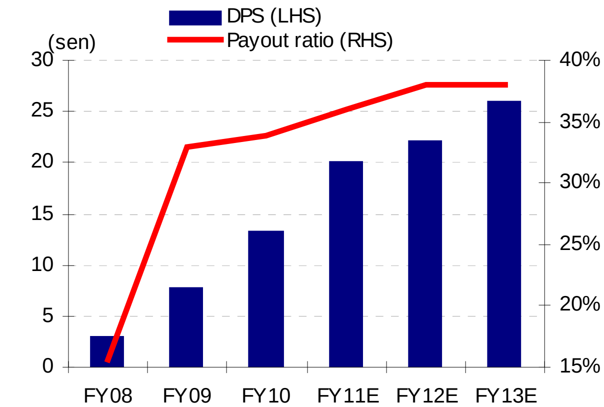


Source: Company, Affin estimates

Yields as a bonus

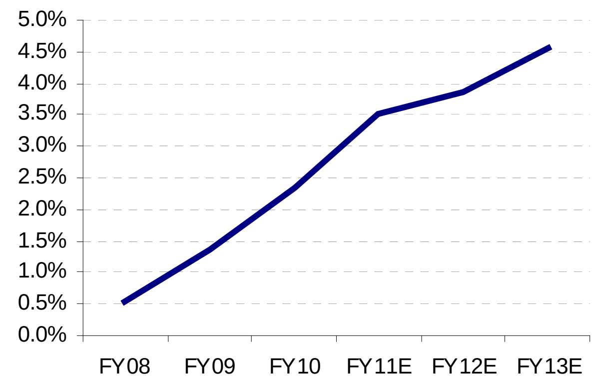
In FY10, Hartalega paid out total DPS of 13.3 sen (adjusted for the one-for-two bonus issue), representing a 34% payout ratio (yield: 2.3%). With a rising cash position (see Fig 22), management guided that they would likely be increasing their dividend payout ratio going forward. We forecast FY11-13 DPS of 20 sen, 22 sen and 26 sen, respectively, based on a payout ratio of 36-38%. This translates into net dividend yields of 3.5%-3.9%, in line with market (3-4%) but higher than sector average (3.1-3.6%).

Fig 20: Dividend payout ratio (adjusted for bonus issue)



Source: Company, Affin estimates

Fig 21: Dividend yield



Source: Company, Affin estimates

Fig 22: Earnings forecast summary

	FY08	FY09	FY10	FY11	FY12	FY13
Revenue (RMm)	257.6	443.2	571.9	754.6	881.4	1,064.2
EBITDA (RMm)	76.7	117.7	196.7	258.5	278.9	322.8
EBITDA margin	29.8%	26.6%	34.4%	34.3%	31.6%	30.3%
CFO (RMm)	60.0	83.8	163.9	194.4	212.4	241.8
Capex (RMm)	68.3	51.5	58.4	70.0	60.0	60.0
FCF/share (sen)	(2.3)	8.9	29.0	34.2	41.9	50.0
Net DPS (RM)	3.0	7.7	13.3	20.0	22.0	26.0
Net dividend yield	0.5%	1.3%	2.3%	3.5%	3.9%	4.6%

