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Wednesday, 17 February, 2016

Market Access

Hartalega Holding Berhad

"Platinum Glove Player"

Hartalega Holdings Berhad (Hartalega), the world's largest nitrile glove manufacturer since 2011, is principally engaged in the manufacturing of rubber examination gloves. Established in 1988 by the Kuan family in Kepong, Kuala Lumpur, Hartalega has evolved from a single-liner to the world's leading glove maker with over RM8 billion in market capitalization. Hartalega exports more than 16 billion pieces of gloves per annum to 39 countries including the US, Europe and Asia regions. We re-initiate coverage on Hartalega with a **BUY** call and target price of RM5.70 based on a 10% premium on the 3-year average PER, for a resultant PER of 28x.

Investment Highlights:

i. **No.1 in Nitrile and most profitable glove player**
Being the world's first to introduce lightweight nitrile glove back to 2005 and subsequently becoming the world's largest nitrile glove manufacturer, Hartalega has proudly set new industry benchmarks with its fastest production line speed of 45,000 pieces/hour or 12% higher output rate than the second fastest in the industry. Due to superior production efficiency and edge-cutting technology, Hartalega stands out as the most profitable/highest profit margin glove company in the country.

ii. **The NGC – A revolutionary facility**
Spanning across 112-acre land, the RM2.2 billion-worth Next Generation Complex (NGC) is consists of 6 high-tech manufacturing plants with 72 production lines and capacity up to 28 billion pieces p.a. It is set to be fully take off by FY21. Combining the existing 5 plants at Bestari Jaya, Hartalega's total production capacity is 43 billion pieces/annum or 168% higher than the present of

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BUY (TP:RM5.70)

Current Price (RM)	RM4.98
New Target Price (RM)	**RM5.70**
Previous Target Price (RM)	RM7.98
Previous Recommendation	HOLD
Upside/(Downside) To Target	**14%**
Dividend Yield (FY15)	**2%**

Stock Code

Bloomberg	HARTA MK

Stock Information

Listing		MAIN MARKET
Sector		Glove
Shariah Compliance		Yes
Issued Shares (mn)		1,641.0
Market Cap (RM mn)		8,171.9
YTD Chg in Share Price		-16.2%
Beta (x)		0.42
52-week Hi/Lo (RM)	6.15	3.85
3M Average Volume (shrs)		3.2mn
Estimated Free Float		28.5%

Major Shareholders

Hartalega Industries Sdn Bhd	49%
Employees Provident Fund	7%
Budi Tenggara Sdn Bhd	3%

16 billion. To date, the NGC Plant 1 and 2 have been built with 24 lines ready and already started running at an average utilization rate of 85%. Plant 3 and 4 are still under construction and slated to be completed by CY17. The Management believes that two new additional lines of NGC will be commissioned every month.

iii. Shifting demand from latex to nitrile glove.

The demand and consumption of synthetic rubber gloves (SRG) has been increasing from 46% of Malaysia's total glove export in 2012 to 51% in 2014 at the expense of diminishing natural rubber gloves (NRG) export. In 1H 2015, the export mix of SRG:NRG touched 55%:45%. This can be explained by: 1) rising concerns over protein allergy from using NRG that can be eliminated by using SRG; 2) technology of processing SRG has become highly advanced and much affordable; 3) it's more comfortable to wear SRG as the fitting reduce fatigue, especially surgical gloves; 4) SRG has elastic properties that self-seal if there's a pin hole while the pin holes become bigger with movement if wearing NR gloves.

iv. Selected risk factors.

- prolong weakness in raw material prices
- Potential weakening USD
- Dependence on major customers

v. Earnings Outlook.

We expect full contribution of Plant 1 & 2 to be reflected in FY17 while Plant 3 & 4 which have started construction work in 2H CY15 will contribute positively and progressively in FY17 and FY18 earnings. Provided no further delays in plant construction and facility installation and consistently strong demand of gloves, Plant 3 & 4 should be fully commissioned by 1Q FY18, adding another 8 billion pieces gloves p.a, ramping up the total capacity to 30 billion pieces p.a. We project Hartalega to post FY16-18 net profit CAGR of 14.6% driven by steady ongoing expansion plans, converting into EPS of 16 sen, 20 sen and 21 sen in FY16/17/18, respectively.

vi. Valuations & recommendation.

Hartalega is a fundamentally strong glove company in Malaysia, underpinned by high utilization of automation and other highly advanced technology under the helm of hands-on and forward-thinking management. The inelastic demand of rubber gloves reflects the defensive properties of rubber glove stocks like Hartalega which is powered by economies of scale and serving demand from healthcare industry. We initiate coverage on Hartalega with a **BUY** recommendation and derive a target price of RM5.70, after assigning a 10% premium to the 3-year average PER of 25x pegged to FY17 EPS.

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Company Background

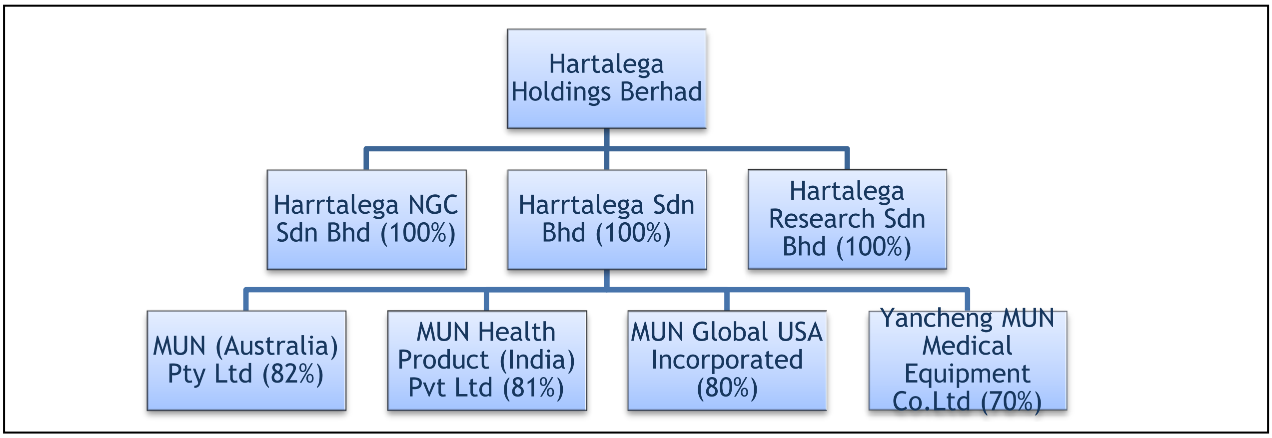
Hartalega Sdn Bhd, the main subsidiary of the group started off by two brothers namely Mr. Kuan Kam Hon and Mr. Kuan Kam Peng as an Original Equipment Manufacturer (OEM) for latex gloves in Kepong back to 1981. The third party brands, among others, include ‘Diamond Grip’, ‘Sensicare’, ‘Verte’, ‘Synetron’ and ‘Freeform’. Hartalega also plays the role of Original Brand Manufacturer (OBM) to serve demand in emerging markets such as China and India with its products marketed under brand names ‘Gloveon’. The sales contribution ratio of OEM/OBM is 94%:6% as at FY14.

