

Results Note

Hartalega

HART MK
RM4.65

ADD (maintain)

Target Price: RM5.01 (↓)



Price Performance

	1M	3M	12M
Absolute	-3.9%	-3.1%	+21.6%
Rel to KLCI	-0.4%	-1.9%	+14.5%

Stock Data

Issued shares (m)	733.0
Mkt cap (RMm)	3,408.4
Avg daily vol - 6mth (m)	0.31
52-wk range (RM)	3.56 – 5.10
Est free float	45%
NTA per share (RM)	0.94
P/NTA (x)	4.93
Net cash/ (debt) (RMm) (3Q13)	143.9
ROE (FY13E)	36%
Derivatives	06/15 warrants, SP RM4.14

Key Shareholders

Hartalega Industries SB	50.2%
Budi Tenggara	5.0%
EPF	4.9%
BNP Paribas	4.6%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	31.5	35.8	39.9
Curr EPS (sen)	31.5	34.0	36.1
Chg (%)	-	-5.0	-9.5
Prev target price (RM)		5.15	
Curr target price (RM)		5.01	

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9MFY03/13's results within expectation

9MFY03/13 core net profit rise +11% yoy to RM172.3m

As anticipated in our report, "Efficiency is key" on 16 Jan 2013, Hartalega's (Harta) 9MFY03/13 core net profit had grown by a healthy +11% yoy to RM172.3m. This is mainly driven by: 1) lower raw material cost, namely nitrile price, down -25% yoy, 2) strong 9MFY03/13 volume sales growth of +21.5% to 7.25bn pieces (utilization rate at c.91%), and 3) the continued improvement in operating efficiencies underpinned by increased plant automation. Notwithstanding the 6.6% decline in ASP (in tandem with the lower raw material cost) to RM105/1000 pieces for nitrile gloves, the group's topline revenue had grown by +10% yoy to RM762.3m. This is driven by the strong +22% yoy growth in nitrile gloves demand which has offset the lower ASP. The group's net profit margin also edged up by 0.7%-points yoy to 29.5% attributed to the favourable raw material cost and improved operating efficiencies. All in, results were within our and consensus estimates, accounting for c. 75% of our and consensus full year forecasts.

Marginal growth on a sequential basis

Sequentially, Harta's topline revenue and core net earnings grew marginally by +1.8% and +2.2% respectively due to the lower ASP for both its nitrile gloves (qoq: -6.2%) and Natural Rubber (NR) gloves (-9.6% qoq). Sales for both its NR and nitrile gloves remain strong, up +7% and +21% respectively. YoY comparison, revenue and core net profit grew by +7.3% and +16.7% respectively, with net profit margin climbing by +1.85%-points to 22.9%, thanks to the -30% yoy contraction in nitrile cost, (Oct-Dec)

"Angpows" for shareholders

In conjunction with the healthy results, Harta had announced a second interim dividend of 3.5 sen with entitlement date fixed on 27 Feb 2013. This brings the total DPS declared of 7 sen to date, and we believe the company will continue to reward its shareholders going forward. We maintain our DPS forecast of 15sen for FY13, based on a payout ratio of 45%. This translates to a yield of 3.2%.

Outlook remains positive

We gathered from management that the global demand for nitrile gloves remains resilient, growing at 15-20% yoy. To meet the strong export demand in nitrile gloves, Harta has actually fast tracked the commission of its production lines in Plant 6. We understand that 5 out of the 10 planned production lines in Plant 6 are the most efficient lines in the country, as each line can generate c.45.3k pieces of gloves/hour vis-à-vis the prevailing industry average of c.28k pieces/hour. The company is confident to commission its remaining 5 production lines by July 2013 and it is expected to generate an additional 3.9bn pieces of gloves.

Earnings and valuation summary

FYE Mar	2011	2012	2013E	2014E	2015E
Revenue (RMm)	734.9	931.1	1,093.8	1,258.0	1,392.1
EBITDA (RMm)	267.2	295.0	336.6	392.1	436.7
Pretax profit (RMm)	242.8	258.4	287.9	335.8	373.9
Net profit (RMm)	190.3	201.4	230.3	261.9	291.6
EPS (sen)	26.0	27.6	31.5	34.0	36.1
PER (x)	17.9	16.9	14.8	13.7	12.9
Core net profit (RMm)	187.2	207.2	230.3	261.9	291.6
Core EPS (sen)	25.6	28.3	31.5	34.0	36.1
Core EPS chg (%)	31.0	10.7	11.1	8.0	6.2
Core PER (x)	18.2	16.4	14.8	13.7	12.9
DPS (sen)	10.5	12.0	15.0	16.0	17.0
Dividend Yield (%)	2.3	2.6	3.2	3.4	3.7
EV/EBITDA (x)	12.4	11.1	10.3	9.3	8.6
Consensus profit (RMm)			228.6	262.2	295.3
Affin/Consensus (x)			1.0	1.0	1.0

Valuations & Recommendation

Next Generation Integrated Glove Manufacturing Complex (NGC) to start end-2013

Post the completion of Plant 6, Harta will then embark to start its 8-year master growth plan, NGC which has been accorded an Entry Point Project (EPP) status under the government's ETP. With NGC, Harta would require two additional parcels of land for its glove production facilities, and it is expected that the group would be able to ramp up its production capacity to 13.7bn and 17.4bn pieces in FY14-FY15 respectively, a step-up from its current capacity of 11bn pieces. Management had also guided that CAPEX for NGC (including the acquisition of land) would be c.RM200-300m p.a

74.3m warrants outstanding, exercisable from 5 June 2013 to 29 May 2015

Recalled that on 23 Feb 2012, during its 3QFY03/12 results announcement, Harta had proposed a 1-for-1 bonus issue to improve its stock trading liquidity. Apart from that, the company had also proposed the issuance of up to 74.3m free warrants on the basis of 1 free warrant for every 5 shares held on the same entitlement date as the bonus issue. The exercise price for the warrants (3 year tenure, exercisable from 5 June 2013 to 29 May 2015) has been set at RM4.14, which would raise RM307.6m cash on full conversion. Proceeds from the warrants conversion would be used to fund the upcoming NGC project as mentioned above.

Enlarging the share base

Since Harta's share price had appreciated by +78% in 2012 and the warrants are "in-the-money" currently, we believe its major controlling shareholders (Kuan family) will exercise their warrants (36.8m warrants) from 5 June 2013. On conversion, this will expand Harta's share base by 5% to 769.4m shares and hence dilute our CY14 EPS by -3.7% to 33.4 sen. The major shareholders' stake is also expected to rise slightly by less than 2% in FY14.

Maintain ADD, with TP lowered by -2.9% to RM5.00

If the major shareholders' were to exercise their warrants early to help fund the company's NGC programme, this clearly shows their high conviction on the NGC project. In a way, this will also help to reaffirm our positive view on the company. With the results within our expectation, there is no change in our net profit forecast. However, our TP is lowered by -2.9% to **RM5.01**, pegged at an unchanged 15x CY13 diluted EPS, following the partial conversion of the warrants.

All in, we remain positive on the rubber gloves sector, supported by the resilience in gloves demand and improving operating environment. We also expect speculation activities on latex to stay relatively benign in 2013 due to the soft growth in China's auto industry, and the potential additional output of latex this year from Cambodia and Vietnam. Hence, we believe the sector's key driver, namely latex and nitrile costs to stay at favorable level at around RM6-7/kg and US\$2.20-2.40/kg respectively.

Table 1: Issued and paid-up share capital and diluted EPS

	No. of shares (m)
Issued and paid-up share capital	732.6
To be issued assuming shareholders exercise half of the Free Warrants	36.8
Enlarged issued and paid-up share capital after the free w arrants	769.4
CY13 EPS (RM sen) pre-exercise of w arrants	34.7
TP (RM) pegged to 15x PER	5.15
CY13 EPS (RM sen) post-exercise of w arrants (-3.7% dilution)	33.4
New TP (RM) pegged to 15x PER	5.01

Source: Affin

Table 2: Quarterly Results Comparison

FYE Mar (RMm)	3QFY12	2QFY13	3QFY13	QoQ % chg	YoY % chg	Comment
Revenue	242.0	255.0	259.6	1.8	7.3	Driven by higher sales volume, yoy: +7.1% for nitrile, +21% for NR
Operating cost	(178.5)	(180.1)	(183.6)	1.9	2.8	
EBIT	64.5	76.0	77.3	1.7	19.9	
<i>EBIT margin (%)</i>	<i>26.7</i>	<i>29.8</i>	<i>29.8</i>	<i>(0.0)</i>	<i>3.1</i>	Yoy margin expansion is attributed to improved operating efficiencies and lower nitrile latex costs.
Int expense	(0.4)	(0.2)	(0.2)	(11.5)	(48.3)	
Int and other inc	0.0	0.0	0.0	nm	nm	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional items	(0.2)	0.5	1.2	nm	nm	Net gain in foreign exchange in forward contracts of RM1.2m
Pretax profit	63.9	76.3	78.4	2.7	22.6	
Tax	(13.2)	(17.7)	(17.7)	0.2	(34.1)	
<i>Tax rate (%)</i>	<i>20.7</i>	<i>23.2</i>	<i>22.6</i>	<i>Nm</i>	<i>Nm</i>	
MI	0.0	0.0	0.0	0.0	0.0	
Net profit	50.7	58.6	60.6	3.5	19.6	
EPS (sen)	6.9	8.0	8.3	3.5	19.6	
Core net profit	50.9	58.1	59.4	2.2	16.7	3QFY03/13 accounts for 25% our and consensus full year estimates

Source: Affin

Table 3: Cumulative Results Comparison

FYE Mar (RMm)	9MFY12	9MFY13	YTD % chg	Comment
Revenue	690.9	762.3	10.3	Driven by increased sales volume, and of which supported by additional production capacity from Plant 6 (improvement in production line speed)
Operating cost	(495.4)	(541.3)	9.3	
EBIT	198.8	224.9	13.2	
<i>EBIT margin (%)</i>	<i>28.8</i>	<i>29.5</i>	<i>0.7</i>	Thanks to lower raw material cost and improved production efficiency
Int expense	(1.3)	(0.7)	(44.9)	
Int and other inc	0.0	0.0	nm	
Associates	0.0	0.0	nm	
Exceptional items	(3.3)	0.4	nm	
Pretax profit	194.1	224.6	15.7	
Tax	(42.5)	(51.9)	22.1	
<i>Tax rate (%)</i>	<i>21.9</i>	<i>23.1</i>	<i>Nm</i>	
MI	0.0	0.0	0.0	
Net profit	151.6	172.6	13.9	
EPS (sen)	261.1	297.4	13.9	
Core net profit	154.9	172.3	11.2	Within expectations, accounts for 75% of our full year forecast

Source: Affin

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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12-month upside potential

Previous target price	5.26
Revised target price	5.54
Current price (as at 5 Feb)	4.65
Capital upside (%)	19.1
Net dividends (%)	3.0
Total return (%)	22.1

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	3,408.4
Shares outstanding (m)	733.0
Free float (%)	71.6
52-week high / low (RM)	5.07 / 3.53
3-mth avg volume ('000)	320.8
3-mth avg turnover (RM m)	1.5

Share price performance

	1M	3M	6M
Absolute (%)	-3.9	-6.5	4.9
Relative (%)	-0.4	-6.1	5.0

Share price chart


Source: Bloomberg

3QFY13: Value emerging after recent correction

Hartalega's 3QFY13 results came within expectation, bringing its 9MFY13 core earnings to 75.3% and 75.5% of ours and consensus full year estimates. We see value emerging after recent share price correction. As such, we upgrade the stock from trading buy to an outright BUY with higher TP of RM5.54 (+5.3%), as we rollover our 12-month forward EPS to FY03/14 EPS with unchanged target P/E of 15x. We remain positive on Hartalega's medium to long term prospect and suggest investors to accumulate on any price weakness, as we believe the group will emerge as a game-changer in the glove sector once its new NGC plant kicks start by 2014.

3QFY13 results came within expectations

- Hartalega's 3QFY13 results came within expectations, bringing its 9MFY13 to 75.3% and 75.5% of ours and consensus full year forecasts. We believe the group could sustain its growth momentum going into FY14, thanks to stable raw material cost as well as additional capacity coming from Plant 6 which will be fully completed by July 2013.
- 3QFY13 revenue grew by 7.3% y-o-y and 1.8% q-o-q, underpinned by higher sales volume (+28.6% y-o-y, +7.9% q-o-q) which was partially offset by lower ASP (-15.2% y-o-y, -5.5% q-o-q) due to substantial easing of latex cost (-31.3% y-o-y, -5.9% q-o-q).
- In terms of absolute core PBT, the group achieved RM30.0 per thousand gloves in 3QFY13 (+0.5% y-o-y, +1.9% q-o-q), which is inline with our full year estimates of RM30 per thousand gloves.
- The group declared its second interim DPS of 3.5 sen during the quarter, bringing its YTD DPS to 7.0 sen. We project full year DPS of 14.1 sen for FY13, based on 45% payout ratio.

No price war, "hurdles" on NGC plant cleared

- Again, Hartalega reiterates that there is no price war in the nitrile glove segment, as it sees global demand for nitrile glove continue to grow at a high rate of over 20% due to continued momentum of rising demand from the switching of NR gloves to nitrile gloves.
- Based on our estimate, nitrile gloves still enjoy cost advantage of more than 5% over natural rubber (NR) gloves as of Jan 2013. This has not taken into consideration of lesser latex required by nitrile glove due to its lighter weight. We believe NR gloves will only regain its price competitiveness, if latex price falls below RM5.00/kg, which we believe is unlikely over the next 3-6 months due to the rubber wintering season.
- With regards to its expansion plan, Plant 6 is well on track to be completed by June/July 2013. This could sustain its sales volume growth in CY13. Furthermore, the group is planning to buy another 40-50 acre land next to its existing factories in Bestari Jaya to build the capacity for specialty gloves.
- Furthermore, Hartalega has already cleared the "hurdles" for its Next Generation Glove Manufacturing Complex (NGC) and expected to sign the SPA soon. Again, we view this mega plant as the game-changer as it will underpin the group's 8-year capacity CAGR of 15.7% with 6% additional margin.

Forecasts unchanged

- As results came within expectation, we leave our forecasts unchanged.

Upgrade to an outright BUY with higher TP of RM5.54 (+5.3%)

- In conclusion, Hartalega has performed up to our expectation. We see value emerging after the recent share price correction due to the general weak market sentiment.
- As such, we upgrade our recommendation on the stock from trading buy to an outright BUY with higher TP of RM5.54 (+5.3%), as we rollover our 12-month forward EPS to FY03/14 EPS with unchanged target P/E of 15x.
- Key risks include expansion plan delay, especially the NGC plant.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	3QFY13	3QFY12	% y-o-y change	% q-o-q change	9MFY13	9MFY12	% y-o-y change	Comments
Key financial highlights								
Revenue (RM m)	259.6	242.0	7.3	1.8	762.3	690.9	10.3	3QFY13 revenue growth was mainly driven by strong sales volume growth (28.6% y-o-y, +7.9% q-o-q), which was partially offset by lower ASP (-15.2% y-o-y, -5.5% q-o-q) due to substantial easing of nitrile and latex input.
Operating profit (RM m)	78.3	60.8	28.8	9.8	222.8	203.3	9.6	
Pretax profit (RM m)	78.4	63.9	22.6	2.7	224.6	194.1	15.7	
Net profit (RM m)	60.5	50.7	19.4	3.4	172.4	194.1	-11.2	
Core profit (RM m)	60.5	48.1	25.8	10.7	171.0	158.1	8.2	9MFY13 core profit came in within expectation, making up 75.3% and 75.5% of ours and consensus full year forecasts.
Per share data								
EPS (sen)	8.3	7.0	18.9	3.4	23.6	20.8	13.3	
Core EPS (sen)	8.3	6.6	25.3	10.6	23.4	21.7	7.7	Core EPS continue to expand on both y-o-y and q-o-q basis.
Net DPS (sen)	3.5	-			7.0	6.0		Declared second interim DPS of 3.5 sen.
BV/share (RM)	0.99	0.81			0.99	0.81		
Margins								
Pretax (%)	30.2	26.4			29.5	28.1		
Core profit (%)	23.3	19.9			22.4	22.9		
Other highlights								
Utilisation rate (%)	90.6	84.1			90.3	82.6		Maintained high utilisation rate of 90%.
Sales volume (bn pieces)	2.6	2.0	28.6	7.9	7.3	6.0	22.7	9MFY13 sales volume makes up 75.6% of our full year estimate. Nitrile glove volume grew slower (+4.2% y-o-y) as compared to NR glove which grew by 14.5% y-o-y in the first 9 months of FY13.
ASP (RM/ k gloves)	99.5	117.3	-15.2	-5.5	104.3	114.6	-9.0	ASP declined due to lower input cost.
Average blended latex price (RM/kg)	9.1	13.3	-31.3	-5.9	10.2	12.8	-20.4	
Absolute core PBT/k gloves (RM)	30.0	29.8	0.5	1.9	30.5	34.0	-10.4	Absolute core PBT per thousand gloves remains largely unchanged in 3QFY13.
USD:MYR	3.07	3.15	-2.5	-1.6	3.1	3.1	1.3	