Source: Company, Affin estimates

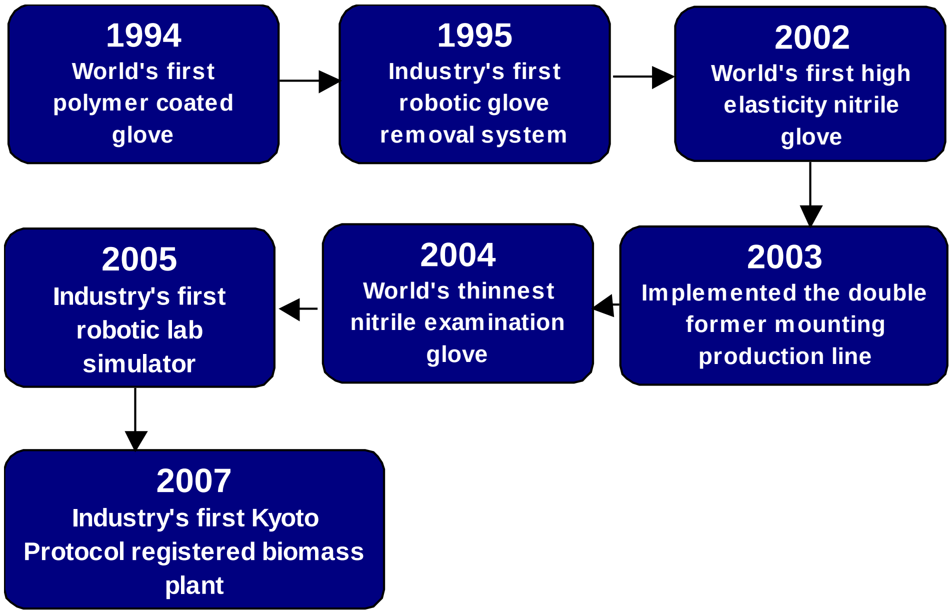
Fig 23: Peers comparison table

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x) CY11	Core PE (x) CY12	EPS growth (%) CY11	EPS growth (%) CY12	EV/EBITDA (x)	P/B (x)	ROE (%) FY11	ROE (%) FY12	Net Div Yield (%) FY11	Net Div Yield (%) FY12
Kossan	BUY	3.17	4.39	1,014	7.6	6.7	12.4	13.3	5.2	1.5	27.3	25.7	3.9	4.5
Top Glove	SELL	5.16	4.24	3,191	20.3	16.3	-25.4	24.0	12.0	2.5	13.6	16.2	1.9	2.5
Supermax	BUY	4.02	6.56	1,367	7.0	6.3	16.4	10.6	7.1	1.3	25.0	22.8	2.9	3.2
Hartalega	BUY	5.70	7.46	2,072	10.1	8.8	13.6	14.5	7.6	3.3	45.6	38.5	3.5	3.9
Adventa**	NR	2.14	na	327	11.1	8.4	-13.1	32.8	6.7	1.2	13.4	11.3	3.4	4.2
Simple average					**11.2**	**9.3**	**0.8**	**19.1**	**7.7**	**2.0**	**25.0**	**22.9**	**3.1**	**3.6**

***based on consensus estimates*

Source: Bloomberg, Affin estimates

Appendix I: Hartalega key achievements



Source: Company

Appendix II: Nitrile vs. natural gloves – a comparison

	Nitrile gloves	Natural rubber gloves
Current price (US$/1,000 pieces)	31.00-38.00	38.00-46.00
Strength & durability	Strong, has puncture resistant qualities	Excellent tensile strength
Elasticity	Less than latex over time, shapes to wearer's hands	Keeps shape, natural ability due to elastic quality rubber
Fit & comfort	Slightly tighter fit than latex	Excellent comfort due to elasticity
Level of barrier protection	Resistant to punctures, does not develop holes easily	Tear and puncture resistant
Allergenicity	Does not contain latex protein	Contains protein
Why nitrile/natural rubber gloves?	**1) Cheaper ASPs 2) Less frequent ASP revisions due to steadier NBR prices 3) No risk of allergic reaction to protein**	**1) More comfortable fit 2) Commonly used in emerging nations 3) Could become cheaper should latex prices fall below NBR prices (downward revision in ASP)**

Source: Malaysia Rubber Board, Affin

Appendix III: Financial Summary

Profit & Loss Statement

FYE Mar (RMm)	2009	2010	2011E	2012E	2013E
Total revenue	443.2	571.9	754.6	881.4	1,064.2
Operating expenses	(325.5)	(375.2)	(496.1)	(602.5)	(741.4)
EBITDA	117.7	196.7	258.5	278.9	322.8
Depreciation	(19.8)	(15.5)	(15.2)	(16.0)	(17.7)
Amortisation	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	97.9	181.2	243.3	262.9	305.1
Net interest income/(expense	(2.4)	(3.4)	(3.0)	(2.7)	(2.5)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Pretax profit	95.5	177.8	240.2	260.2	302.6
Tax	(11.0)	(34.7)	(47.5)	(51.3)	(59.6)
Minority interest	(0.0)	(0.1)	(0.2)	(0.2)	(0.3)
Net profit	84.5	142.9	192.5	208.6	242.8

Balance Sheet Statement

FYE Mar (RMm)	2009	2010	2011E	2012E	2013E
Fixed assets	246.1	284.2	339.0	383.0	425.3
Other long term assets	0.3	8.8	9.6	10.6	11.6
Total non-current assets	**246.4**	**293.0**	**348.6**	**393.6**	**436.9**
Cash and equivalents	38.3	74.7	135.7	191.7	281.5
Stocks	24.6	28.1	37.0	44.0	53.5
Debtors	65.5	83.0	103.2	120.5	145.5
Other current assets	0.1	0.1	0.1	0.1	0.1
Total current assets	**128.4**	**185.8**	**275.9**	**356.3**	**480.6**
Creditors	36.2	44.4	58.4	69.6	84.7
Short term borrowings	15.1	13.7	12.4	11.1	10.0
Other current liabilities	1.6	10.9	10.9	10.9	10.9
Total current liabilities	**52.8**	**69.0**	**81.7**	**91.6**	**105.5**
Long term borrowings	42.7	27.7	24.9	22.4	20.2
Other long term liabilities	24.8	27.8	27.8	27.8	27.8
Total long term liabilities	**67.5**	**55.5**	**52.7**	**50.2**	**48.0**
Shareholders' Funds	**254.4**	**354.1**	**489.7**	**607.4**	**763.0**