Mr.Kuan Kam Hon, has envisioned the upswing in demand of nitrile glove and subsequently remodelled Hartalega in early 2004 from natural rubber glove maker to nitrile glove specialist which saw 30-fold jump in the sales of nitrile glove in 5 year-period. Today, nitrile gloves make up >90% of Hartalega’s production with the remaining <10% for powder-free latex gloves. Hartalega exports to 39 countries globally and >90% of sales are contributed by healthcare and lab industries in the US, Europe and Asia Pacific countries.

In April 2008, the company made its debut on the Main Board of Bursa Malaysia at RM1.80 per share with an estimated RM436 million in market worth, ranking at the fourth largest glove maker in Malaysia. Back then, Hartalega had only 3 manufacturing plants sitting at 10-acre land with a capacity of 3.3b pieces/annum. Today, the market capitalisation has skyrocketed to RM8.1 billion or a gain of 1,774% within 7-year period with a total installed capacity of 17 billion pieces, save for the pipeline expansion of NGC which is slated to be completed by FY21, targeting at 43 billion pieces capacity.

Under the Kuan Family’s management, Hartalega has achieved several sector “No.1” title since the 90’s and continue to raise the bar higher for the industry today. The achievements include, *inter-alia*, the first robotic lab simulator, the first 3.2 gram (lightest) nitrile glove and the first & fastest 45,000 gloves/hr production line. The company was also shortlisted in Forbes Asia 200 Best Under a Billion for 4 consecutive years in 2010-2013 and subsequently marching into the list of The Edge Billion Ringgit Club Corporate Awards and prestigiously recognized as the most profitable company in 2013-2015.

Corporate Structure



Source: Company

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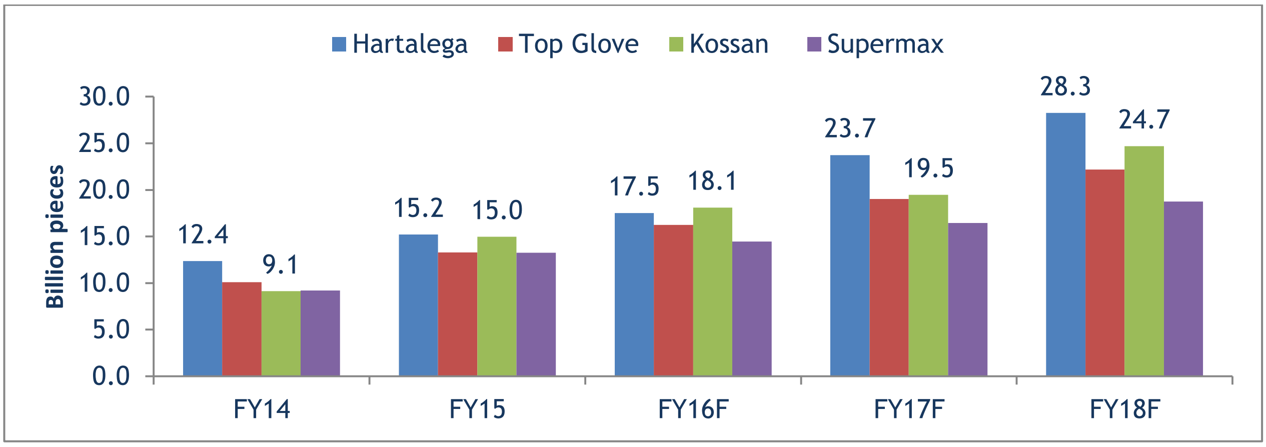
No.1 in Nitrile and most profitable glove player

Aint' Overnight Nitrile King

Hartalega kicked start its glove business back in 1988 as an OEM with single operation line, supplying latex examination gloves to local businesses like the other glove makers did, utilising the advantage of cheap rubber producing cost in Malaysia. In 2002, Hartalega invested in research and development (R&D) of thin nitrile gloves to overcome the thickness and heavyweight properties which were regarded as a hindrance for healthcare professionals and patients who were allergic to rubber protein. Today, Hartalega, the pioneer of nitrile glove, commands 15% - 20% global market share, standing out as the world's largest nitrile glove maker, targeting the healthcare sector in developed countries.

Chart 1: Installed capacity for nitrile glove among the Big-4



Source: Company, M&A Securities

However, the world's no.1 did not rest on its laurels. In 2013, Hartalega had embarked on a new manufacturing facility NGC to cater for the growing demand of nitrile gloves worldwide, again raising the bar higher for the glove industry. We expect the production capacity for nitrile glove of Hartalega to continue to outpace its peers with growth rates of 35.5%, 35.6%, 19.0% in FY16/17/18, respectively, achieving 30 billion gloves by FY18. We reckon the utilisation rate to stay at 85% from now onwards.

As at FY15, more than 90% of sales were attributed to healthcare sector. By geography, 48% of the sales were contributed by the US while Europe and other Asia countries made up 30% and 14%, respectively and the remaining to Australia and South America.