Source: Company, Alliance Research

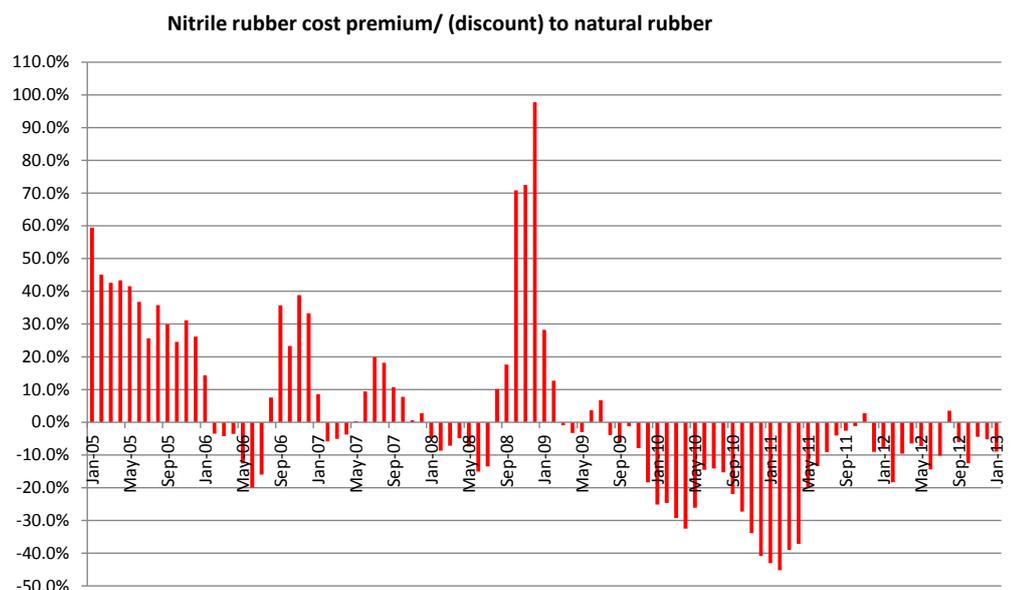


Figure 2 : Key financial data

FYE 31 March	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	734.9	931.1	1,084.9	1,329.6	1,513.2
EBITDA (RM m)	268.2	288.2	335.6	402.9	463.2
EBIT (RM m)	243.3	259.2	299.4	354.6	404.3
Pretax profit (RM m)	242.8	258.4	297.4	350.3	400.1
Reported net profit (RM m)	190.3	201.4	229.0	269.7	308.0
Core net profit (RM m)	190.6	201.4	229.0	269.7	308.0
EPS (sen)	26.2	27.6	31.4	36.9	42.2
Core EPS (sen)	26.2	27.6	31.4	36.9	42.2
Alliance / Consensus (%)			100.2	102.9	104.3
Core EPS growth (%)	33.1	5.0	13.7	7.1	14.2
P/E (x)	17.7	16.8	14.8	12.6	11.0
EV/EBITDA (x)	7.1	6.4	11.5	9.8	8.6
ROE (%)	44.9	36.2	33.5	32.9	31.5
Net gearing (%)	Net cash				
Net DPS (sen)	10.5	12.5	14.1	16.6	19.0
Net dividend yield (%)	2.3	2.7	3.0	3.6	4.1
BV/share (RM)	0.68	0.85	1.02	1.22	1.46
P/B (x)	6.8	5.5	4.6	3.8	3.2

Source: Alliance Research, Bloomberg

Figure 3 : Nitrile butadiene rubber cost is still 9% cheaper than natural rubber in Jan 2013

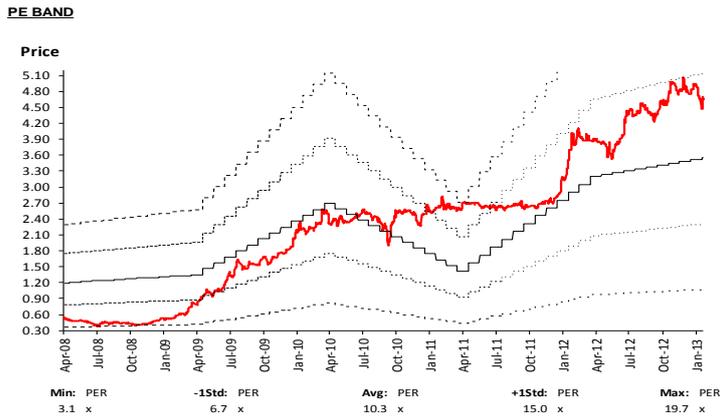


*Adjusted for latex content for nitrile butadiene rubber (45%) and natural rubber (60%).

Source: Bloomberg data, Alliance Research

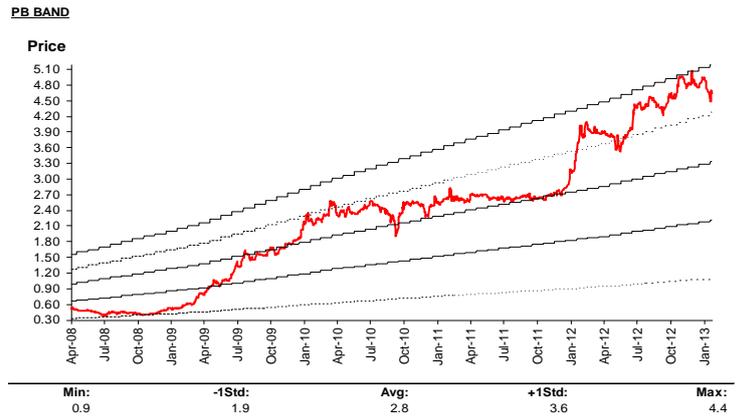


Figure 4 : Hartalega P/E Band



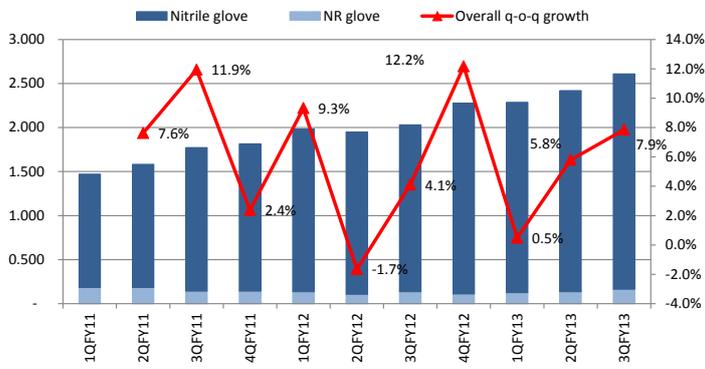
Source: Bloomberg data, Alliance Research

Figure 5 : Hartalega P/B Band



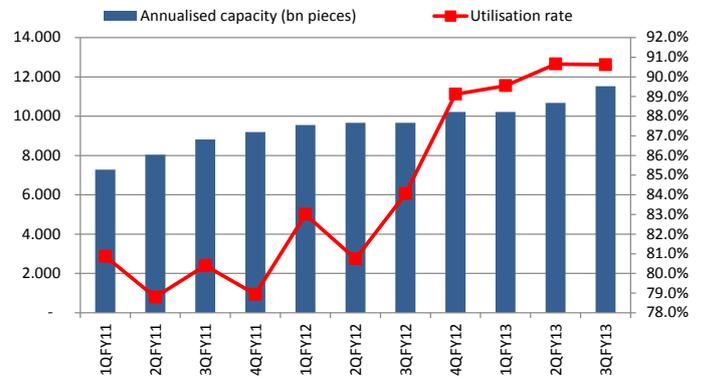
Source: Bloomberg data, Alliance Research

Figure 6 : Quarterly sales volume growth



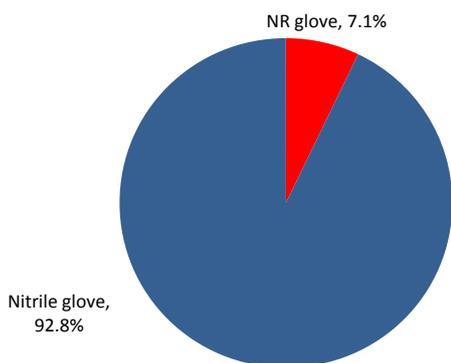
Source: Company data, Alliance Research

Figure 7 : Quarterly capacity utilisation rate



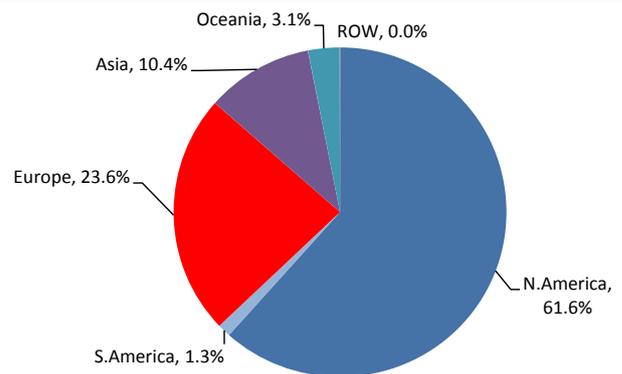
Source: Company data, Alliance Research

Figure 8 : 3QFY13 revenue breakdown by product



Source: Company data, Alliance Research

Figure 9 : 3QFY13 revenue breakdown by market



Source: Company data, Alliance Research



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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Published & printed by:

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AmResearch

Company report

HARTEALEGA HOLDINGS

(HART MK, HTHB.KL)

6 February 2013

Competition setting in

HOLD

(Maintained)

Cheryl Tan

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Rationale for report: Company Result

Price	RM4.65
Fair Value	RM5.10
52-week High/Low	RM5.07/RM3.58

Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Mar	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	931.1	1,025.0	1,341.4	1,639.3
Core net profit (RMmil)	201.4	226.7	300.5	380.0
Basic EPS (Sen)	27.7	31.1	41.3	52.2
FD EPS (Sen)	25.0	28.2	37.3	47.2
EPS growth (%)	n/a	12.6	32.5	26.5
Consensus EPS (Sen)	27.7	31.1	35.4	39.7
DPS (Sen)	11.3	13.0	17.0	21.0
FD PE (x)	18.8	16.7	12.6	10.0
EV/EBITDA (x)	12.6	11.4	8.8	6.8
Div yield (%)	2.4	2.8	3.6	4.5
ROE (%)	36.2	33.2	35.8	36.4
Net Gearing (%)	n/a	n/a	10.2	6.3

Note: Our forecasts include the full-diluted impact of warrants.

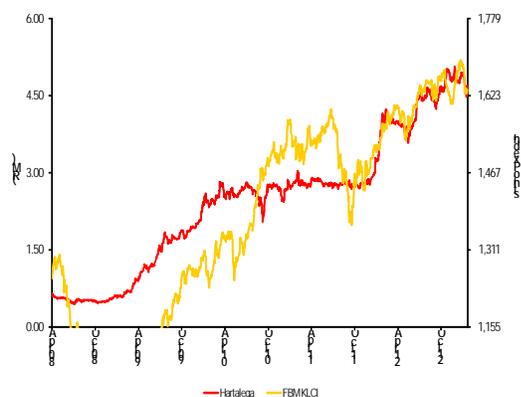
Stock and Financial Data

Shares Outstanding (million)	733.0
Market Cap (RMmil)	3,408.4
Book value (RM/share)	0.77
P/BV (x)	6.1
ROE (%)	36.2
Net Gearing (%)	n/a

Major Shareholders	Hartalega Industries Sdn Bhd (27.6%) Franklin Resources (0.6%)
--------------------	---

Free Float (%)	71.6
Avg Daily Value (RMmil)	1.6

Price performance	3mth	6mth	12mth
Absolute (%)	(2.9)	6.6	22.9
Relative (%)	(1.6)	6.6	16.7



Investment Highlights

- We maintain our HOLD recommendation on Hartalega Holdings Bhd (Hartalega), with an unchanged fair value of RM5.10/share, based on a fully-diluted PE of 14x FY14F earnings.
- For the nine months to 30 December 2012, Hartalega posted a net profit of RM172mil (+14% YoY), meeting both ours, and street estimates. Sequentially, its 3QFY13 earnings grew 3% to RM61mil, from RM59mil in 2QFY13.
- The company has declared a second interim dividend (single-tier) of 3.5 sen per share, bringing total FY13F gross DPS declared to 7 sen. This makes up 53% of our forecast gross DPS for FY13F.
- Despite the 6% drop in ASPs as a result of: (1) intensifying price competition in the nitrile segment and (2) strengthening ringgit, Hartalega managed to grow its topline by 2% QoQ (+10% YoY). The decline was more than offset by an increase in sales volume of 8% (YoY: +23%), in line with increased nitrile glove penetration in the US (9MCY12's 82% vs. 2011's 68%), Hartalega's core market (57% of revenue).
- We also note that Hartalega's sales mix (nitrile:latex) has shifted from the historical 95:5 to 93:7 as its OBM business in Asia (YoY: +1ppt contribution to revenue) took flight. We are somewhat positive on this development given that getting its foot in the door is Hartalega's main priority now.
- Hartalega's EBITDA margin was flat at 29% for both QoQ and YoY (+1ppt) comparisons (historical average: 32%). Its revenue improvement did not filter down to its bottom line as 9MFY13 operating expenses continued to escalate (+2% QoQ, +10% YoY). While we expect EBITDA margins to be further compressed moving forward (~28% for FY14F), we gather that it will also be supported by improving operating efficiencies.
- The main culprit in the cost inflation was labour expenses, which grew 2ppts QoQ to make up 11% of operating costs (previously, 9%). Hartalega had taken on additional workers for its factories in anticipation of Plant 6 (4 more lines to be commissioned by July 2013) and Plant 7 (NGC).
- With regard to the minimum wage ruling, we understand that the incremental rise will be fully passed on to its customers with ASPs rising by 2%-3% in 4QFY13.
- The recent government decision to transfer the burden of foreign worker levy to employees will be positive for the sector. For Hartalega, this translates into a gain of ~RM3.5mil.
- In our view, there is limited upside to Hartalega's share price, given the run-up last year (+68%) coupled with the pricing in of anticipated growth for the next two years.

TABLE 1: 9MFY13 EARNINGS SUMMARY

YE 31 Mar (RM mil)	2Q13	3Q13	%QoQ	9M12	9M13	%YoY
Revenue	255.0	259.6	1.8	690.9	762.3	10.3
Operating expenses	(180.1)	(183.6)		(495.4)	(541.2)	
EBITDA	74.9	76.0	1.5	195.5	221.0	13.1
Depreciation and amortisation	(7.4)	(7.9)		(21.6)	(22.5)	
EBIT	67.5	68.1		173.9	198.5	
Interest income	0.2	0.2		0.7	0.6	
Interest expense	(0.2)	(0.2)		(1.3)	(0.7)	
Other income	8.8	10.2		20.9	26.2	
Pre-tax profit	76.3	78.4	2.7	194.1	224.6	15.7
Taxation	(17.7)	(17.7)		(42.5)	(51.9)	
Minorities	(0.0)	(0.1)		0.0	(0.2)	
Net Profit	58.5	60.5	3.4	151.6	172.4	13.7
Core net profit (ex EI)	58.5	60.5		151.6	172.4	
EPS (sen)	6.96	8.28		20.82	23.58	
Gross DPS (sen)	3.5	3.5		6.0	7.0	
BV/share (RM)	0.94	0.99		67.89	99.32	
EBITDA Margin (%)	29.4	29.3		28.3	29.0	
Pretax Margin (%)	29.9	30.2		28.1	29.5	
Effective Tax (%)	23.2	22.6		21.9	23.1	

Source: Bursa Malaysia

TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	2011	2012	2013F	2014F	2015F
Revenue	734.9	931.1	1,025.0	1,341.4	1,639.3
EBITDA	268.2	288.2	328.6	443.3	566.7
Depreciation	(25.0)	(29.0)	(37.4)	(54.0)	(70.7)
Operating income (EBIT)	243.2	259.2	291.2	389	496.0
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(0.4)	(0.8)	(2.4)	(6.4)	(11.9)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	242.8	258.4	288.9	382.8	484.2
Taxation	(52.5)	(57.0)	(62.1)	(82.3)	(104.1)
Minorities/pref dividends	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	190.3	201.4	226.7	300.5	380.0
Core net profit	190.3	201.4	226.7	300.5	380.0
Balance Sheet (RMmil, YE 31 Mar)	2011	2012	2013F	2014F	2015F
Fixed assets	348.6	370.3	561.4	836.2	994.2
Intangible assets	0.1	0.0	0.0	0.0	0.0
Other long-term assets	0.2	9.9	9.9	9.9	9.9
Total non-current assets	348.9	380.2	571.4	846.1	1,004.1
Cash & equivalent	117.0	163.2	152.7	123.0	269.4
Stock	64.7	97.5	107.4	132.7	149.7
Trade debtors	95.7	107.7	145.1	178.3	216.9
Other current assets	8.7	9.5	9.5	9.5	9.5
Total current assets	286.1	377.9	414.7	443.6	645.5
Trade creditors	34.4	29.5	40.7	46.6	60.4
Short-term borrowings	14.5	12.6	42.3	84.3	128.2
Other current liabilities	29.9	43.4	42.7	42.7	42.7
Total current liabilities	78.9	85.5	125.7	173.6	231.3
Long-term borrowings	24.5	12.1	72.4	144.3	219.5
Other long-term liabilities	36.9	40.5	40.5	40.5	40.5
Total long-term liabilities	61.3	52.6	112.9	184.9	260.0
Shareholders' funds	494.4	619.5	746.9	930.7	1,157.8
Minority interests	0.4	0.6	0.6	0.6	0.6
BV/share (RM)	0.68	0.77	0.93	1.16	1.44
Cash Flow (RMmil, YE 31 Mar)	2011	2012	2013F	2014F	2015F
Pretax profit	242.8	258.4	288.9	382.8	484.2
Depreciation	25.0	29.0	37.4	54.0	70.7
Net change in working capital	(40.9)	(44.5)	(36.0)	(52.7)	(41.7)
Others	(42.1)	(42.6)	(62.1)	(82.3)	(104.1)
Cash flow from operations	184.8	200.3	228.2	301.8	409.1
Capital expenditure	(21.7)	(35.4)	(200.0)	(300.0)	(200.0)
Net investments & sale of fixed assets	0.2	0.1	0.1	0.1	0.1
Others	(59.5)	(24.8)	(30.0)	(30.0)	(30.0)
Cash flow from investing	(81.0)	(60.1)	(229.9)	(329.9)	(229.9)
Debt raised/(repaid)	(2.5)	(14.6)	90.0	114.0	119.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(56.9)	(87.4)	(99.8)	(116.7)	(152.9)
Others	0.3	6.9	0.0	0.0	0.0
Cash flow from financing	(59.1)	(95.0)	(9.8)	(2.7)	(33.9)
Net cash flow	44.7	45.2	(11.6)	(30.7)	145.3
Net cash/(debt) b/f	47.2	59.7	(101.5)	(144.7)	26.3
Net cash/(debt) c/f	78.0	138.6	38.1	(105.6)	(78.3)
Key Ratios (YE 31 Mar)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	28.5	26.7	10.1	30.9	22.2
EBITDA growth (%)	34.3	7.5	14.0	34.9	27.9
Pretax margins (%)	33.0	27.8	28.2	28.5	29.5
Net profit margins (%)	25.9	21.6	22.1	22.4	23.2
Interest cover (x)	98.5	149.3	83.6	45.4	34.4
Effective tax rate (%)	21.6	22.0	21.5	21.5	21.5
Net dividend payout (%)	40.1	45.3	46.1	45.5	44.5
Debtors turnover (days)	43	40	45	44	44
Stock turnover (days)	23	32	36	33	31
Creditors turnover (days)	14	13	13	12	12