Cash Flow Statement

FYE Mar (RMm)	2008	2010	2011E	2012E	2013E
EBIT	97.9	181.2	243.3	262.9	305.1
Depreciation & amortisation	19.8	15.5	15.2	16.0	17.7
Working capital changes	(25.9)	(4.8)	(16.4)	(14.5)	(20.6)
Cash tax paid	(11.0)	(34.7)	(47.5)	(51.3)	(59.6)
Others	2.9	6.7	(0.2)	(0.6)	(0.9)
Cashflow from operation	**83.8**	**163.9**	**194.4**	**212.4**	**241.8**
Capex	(51.5)	(58.4)	(70.0)	(60.0)	(60.0)
Disposal/(purchases)	0.1	0.3	0.8	0.9	1.0
Others	(9.4)	(8.7)	0.0	0.0	0.0
Cash flow from investing	**(60.9)**	**(66.7)**	**(69.2)**	**(59.1)**	**(59.0)**
Debt raised/(repaid)	14.1	(14.7)	(4.1)	(3.7)	(3.4)
Equity raised/(repaid)	74.9	99.7	0.0	0.0	0.0
Net interest income/(expense	(2.4)	(3.4)	(3.0)	(2.7)	(2.5)
Dividends paid	(8.5)	(44.8)	(56.9)	(90.9)	(87.2)
Others	(72.5)	(96.3)	0.0	0.0	0.0
Cash flow from financing	**5.6**	**(59.5)**	**(64.1)**	**(97.3)**	**(93.0)**
Free Cash Flow	**32.3**	**105.6**	**124.4**	**152.4**	**181.8**

Key Financial Ratios and Margins

FYE Mar (RMm)	2009	2010	2011E	2012E	2013E
Growth					
Revenue (%)	72.1	29.0	32.0	16.8	20.7
EBITDA (%)	36.5	67.0	31.4	7.9	15.8
Core net profit (%)	21.5	69.1	34.7	8.4	16.4
Profitability					
EBITDA margin (%)	26.6	34.4	34.3	31.6	30.3
PBT margin (%)	21.5	31.1	31.8	29.5	28.4
Net profit margin (%)	19.1	25.0	25.5	23.7	22.8
Effective tax rate (%)	11.5	19.5	19.8	19.7	19.7
ROA (%)	22.5	29.8	30.8	27.8	26.5
Core ROE (%)	66.4	47.0	45.6	38.0	35.4
ROCE (%)	62.7	51.2	52.7	45.0	42.5
Dividend payout ratio (%)	33.0	33.9	36.0	38.0	38.0
Liquidity					
Current ratio (x)	2.4	2.7	3.4	3.9	4.6
Op. cash flow (RMm)	83.8	163.9	194.4	212.4	241.8
Free cashflow (RMm)	32.3	105.6	124.4	152.4	181.8
FCF/share (sen)	8.9	29.0	34.2	41.9	50.0
Asset management					
Debtors turnover (days)	54	53	50	50	50
Stock turnover (days)	27	28	28	28	28
Creditors turnover (days)	40	45	45	45	45
Capital structure					
Core ROA (%)	22.5	29.8	30.8	27.8	26.5
ROCE (%)	62.7	51.2	52.7	45.0	42.5

Quarterly Profit & Loss

FYE Mar (RMm)	2Q10	3Q10	4Q10	1Q11	2Q11
Revenue	134.6	148.6	163.4	170.0	184.3
Operating expenses	(92.5)	(100.3)	(106.0)	(117.0)	(124.3)
EBITDA	42.0	48.3	57.4	53.0	60.1
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	42.0	48.3	57.4	53.0	60.1
Net int income/(expense)	(0.9)	(0.8)	(0.8)	(0.7)	(0.6)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	1.5	1.6
Pretax profit	41.2	47.5	56.6	53.8	61.0
Tax	(8.0)	(10.2)	(10.1)	(12.3)	(13.9)
Minority interest	(0.0)	(0.1)	(0.0)	0.0	(0.1)
Net profit	33.1	37.2	46.4	41.5	47.0
Core net profit	33.1	37.2	46.4	40.0	45.4
Margins (%)					
EBIT	31.2	32.5	35.1	31.2	32.6
PBT	30.6	31.9	34.6	31.6	33.1
Net profit	24.6	25.0	28.4	24.4	25.5

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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