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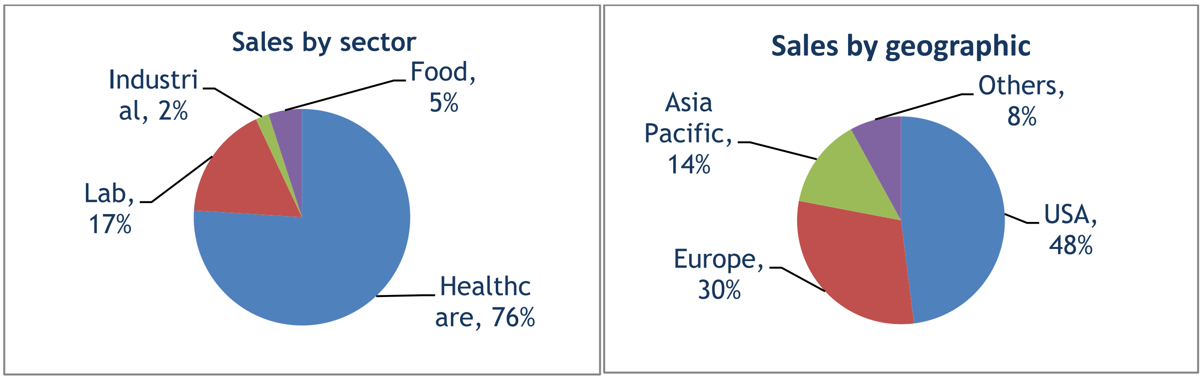
Chart 2: Sales by sector & geographic

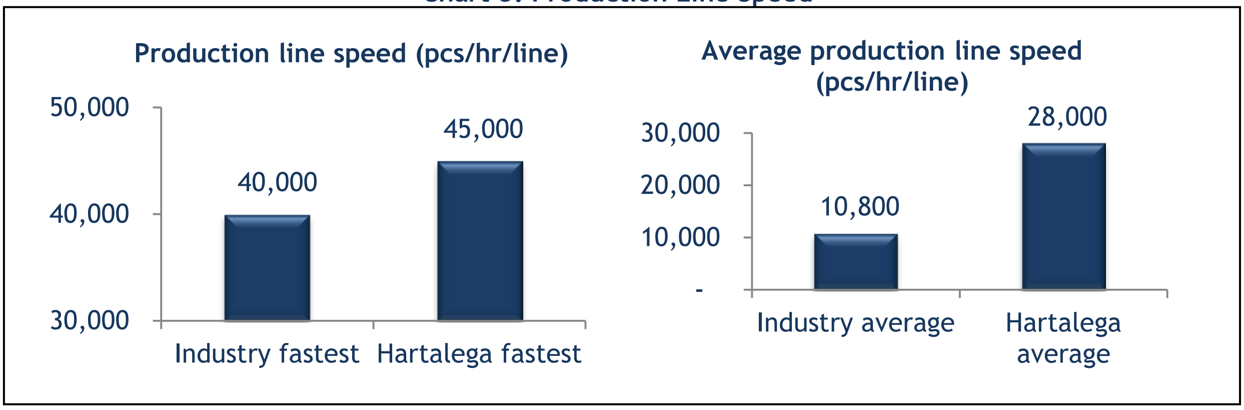


Source: Company, M&A Securities

Tune the efficiency to the max

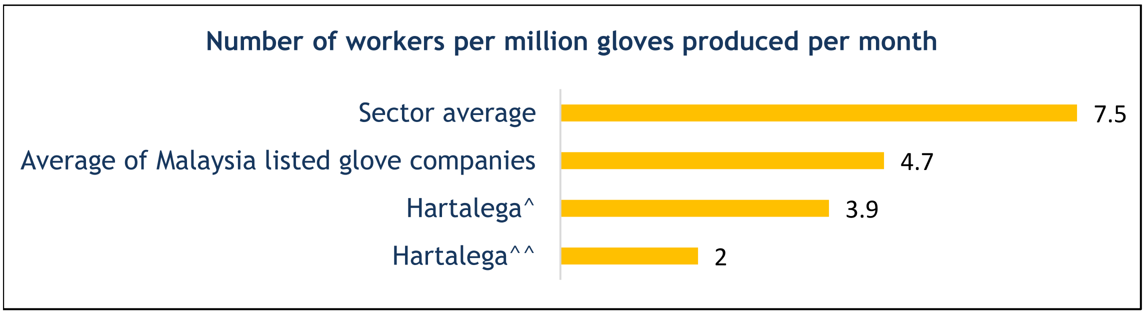
Years of R&D and innovation initiatives have proven successful and generated windfall profits to Hartalega since the past decade, surpassing the other big boys in the industry. In 2011, Hartalega again, surprised its peers after setting the new industry benchmark by introducing the world's first 3.2g nitrile examination glove and the industry's fastest line of 45,000 gloves/hr/line subsequently in the following year. In 2013, the company launched 2.7g nitrile powder-free examination glove, the most lightweight glove to date.