Source: Company, AmResearch estimates

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Printed by

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For AmResearch Sdn Bhd



Benny Chew
Managing Director



BIMB SECURITIES RESEARCH MARKET INSIGHT

PP16795/03/2013(031743)

3QFY13

Hartalega Holdings

Buy ▲

Inline

Numbers Are Growing

Price: RM4.65
Target Price: (+9.2% upside) RM5.08

Stock Data

Bloomberg Ticker	HART MK	Altman Z-score	15.8
Market Cap	3,408.4	YTD price chg	-2.1%
Issued shares	733.0	YTD KLCI chg	-3.3%
52-week range (H)	5.10	Beta	0.7
2-week range (L)	3.56	Major Shareholders	
3-mth avg daily volume	326,342	Hartalega Industries	27.6%
Free Float	71.4%	Franklin Resources	0.6%
Shariah Compliant	Y		
Financial Derivatives	Warrants		

Share Performance (%)

	1mth	3mth	12mth
Absolute	(3.9)	(4.2)	25.3
vs. KLCI	14.5	(4.2)	14.5

Consensus

	2013	2014
Net Profit	229.1	262.3
EPS (sen)	31.1	35.2

Historical Price Ratio (x)

	FY 2010	FY 2011	FY 2012
Price Earnings	17.5	14.1	22.4
Price to Book	5.4	4.2	4.9

Financial Highlights

FYE 31 Mar	2010	2011	2012	2013E	2014E
Turnover	571.9	734.9	931.1	991.5	1076.0
EBIT	181.2	245.7	260.3	307.5	327.4
Pretax profit	177.8	243.3	258.6	305.7	325.5
Net Profit	142.9	190.2	201.6	238.4	250.6
CY Net Profit	178.3	198.8	229.2	247.6	285.7
EPS (sen)	19.5	26.0	27.6	32.6	34.3
CY EPS (sen)	24.4	27.2	31.4	33.9	39.1
PER (x)	23.8	17.9	16.9	14.3	13.6
DPS (sen)	7.0	10.0	10.0	13.5	14.0
Div. Yield (%)	1.5%	2.2%	2.2%	2.9%	3.0%
NTA/share (RM)	0.48	0.68	0.85	1.04	1.24

Margins

	2010	2011	2012	2013E	2014E
EBIT margin	31.7%	33.4%	28.0%	31.0%	30.4%
Pretax margin	31.1%	33.1%	27.8%	30.8%	30.3%
Effective tax rate	19.5%	21.8%	22.0%	22.0%	23.0%
ROE	40.4%	38.5%	32.5%	34.6%	30.1%
ROA	33.5%	34.3%	29.2%	29.0%	25.9%
Net Gearing (x)	net cash				

Growth ratios

	2010	2011	2012	2013E	2014E
Turnover	29.0%	28.5%	26.7%	6.5%	8.5%
EBIT	85.0%	35.7%	5.9%	18.1%	6.5%
Pretax profit	86.2%	36.8%	6.3%	18.2%	6.5%
Core Net profit	69.1%	33.1%	6.0%	18.2%	5.1%
Core EPS	69.1%	33.1%	6.0%	18.2%	5.1%

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Hartalega's 9MFY13 net earnings of RM172.4m is in line with our forecast. YoY and QoQ earnings are 19.1% and 3.1% higher respectively. QoQ EBIT margin has improved given its high level of production efficiency. We are maintaining our FY13 and FY14 earnings forecasts with our target price unchanged at RM5.08. The recent selldown of the stock provides windows of buying opportunity with potential total return of more than 12%. Hence we upgrade Hartalega to a BUY.

Better earnings. YTD earnings is 13.7% higher driven by improved demand and higher production capacity as total output has increased by 22.7% while utilisation rate is over 90%.

Better margins. 9M EBIT margin has improved slightly at 29.6% vs. previous year's 28.3%. YoY and QoQ EBIT margins have improved from 30.0% and 26.7% respectively to current quarter of 30.3% mainly due to lower nitrile and latex prices. We expect this level of margins to be maintained in the forthcoming quarters as latex and nitrile prices have stabilised.

Maintaining our forecasts. We are maintaining our FY13 and FY14 net earnings forecasts at RM238.4m and RM250.6m respectively. Balance sheet remains solid with net cash per share of 20sen.

Second Interim dividend. Hartalega declared its second interim dividend of 3.5sen (single tier). We expect a total dividend of 13.5sen to be paid for FY13 based on a payout ratio of 40%; and this would translate into yield of 2.9%. We forecasted dividend of 14sen for FY14, translating into yield of 3.0%.

View & Valuation. Our target price is unchanged at RM5.08 based on 3-year average PER of 15x over its CY13 EPS of 33.9sen. The recent selldown has rendered the stock attractive again offering potential total return of more than 12%. Hence we upgrade Hartalega to a BUY.

Share Price Chart



Quarterly figures

FY 31 Mar (RMm)	3QFY12	4QFY12	1QFY13	2QFY013	3QFY13	QoQ Chg	YoY Chg	9MFY12	9MFY13	YTD Chg
Revenue	242.0	240.2	247.7	255.0	259.6	1.8%	7.3%	690.9	762.3	10.3%
EBIT	64.5	64.7	70.2	76.5	78.6	2.7%	21.8%	195.7	225.3	15.2%
Pretax profit	64.1	64.3	69.9	76.3	78.4	2.7%	22.3%	194.3	224.6	15.6%
Taxation	(13.2)	(14.4)	(16.5)	(17.7)	(17.7)	0.2%	34.1%	(42.5)	(51.9)	22.1%
Minority Interest	(0.1)	0.1	(0.1)	0.1	(0.2)	-408.3%	66.7%	(0.1)	(0.2)	59.1%
Net Profit	50.7	50.0	53.4	58.6	60.4	3.1%	19.1%	151.6	172.4	13.7%
EPS (sen)	6.9	6.8	7.3	8.0	8.3	3.1%	19.1%	20.7	23.6	13.7%
Net gearing (x)	net cash	n.a.	n.a.	net cash	net cash	n.a.				
EBIT margin (%)	26.7%	26.9%	28.3%	30.0%	30.3%	0.9%	13.6%	28.3%	29.6%	4.4%
PBT margin (%)	26.5%	26.8%	28.2%	29.9%	30.2%	0.9%	14.0%	28.1%	29.5%	4.7%
Net profit margin (%)	21.0%	20.8%	21.5%	23.0%	23.3%	1.3%	11.0%	21.9%	22.6%	3.1%
Effective tax rate (%)	20.7%	22.4%	23.6%	23.2%	22.6%	-2.4%	9.6%	21.9%	23.1%	5.6%

Source: BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
NEUTRAL	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

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

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HART MK / HTHB.KL

3Q13 RESULTS NOTE

Market Cap US\$1,101m <small>RM3,408m</small>	Avg Daily Turnover US\$0.45m <small>RM1.40m</small>	Free Float 42.9% <small>726.9 m shares</small>	Current RM4.65 Target ▶ RM5.66 Previous Target RM5.66 Up/downside 21.7%	SHORT TERM (3 MTH) LONG TERM
				TRADING BUY OUTPERFORM TRADING SELL NEUTRAL UNDERPERFORM

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.4	-1.8	15.5
Absolute	-3.9	-3.1	21.6

Major shareholders	% held
Hartalega Industries	55.4
Kuan family members	1.1
Franklin Resources	0.6

Staying strong

9M core EPS rose by 11% yoy to reach 75% of our FY13 forecast and 76% of consensus. This was broadly in line with our and consensus expectations. Demand was strong with utilisation exceeding 90%. Long term plans to triple capacity to 30bn pieces p.a. by 2020 are on track.

A second interim dividend of 3.5sen (YTD: 7sen) was in line. Hartalega remains an Outperform and would be catalysed by successful expansion, and entries into China and India. Our target price is still based on 14.15x forward P/E, in line with our target for Top Glove.

9M core EPS +11% ▶

9M13 revenue rose by 10% yoy to RM762m due to a 23% rise in glove sales following a 9% drop in selling prices. Nitrile gloves continued to dominate sales and made up 93% of total output. Total costs rose by 9% to RM514m due to the higher output and also an increase in labour costs as a result of Malaysia's minimum wage. However Hartalega offset the higher cost with efficiency gains, and EBITDA rose by 14% to RM248m. Glove weights at the company fell by 1-2%, illustrating the group's continuous drive for leaner production. After stripping out the impact of forex and derivative

hedging, core net profit rose by 11% to RM172m.

Positive elasticity ▶

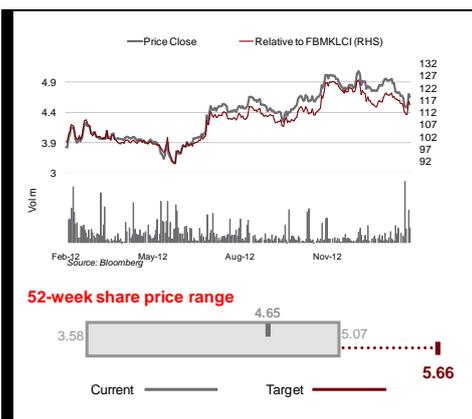
Hartalega is now operating at full capacity with utilisation at over 90%. The elasticity of glove demand appears to be positive as glove sales rose by 23% after the company lowered selling prices by 9%.

Expansion plans ▶

Hartalega aims to triple its annual capacity to 30bn gloves by 2020. With its plants now operating at 90% utilisation, the capacity expansion is much needed. Management has already planted itself in India and China where the consumption of examination gloves is expected to rise in tandem with higher incomes and hygiene awareness. For example, the per capita consumption of gloves in China is only two annually compared to 100 in the US, and 50 in Europe.

FYE Mar (RM m)	3Q FY13	3Q FY12	yoy % chg	2QFY13	qoq % chg	3QFY13 cum	3QFY12 cum	yoy % chg	Prev. FY13F	Comments (cum yoy comparison)
Revenue	259.6	242.0	7.3	255.0	1.8	762.3	690.9	10.3	933.0	Glove output +23% offsets -9% fall in selling price
Operating costs	(173)	(170.2)	1.7	(171.1)	1.1	(514.4)	(473.8)	8.6	(608.5)	Higher labour cost and increased glove output
EBITDA	86.5	71.8	20.5	83.9	3.1	247.8	217.1	14.2	324.5	Stable utilisation rates (9M13: 90.6%)
EBITDA margin (%)	33.3	29.7	12.3	32.9	1.3	32.5	31.4	3.5	34.8	Due to 2% reduction in glove weights
Depn & amort.	(7.9)	(7.5)	5.5	(7.4)	7.5	(22.5)	(21.6)	4.4	(29.0)	Total PPE of RM403m as at 31 Dec 2012
EBIT	74.8	63.3	18.2	74.9	(0.1)	220.0	198.8	10.7	295.5	Stable utilisation rates (9M13: 90.6%)
Interest expense	(0.2)	(0.0)	417.5	(0.2)	(11.5)	4.3	(1.3)	418.5	(6.9)	Total borrowings of RM14.8m as at 31 Dec 2012
Interest & invt inc	2.6	0.9	193.9	1.1	124.2	(0.1)	(0.0)	827.5	0.3	Cash balance of RM159m as at 31 Dec 2012
Associates' contrib	-	-	na	-	na	-	-	na	-	No ownership of associates
Exceptionals (loss)/gain	1.2	(0.2)	712.9	0.5	153.2	0.4	(3.3)	111.6	-	Realised and unrealised FX and derivative gain/(loss)
Pretax profit	78.4	63.9	22.6	76.3	2.7	224.6	194.1	15.7	288.8	9M13 accounted for 78% of our full-year estimate
Tax	(17.7)	(13.2)	34.1	(17.7)	0.2	(51.9)	(42.5)	22.1	(57.8)	Lower than Malaysia's statutory tax rate of 25%
Tax rate (%)	22.6	20.7	9.3	23.2	(2.4)	23.1	21.9	5.5	20.0	due to allowances from the export of gloves
Minority interests	(0.1)	(0.0)	130.0	(0.0)	178.8	(0.2)	0.0	(941.7)	(0.0)	From Chinese and Indian distribution subsidiaries
Net profit	60.5	50.6	19.6	58.5	3.4	172.4	151.6	13.7	231.0	9M13 accounted for 75% of our full-year estimate
Core net profit	59.3	50.8	16.7	58.1	2.1	172.0	154.9	11.1	231.0	9M13 accounted for 75% of our full-year estimate
EPS (sen)	7.6	6.3	19.6	7.3	3.4	21.6	18.9	13.7	28.9	800m FD shares (+73m warrants at RM4.14 strike)
Core EPS (sen)	7.4	6.4	16.7	7.3	2.1	21.5	19.4	11.1	28.9	Excluding movements in FX and derivative contracts

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue (RMm)	735	931	933	1,063	1,237
Operating EBITDA (RMm)	270.3	287.2	328.0	384.3	450.6
Net Profit (RMm)	186.2	203.0	231.0	262.5	310.4
Core EPS (RM)	0.26	0.28	0.32	0.36	0.43
Core EPS Growth	28.1%	10.3%	12.5%	13.6%	18.3%
FD Core P/E (x)	18.16	16.46	15.37	14.17	11.98
DPS (RM)	0.14	0.17	0.19	0.22	0.26
Dividend Yield	3.00%	3.69%	4.10%	4.66%	5.51%
EV/EBITDA (x)	12.22	11.08	9.82	8.53	7.00
P/FCFE (x)	35.80	19.16	23.36	63.07	15.12
Net Gearing	(15.8%)	(32.5%)	(21.7%)	(11.7%)	(21.6%)
P/BV (x)	6.84	5.55	4.59	3.84	3.22
Recurring ROE	43.9%	37.2%	34.4%	32.5%	32.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.02	1.02	1.08

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		2-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	4.65	5.66	1,104	13.3	11.3	10.3%	4.00	3.35	32.8%	32.2%	4.5%	5.3%
Kossan Rubber Industries	KRI MK	Outperform	3.38	3.69	349	8.4	7.0	14.0%	1.53	1.30	19.6%	20.2%	2.4%	3.0%
Supermax Corp	SUCB MK	Outperform	1.92	2.64	422	7.7	6.6	12.6%	1.13	0.99	15.7%	15.9%	2.6%	3.0%
Top Glove Corporation	TOPG MK	Neutral	5.50	5.97	1,103	14.4	13.0	8.4%	2.27	2.04	16.5%	16.5%	4.6%	5.1%
Average						11.7	10.1	10.7%	2.21	1.93	20.1%	20.3%	4.1%	4.7%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Description	Excellent	Very Good	Good	N/A

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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 31 December 2012		
820 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	54.5%	9.0%
Neutral	34.0%	3.4%
Underperform/Sell/Trading Sell	11.5%	8.6%

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.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay 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.

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.

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.

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 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.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

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

Indar Dhaliwal

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6 February 2013

Malaysia Healthcare

Reuters HTHB.KL
Bloomberg HART MK

Priced on 5 February 2013

KLSE Comp @ 1,633.4

12M hi/lo RM5.10/3.56

12M price target RM5.10
±% potential +10%

Shares in issue 484.5m
Free float (est.) 44.5%

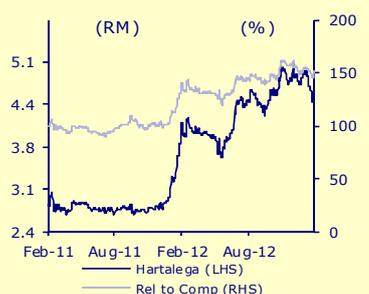
Market cap US\$1,104m

3M average daily volume
RM1.6m (US\$.5m)

Major shareholders
Hartalega Industries 55.5%

Stock performance (%)

	1M	3M	12M
Absolute	(3.9)	(3.1)	21.6
Relative	(0.4)	(1.9)	14.5
Abs (US\$)	(5.2)	(3.9)	18.5



Source: Bloomberg

www.cls.com

Ticking along

Hartalega reported a 9M13 net profit of RM172.4m which is in-line with ours and consensus forecasts. The company continues to grow volumes (+23%YoY), revenue (+10.3%YoY) and net profits (+13.7%YoY) benefitting from incremental demand from the latex to nitrile gloves switch as well as the low nitrile (feedstock) cost environment. However, this good news looks very much priced in as at 14x FY14CL, the stock is trading in-line with Top Glove's multiples while we also think the nitrile cycle has bottomed and prices should tick up in 2013. The next big kicker for the stock will be the commissioning of NGC (expected in 2014) but for now the 10% upside for the stock is in-line with the market return, and we re-iterate our U-PF call.