Chart 3: Production Line Speed



Source: Company, M&A Securities

Chart 4: Workers per Output



^ Existing setup

^^ Full-operated NGC and further automation

Source: Company, M&A Securities

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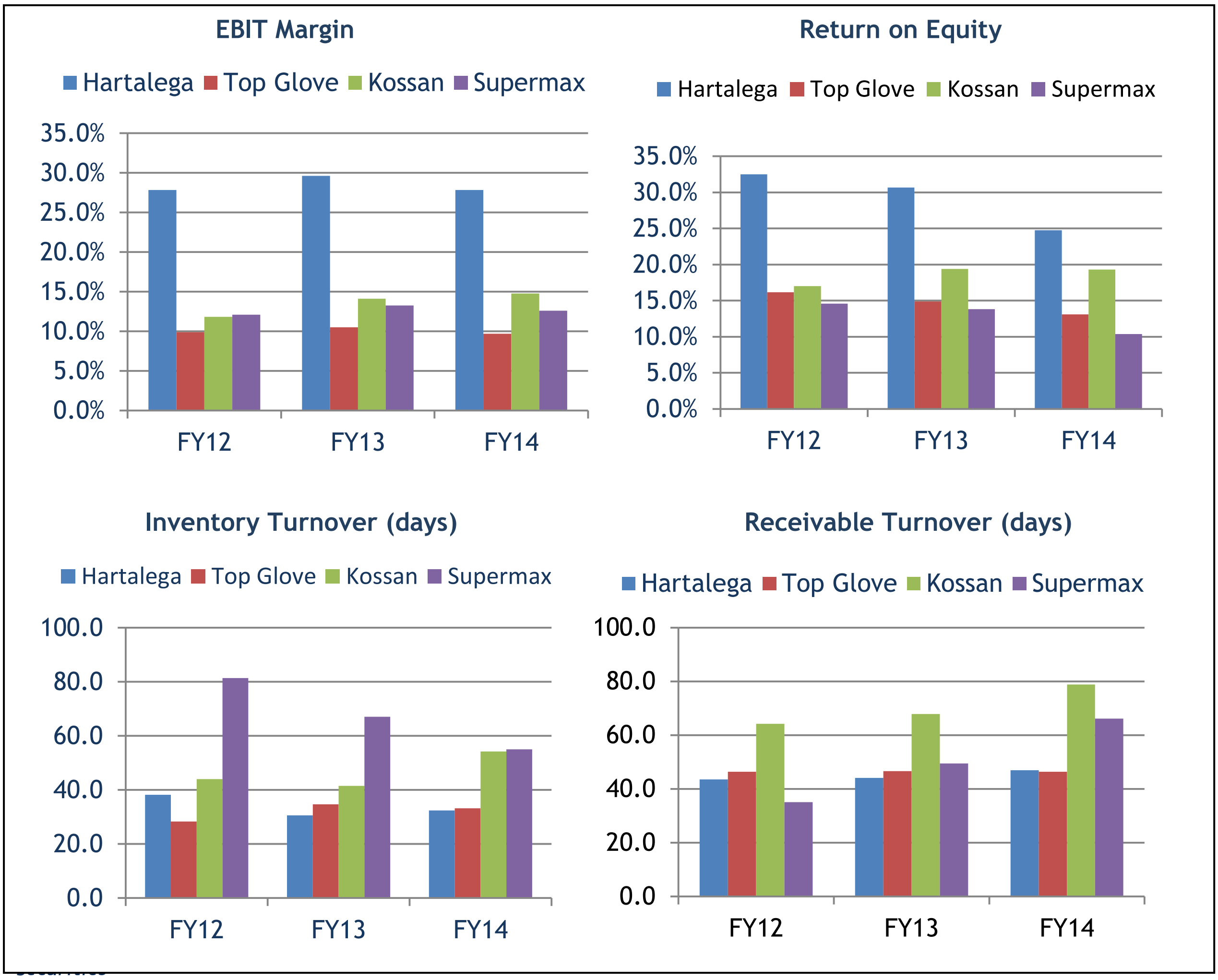
Thanks to high speed production lines, the number of workers required, therefore, is found significantly lower in Hartalega than in other industry players. The current existing setup in Hartalega only requires 3.9 workers to produce 1 million gloves per month, as compared to the average Malaysia listed glove companies of 4.7 and sector average of 7.5. The lower reliance on production worker translates into lower human error and defection rate. Moving forward, we believe the high calibre operation upon full-commissioning of all plants in NGC will only require 2 workers on average to produce 1 million gloves/month.

Chart 5: Profitability and turnover ratio



Source: Company, M&A Securities

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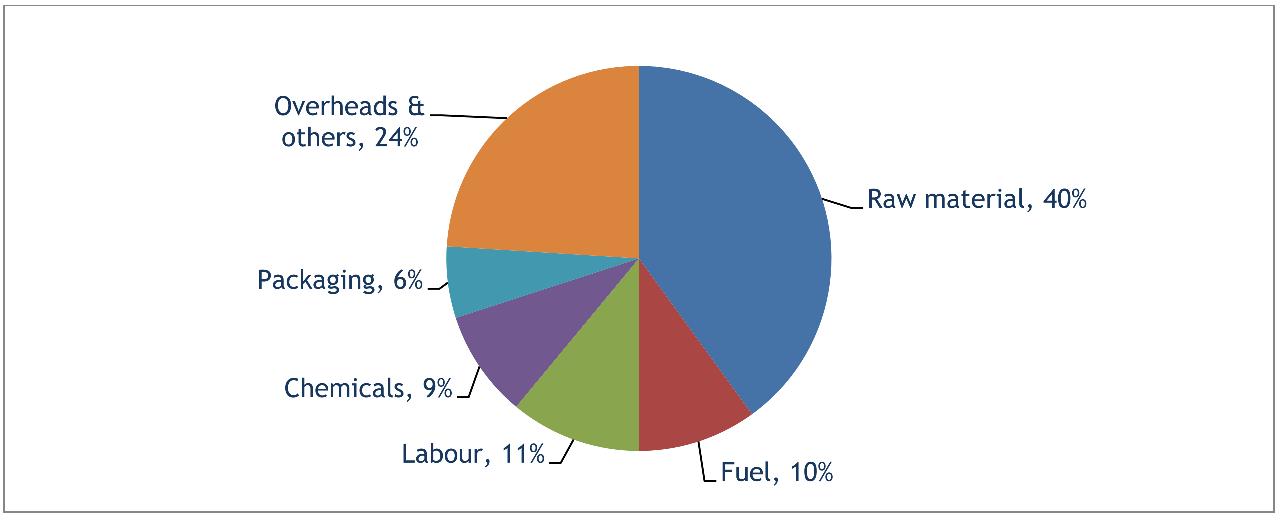
Chart 6: Cost Structure

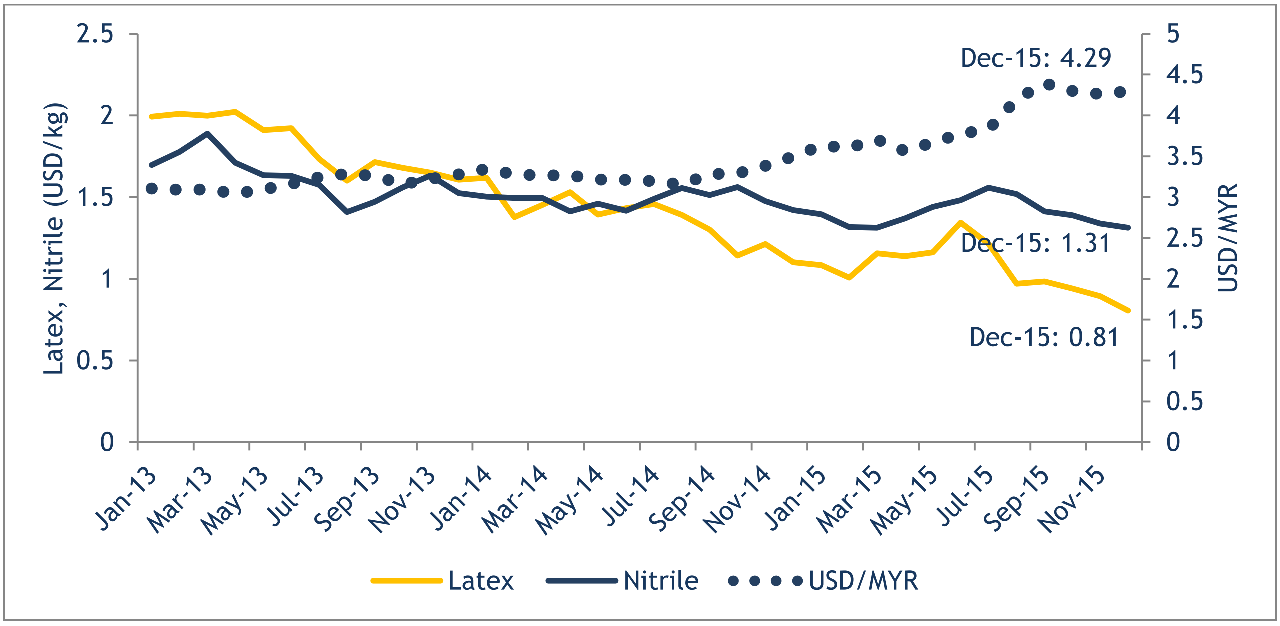


Source: Company, M&A Securities

Raw material prices expected to stay low

Raw material prices have been trending downwards in the past quarters due to global economic slowdown. Y-o-Y, natural rubber and crude oil price has dropped by 16% and 68% and this has caused pricing pressure in the average selling price of nitrile glove. We expect the latex prices continue to stay low at the current level given bleak outlook on the automotive industry particularly in China.

Chart 7: Raw material prices vs USD



Source: M&A Securities

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Passing on pricier cost of gas

The natural gas prices have increased by an average of 17% from RM21.80/million metric British thermal units (mmbtu) to RM25.53/mmbtu since January 2016. Hartalega will be passing on bulk of the cost increment to its customers, suggesting minimal of 1-2% impact to the bottom-line. Hence, we are not too worried on the effect as fuel costs only make up 10% of the total cost.

Table 1: Natural Gas Tariff Schedule

Tariff Category	Average Annual Gas Consumption (MMBtu)	Existing Tariff (RM/MMBtu)	Revised Tariff Effective 1 Jan 2016 (RM/MMBtu)	Increase rate
A	Residential	19.52	19.52	0%
B	0-600	20.30	23.78	17.14%
C	601-5,000	20.40	23.90	17.16%
D	5,001-50,000	20.60	24.14	17.18%
E	50,000-200,000	21.50	25.19	17.16%
F	200,001-750,000	21.50	25.19	17.16%
L	Above 750,000	22.22	26.03	17.15%
Average		**21.80**	**25.53**	**17.11%**

Source: Gas Malaysia

The NGC – the beauty of duplication

To catch up the fast growing global demand for rubber glove and to safeguard market share in exporting nitrile glove, capacity expansion is critically important for major glove exporters. In 2014, Hartalega embarked on a RM2.2 billion worth NGC in Sepang which include 6 manufacturing plants, training and R&D centres, sports and recreation complex as well as employees' accommodation. During our recent visit, we were impressed by the modern-looking complex as it is built on the modular manufacturing design basis which each factory plant has its own warehouse and loading bays as opposed to conventional centralised warehouse system. The concept is to increase the overall efficiency in view of its production planning, in-house logistics, independent key performance indicator (KPI) reading for each plant and others. Of note, the NGC is designed to be environmentally friendly that utilizes alternative energy such as biomass as opposed to natural gas for its fuel management system.

Figure 1: Exterior design of NGC Plant 1 & 2

Source: Company

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Figure 2: Construction work is underway in Plant 3, 4

Source: M&A Securities

World-class manufacturing facility

The process of glove manufacturing is generally categorized as cleaning, dipping and drying. The key to stand out from peers is through automation and innovative design of production line in order to boost efficiency. We noticed that machineries were set up in an organized way and operated by just a few staff in each segment, reflecting high dependence on automation (total workforce: ~5,100). There are 12 production lines in each manufacturing plant, totalling 72 lines running at 45,000 gloves/hr/line and 60% faster than that of the old plants in Batang Berjuntai of 28,000 pieces. We also learnt that Hartalega has been employing new revolutionary automation in factory production lines to monitor reject gloves.

This is believed to save considerably labour cost moving forward by replacing on-line production workers and will pre-empt rising labour cost macro-trends. Currently Plant 1 & 2 are fully built with 20 lines up and running (out of 24 lines) while construction works at Plant 3 & 4 are well underway and slated to start commercial run by 2Q CY15. The Management believes that two new additional lines of NGC will be commissioned every month in the absence of unforeseen circumstances. Upon the full commissioning of all plants in NGC, the total production capacity (including Bestari Jaya) will be jacked up to 43 billion pieces/annum (+168% of the current 16 billion) at an average utilisation rate of 85% by FY21, provided continued favourable business environment.

Table 2: Total installed capacity (in billion pieces)

Glove players	FY14	FY15	FY16F	FY17F	FY18F	4-year CAGR
Hartalega	13.3	16.0	18.4	25.0	29.7	22.3%
Top Glove	42.0	44.6	52.4	52.9	54.0	6.5%
Kossan	16.0	22.0	26.5	26.8	27.3	14.3%
Supermax	17.9	25.0	26.3	26.5	26.8	10.7%

Source: Company, M&A Securities

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Industry outlook & growth drivers

As >90% of Hartalega's glove are sold to healthcare industry (including lab segment), we are looking into the prospect of medical rubber glove demand growth, trending and potential demand drivers to grab a picture on Hartalega's sales performance few years down the road.