- Hartalega reported 9M13 numbers after the market close and numbers were decent although were very much expected as 9M13 net profits of RM172.4m made up 76% of CLSA and 75% of the street's FY13 forecasts.
- The company continues to see strong demand for its nitrile gloves due to the on-going switching from latex to nitrile gloves, growing volumes at +23%YoY.
- Utilization rates remain high at 90.6% as of 3Q13 as more lines are commissioned due to the construction of plant 6.
- Demand is coming primarily from the US which accounted for 61.6% of volumes sold during 3Q13 (up from 55.9% a year ago) and Europe which was at 23.6% (flat from 24.1% in 3Q12)
- Demand for nitrile gloves is projected to continue to grow at c. 20% in 2013 outpacing the industry average of c. 7-9%.
- However, ASPs have come off as a result of the company passing on cost savings and are at US\$32.2 as of 3Q13 from US\$36.5 a year ago (2Q13: US\$33.4).
- Hartalega has managed to grow margins given the lower feedstock costs which averaged US\$1.42/kg in 9M13 compared to US\$1.85 over the same period a year ago.
- Our regional petrochemicals team expect that we have seen the trough of nitrile feedstock prices as they hit a low of US\$1.32/kg back in November and have started creeping up, now at US\$1.40 as of February.
- This will affect Hartalega as nitrile makes up its biggest cost component (39% of operating costs as of 3Q13).
- Hartalega generates superior margins to its peers given its operational efficiencies and the company's continued R&D will see it eke out further efficiencies.
- The next big thing will be the commissioning of its Next Generation Complex (NGC) where it seeks to increase its capacity 4x to 40bn pieces over the next 8 years.
- NGC starts its commissioning in 2014 (FY15) and this could be the re-rating catalyst for the stock as industry leader Top Glove saw a multiple re-rating when it went through a similar capacity expansion.

Financials

Year to 31 March	11A	12A	13CL	14CL	15CL
Revenue (RMm)	735	931	1,047	1,295	1,458
Net profit (RMm)	190	201	226	257	284
EPS (sen)	26.2	27.7	31.1	33.6	37.2
CL/consensus (14) (EPS%)	-	-	101	98	96
EPS growth (% YoY)	33.2	5.7	12.4	7.9	10.7
PE (x)	17.8	16.8	15.0	13.9	12.5
Dividend yield (%)	4.5	2.7	3.0	3.4	3.8
FCF yield (%)	3.0	4.0	2.0	2.0	2.8
PB (x)	6.8	5.5	4.5	4.2	3.6
ROE (%)	44.9	36.1	33.2	31.5	29.5
Net debt/equity (%)	(15.8)	(22.3)	(14.1)	(6.8)	(2.9)

Source: CLSA Asia-Pacific Markets

- At 14x FY14CL PE, the good news looks to be priced in and the 10% upside is in-line with market return.
- Our target price of RM5.10 is based on Top Glove's 5-year average multiple of 15x applied to Hartalega's CY13 earnings.
- The company declared a 3.5sen dividend per share.

Figure 1

Hartalega:			
	9M12	9M13	% YoY
Revenue	690.9	762.3	10.3
Operating expenses	(495.4)	(541.2)	9.3
Other operating income	(0.0)	4.3	nm
EBITDA	229.4	249.9	8.9
Depreciation	(33.9)	(24.6)	(27.6)
Profit from operations	195.5	225.3	15.3
Finance costs	(1.3)	(0.7)	(44.9)
PBT	194.1	224.6	15.7
Taxation	(42.5)	(51.9)	22.1
MI	0.0	(0.2)	nm
Net profit	151.6	172.4	13.8
Margins			
Profit from operations	28.3%	29.6%	
PBT	28.1%	29.5%	
Net profit	21.9%	22.6%	

Source: CLSA Asia-Pacific Markets

Figure 2

Hartalega: 3Q13 Results Snapshot					
	3QFY12	2QFY13	3QFY13	% YoY	% QoQ
Revenue	242.0	255.0	259.6	7.3	1.8
Operating expenses	(178.5)	(180.1)	(183.6)	2.8	1.9
Other operating income	0.9	0.2	2.6	193.9	nm
EBITDA	78.4	79.7	88.8	13.2	11.4
Depreciation	(13.9)	(3.2)	(10.2)	(27.0)	221.8
Profit from operations	64.5	76.5	78.6	21.9	2.8
Finance costs	(0.4)	(0.2)	(0.2)	(48.3)	(11.5)
PBT	63.9	76.3	78.4	22.6	2.7
Taxation	(13.2)	(17.7)	(17.7)	34.1	0.2
MI	0.0	0.0	(0.1)	(453.8)	(378.8)
Net profit	50.7	58.5	60.5	19.4	3.4
EPS					
Basic	13.9	8.0	8.3		
Core EPS	13.9	8.0	8.2		
Margins					
Profit from operations	26.7%	30.0%	30.3%		
PBT	26.5%	29.9%	30.2%		
Net profit	21.0%	23.0%	23.3%		

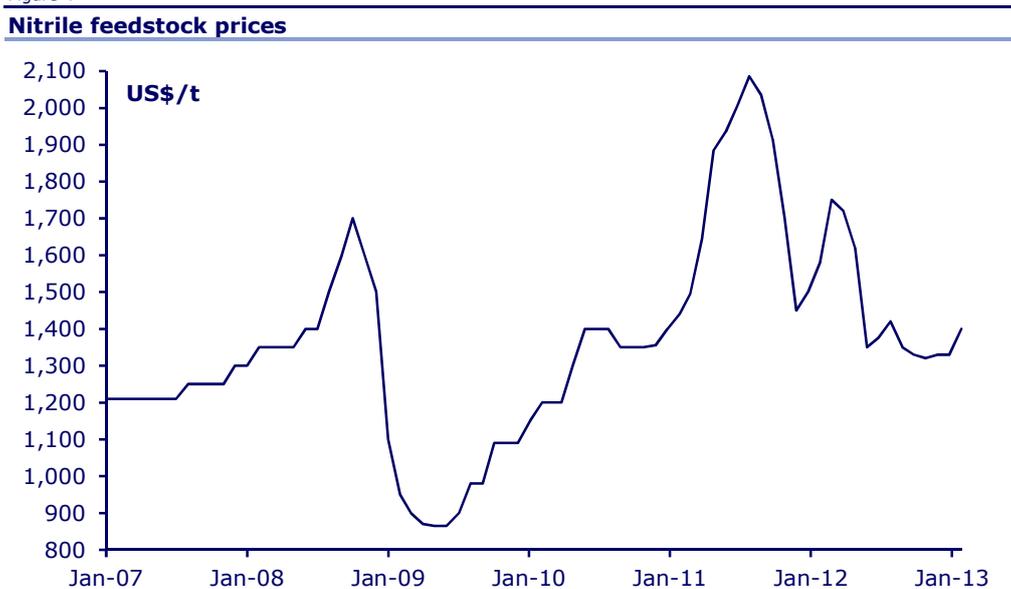
Source: CLSA Asia-Pacific Markets

Figure 3

Hartalega: Operational Stats			
	3Q12	2Q13	3Q13
Capacity			
Lines	43	47	49
Gloves ('000,000)	2,415	2,670	2,881
Utilisation rate	85.0	90.7	90.6
Revenue (RM'000)			
Latex	19,848	16,910	18,517
Nitrile	218,035	237,958	241,133
Others	163	69	87
	238,046	254,937	259,737
Sales Qty. ('000 Pcs)			
Latex	135,683	135,566	163,796
Nitrile	1,894,194	2,284,902	2,446,801
Others			
	2,029,877	2,420,468	2,610,597
ASP (RM/'000 pcs)			
Latex	146.3	125.0	113.0
Nitrile	115.1	105.0	98.5
Others			
Revenue breakdown by type (%)			
Latex	8.3%	6.6%	7.1%
Nitrile	91.6%	93.3%	92.8%
Others	0.1%	0.0%	0.0%
Revenue breakdown by region (%)			
North America	55.9%	58.6%	61.6%
Latam	1.9%	1.5%	1.3%
Europe	24.1%	28.0%	23.6%
Asia	15.6%	8.9%	10.4%
Oceania	2.1%	2.8%	3.1%
ROW	0.4%	0.2%	0.0%

Source: CLSA Asia-Pacific Markets

Figure 4



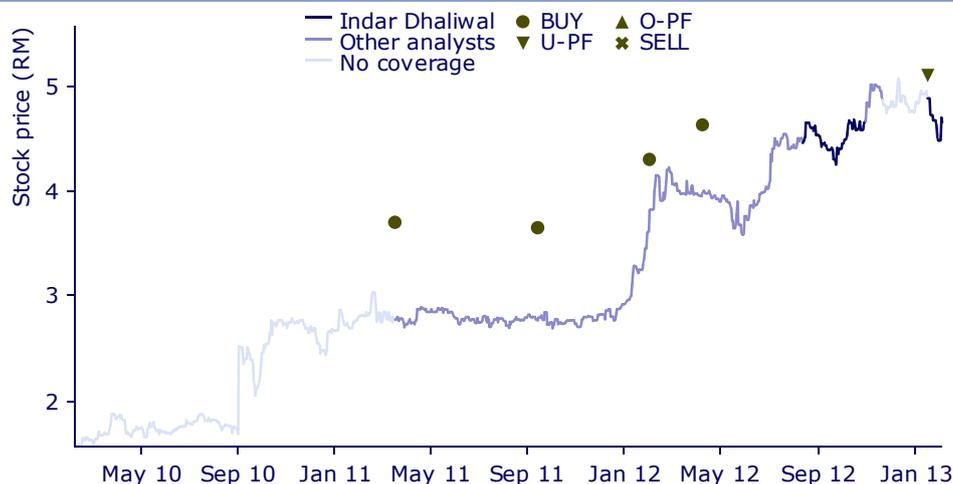
Source: PLATTS, Hartalega

Trending up from November troughs

Companies mentioned

Hartalega (HART - RM4.65 - UNDERPERFORM)

Recommendation history of Hartalega Holdings Bhd HART MK



Date	Rec	Target	Date	Rec	Target
18 January 2013	U-PF	5.10	02 February 2012	BUY	4.30
22 November 2012	Dropped Coverage		14 September 2011	BUY	3.65
09 April 2012	BUY	4.63	18 March 2011	BUY	3.70

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY:** Total return expected to exceed market return AND provide 20% or greater absolute return; **O-PF:** Total return expected to be greater than market return but less than 20% absolute return; **U-PF:** Total return expected to be less than market return but expected to provide a positive absolute return; **SELL:** Total return expected to be less than market return AND to provide a negative absolute return. For relative performance, we benchmark the 12-month total return (including dividends) for the stock against the 12-month forecast return (including dividends) for the local market where the stock is traded.

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Malaysia Result Snapshot Hartalega Holdings Berhad

Bloomberg: HART MK EQUITY | Reuters: HTHB.KL

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DBS Group Research . Equity

6 Feb 2013

HOLD RM4.65 KLCI : 1,633.35

Price Target : 12-Month RM 4.80 (Prev RM 4.70)

Analyst

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Result Summary

FY Mar (RM m)	3Q 2013	3Q 2012	2Q 2013	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	259.6	242.0	255.0	7.3	1.8
Gross Profit	76.0	63.4	74.9	19.8	1.5
Opg Profit	78.6	64.3	76.5	22.2	2.7
EBITDA	78.6	64.3	76.5	22.2	2.7
Net Profit	60.5	50.7	58.5	19.4	3.4
Other Data					
Gross Margin (%)	29.3	26.2	29.4		
Opg Margin (%)	30.3	26.6	30.0		
Net Margin (%)	23.3	21.0	23.0		

Financial Summary

FY Mar (RM m)	2012A	2013F	2014F	2015F
Turnover	931	1,075	1,274	1,460
Operating Profit	260	299	338	393
EBITDA	281	328	375	444
Net Pft (Pre Ex.)	202	229	257	292
EPS (sen)	29.1	31.5	32.0	36.5
EPS Pre Ex. (sen)	29.1	31.5	32.0	36.5
EPS Gth (%)	(12)	8	2	14
EPS Gth Pre Ex (%)	(12)	8	2	14
PE Pre Ex. (X)	16.0	14.8	14.5	12.7
EV/EBITDA (X)	10.9	9.7	9.5	7.9
Net Div Yield (%)	2.5	3.0	3.1	3.5
P/Book Value (X)	5.2	4.6	4.2	3.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	36.3	33.7	31.6	30.4

At A Glance

Issued Capital (m shrs)	733
Mkt. Cap (RMm/US\$m)	3,406 / 1,096
Avg. Daily Vol.('000)	321

Price Relative



Source: Company, DBS Vickers

Strong earnings priced in

- **3QFY13 net profit beat our estimate due to stronger-than-expected margins arising from lower raw material costs and better efficiency**
- **Raised FY13/14F earnings by 5%/2% after imputing higher margins**
- **Maintain HOLD; nudged up TP to RM4.80 (pegged to 15x CY13 EPS) after earnings revision**

Highlights

Higher sales volume and lower costs. 3QFY13 net profit grew 3% q-o-q to RM60.5m to take 9M FY13 earnings to RM172.4m (+14% y-o-y). Sales volume grew 8% q-o-q as new capacity at Factory 6 came on stream. Raw material costs (nitrile) eased 4% q-o-q to an average of USD1.33/kg, but ASP for nitrile gloves also eased to average USD33 per box (2QFY13: USD35). Hence, operating margin (EBIT) was stable at 30% in 3QFY13. Balance sheet remained robust with RM144m net cash at end Dec 2012.

Declared 2nd interim 3.5 sen DPS (single tier). The ex-date is 25 Feb 2013. Total DPS declared to date is 7 sen or 30% of 9M13 EPS. We are assuming 45% payout for the full year.

Our View

Expect c.12% net profit growth in FY13/14F. We raised FY13/14F earnings by 5%/2% after imputing higher operating margins (28%/27% vs 27%/26% previously). However, our revised EBIT margins are still below its 9MFY13 margin (30%), as we expect operating costs to also rise in the coming quarters following the implementation of minimum wage effective Jan 2013, while competition may heat up with more nitrile capacities coming on stream.

Recommendation

Strong earnings priced in; Maintain HOLD. We nudged up our TP to RM4.80 (from RM4.70) after the earnings revision. Current valuation has priced in Hartalega's strong fundamentals: highest ROE and operating margins in the sector. The next re-rating catalyst is stronger earnings traction arising from improving efficiency through deeper R&D efforts and faster line speeds.

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Hartalega Holdings Berhad

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	17 Feb 12	3.91	7.70	Hold
2:	23 Feb 12	4.09	7.70	Hold
3:	16 Apr 12	3.98	7.70	Hold
4:	09 May 12	3.91	7.70	Hold
5:	08 Aug 12	4.50	4.70	Hold
6:	07 Nov 12	5.01	4.70	Hold
7:	23 Nov 12	4.82	4.70	Hold
8:	15 Jan 13	4.93	4.70	Hold

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Vickers

DBSV recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Company Regn. No. 198600295W

Hartalega (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

7 February 2013

Price Target: RM5.16 (↔)

Share Price: RM4.65

In line with sustainable margin

- | | |
|-------------------|---|
| Results | <ul style="list-style-type: none"> 3QFY13 net profit of RM60.5m (+3.4% qoq, +19.4% yoy) took 9MFY13 to RM762.3m (+10.3% yoy) was in line with our expectations, accounting for 75.1% of HLIB and 75.5% of consensus forecasts |
| Deviations | <ul style="list-style-type: none"> In line |
| Dividends | <ul style="list-style-type: none"> Declared a second single tier interim dividend of 3.5 sen per share, translating into a net yield of 0.7% that is payable on 21st March 2013. Total for 9MFY13 is 7 sen of a 1.4% dividend yield. |
| Highlights | <ul style="list-style-type: none"> Revenue rose 7.3% yoy and 1.8% qoq to RM259.6m on the back of Hartalega's continuous expansion in production capacity and increase in demand. However, qoq, weak growth was reported as higher sales volume (+7.9% qoq) was offset by lower ASPs (-9.6% for latex and -6.2% for nitrile). Pre-tax margin increased from 26.4% to 30.2% driven by easing in raw material costs of nitrile latex and NR and the recognition of net gain in foreign exchange and changes in forward exchange contracts. Management believes that global demand for nitrile rubber gloves will continue to grow at a high rate of over 20% and the commencement of Plant 6 with an expected 30% (+3.9bn pcs pa) boost to its production capacity will capture this growing market. Plant 6 that is currently 50% complete will fully commission all 10 lines by June or July 2013. The impact of minimum wage implementation on labour cost has been passed through to the customers by the increase in ASPs by 2-3%. |
| Risks | <ul style="list-style-type: none"> Delays in capacity expansion plans. Surge in nitrile latex prices. Shift in demand to natural latex gloves from nitrile gloves, if prices of natural latex fall significantly below nitrile latex. Depreciation of USD vs. MYR. |
| Forecasts | <ul style="list-style-type: none"> Unchanged. |
| Rating | <p>BUY (↔↔)</p> <ul style="list-style-type: none"> Positives – Dominant position in nitrile glove market. High ROE and net profit margins; most efficient and profitable glove maker; in the event of a price war, Hartalega's earnings will be the least affected, shielded by its high profit margins. Negatives – Possibility of increased competition in nitrile glove market. |
| Valuation | <ul style="list-style-type: none"> Target price maintained at RM5.16 based on a 15.5x FY03/14 EPS. |