Export of rubber glove seen double-digit growth

According to MREPC, the world's export of rubber gloves increased 20% y-o-y from 11.3 billion pairs (1Q 2014) to 13.5 billion (1Q 2015). Out of the gains of 2.2 billion pairs, 2 billion were medical gloves categorized in 3 types: examination, surgical and high risk. Examination gloves which are commonly used in healthcare industry, consisted >95% of the medical gloves in terms of quantity export, registering at 43.7 billion pairs in 2014 or 8.8% y-o-y growth. We understand that the usage of examination glove is growing in tandem with rising population, leading to continued growth in the export of medical gloves. According to U.S. Census Bureau, on average, there is 1 birth every 8 seconds and 1 death every 10 seconds in the U.S., the third largest population in the world, also the largest revenue contribution by geography to Hartalega.

Table 3: Breakdown of medical glove & Non-medical glove

Type	2013			2014		
	Value (RM million)	Quantity (Million Pairs)	% of Total Export Value	Value (RM million)	Quantity (Million Pairs)	% of Total Export Value
Examination	7,592	40,194	73	7,880	43,738	73
Surgical	1,285	1,337	12	1,315	1,486	12
High Risk	52	139	1	114	285	1
Total Medical Gloves	**8,929**	**41,670**	**85**	**9,309**	**45,509**	**87**
Total Non-medical Gloves	**1,542**	**3,411**	**15**	**1,424**	**3,436**	**13**
Total Rubber Gloves	**10,471**	**45,081**	**100**	**10,733**	**48,945**	**100**

Source: MREPC, M&A Securities

Demand shift from natural rubber to SR

The demand and consumption of SR has been increasing from 46% of Malaysia's total glove export in 2012 to 51% in 2014 at the expense of diminishing NR export. In 1H2015, the export of SR:NR continued to strengthen to 55%:45%. This can be partly explained by:

1. SR has solved the rising concerns of protein allergy from using NR
2. Technology of processing SR has become highly advanced and much affordable
3. It's more comfortable to wear SR as the fitting reduce fatigue, especially surgical gloves
4. SR has elastic properties that self-seal if there's a pin hole while the pin holes become bigger with movement to wearing NR

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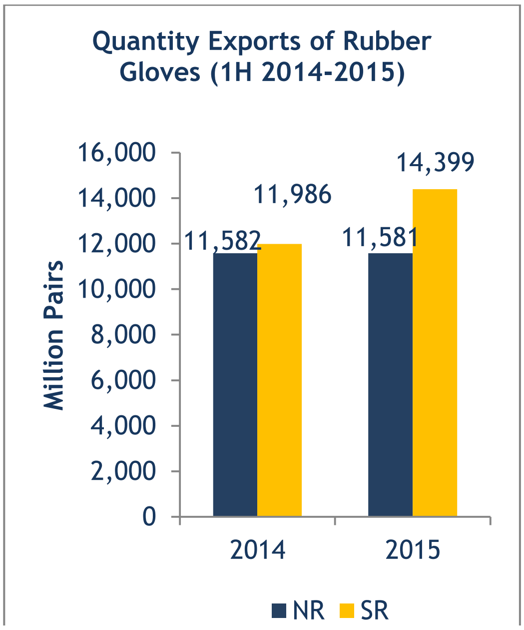
The quantity export of SR in 1H 2014 was 3% higher than NR before widening the range to 24% in the corresponding period in 2015. This was due to the reduction of 15 million pairs in the exports of NR as opposed to a jump of 1.9 billion pairs of SR in 1H 2014-2015.

Chart 8: Export of examination gloves and total rubber gloves



Source: MREPC, M&A Securities

Growth drivers in glove sector

1. Increasing hygiene standards and healthcare awareness
2. A growing ageing population with the elderly being more susceptible to higher risk diseases that would require medical gloves for treatments
3. The emergence of new diseases such as Zika, which has been reported in more than 27 countries including the U.S.
4. Progressively stringent health regulations in China, USA, Europe as well as in developing countries in view of rising living standard

Selected Risks

(1) Continued tumble in latex price. In the light of the global economic slow down and weaker demand in auto industry, which subsequently pushing the natural rubber latex price towards below USD1/ kg level, posting a threat to its close 'substitution' Nitrile which is trading around USD1.30/kg. Should the demand in tire industry continue to weaken, the NR latex price could go lower towards to USD0.5/kg and the demand from NR glove could pick up due to better margins, which could be a hurdle to SR-centric players like Hartalega.

(2) Strengthening in Ringgit in relative to USD. As more than 90% of Hartalega's revenue are denominated in USD, the strength of USD/Ringgit can create double-edged impact where weakening USD can slash the group's earnings from top-line to the bottom-line.

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(3) **Dependence on major customers.** About 30% of Hartalega's sales are from two major customers in the United States. However, this ratio has declined from 50% on the back of a more diversified customer base and we are not too perturbed by this as the major customers have been dealing with Hartalega for decades, suggesting long-term relationship has been cultivated.

Financial Review

In FY15, Hartalega expanded its billion-ringgit sales turnover by 3.5% y-o-y to RM1.1 billion in the event of falling average selling price due to weak raw material prices and increasingly competitive business environment. The jump in revenue was supported by stronger USD coupled with sales volume growth of 4.9% primarily in Asia from which the revenue grew +14% y-o-y followed by Europe that of +5% y-o-y. EBITDA fell 9% to RM321.6 million while EBITDA margin dropped below 30% first time in 5 years at 28.1% due to start-up expenses of NGC project, higher maintenance cost and natural gas prices.

However, the earnings momentum started to pick up in 1Q FY16, registering revenue and EBITDA growth of 15% y-o-y and 10% y-o-y, respectively, attributed by new production lines from NGC Plant 1 & 2. A total new 11 lines housed under the 2 new plants were tested and commissioned as at June 2015. In the latest 2Q FY16, Hartalega registered another new record in sales turnover at RM379.3 million (38% y-o-y, 18% q-o-q), boosted by progressive expanded capacity in NGC and favorable USD/MYR exchange rate amid faltering ASP due mainly to bleak commodity prices. PBT was at RM75.1 million or 19.8% PBT margin, well above its closest peers Top Glove (16.1%) and Kossan (16.0%). We are sanguine about 2H FY16 results in terms of top-line growth contributed by NGC Plant 1 & 2 which will be fully commissioned by February 2016 or 4Q FY16, expecting another record breaking year in FY16 despite some margin erosion should the nitrile latex continue to stay weak.

Moving forward, we expect full contribution of Plant 1 & 2 to be reflected in FY17 while Plant 3 & 4 which have started construction work in 2H CY15 will contribute positively and progressively in FY17 and FY18 earnings. Provided no further delays in plant construction and facility installation and consistently strong demand of gloves, Plant 3 & 4 should be fully commissioned by 1Q FY18, adding another 8 billion pieces gloves p.a, ramping up total capacity to 30 billion p.a. We project Hartalega to post FY16-18 net profit CAGR of 14.6% driven by its ongoing expansion plans, converting into EPS of 16 sen, 20 sen and 21 sen in FY16/17/18, respectively.

Dividend Policy

Hartalega has been committing a minimum payout of 45% of the group's net profit since FY12 and paid out RM107.6 million (46%) and RM105 million (50%) as dividends in FY14 and FY15, respectively. Given its expanding bottom-line attributed by progressive expansion plan, we expect Hartalega's payout ratio to sustain at 47%-52% in line with encouraging earnings forecast in FY16-FY18. Based on 50% payout, the prospective dividend for FY16 could reach RM134.1 million, translating into 1.4% yield.

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Valuation and recommendation

Hartalega is the most profitable listed glove company in Malaysia, underpinned by high utilization of automation and other highly advanced technology under the helm of hands-on and forward-thinking management. Being the pioneer in SR production, high employment of automation and relatively low reliance on labour as compared to bigger players like Top Glove, we assign a 10% premium on its 3-year PER of 25x with resultant PER of 28x, pegged to our FY17 EPS forecast 20.4 sen, arriving at the target price of RM5.70. We re-initiate coverage on Hartalega with a **BUY** recommendation.

Table 4: Peers Comparison

Company	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price**	Call**
			FY15	FY16	FY15	FY16	FY15	FY16				
Hartalega	Mar	4.98	14	20	32	29	3	7	17.9	1.5	**5.70**	**BUY**
Top Glove	Aug	13.70	58	67	17	21	4	4	22.5	2.6	**TBC**	**TBC**
Kossan	Dec	8.62	29	38	19	20	5	5	21.7	1.8	**TBC**	**TBC**
Supermax	Dec	3.39	16	20	11	16	1	2	10.8	3.0	**TBC**	**TBC**
Average			29	36	41	22	3	5				

Source: Bloomberg, M&A Securities

Table 5: Financial Forecast

FYE MAR (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	1,107.2	1,146.0	1,483.8	1,831.6	2,131.0
EBITDA	353.6	321.6	401.1	506.4	549.0
D&A	(45.2)	(45.9)	(65.9)	(85.9)	(105.9)
EBIT	308.4	275.7	335.3	420.5	443.1
Net interest income	0.8	1.2	0.1	(1.4)	(2.2)
PBT	309.2	276.9	335.3	419.2	440.9
Tax	(75.4)	(66.7)	(67.1)	(84.1)	(88.7)
PAT	233.2	209.7	268.3	335.1	352.2
MI	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)
PATMI	232.7	209.2	267.8	334.6	351.7
EPS	14.2	12.8	16.4	20.4	21.5
EBITDA margin	32%	28%	27%	28%	26%
EBIT margin	28%	24%	23%	23%	21%
PBT margin	28%	24%	23%	23%	21%
Net profit margin	21%	18%	18%	18%	17%
PER (x)	42.1	46.8	36.6	29.3	27.8
P/BV (x)	10.5	7.9	6.8	5.8	5.1
Dividend (sen)	14.5	13.5	8.2	10.2	10.7
Dividend yield	2%	2%	1%	2%	2%

Source: M&A Securities

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Table 6: Balance Sheet

FYE MAR (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Non-current assets					
PPE	634.5	821.6	1,055.7	1,269.8	1,463.9
Intangible assets	6.7	20.6	20.6	20.6	20.6
Others asseets	50.4	226.9	226.9	226.9	226.9
Total non-current assets	**691.5**	**1,069.0**	**1,303.1**	**1,517.3**	**1,711.4**
Current assets					
Inventories	98.2	120.2	155.6	192.1	223.5
Trade and other receivables	142.5	197.6	255.8	315.8	367.4
Cash and bank balances	170.5	70.5	41.9	64.2	125.6
Other assets	1.9	0.2	0.2	0.2	0.2
Total current asseets	**413.1**	**388.4**	**453.5**	**572.3**	**716.7**
Current liabilities					
Trade and other payables	87.1	108.3	140.2	173.0	201.3
ST borrowings	3.0	6.1	76.8	116.6	156.3
Others	11.7	12.6	(8.1)	(10.7)	(11.4)
Total Current Liabilities	**101.8**	**127.0**	**208.8**	**279.0**	**346.2**
Non-current liabilities					
LT borrowings	1.8	0.3	32.9	50.0	67.0
Others	57.0	59.5	59.5	59.5	59.5
Total non-current liabilities	**58.8**	**59.8**	**92.4**	**109.5**	**126.5**
Shareholders' Equity					
Share capital	373.5	400.8	820.4	898.5	976.7
Reserves	569.1	868.2	633.3	800.9	977.0
Minority interest	1.3	1.7	1.7	1.7	1.7
Total Equity	**944.0**	**1,270.7**	**1,455.4**	**1,701.1**	**1,955.3**

Source: M&A Securities

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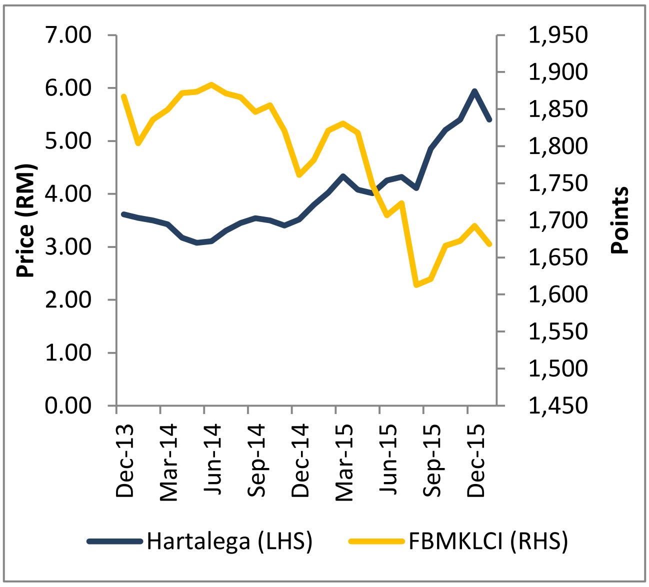
Table 7: Cash Flow Statement