Low Yee Huap, CFA

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KLCI	1633.35
Expected share price return	11.0%
Expected dividend return	3.5%
Expected total return	14.5%

Share price



Information

Bloomberg Ticker	HART MK
Bursa Code	5168
Issued Shares (m)	733
Market cap (RM m)	3,408
3-mth avg. volume ('000)	321

Price Performance	1M	3M	12M
Absolute	-3.9	-3.1	21.6
Relative	-0.4	-1.9	14.5

Major Shareholders

Hartalega Industries Sdn	
Bhd	51.0%
Budi Tenggara Sdn Bhd	5.0%
BNP Paribas Singapore	4.6%

Summary Earnings Table

FYE Mar (RM m)	2012A	2013E	2014E	2015E
Turnover	931.1	1023.7	1288.2	1509.5
EBITDA	289.2	329.4	405.1	465.1
PBT	258.4	294.8	343.8	382.3
Net profit	201.4	229.9	268.1	298.1
EPS (sen)	27.5	31.4	34.7	37.0
Diluted EPS (sen)	25.0	28.6	33.3	37.0
P/E	19.5	17.1	14.7	13.2
BV/share (RM)	0.85	1.04	1.34	1.71
P/BV	5.8	4.7	3.7	2.9
Net DY (%)	2.2	3.0	3.5	3.9
ROE (%)	32.5	30.2	24.9	21.6
ROA (%)	26.6	22.8	20.0	18.1

HLIB

Figure 1: Quarterly Results Comparison

FYE Mar (RMm)	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)	Comments
Revenue	242.0	255.0	259.6	1.8	7.3	Qoq: Increase in sales volume (+7.9%) and easing of raw material prices of nitrile which resulted in lower ASP despite cost pass through of higher labour expenses. YoY: In line with Hartalega's continuous expansion in production capacity (43 lines to 49 lines) and increase in demand.
EBITDA	71.8	83.2	85.0	2.2	18.4	Lifted by lower raw material prices of nitrile and natural latex but partly offset by more competitive sales pricing. ASPs for nitrile gloves in 3QFY13 have fallen 14.3% yoy to RM98.5/1000 pcs while natural latex gloves have fallen 22.6% yoy to RM113/1000 pcs.
EBITDA margin (%)	30.0	32.6	32.8	0.1	2.8	
EBIT (Operating profit)	64.3	75.9	77.1	1.6	19.9	Filtered down from EBITDA level.
EBIT margin (%)	26.9	29.7	29.7	0.0	2.8	
Net interest exp	-0.2	-0.1	0.0	-130.0	-109.9	
Exceptionals	0.0	0.5	1.2			Mainly due to the fair value in forward exchange contracts of RM1.238m in 3QFY13 as compared to the net loss of RM0.20m in 3QFY12.
PBT	63.9	76.3	78.4	2.7	22.6	Filtered down from EBIT.
PBT margin (%)	26.4	29.9	30.2	0.3	3.8	
Tax	-13.2	-17.7	-17.7	0.2	34.1	
Minority Interest	0.0	0.0	-0.1			
Net profit	50.7	58.5	60.5	3.4	19.4	Filtered down from PBT.
Net profit margin (%)	21.0	23.0	23.3	0.4	2.4	
Net profit (ex-exceptionals)	50.9	58.1	59.3	2.1	16.5	
EPS (sen)	13.9	8.0	8.3	3.4	-40.6	

Figure 2: Cumulative Results Comparison

FYE Mar (RMm)	9MFY12	9MFY13	YoY (%)	Comments
Revenue	690.9	762.3	10.3	Improve in demand and capacity expansion.
EBITDA	211.9	246.8	16.5	Lower raw material prices of nitrile latex.
EBITDA margin (%)	32.9	32.4	-0.6	
Operating profit (EBIT)	133.8	224.3	67.7	
EBIT margin (%)	29.8	29.4	-0.4	
Net interest exp	-0.5	-0.1	-74.8	
Exceptionals	-3.1	0.4		
PBT	130.2	224.6	72.4	Filtered down from EBIT.
PBT margin (%)	29.0	29.5	0.5	
Tax	-29.3	-51.9	77.2	
Minority Interest	0.0	-0.1		
Net profit	100.9	172.4	70.9	Filtered down from PBT.
Net profit margin (%)	22.5	22.6	0.1	
Net profit (ex-exceptionals)	104.0	172.0	65.5	
EPS (sen)	13.9	23.6	70.1	

Figure 3: Actual Results Vs. Consensus and HLIB's Estimates

	Actual	Consensus Estimates	% of Consensus Full-Year Est	HLIB	% of HLIB's Full-Year Est.
	9MFY13	FY13		FY13	
Revenue	762.262	1043.0	73.1	1023.7	74.5
Pretax profit	224.564	289.9	77.5	294.8	76.2
Core net profit	172.429	228.6	75.5	229.9	75.0

Financial Projections

Income statement

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Revenue	734.9	931.1	1023.7	1288.2	1509.5
EBITDA	270.3	289.2	329.4	405.1	465.1
Dept. & Amort.	-24.9	-29.0	-33.3	-55.1	-77.1
Interest income	2.4	0.9	5.1	4.5	5.0
Interest expense	-2.5	-1.7	-1.2	-6.2	-5.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	242.8	258.4	294.8	343.8	382.3
Taxation	-52.5	-57.0	-64.9	-75.6	-84.1
Minorities	0.03	0.05	0.05	0.05	0.05
Net profit	190.3	201.4	229.9	268.1	298.1
No. of shares (m)	731.1	731.1	731.1	771.8	805.1
Basic EPS (sen)	26.0	27.5	31.4	34.7	37.0
Diluted EPS (sen)	23.6	25.0	28.6	33.3	37.0

Cashflow

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Pretax profit	242.8	258.4	294.82	343.77	382.25
Dep. and Amort.	25.0	29.0	33.3	55.1	77.1
Changes in working cap	-40.9	-44.5	-14.7	-44.8	-41.4
Net interest received/(paid)	-0.1	1.9	3.8	-1.7	-0.7
Tax paid	-47.8	-48.8	-64.9	-75.6	-84.1
Others	5.7	4.3	-3.8	1.7	0.7
Operating Cash Flow	184.8	200.3	248.6	278.4	333.9
Capex	-81.3	-60.2	-275.0	-300.0	-250.0
Others	0.3	0.1	0.0	0.0	0.0
Investing Cash Flow	-81.0	-60.1	-275.0	-300.0	-250.0
Div paid	-56.9	-87.4	-91.3	-120.5	-135.1
Changes in borrowings	-2.5	-14.6	100.0	-10.0	-10.0
Issuance of shares	0.3	6.9	0.0	168.5	137.9
Others	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-59.1	-95.0	8.7	38.0	-7.2
Net cash flow	44.7	45.2	-17.7	16.4	76.6
Forex	-2.3	1.0	0.0	0.0	0.0
Beginning cash	38.2	74.6	117.0	163.2	145.5
Ending cash	117.0	163.2	145.5	161.9	238.5

Balance sheet

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Fixed assets	348.6	379.7	611.9	856.9	1029.7
Other long-term assets	0.3	0.5	0.0	0.0	0.0
Other short-term assets	3.4	0.1	0.0	0.0	0.0
Working capital	108.5	154.2	168.9	213.7	255.1
Receivables	101.0	117.1	168.3	212.5	254.1
Payables	-57.2	-60.4	-84.1	-106.2	-127.1
Inventories	64.7	97.5	84.8	107.5	128.1
Net cash	78.0	138.6	20.8	47.2	133.9
Cash	117.0	163.2	145.5	161.9	238.5
ST debt	-14.5	-12.6	-12.6	-12.6	-12.6
LT debt	-24.5	-12.1	-112.1	-102.1	-92.1
Shareholder's funds	494.4	619.5	760.9	1077.0	1377.9
Share capital	181.8	182.5	365.5	385.9	402.5
Reserves	312.7	437.0	395.4	691.1	975.4
Minorities	0.4	0.6	0.6	0.6	0.6
Other liabilities	44.0	53.0	40.1	40.2	40.2

Assumption Metrics

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Effective capacity (bn)	8.33	9.78	11.0	13.7	15.7
Utilisation rate (%)	80	83	85	85	85
NBR latex price (USD/kg)	1.79	1.48	1.60	1.70	1.80
NR latex price (RM/kg)	8.21	8.29	6.36	6.96	7.48

Valuation Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
EPS (sen)	26.0	27.5	31.4	34.7	37.0
Diluted EPS (sen)	23.6	25.0	28.6	33.3	37.0
P/E (x)	20.7	19.5	17.1	14.7	13.2
Net DPS (sen)	10.5	10.8	14.5	17.0	19.0
Net DY (%)	2.1	2.2	3.0	3.5	3.9
BV/share (RM)	0.68	0.85	1.04	1.34	1.71
P/BV (x)	7.2	5.8	4.7	3.7	2.9
FCF/share (sen)	14.2	19.2	-3.6	-2.8	10.4
FCF yield (%)	2.9	3.9	-0.7	-0.6	2.1
Market cap	3575.0	3575.0	3575.0	3774.1	3936.9
Net cash	78.0	138.6	20.8	47.2	133.9
EV	3497.0	3436.5	3554.2	3726.8	3803.0
EV/EBITDA	12.9	11.9	10.8	9.2	8.2
ROE (%)	38.5	32.5	30.2	24.9	21.6
ROA (%)	30.0	26.6	22.8	20.0	18.1

Other Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Growth (%)					
Sales Growth	28.5	26.7	9.9	25.8	17.2
EBITDA Growth	34.5	7.0	13.9	23.0	14.8
PBT Growth	36.6	6.4	14.1	16.6	11.2
Net Profit Growth	33.2	5.8	14.2	16.6	11.2
Margins (%)					
EBITDA Margin	36.8	31.1	32.2	31.4	30.8
PBT Margin	33.0	27.8	28.8	26.7	25.3
Net Profit Margin	25.9	21.6	22.5	20.8	19.7

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Hartalega Holdings Bhd

RESULTS UPDATE

BUY

Target Price **RM 5.73**
Current Price **RM 4.65**
Consensus Target Price **RM 4.90**

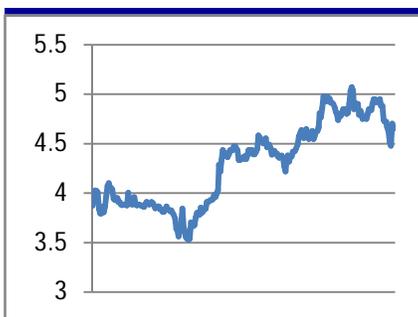
Key Statistics

Bloomberg Ticker	HART MK
Masa Ticker / Stock Code	HARTA/5168
Shares Issued (m)	732.6
Market Capitalisation (RM'm)	3,408
52 Week Hi/Lo Price (RM)	5.10/3.48
Avg Trading Volume (3-mth)	32,128
Est Free Float (m)	329.6
YTD Returns (%)	-2.1
Beta (x)	0.68

Major Shareholders (%)

Hartalega Holdings	50.2
Budi Tenggara	5.0

1-Year Share Price Performance



Analyst: **David Lai**

Email: davidlai@interpac.com.my

Growth Plans Falling Into Place

Valuation

Hartalega's 3QFY13 results were marginally above our expectation. The group's cumulative profits and revenue for three quarters were 74% and 77% respectively of our FY12 forecast. Hartalega has commissioned 5 out of 10 production lines and expecting to complete the remaining 5 by mid-calendar year. We maintain our BUY call with a target price of RM5.73 (pegged to 14xPER FY14 EPS).

Highlights:

◆ Stronger Margin

Revenue grew 7.3% QoQ from RM241.9m to RM259.5m and PAT clocked in at RM60.6m from RM50.6m the same quarter last year, a 22.5% increase. PBT margin expanded from 26.4% to 30.2%. To conclude, Hartalega earnings rose due to lower raw material cost. Average nitrile butadiene prices fell 36% from the same quarter last year. Furthermore, cumulative profits for three quarters grew 13.9% which arrived at RM172.6m from the previous cumulative profits of RM151.5m.

◆ 3.5 sen Dividend

On the ground of the group splendid performance, Hartalega has declared a second interim dividend of 3.5 sen per share single tier for its financial year ending 31 March 2013, with the entitlement date set for 27 February 2013 and payment on 21 March 2013. This brings total dividends declared to date for the first and second interim periods of the current financial year to 7 sen.

Table 1: Earnings Forecasts

FYE Dec	FY11	FY12	FY13(F)	FY14(F)	FY15(F)
Revenue (m)	735	931	1,025	1,323	1,589
Pretax Profit (m)	243	258	285	393	477
Net Profit (m)	190	201	222	300	363
EPS (sen)	26.0	27.5	30.3	40.9	49.6
Pretax margin (%)	33.0	27.8	27.8	29.7	30.0
Net Profit margin (%)	25.9	21.6	21.6	22.7	22.8
PER (x)	17.9	16.9	15.4	11.4	9.4
DPS (sen)	10.5	10.8	13.6	18.4	22.3
Dividend Yield (%)	2.3	2.3	2.9	4.0	4.8
ROE (%)	38.5	32.5	35.8	32.9	33.7
ROA (%)	30.0	26.6	29.2	33.5	36.1
Net Gearing Ratio (%)	Net Cash				
BV/Share	0.7	0.8	0.8	1.2	1.5
Price/Book Ratio (x)	6.9	5.5	5.5	3.8	3.1

Source: Inter-Pacific

Table 2: Results Comparison

FYE 31st Dec (RM m)	3Q2013	3Q2012	YoY chg (%)	2Q2013	QoQ chg (%)	YTD2013	YTD2012	YTD chg (%)
Revenue	259.6	242.0	7.3	255.0	1.8	762.3	690.9	10.3
Profit before tax	78.4	63.9	22.5	76.3	2.6	224.6	194.1	15.7
Tax Expenses	(17.7)	(13.2)	34.1	(17.7)	0.0	(51.9)	(42.5)	22.1
PAT	60.5	50.7	19.8	58.6	3.5	172.6	151.6	13.9
PBT margin (%)	30.2	26.4	14.2	29.9	0.9	29.5	28.1	4.8
PAT margin (%)	23.4	20.9	11.6	23.0	1.7	22.6	21.9	3.3
EPS (sen)	8.3	7.0	19.0	8.0	4.0	23.5	20.8	13.0

Source: Inter-Pacific

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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Published and Printed by:

Inter-Pacific Research Sdn Bhd (449005-X)
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Result Update

6 February 2013

Hartalega Holdings Berhad

BUY

Hot Streak Continues

Maintained

Share Price	RM4.65
Target Price	RM5.28

Company Description

Hartalega Holdings Bhd. manufactures a wide range of latex gloves. The Company's products include natural rubber examination gloves, nitrile examination gloves, nitrile clean room gloves and natural rubber surgical gloves.

Stock Data

Bursa / Bloomberg code	5168 / HART MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	733
Par Value (RM)	0.50
Market cap. (RM'm)	3408.4
52-week price Range(RM)	3.56-5.10
Beta (against KLCI)	0.68
3-m Average Daily Volume	0.32m
3-m Average Daily Value [^]	RM1.54m

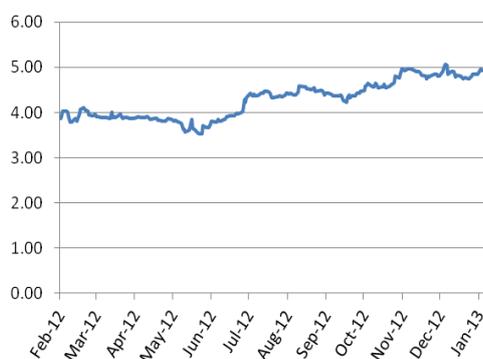
Share Performance

	1m	3m	12m
Absolute (%)	-3.93	-2.11	21.57
Relative (%-pts)	-0.44	-1.9	14.53

Major Shareholders

	%
Hartalega Industries	27.6
Franklin Resource	0.6

Historical Chart



Source: Bloomberg

Soong Wei Siang

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Result

- Hartalega recorded RM259.6m and RM60.6m of revenue and net profit respectively in its 3QFY2013 results. The topline in the quarter was 1.8% higher qoq while bottomline inched up 3.6%.
- Overall, that brought 9MFY2013 revenue to RM762.3m, a 10.3% jump yoy while the cumulative net profit rose 13.9% to RM172.6m.
- The results were largely within expectations** with net earnings accounting for 74.7% and 75.5% of ours and streets' estimates.

Comment

- Nitrile gloves still 'hot'** – Hartalega shipped out 2.61bil pieces of gloves in 3QFY2013, 8% more than previous quarter, as the momentum of glove demand growth remained strong. Overall, sales volume in 9MFY2013 increased by an encouraging 22.6% to 7.32bil pcs from 5.97bil pcs a year ago. Besides, the production utilization rate continued to stay above the 90% level despite having more production lines commissioned, suggesting the robust demand particularly in the nitrile gloves market.
- Relatively muted impact of minimum wages** – Following the implementation of minimum wage at the beginning of the year, the Group has priced in the extra costs incurred by increasing its ASP in the region of 2-3%. We believe the rubber gloves industries would adapt to the new policy better than the other industries, considering the dominant position of Malaysian glove makers are in by supplying more than 60% of the rubber gloves worldwide, which enabled them to pass on the extra costs.
- Scaling greater heights** – 9MFY2013 PBT was 15.7% higher yoy to RM172.6m from RM151.6m a year ago, expanding the PBT margin to 29.5% from 28.1% a year ago. The improved margin was due to the lower raw material prices and the net gains in forex contracts. Moreover, the strengthening MYR against USD did not impact Hartalega as much as to other glove makers as nitrile is traded in USD, which serves as a natural forex hedge for the Group.
- Efficiency to counter latex cost spikes** – Diminishing rubber supplies and record car sales are propelling the global rubber prices to a recovery. The prices of raw material were trending upward and glove makers would face more challenging times ahead. However, with the 5 out of 10 production lines in Plant 6 commissioned, we expect the cost savings from enhanced production speed to minimize the effects of the cost spikes in raw materials for Hartalega.