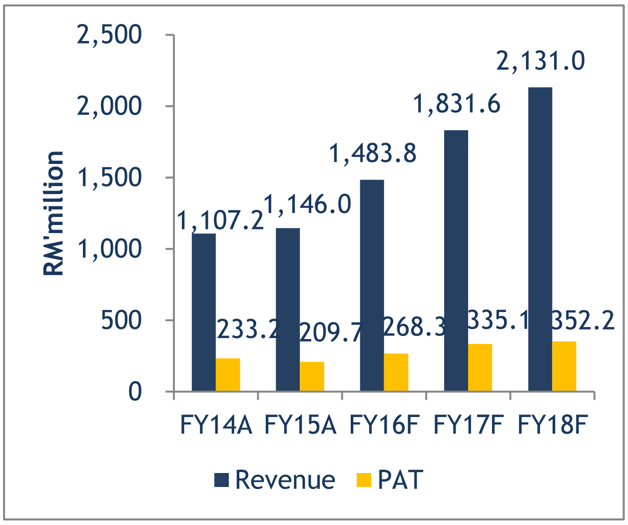
FYE MAR (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Pretax profit	309.2	276.9	335.3	419.2	440.9
D&A	45.2	45.9	65.9	85.9	105.9
Tax paid	(70.5)	(69.7)	(67.1)	(84.1)	(88.7)
Changes in WC	(36.6)	(65.3)	(61.8)	(63.6)	(54.7)
Others	1.1	17.9	0.7	0.4	0.7
Operating cashflow	**248.4**	**205.7**	**273.1**	**357.8**	**404.0**
Capex	(105.9)	(38.8)	(300.0)	(300.0)	(300.0)
Others	(98.3)	(379.0)	(3.7)	(2.6)	(0.4)
Investing cashflow	**(204.2)**	**(417.8)**	**(303.7)**	**(302.6)**	**(300.4)**
Net borrowings	(7.5)	1.6	57.9	57.9	57.9
Dividend paid	(107.6)	(105.0)	(134.1)	(167.5)	(176.1)
Others	50.6	221.3	78.2	76.8	75.9
Financing cashflow	**(64.4)**	**116.6**	**2.0**	**(32.9)**	**(42.3)**
Net cash flow	**(20.2)**	**(95.5)**	**(28.6)**	**22.4**	**61.3**

Source: M&A Securities

Hartalega Share Price vs. KLCI (Dec 2013-Jan 2016)



Net Profit vs Revenue (FY14-FY18F)



Source: Bloomberg, M&A Securities

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Table 8: Board of Directors and Key Management

Name	Designation	Profile
Kuan Kam Hon @ Kwan Kam Onn	Executive Chairman	• Established Hartalega in 1981, having over 30 years experience in glove industry • Homebuilder in the 70s specializing in upper-class residential units
Dr. Danaraj A/L Nadarajah	Non-independent Executive Director	• Managing Hartalega's subsidiaries in China and India • He was the Technical Advisor in the Special Innovation Unit in the Prime Minister Office • Professor of Business Strategy and the Director of MBA Programme at International University of Monaco
Dato' Tan Guan Cheong	Independent Non-Executive Director	• He was the Group's managing director in 1988 • Director of Kian Joo Can Factory Bhd and YTL Cement Bhd • Holds a Bachelor of Commerce degree from Otago University, majoring in economics, marketing management and accountancy
Razman Hafidz bin Abu Zarim	Independent Non-Executive Director	• Chairman of Tune Ins Holdings Berhad and Director of Panasonic Manufacturing Malaysia Bhd, Linde Malaysia Holdings Bhd and Yeo Hiap Seng Ltd (Singapore) • Director of Kian Joo Can Factory and YTL Cement Bhdd • Chartered Accountant and joined Price Waterhouse as Audit Partner
Liew Ben Poh	Independent Non-Executive Director	• Key personnel in the R&D and helped form strong international client base • Served 2 terms of presidency post in Malaysia Rubber Glove Manufacturers' Association (MARGMA) • Founding Board Member of the Malaysian Rubber Export and Promotion Council (MREPC)
Kuan Mun Leong	Managing Director	• Implemented the first empty oil palm fruit bunch biomass energy plant in 2004 • Graduated from Monash University with a Bachelor Degree in Mechanical Engineering and subsequently completed MBA programme in the University of Strathclyde • Son of Kuan Kam Hon
Kuan Mun Keng	Non-Independent Executive Director	• Responsible for the Group's corporate finance and sales & marketing divisions • Graduated from Monash University with a Bachelor Degree in Business (Accounting) and a Bachelor Degree in Computing • Son of Kuan Kam Hon

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Kuan Eu Jin	Director of R&D and Technical Division	• Overseeing the quality assurance department and managing technical support to production • Graduated from Monash University with a Bachelor Degree in Business and completed MBA programme in Strathclyde Business School • Son of Kuan Kam Hon
Kuan Vin Seung	Director of Human Resources Division	• Responsible for human capital management and oversees the Group's corporate responsibility • Graduated from Monash University with a Bachelor Degree in Commerce and completed MBA in Manchester Business School • Member of Federation of Malaysia Manufacturers Selangor Branch Committee • Son of Kuan Kam Hon
Muhammad Hakimi Tan bin Abdullah	Director of Manufacturing Division	• Overseeing manufacturing operations including production, quality control, maintenance, purchasing, shipping, warehousing, etc • Graduated from Campbell University with a Bachelor Degree in Science majoring in Biology and Chemistry

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M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD	*Share price is expected to be between -10% and +10% over the next 12 months.*
SELL	*Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT	*The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL	*The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT	*The sector is expected to underperform the FBM KLCI over the next 12 months.*

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