- **Second interim dividend declared** - The board declared an interim single tier dividend of 3.5sen/share, bringing YTD total dividend to 7sen/share. Moving forward, we expect Hartalega to give out another 7sen/share to be in line with our estimates, assuming a 45% payout ratio.

Earnings Outlook/Revision

- **We make no changes to our earnings forecasts.**

Valuation & Recommendation

Maintain BUY with a higher Target Price of RM 5.28 as we roll over our valuation to FY2014F. Our TP is pegged at 13.8x FY2014F PER which is in line with its +1SD 5-year mean PER. We continue to favour Hartalega over its dominant position in the nitrile gloves market, as well as its ambitious expansion plan through its Next Generation Integrated Glove Manufacturing Complex (NGC).

Quarterly Figures

Year Ending 31 Mac	3QFY13	2QFY13	3QFY12	Q-o-Q	Y-o-Y	9MFY2013	9MFY2012	Y-o-Y
Revenue (RMm)	259.6	255.0	242.0	1.8%	7.3%	762.3	690.9	10.3%
Operating Profit (RMm)	78.6	76.5	64.3	2.7%	22.2%	225.3	195.5	15.2%
Profit Before Taxation (RMm)	78.4	76.3	63.9	2.8%	22.7%	224.6	194.1	15.7%
Net Profit (RMm)	60.6	58.5	50.7	3.6%	19.5%	172.6	151.6	13.9%
EPS(sen)	8.3	8.0	6.9	3.6%	19.5%	23.6	20.7	13.9%
Operating Margin	30.3%	29.4%	26.6%	0.9pptx	3.7pptx	29.6%	28.3%	1.3pptx
Profit Before Tax Margin	30.2%	29.9%	26.4%	0.3pptx	3.8pptx	29.5%	28.1%	1.4pptx
Net Profit Margin	23.3%	22.9%	21.0%	0.4pptx	2.3pptx	22.6%	21.9%	0.7pptx

Source: Company, JF Apex

Financial Summary

Year Ending 31 Mac	2011	2012	FY2013F	FY2014F	FY2015F
Revenue (RM'm)	734.9	931.1	1056.0	1312.5	1482.3
EBITDA (RM'm)	262.8	290.7	356.2	451.7	490.5
Operating profit (RM'm)	237.9	261.7	311.2	386.7	432.9
Net profit (RM'm)	190.3	201.7	231.0	279.8	326.0
EPS	0.26	0.28	0.32	0.38	0.45
P/E (x)	17.9	16.9	14.7	12.1	10.4
Dividend yield	2.3%	2.7%	3.1%	3.7%	4.3%
EBITDA margin	35.8%	31.2%	33.7%	34.4%	33.1%
PBT margin	33.0%	27.8%	28.0%	27.3%	28.2%
Net profit margin	25.9%	21.7%	21.9%	21.3%	22.0%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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JF Apex Securities Berhad (47680-X)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

06 February 2013

Hartalega Holdings

9MFY13 within expectations

MARKET PERFORM ↔

Price: RM4.70
Target Price: RM5.12 ↔

- | | |
|--------------------------------|---|
| Period | ▪ 9MFY13 |
| Actual vs. Expectations | ▪ The reported 9MFY13 net profit of RM172m accounted for 75% of ours and the consensus full year net profit forecasts. |
| Dividends | ▪ The company has declared a second single-tier interim dividend of 3.5 sen per share. This brings 9MFY13 total dividends to 7.0 sen per share. |
| Key Results Highlights | <p>▪ QoQ, the 3QFY13 revenue rose 1.8% due to the higher sales volume (+7%) in the nitrile glove segment, which accounted for 94% of the total sales. However, this was offset by a 6% decrease in nitrile gloves ASPs. During the quarter, the utilisation rate remained unchanged at 90.6%. Despite the same utilisation rate achieved, the 3QFY13 volume sales were higher due to the commercial production of three lines from plant 6. Meanwhile, despite stiff competition, the EBITDA margin still managed to improve marginally from 32.9% to 33.3% due to the lower raw material prices i.e. nitrile and natural latex. However, we believe that the further margin improvement may not be sustainable in the subsequent quarters as other players are likely to ramp up the production of their own nitrile gloves leading to higher competition and also due to a higher production cost caused by the high energy prices and the minimum wage policy.</p> <p>▪ YoY, the revenue and net profit jumped 7% and 19% respectively due to 1) a higher utilisation rate of 90.6% compared to 85.0% in 3QFY12; 2) higher volume sales from new capacity expansion; and 3) the easing of raw material prices.</p> |
| Outlook | <p>▪ Plant 6 will have 10 production lines for nitrile gloves at 40,000 pieces/hour/line, 14% more than the current ones. This will bring the total production capacity in Plant 6 to 3.5b pieces p.a. when it is fully completed in 2013. To date, we understand that five production lines have already been commissioned. The first line commenced production in September 2012 while the other two lines are believed to have started commercial production in mid-3QFY12. The remaining two lines are expected to contribute to 4QFY13 earnings. The construction of the balance five lines is expected by June 2013 to complete the entire production line.</p> <p>▪ Going forward, we understand that Hartalega has raised its nitrile glove ASPs by 2-3% to mitigate the effect of the minimum wage policy. We had already factored these revised ASPs into our earnings model.</p> |
| Change to Forecasts | ▪ No changes to our forecasts. |
| Rating | Maintain MARKET PERFORM |
| Valuation | ▪ Hartalega's growth trajectory is already reflected in its current valuation levels. The stock is currently trading at 14x CY13 EPS vs. its average net profit growth of 13.0%, which is already quite fair. Our fair value of RM5.12 is based on 15x CY13 EPS. |
| Risks | ▪ (i) Lower utilisation rate (ii) a squeeze in margin & (iii) fluctuations in the ringgit and commodity prices. |

Share Price Performance



KLCI	1,633.35
YTD KLCI chg	-3.3%
YTD stock price chg	-2.1%

Stock Information

Bloomberg Ticker	HART MK Equity
Market Cap (RM m)	3,408.4
Issued shares	733.0
52-week range (H)	5.10
52-week range (L)	3.56
3-mth avg daily vol:	320,848
Free Float	71%
Beta	0.7

Major Shareholders

HARTALEGA INDUS	27.6%
FRANKLIN RESOURCES	0.6%
DEUTSCHE BANK AG	0.4%

Summary Earnings Table

FY Mar (RM'm)	2012A	2013E	2014E
Turnover	931.1	1,083.9	1,290.2
EBIT	257.9	296.2	333.5
PBT	258.4	295.8	332.7
Net Profit (NP)	201.4	229.2	256.5
Consensus (NP)	-	228.6	262.2
Earnings Revision	-	+2%	+5%
EPS (sen)	27.6	31.4	35.1
EPS growth (%)	5%	14%	12%
DPS (sen)	12.5	13.5	13.5
BVPS (RM)	0.85	1.03	1.24
PER (x)	17.0	15.0	13.4
PBV(x)	5.5	4.6	3.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	2.3	2.9	2.9

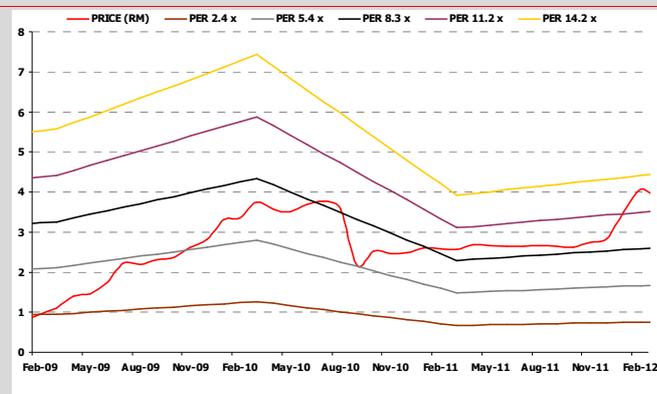
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Result Highlight

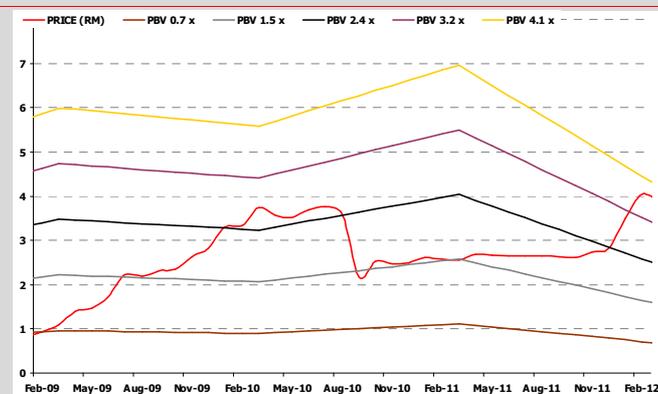
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Mar (RM 'm)	FY13	FY13	Chg	FY12	Chg	FY12	FY13	Chg
Turnover	260	255	1.8	242	7.3	691	762	10.3
EBITDA	87	84	3.0	72	20.5	217	248	14.2
EBIT	77	76	1.6	64	19.9	198	224	13.2
PBT	78	76	2.7	64	22.6	194	225	15.7
Net Profit (NP)	61	59	3.4	51	19.4	151	172	13.8
EPS (sen)	8.3	8.0	3.7	7.0	19.4	20.8	23.6	13.8
EBITDA margin	33.3%	32.9%				31.4%	32.5%	
EBIT margin	29.7%	30.0%				28.7%	29.4%	
PBT margin	30.2%	29.9%				28.1%	29.5%	
NP margin	23.3%	23.0%				21.9%	22.6%	
Effective tax rate	22.6%	23.2%				21.9%	23.1%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
(An approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%)
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3%
(An approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate)

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10%
(An approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%)
NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%
UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3%
(An approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate)

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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Chan Ken Yew
Head of Research

Buy (unchanged)

Share price: MYR4.65
Target price: MYR5.40 (unchanged)

Lee Yen Ling
lee.yl@maybank-ib.com
(603) 2297 8691



Stock Information

Description: World's biggest nitrile glove OEM manufacturer

Ticker:	HART MK
Shares Issued (m):	733.0
Market Cap (MYR m):	3,408.4
3-mth Avg Daily Turnover (USD m):	0.51
KLCI:	1,633.35
Free float (%):	71.6

Major Shareholders:	%
Hartalega Industries Sdn Bhd	50.3
Budi Tenggara Sdn Bhd	5.0

Key Indicators

Net cash / (debt) (MYR m):	147.7
NTA/shr (MYR):	0.98
Net Gearing (x):	Cash

Historical Chart



Performance:

52-week High/Low	MYR5.1/MYR3.508				
	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	(3.9)	(3.1)	3.3	21.6	(2.1)
Relative (%)	(0.4)	(1.9)	3.2	15.4	1.2

Hartalega

Perfect Defensive Stock

Within expectations. Hartalega's 3QFY3/13 core net profit of MYR59m (+2% QoQ, +17% YoY) lifted 9MFY3/13 net profit to MYR172m (+11% YoY), making up 75% of our and the market's full-year estimates. We like Hartalega for its defensive earnings profile on the back of strong demand for its nitrile gloves and ability to pass through cost inflation. Maintain BUY and MYR5.40 TP (15x 2014 PER).

Key takeaways for 3QFY3/13. Despite a much stronger sales volume of 2.6b pcs (+8% QoQ), revenue only increased by 2% QoQ due to lower ASPs (-6% QoQ) and a weaker MYR:USD rate (-2% QoQ). Similarly, core net profit rose just 2% QoQ to MYR59m on a flattish EBIT margin of 30%, as the company passed on lower input costs to customers. A second interim dividend of 3.5sen/share was declared, bringing YTD dividend to 7sen/share (YTD FY3/12: 6sen/share).

Perfect cost pass-through. In the near term, we expect the price of Hartalega's key input, NBR, to rise as it tracks the rising price of other commodities (crude oil, natural rubber). Nevertheless, we believe future cost inflation for nitrile gloves (higher NBR prices, gas cost hikes) will be passed through relatively easily given the strong demand, and price competition is unfelt of at this juncture. As an indication, Hartalega raised its nitrile glove ASPs by 2-3% in Feb 2013 in order to pass on the full quantum of the minimum wage hike.

Maintaining forecasts. We continue to see earnings growth at Hartalega, driven by its new capacity at Plant 6 (+36% to 14b pcs), which will be completed by Jul 2013. Our FY3/13 EPS growth forecast of 13% is already in the bag, and there is upside to our FY3/14-15 EPS projections (+8-9% YoY) if competition within the nitrile segment turns out to be benign. We have assumed a lower EBITDA margin for FY3/14-15 (-2.4ppts from FY3/13) in view of potential supply-led price competition.

Hartalega – Summary Earnings Table

FYE Mar (MYR m)	2011A	2012A	2013F	2014F	2015F
Revenue	734.9	931.1	1,037.3	1,242.7	1,350.1
EBITDA	267.9	288.2	341.1	379.1	413.0
Recurring Net Profit	190.3	201.4	229.4	247.6	271.0
Recurring Basic EPS (sen)	26.2	27.7	31.3	33.8	37.0
EPS growth (%)	33.1	5.8	13.1	7.9	9.4
DPS (sen)	10.5	10.8	14.1	15.2	16.7
BVPS (MYR)	0.68	0.85	1.02	1.21	1.41
PER	17.8	16.8	14.8	13.7	12.6
EV/EBITDA (x)	12.3	11.2	9.9	9.0	8.0
Div Yield (%)	2.3	2.3	3.0	3.3	3.6
P/BV(x)	6.8	5.5	4.6	3.9	3.3
Net Gearing (%)	Cash	Cash	Cash	0.4	Cash
ROE (%)	38.5	32.5	30.8	28.1	26.3
ROA (%)	30.1	26.8	23.3	21.9	22.6
Consensus Net Profit (MYR m)	-	-	228.6	262.2	298.3

Source: Maybank KE

Hartalega: Results Summary Table

FY Mar (RM m)	Quarterly					Cumulative		
	3QFY13	3QFY12	% YoY	2QFY13	% QoQ	9MFY13	9MFY12	% YoY
Turnover	259.6	242.0	7.3	255.0	1.8	762.3	690.9	10.3
EBIT	77.1	64.3	19.9	75.9	1.6	224.3	198.1	13.2
Net interest exp	0.0	(0.2)	n.m.	(0.1)	n.m.	(0.1)	(0.7)	(82.8)
Exceptionals (forex gain/(losses), fair value gain/(losses) on derivatives)	1.2	(0.2)	n.m.	0.5	n.m.	0.4	(3.3)	n.m.
Pre-tax profit	78.4	63.9	22.6	76.3	2.7	224.6	194.1	15.7
Tax	(17.7)	(13.2)	34.1	(17.7)	0.2	(51.9)	(42.5)	22.1
Minority Interest	(0.1)	0.0	n.m.	(0.0)	n.m.	(0.2)	0.0	n.m.
Net profit	60.5	50.7	19.4	58.5	3.4	172.4	151.6	13.7
Net profit (ex-exceptionals)	59.3	50.9	16.5	58.1	2.1	172.0	154.9	11.0
	3QFY13	3QFY12	+/- ppt	2QFY13	+/- ppt	9MFY13	9MFY12	+/- ppt
EBIT margin (%)	29.7	26.6	3.1	29.7	(0.0)	29.4	28.7	0.8
Tax rate (%)	22.6	20.7	1.9	23.2	(0.6)	23.1	21.9	1.2

Source: Company, Maybank KE

INCOME STATEMENT (MYR m)

FY Mar	2012A	2013F	2014F	2015F
Revenue	931.1	1,037.3	1,242.7	1,350.1
EBITDA	288.2	341.1	379.1	413.0
Depreciation & Amortisation	(29.0)	(47.7)	(59.7)	(66.4)
Operating Profit (EBIT)	259.2	293.5	319.4	346.6
Interest (Exp)/Inc	(0.8)	(3.1)	(5.9)	(3.5)
Associates	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0
Pre-Tax Profit	258.4	290.4	313.5	343.1
Tax	(57.0)	(61.0)	(65.8)	(72.0)
Minority Interest	(0.1)	0.0	0.0	0.0
Net Profit	201.4	229.4	247.6	271.0
Recurring Net Profit	201.4	229.4	247.6	271.0
Revenue Growth %	26.7	11.4	19.8	8.6
EBITDA Growth (%)	7.6	18.4	11.1	8.9
EBIT Growth (%)	6.7	13.2	8.8	8.5
Net Profit Growth (%)	5.8	13.9	7.9	9.4
Recurring Net Profit Growth (%)	5.8	13.9	7.9	9.4
Tax Rate %	22.0	21.0	21.0	21.0

BALANCE SHEET (MYR m)

FY Mar	2012A	2013F	2014F	2015F
Fixed Assets	379.7	612.0	732.3	766.0
Other LT Assets	0.4	0.4	0.4	0.4
Cash/ST Investments	163.2	139.5	121.3	128.9
Other Current Assets	208.6	232.4	278.4	302.4
Total Assets	752.0	984.3	1,132.4	1,197.8
ST Debt	12.6	12.6	12.6	12.6
Other Current Liabilities	67.4	73.5	85.5	91.7
LT Debt	12.1	112.1	112.1	22.1
Other LT Liabilities	39.7	39.7	39.7	39.7
Minority Interest	0.5	0.5	0.5	0.5
Shareholders' Equity	619.7	745.9	882.1	1,031.2
Total Liabilities-Capital	752.0	984.3	1,132.4	1,197.8
Share Capital (m)	727.1	732.2	732.2	732.2
Gross Debt/(Cash)	138.6	14.8	(3.3)	94.3
Net Debt/(Cash)	154.4	172.0	206.1	223.9
Working Capital	Cash	Cash	0.00	Cash

CASH FLOW (MYR m)

FY Mar	2012A	2013F	2014F	2015F
Profit before taxation	258.4	290.4	313.5	343.1
Depreciation	29.0	47.7	59.7	66.4
Net interest receipts/(payments)	0.8	3.1	5.9	3.5
Working capital change	(45.9)	(17.6)	(34.1)	(17.8)
Cash tax paid	(49.1)	(61.0)	(65.8)	(72.0)
Others (incl'd exceptional items)	0.0	0.0	0.0	0.0
Cash flow from operations	193.3	262.5	279.2	323.1
Capex	(60.2)	(280.0)	(180.0)	(100.0)
Disposal/(purchase)	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Cash flow from investing	(60.1)	(280.0)	(180.0)	(100.0)
Debt raised/(repaid)	(5.6)	100.0	0.0	(90.0)
Equity raised/(repaid)	2.0	3.0	4.0	5.0
Dividends (paid)	(87.4)	(103.2)	(111.4)	(122.0)
Interest payments	(0.8)	(3.1)	(5.9)	(3.5)
Others	4.9	(3.0)	(4.0)	(5.0)
Cash flow from financing	(86.9)	(6.3)	(117.4)	(215.5)
Change in cash	46.2	(23.7)	(18.2)	7.6

RATES & RATIOS

FY Mar	2012A	2013F	2014F	2015F
EBITDA Margin %	31.0	32.9	30.5	30.6
Op. Profit Margin %	27.8	28.3	25.7	25.7
Net Profit Margin %	21.6	22.1	19.9	20.1
ROE %	32.5	30.8	28.1	26.3
ROA %	26.8	23.3	21.9	22.6
Net Margin Ex. EI %	21.6	22.1	19.9	20.1
Dividend Cover (x)	2.6	2.2	2.2	2.2
Interest Cover (x)	116.0	56.3	36.4	62.3
Asset Turnover (x)	1.2	1.1	1.1	1.1
Asset/Debt (x)	30.5	7.9	9.1	34.6
Debtors Turn (days)	43.5	43.5	43.5	43.5
Creditors Turn (days)	21.2	21.2	21.2	21.2
Inventory Turn (days)	38.2	38.2	38.2	38.2
Net Gearing %	Cash	Cash	Cash	Cash
Debt/ EBITDA (x)	0.1	0.4	0.3	0.1
Debt/ Market Cap (x)	0.0	0.0	0.0	0.0

Source: Company, Maybank KE

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06 February 2013 | 3QFY13 Results Review

Hartalega Holdings Berhad

Unstoppable nitrile momentum

Upgrade to BUY

**Increased Target Price (TP): RM5.19
(Previous TP: RM5.10)**

INVESTMENT HIGHLIGHTS

- **9MFY13 earnings grew 13.7%yoy to RM172.4m. Revenue gained 10.3%yoy during the period to RM762.3m.**
- **Operating profit margin improved by 1.3%-point year-on-year for 9MFY12 to 30.3%.**
- **A second interim 3.5sen single tier dividend declared.**
- **Plant 6 commenced operations in September 2012, to be fully operational by July 2013. It will boost capacity by a massive 39%.**
- **Upgrade to BUY with a revised TP of RM5.19.**

Results within expectations. Hartalega's 9MFY13 net earnings grew 13.7%yoy to RM172.4m. This is in line with expectations, accounting for 78.6% and 75.4% of ours and consensus estimates respectively. A second interim single tier dividend of 3.5sen per share was declared.

Revenue growing. The Group's sales revenue for 9MFY12 increased 10.3%yoy to RM762.3m, while revenue for 3QFY13 expanded 7.3%yoy and 1.8%qoq to RM259.6m. The growth in revenue was due to the Group's continuous expansion in production capacity and increase in demand in the Group's products, which led to growth in sales volume.

Profitability improving. For the first nine months of FY13, Hartalega has been successful in increasing its already impressive profitability, with its operating profit margin growing by 1.3%-point year-on-year to 29.6%. The better performance was attributable to the easing of raw material prices of nitrile and latex.

Plant 6 up and running. Hartalega's new plant, Plant 6, had commissioned and commenced operations of its first production line at end September 2012. In total, Plant 6 will have 10 production lines with a total installed capacity of 3.9b pieces per annum. The construction of the whole plant is expected to be fully completed by July 2013. Upon completion, the new plant is expected to increase Hartalega's total production capacity by 39%, adding up another 3.9b pieces of gloves per annum.

Demand growing substantially. In 2011, global demand for nitrile gloves jumped 29%, mainly due to the switching trend from natural rubber gloves to nitrile gloves. For the foreseeable future, the demand growth for nitrile gloves is anticipated to be sustained at around 20% annually.

RETURN STATS	
Price (5 Feb 2013)	RM4.65
Target Price	RM5.19
Expected Share Price Return	11.6%
Expected Dividend Yield	3.4%
Expected Total Return	15.0%
STOCK INFO	
KLCI	1,633.35
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main/ Industrial Product
Syariah Compliant	Yes
Issued shares (mil)	733.0
Par Value (RM)	0.50
Market cap. (RM'm)	3,408.4
Price over NA	4.94x
52-wk price Range	RM3.58–RM5.07
Beta (against KLCI)	0.68
3-mth Avg Daily Vol	0.33m
3-mth Avg Daily Value	RM1.58m
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	29.93	34.60
EPS growth (%)	33.2	5.8	8.9	15.6
PER(x)	17.1	16.1	15.5	13.4
Net Dividend (sen)	10.5	10.8	13.5	16.0
Net Dividend Yield (%)	2.4	2.4	2.9	3.4

Source: Company, Forecasts by MIDFR

FY14 prospects. The operating environment for glove producers has improved substantially in the last few months, contributed by the easing of raw material prices. The easing in prices of butadiene, which is a key component for nitrile, and natural rubber latex, has been attributed to the slowdown in global economy. As we do not expect the world's economic conditions to show substantial improvement in the next 12 months, we expect the prices for both commodities to remain around the current level. As nitrile latex and natural rubber latex each makes up 45% and 5% of the total production cost for Hartalega, we expect Hartalega would be able to maintain its impressive profitability performance over the foreseeable future.

Upgrade to BUY with a revised TP of RM5.19. We roll over our valuation to FY14, with a revised target price of RM5.19 per share. This is derived from 15 times of the stock's forecasted FY14 EPS, based on the industry's weighted average price earnings multiple. Based on its track record, we are pretty confident that the management is more than capable of sustaining the growth and profitability of the company. With the recent easing of the stock's price, we believe there is a substantial upside potential for the stock over the next twelve months; hence we are upgrading our recommendation to a BUY.



Table 1: Hartalega's 3QFY13 Results' Details

FYE Mar (RM mln)	Quarterly results			Year to date	
	3QFY13	%YoY	%QoQ	9MFY13	%YoY
Revenue	259.6	7.3%	1.8%	762.3	10.3%
Operating expenses	(183.6)	2.8%	1.9%	(541.2)	9.3%
Other operating income	2.6	193.9%	57.0%	4.3	-53687.5%
EBIT	78.6	22.2%	2.7%	225.3	15.3%
Finance costs	(0.2)	-48.3%	-11.5%	(0.7)	-44.9%
PBT	78.4	22.6%	2.7%	224.6	15.7%
Taxation	(17.7)	34.1%	0.2%	(51.9)	22.1%
PAT	60.6	19.7%	3.5%	172.6	13.9%
Net profit	60.5	19.4%	3.4%	172.4	13.7%
Basic EPS (sen)	8.28	19.0%	3.4%	23.58	13.3%
FD EPS (sen)	8.17	17.7%	3.0%	23.26	12.1%
		+/-ppt	+/-ppt		+/-ppt
EBIT margin	30.3%	3.7	0.3	29.6%	1.3
PBT margin	30.2%	3.8	0.3	29.5%	1.4
Net profit margin	23.3%	2.4	0.4	22.6%	0.7
Tax rate	22.6%	1.9	(0.6)	23.1%	1.2

DAILY PRICE CHART



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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.

3Q13 in-line; valuations still unattractive

Quick Note

February 5, 2013

Rating Remains	Reduce
Target price Remains	MYR 4.15
Closing price February 4, 2013	MYR 4.70

Above or below expectations?

Largely in-line. 9M13 core net profit met 77.5% of our full-year estimates and 75.3% of consensus. We note that rubber glove manufacturers generally perform better in the second half of the year (July-December) due to seasonality in raw material prices, which are typically higher in the first half.

We maintain our view that glovemakers should see margin compression as more capacity comes on-stream throughout the year. We expect a weaker 4Q13F performance from further ASP downward revision, effect of minimum wage implementation from January 2013 and potentially higher raw material costs.

What does the result mean?

Raw material savings passed-on via lower ASPs. ASPs were adjusted downwards in light of easing raw material prices. We note a significantly larger portion of savings being passed on to customers, consistent with our view that increased competition in the industry is likely to gradually erode glovemakers' profitability.

Fig. 1: Comparison of q-q change in raw material prices and ASP

% chg q-q	Avg NBR raw material price	NBR gloves ASP	Avg NR raw material price	NR gloves ASP
2Q13	-11.3	-0.9	-15.9	-9.4
3Q13	-6.2	-6.2	-3.4	-9.6

Source: Company data, Nomura research

Improved margins from low raw material prices. Average natural rubber (NR) latex and nitrile (NBR) raw material prices were 6.2% and 3.4% lower q-q, respectively. We do not expect an uptrend in margins to continue into 4Q13F, due to reasons mentioned above.

Likely stock reaction

We do not expect significant stock reaction to this announcement. Valuations are still unattractive, in our view, with Hartalega currently trading at 14.4x FY14F EPS. We maintain our Reduce rating on Hartalega with a TP of MYR4.15, which pegs FY14F EPS to 12.8x target P/E.

Key numbers

- Total sales volume increased 7.9% q-q, as capacity grew by the same percentage. Utilisation rate was unchanged at 90.6%. Three of the 10 production lines of the new plant (Plant 6) were commissioned in 3Q13. There are currently 5 production lines in operation; the construction of the plant's remaining lines is on-track for July 2013 completion, of which five additional lines will increase Hartalega's annual capacity by c.2bn pcs to c.13bn pcs.
- Hartalega declared a second interim dividend of 3.5sen per share, consistent with previous guidance and our expectations. Total DPS declared to date for current financial year stands at 7sen.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 2: Quarterly financial summary

MYR '000	3Q13	3Q12	% chg y-y	2Q13	% chg q-q
Revenue	259,565	241,951	7.3	255,019	1.8
Operating expenses	(183,550)	(178,520)	2.8	(180,134)	1.9
Other opg income	2,560	871	193.9	1,631	57.0
Profits from operations	78,575	64,302	22.2	76,516	2.7
Finance costs	(207)	(400)	(48.3)	(234)	(11.5)
Pre-tax profit	78,368	63,902	22.6	76,282	2.7
Taxation	(17,747)	(13,239)	34.1	(17,707)	0.2
Net Profit before MI	60,621	50,663	19.7	58,575	3.5
Minority interests	(92)	40	(330.0)	(33)	178.8
Net Profit	60,529	50,703	19.4	58,542	3.4
Adjustments	(1,238)	202	(712.9)	(489)	153.2
Core net profit	59,291	50,905	16.5	58,053	2.1
EPS - Basic	8.28	6.97	18.8	8.01	3.4
EPS - Diluted	8.17	6.94	17.7	7.93	3.0

Source: Company data, Nomura research

Fig. 3: Actual results vs Nomura / Consensus (Bloomberg)

MYR '000	9M13	Nomura	% met	Consensus	% met
Revenue	762,262	1,025,598	74.3	1,043,375	73.1
EBITDA	247,848	324,041	76.5	331,400	74.8
Core net profit	172,048	221,941	77.5	228,562	75.3
Net margins	22.7	21.6		21.9	

Source: Company data, Bloomberg, Nomura estimates

Appendix A-1

Analyst Certification

I, Celeste Yap, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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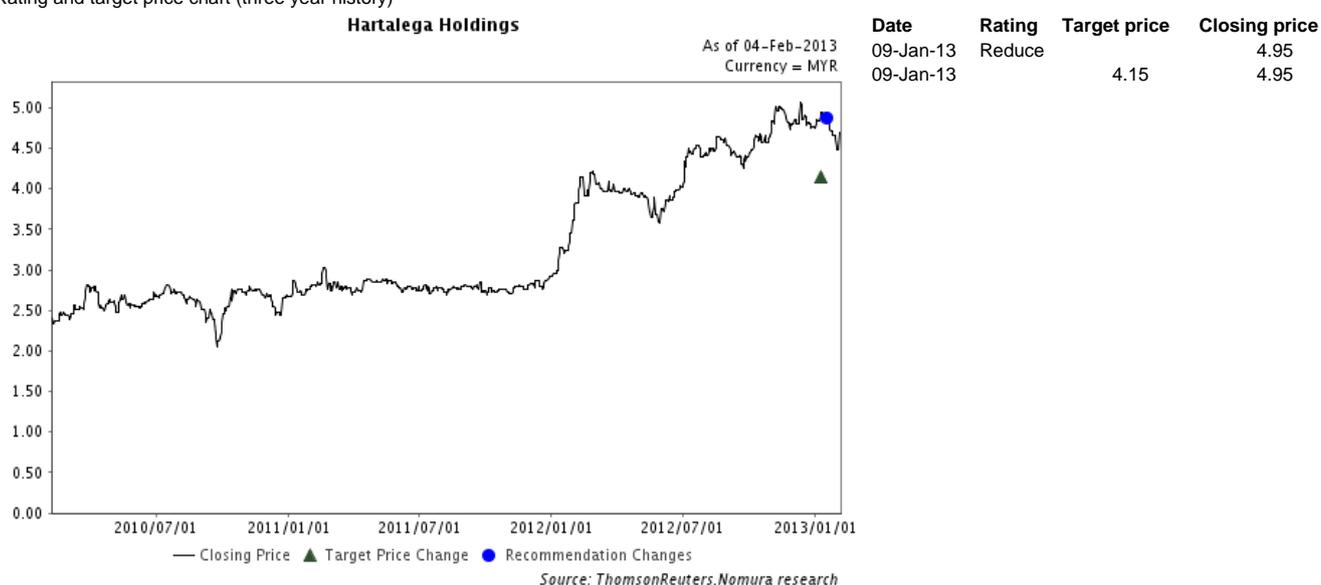
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Hartalega Holdings	HART MK	MYR 4.70	04-2-2013	Reduce	Not rated	

Hartalega Holdings (HART MK)

MYR 4.70 (04-2-2013) Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of MYR4.15 is pegged to a one-year forward P/E of 12.8x, +1SD above its 3-year average, on FY14F EPS of 32.29sen. Our 10-year DCF valuation discounted back to February 2013 on a WACC of 7.6% and terminal growth of 2% provides fair value of MYR4.13.

Risks that may impede the achievement of the target price Upside risks to our view include 1) achievements of higher production line speed which boosts productivity alongside reduced costs; 2) sped-up NGC expansion plans, adding more capacity for the group; 3) higher-than-expected pass-on rates, as we assume ASP downward adjustment to its premium-priced products; and 4) lower-than-expected nitrile raw material prices.

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STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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Corporate Highlights



**RHB Research
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Company No: 233327 -M

Results Note

6 February 2013

Hartalega

Continuous Ramp Up In Plant 6's Production

Share Price : RM4.65
Fair Value : RM5.07
Recom : **Neutral**
(Maintained)

Table 1 : Investment Statistics (HARTA; Code: 5168)

Bloomberg: HART MK

FYE	Turnover	Net Profit	EPS	Core EPS#	EPS Growth#	PER#	C.EPS*	P/NTA	Net Gearing	ROE	NDY
	(RMm)	(RMm)	(sen)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2012	931.1	201.5	27.5	28.6	-	16.2	-	4.3	Net cash	32.5	2.7
2013f	1112.4	243.7	33.3	33.3	16.4	14.0	31.1	3.6	Net cash	28.1	2.8
2014f	1356.8	299.6	40.9	40.9	22.9	11.4	35.2	3.0	Net cash	29.0	3.3
2015f	1472.0	300.8	41.1	41.1	0.4	11.3	39.8	2.6	Net cash	24.7	3.5

Main Market Listing /Non- Trustee Stock / Syariah-Approved Stock By The SC

Ex-EI

* Consensus Based On IBES Estimates

- ◆ **Within expectations.** Hartalega's 3QFY03/13 core net profit of RM60.5m (+19.1% yoy; +4.3% qoq) was within our but above consensus expectations, with 9M core net profit of RM173.3m (+8.6% yoy) accounting for 71.1% and 76.1% of our and consensus full-year estimates respectively.
- ◆ **Core net profit up 2.1% qoq.** Qoq, revenue rose by a marginal 1.8% on the back of stronger sales volumes for both nitrile (+1.3% qoq) and latex (+9.5% qoq) gloves respectively. This, however, was largely offset by a weaker US\$ rate of RM3.06/US\$ (2Q13: RM3.12/US\$) and a downward revision in ASPs for both nitrile (-6.2% qoq) and latex (-9.6% qoq) gloves to pass on lower raw material costs. Thus, EBIT margin remained flat qoq at 29.8%. Coupled with a lower effective tax rate of 22.6% for the quarter (vs. 23.2% in 2Q), core net profit rose by 2.1% qoq.
- ◆ **Second interim single-tier DPS of 3.5 sen.** Hartalega declared a second interim single-tier DPS of 3.5 sen (3Q12: 3 sen), which brought YTD net DPS to 7 sen (9MFY12: 6 sen, net DPS). We project full-year tax-exempt DPS of 13 sen, which implies a net payout ratio of 40% (FY12: 43.7%) and net yield of 2.8%.
- ◆ **Capacity expansion at Plant 6 on track.** Management guided that capacity expansion at Plant 6 remains on track with an additional two lines coming into operations during the quarter. This has lifted the group's annual production capacity to 11bn pieces currently (from 10.5bn pieces as at end-Sep '12). Upon full commissioning by Jul 2013, the remaining six lines are expected to add a further 4.0bn pieces to Hartalega's annual production capacity. Beyond that, Hartalega's future capacity expansion hinges upon the successful execution of its NGC project.
- ◆ **Risks.** 1) Higher-than-expected raw material prices, which may result in margin squeeze; 2) Appreciating RM against the US\$; and 3) Execution risk from capacity expansion.
- ◆ **Forecasts.** No change to our earnings forecasts. Our numbers have yet to factor in the additional capacity arising from the NGC project.
- ◆ **Investment case.** Our fair value is maintained at RM5.07, based on an unchanged CY13 PER of 13x. While the soft latex prices could result in customers shifting purchases to latex gloves, we expect this to be cushioned by the progressive rampup in production at Plant 6. We maintain our **Neutral** call on the stock.

RHBRI	Vs.	Consensus
√	Above In Line Below	√

Issued Capital (m shares)	731.8
Market Cap (RMm)	3,373.6
Daily Trading Vol (m shs)	0.5
52wk Price Range (RM)	3.48-5.10

Major Shareholders:	(%)
Hartalega Industries	55.3

FYE Mar	FY13	FY14	FY15
EPS chg (%)	-	-	-
Var to Cons (%)	7.1	16.3	3.3

PE Band Chart



Relative Performance To KLCI



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Please read important disclosures at the end of this report.

Table 2: Earnings Review									
FYE Mar (RMm)	3Q12	2Q13	3Q13	QoQ (%)	YoY (%)	9MFY12	9MFY13	YoY (%)	Comments
Revenue	242.0	255.0	259.6	1.8	7.3	690.9	762.3	10.3	Yoy growth on the back of capacity expansion in Plant 6 while qoq growth was due to the four new lines in Plant 6, partly offset by lower ASPs and softer forex rate.
EBIT	64.5	76.0	77.3	1.7	19.9	203.5	224.9	10.5	Qoq growth mirrors topline growth as the impact of lower raw material prices was largely offset by a downward revision in selling prices and weaker US\$ rate.
Int exp	(0.4)	(0.2)	(0.2)	(11.5)	(48.3)	(1.3)	(0.7)	(44.9)	Total debt at end-3QFY13 was RM14.8m (2QFY12: RM17.5m and 3QFY12: RM28.8m).
Exceptionals	(0.2)	0.5	1.2	>100	>100	(8.1)	0.4	>100	Relates to the gains/losses from recognition of financial derivative instruments.
Pre-tax profit	63.9	76.3	78.4	2.7	22.6	194.1	224.6	15.7	Largely filtered down from EBIT level and EI.
Tax	(13.2)	(17.7)	(17.7)	0.2	34.1	(42.5)	(51.9)	22.1	
Minority Interest	(0.0)	(0.0)	(0.1)	>100	>100	(0.1)	(0.2)	>100	
Net profit	50.6	58.5	60.5	3.4	19.6	151.5	172.4	13.8	
Core net profit	50.8	58.1	59.3	2.1	16.7	159.6	172.0	7.8	
Margins (%)									
EBIT	26.7	29.8	29.8			29.5	29.5		QoQ margin was flat as impact of lower nitrile prices (-4.0% qoq) was largely offset by a downward revision in selling prices and a weaker US\$ rate.
Pre-tax	26.4	29.9	30.2			28.1	29.5		
Effective tax rate	20.7	23.2	22.6			21.9	23.1		Effective tax rate remained lower than the statutory rate due to availability of tax incentives.
Net profit	20.9	23.0	23.3			21.9	22.6		
Core net profit	21.0	22.8	22.8			23.1	22.6		

Source: Company data, RHBRI

Table 3: Hartalega Earnings Forecasts				
FYE Mar (RMm)	FY12a	FY13f	FY14f	FY15f
Turnover	931.1	1,112.4	1,356.8	1,472.0
Turnover growth (%)	26.7	19.5	22.0	8.5
EBITDA	299.1	370.6	459.8	473.5
EBITDA margin (%)	32.1	33.3	33.9	32.2
Dep. & amort.	(30.9)	(52.5)	(66.9)	(80.3)
EBIT	268.2	318.1	392.9	393.3
EBIT margin (%)	28.8	28.6	29.0	26.7
Net interest expense	(1.7)	(5.6)	(8.7)	(8.7)
Associates	0.0	0.0	0.0	0.0
Exceptionals	(7.9)	0.0	0.0	0.0
Pretax Profit	258.6	312.6	384.2	384.6
Tax	(56.9)	(68.8)	(84.5)	(84.6)
Minorities	(0.1)	(0.1)	(0.1)	0.9
Net Profit	201.5	243.7	299.6	300.8
Core Net Profit	209.4	243.7	299.6	300.8

Source: Company data, RHBRI estimates

Table 4: Forecast Assumptions			
FYE Mar	FY13f	FY14f	FY15f
Average capacity (bn pcs)	11.5	13.8	15.0
Utilisation rate (%)	83.0	83.0	83.0
Average selling price (per'000 pcs)	134.6	137.2	139.2

Source: RHBRI estimates

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Stock Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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Hartalega Holdings (HART MK)

3QFY13: Unexciting Immediate Future

Hartalega has reported a cumulative 9MFY13 net profit of RM172m, accounting for 78% of our FY13F net profit of RM220m. 3QFY13 earnings and volume growth came in flat qoq. Delay in NGC expansion plant implies potentially low growth visibility in 2015. This coupled with pricing and margin pressure ahead suggest further downside. Maintain SELL with a target price of RM4.05.

3QFY13 Results

Year to 31 Mar (RMm)	3QFY13	qoq % chg	yoy % chg	9MFY13	yoy % chg
Turnover	259.6	1.8	7.3	762.3	10.3
COGS	(183.6)	1.9	2.8	(541.2)	9.3
EBIT	78.2	2.8	23.1	223.8	16.1
Finance costs	(0.2)	(11.5)	23.1	(0.7)	(44.9)
Pre-Tax Profit	78.4	2.7	22.6	224.6	15.7
Tax	(17.7)	0.2	34.1	(51.9)	22.1
Core net profit	60.5	3.4	14.8	171.9	9.2
EPS (sens)	8.3	3.4	14.8	23.6	13.7
		+/- ppts	+/- ppts		+/- ppts
PBT Margins (%)	30.2	0.9	3.8	29.5	1.4
Net Margin (%)	23.3	1.6	2.4	22.6	(0.2)

Source: Hartalega

Results

- **Results slightly above expectations.** Hartalega reported rather flat 3QFY13 revenue and core net profit of RM260m (1.8% qoq, 7.3% yoy) and RM60.5m (3.4% qoq, 14.8% yoy) respectively, slightly above our expectations but broadly within consensus estimates.
- **Flat qoq earnings growth.** Top-line growth was unexciting despite sales volume growth of 7.9% qoq and 28.6% yoy in 3QFY13, due to lower ASP of RM131/'000 pcs (-8% qoq, -19% yoy). The lower ASP resulted from lower raw material prices, which had eased about 3.3% qoq to US\$1,330/tonne.

Key Financials

Year to 31 Mar (RMm)	2011	2012	2013F	2014F	2015F
Net turnover	735	931	1,046	1,233	1,501
EBITDA	274	299	313	358	413
Operating profit	245	260	271	302	342
Net profit (rep./act.)	190	202	220	244	276
Net profit (adj.)	190	202	220	244	276
EPS (sen)	26.1	27.7	30.3	33.6	38.0
PE (x)	17.8	16.8	15.4	13.8	12.2
P/B (x)	6.8	5.5	4.4	3.6	3.0
EV/EBITDA (x)	11.8	10.9	10.3	9.1	7.9
Dividend yield (%)	1.7	2.0	2.2	2.4	2.8
Net margin (%)	25.8	21.7	21.0	19.8	18.4
Net debt/(cash) to equity (%)	(15.8)	(22.4)	(21.7)	(17.1)	(15.4)
Interest cover (x)	111.1	171.9	n.a.	n.a.	n.a.
ROE (%)	44.7	36.2	31.8	28.8	27.1
Consensus net profit	-	-	229	262	295
UOBKH/Consensus (x)	-	-	0.96	0.93	0.93

Source: Hartalega Holdings, Bloomberg, UOB Kay Hian

SELL
(Maintained)

Company Results

Share Price RM4.65
Target Price RM4.05
Upside -12.9%

Company Description

Rubber gloves manufacturer.

Stock Data

GICS sector Health Care
Bloomberg ticker: HART MK
Shares issued (m): 733.0
Market cap (RMm): 3,408.4
Market cap (US\$m): 1,103.7
3-mth avg daily t'over (US\$m): 0.5

Price Performance (%)

52-week high/low RM5.07/RM3.58
1mth (3.9)
3mth (3.1)
6mth 5.4
1yr 21.6
YTD (2.1)

Major Shareholders

Hartalega Industries Sdn Bhd 50.6%
Budi Tenggara Sdn Bhd 5.0%

FY13 NAV/Share (RM) 1.05
FY13 Net Cash/Share (RM) 0.23

Price Chart



Source: Bloomberg

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Wednesday, February 06, 2013

- **Higher productivity level achieved.** Given the offsetting effect from the lower ASP fetched and higher sales volume growth in 3QFY13, we conclude that Hartalega's earnings were mainly boosted by higher productivity level, driven by improved production lines' speed from an average of 26,000pcs/line/hour previously to the current level of 30,000pcs/line/hour.
- **Another quarter with dividend.** Hartalega has announced its second interim net dividend of 3.5sen/share in 3QFY13, bringing total DPS declared to 7sen/share in 9MFY13. Its revised dividend payout policy of 45% payout ratio (previously at 35%) suggests prospective minimal yield of 2.4-2.7% based on our FY14-15 forecasts.

Stock Impact

- **Delay in NGC plant implies potentially low growth visibility in 2015.** The RM1.5b mega project Next Generation Integrated Glove Manufacturing Complex (NGC) has been delayed and the construction is targeted to commence in 2H13. We understand that the construction period of a manufacturing plant will generally require 1-1.5 years. This raises our concern on the company's prospective earnings post FY15, as there will be no additional capacity kicking in after the completion of Plant 6 by Jul 13. We foresee potential low growth visibility in 2015.
- **Meanwhile, Plant 6 expansion is on schedule.** Hartalega is expected to have its seventh production line ready in Plant 6 by Mar 13. We think the remaining four production lines could be ready by Jul 13, in line with the company's projection. Hartalega will see additional 26% (about 3.5b pcs of gloves) of installed production capacity upon the completion of the total 10 lines in Plant 6.
- **Slipping margins ahead remains our concern.** Although Hartalega's EBIT margin in 3QFY13 improved 1 ppt qoq, we continue to expect pricing and margin pressure to linger within the nitrile gloves segment, driven by the rapidly growing nitrile glove production capacity by both domestic and regional peers. While Hartalega's major expansion phase should eventually re-ignite its earnings momentum, its growth prospects should be relatively unimpressive through the intermediate term especially with the delay in the NGC project. We maintain our view that Hartalega's EBIT margin will gradually contract to 23-26% in FY13-15 vs its peak of 33% in FY11.
- **Peakish utilisation rate suggests maximised operating leverage.** Hartalega once again achieved a high utilisation rate of 90.6%, similar to the previous quarter, but above its historical rate of 80-83%. This indicates limited sales volume growth for Hartalega in the event of a surge in global demand for gloves as well as a chance to decommission older and slower production lines (mainly in Plant 1 and 2).

Earnings Revision/Risk

- No change.

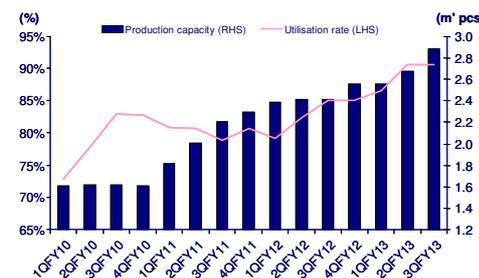
Valuation/Recommendation

- **Maintain SELL and a target price of RM4.05** based on 12x 2014F PE (based on fully-diluted EPS), which is close to 1SD above its historical mean PE. Although the share price has corrected by 2.1%, aggressive industry capacity growth and deteriorating margins of nitrile gloves will eventually ensure further downside.

Share Price Catalyst

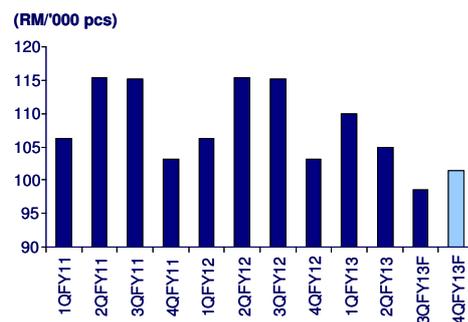
- The downside catalysts to the share price will include: a) overcapacity in the nitrile glove market, and b) further delay in the NGC expansion plan, which will distort earnings growth post FY14.

Quarterly Production Capacity And Utilisation Rate



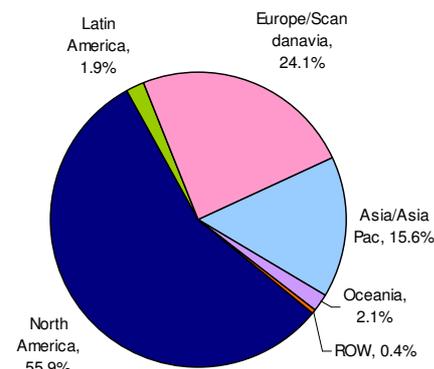
Source: Hartalega

Nitrile Gloves ASP



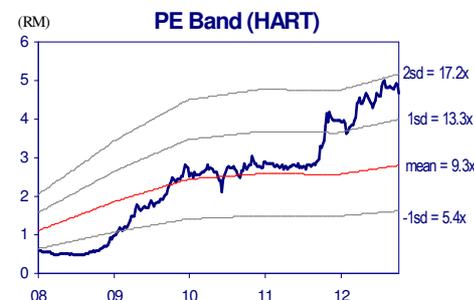
Source: Hartalega

Revenue By Region



Source: Hartalega

1-year Forward PE Band



Source: Bloomberg, UOB Kay Hian

Wednesday, February 06, 2013

Profit & Loss

Year to 31 Mar (RMm)	2012	2013F	2014F	2015F
Net turnover	931	1,046	1,233	1,501
EBITDA	299	313	358	413
Deprec. & amort.	38	43	56	71
EBIT	260	271	302	342
Net interest income/(expense)	(2)	4	4	3
Pre-tax profit	259	275	305	345
Tax	(57)	(55)	(61)	(69)
Net profit	202	220	244	276
Net profit (adj.)	202	220	244	276

Balance Sheet

Year to 31 Mar (RMm)	2012	2013F	2014F	2015F
Other LT assets	380	487	647	783
Cash/ST investment	163	191	283	295
Other current assets	209	198	226	276
Total assets	752	876	1,156	1,354
ST debt	13	13	113	113
Other current liabilities	67	47	65	80
LT debt	12	12	12	12
Other LT liabilities	40	40	40	40
Shareholders' equity	620	765	927	1,110
Minority interest	1	0	0	0
Total liabilities & equity	752	876	1,156	1,354

Cash Flow

Year to 31 Mar (RMm)	2012	2013F	2014F	2015F
Operating	201	252	275	305
Pre-tax profit	259	275	305	345
Tax	(49)	(55)	(61)	(69)
Deprec. & amort.	38	43	56	71
Working capital changes	(25)	(6)	(22)	(39)
Other operating cashflows	(22)	(4)	(4)	(3)
Investing	(60)	(150)	(200)	(200)
Capex (growth)	(35)	(150)	(200)	(200)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(25)	0	0	0
Financing	(95)	(74)	18	(93)
Dividend payments	(87)	(74)	(82)	(93)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	100	0
Loan repayment	(14)	0	0	0
Others/interest paid	7	0	0	0
Net cash inflow (outflow)	46	28	92	12
Beginning cash & cash equivalent	117	163	191	283
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	163	191	283	295

Key Metrics

Year to 31 Mar (%)	2012	2013F	2014F	2015F
Profitability				
EBITDA margin	32.1	30.0	29.0	27.5
Pre-tax margin	27.8	26.3	24.8	23.0
Net margin	21.7	21.0	19.8	18.4
ROA	29.2	27.0	24.0	22.0
ROE	36.2	31.8	28.8	27.1
Growth				
Turnover	26.7	12.3	17.9	21.7
EBITDA	8.9	4.9	14.2	15.4
Pre-tax profit	6.5	6.4	11.0	13.0
Net profit	6.3	9.1	11.0	13.0
Net profit (adj.)	6.3	9.1	11.0	13.0
EPS	6.3	9.1	11.0	13.0
Leverage				
Debt to total capital	3.8	3.1	11.9	10.1
Debt to equity	4.0	3.2	13.4	11.2
Net debt/(cash) to equity	(22.4)	(21.7)	(17.1)	(15.4)
Interest cover (x)	171.9	n.a.	n.a.	n.a.

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MICA (P) 055/03/2012
RCB Regn. No. 198700235E