

Hartalega Holdings Berhad

(5168 | HART MK) Health Care | Health Care Equipment & Services

Maintain NEUTRAL

Demand Expected to Remain Robust

Revised Target Price: RM20.73

(Previously RM15.69)

KEY INVESTMENT HIGHLIGHTS

- **1QFY21 earnings within expectation**
- **Net profit for 1QFY21 surged +133.6%yoy to RM219.7m**
- **ASP may increase by double-digit percentage in the coming quarters**
- **Earnings forecast revised higher due in view of favourable pricing and raw material cost**
- **Maintain Neutral with a revised TP of RM20.73**

1QFY21 earnings within expectation. Hartalega Holdings Berhad's (Hartalega) 1QFY21 core net income (CNI) of RM216.2m came in within our expectation at 25.9% of our full year estimates, but below consensus' full year forecast at 17.3%. The company has announced an interim dividend of 2.10 sen, which is also largely within expectation.

Net profit for 1QFY21 surged +133.6%yoy to RM219.7m as revenue jumped +43.7%yoy to RM920.1m. This was attributed to the sales volume that increased by 38.5%yoy and higher average selling prices (ASP). This was coupled with raw material prices that remain low, enhanced operational efficiency due to the higher production volume and better economies of scale. Energy for the period was also lower year-on-year while the firm's cost control initiative bear fruits. As a result, net earnings rose faster than revenue.

Sequentially, net profit jumped +81.7%qoq premised on revenue that increased by +15.5%qoq. This was due to production volume and ASP that rose by single digits compared to the immediate preceding quarter. On top of that, utilisation rate has improved to close to optimum level during 1QFY21 while raw material cost were lower.

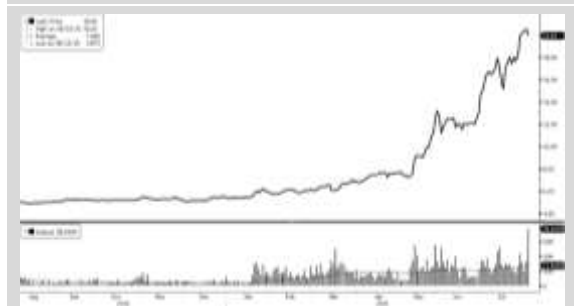
ASP may increase by double-digit percentage in the coming quarters. Due to the unrelentingly high demand for gloves, ASPs may increase at a faster pace in the upcoming quarters compared to what had been recorded in 1QFY21. Spot orders, arising from new capacity built, is expected to make up less than 10% of sales volume. Allocation for spot order is taken up until March 2021. We opine that demand is likely to supersede supply due to the higher number of daily new cases in July at about 200,000 to 300,000 per day as compared to around 100,000 daily cases in April and May. Premised on that, we believe that prices for gloves are likely to increase further.

Production capacity expansion going well. Eight out of the 12 lines planned for Plant 6 has been commissioned since early of the year while the first line of Plant 7 is slated to start towards end of the calendar year. Meanwhile, high capacity lines in Plant 6 and 7 are expected to be completed by March 2021. With the additional capacity, production is estimated to increase to 42 billion pieces per year from the existing 37 billion pieces. The additional capacity is expected to fill in the higher demand of gloves by emerging markets and heightened hygiene awareness since the pandemic.

RETURN STATISTICS

| | |
|-------------------------------------|-------------|
| Price @ 4 th August 2020 | 19.94 |
| Expected share price return (%) | +4.0 |
| Expected dividend yield (%) | +0.5 |
| Expected total return (%) | +4.5 |

SHARE PRICE CHART




| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 24.6 | 22.8 |
| 3 months | 53.4 | 137.3 |
| 12 months | 310.3 | 319.3 |

KEY STATISTICS

| | |
|----------------------------------|----------------|
| FBM KLCI | 1,572.54 |
| Syariah compliant | Yes |
| Issue shares (m) | 3383.41 |
| Estimated free float (%) | 41.95 |
| Market Capitalisation (RM'm) | 68,346.48 |
| 52-wk price range | RM4.8 - RM21.1 |
| Beta vs FBM KLCI (x) | 1.15 |
| Monthly velocity (%) | 0.0 |
| Monthly volatility (%) | 15.48 |
| 3-mth average daily volume (m) | 13.69 |
| 3-mth average daily value (RM'm) | 192.91 |
| Top Shareholders (%) | |
| Hartalega Industries Sdn Bhd | 47.22 |
| Employees Provident Fund Board | 2.07 |
| KUAN KAM PENG | 1.78 |

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Earnings forecast revised higher due in view of favourable pricing and raw material cost. We expect the rise in ASPs to outpace any potential uptick in raw material costs while opex is expected to remain stable and under control especially with the cost optimization initiatives taken. Due to the much better economies of scale and efficiency, as well as raw material prices that remain low, we are assuming better profitability. This is also backed by management's continual efforts in controlling cost. As such, we increase FY21E/FY22F earnings by +49.4%/+32.1% to RM1,249.7m and RM1,253.5m respectively.

Maintain Neutral with a revised TP of RM20.73. Corresponding to the higher forward earnings, our **TP** for Hartalega is revised to **RM20.73** from RM15.79, which is pegged to FY21F EPS of 37.7sen to PER of 55x. Our PER valuation is of about +2SD of its 5-year mean, is currently warranted due to the resilient outlook for Hartalega in the near to medium-term. We maintain our **NEUTRAL** recommendation as we believe that its near-term positives have been largely priced in at this juncture. Upside risks to our call include higher than expected ASPs and lower than expected raw material costs. On the flipside, higher than expected supply of gloves in the market and sudden plunge in new daily Covid-19 cases may pose threats to its outlook. 

INVESTMENT STATISTICS

| Financial year ending 31st March (in RM'm, unless otherwise stated) | FY2018 | FY2019 | FY2020 | FY2021F | F2022F |
|--|---------------|---------------|---------------|---------------|---------------|
| Revenue | 2405.6 | 2827.2 | 2961.3 | 5351.7 | 6021.5 |
| Cost of goods sold | -1790.9 | -2119.0 | -2328.6 | -3458.4 | -4072.8 |
| Gross profit | 614.8 | 708.2 | 595.4 | 1893.4 | 1948.8 |
| Finance costs | -7.9 | -10.6 | -10.8 | -18.7 | -24.1 |
| Profit before tax | 526.4 | 550.8 | 556.3 | 1524.1 | 1528.7 |
| Core PATANCI | 439.6 | 474.0 | 472.6 | 1249.7 | 1253.5 |
| EPS (sen) | 12.8 | 13.7 | 14.2 | 37.6 | 37.7 |
| EPS Growth (%) | 55.1 | 7.0 | 3.4 | 164.5 | 0.3 |
| PER (x) | 155.8 | 36.8 | 140.3 | 53.1 | 52.9 |
| Dividend Per Share (sen) | 5.9 | 8.2 | 7.6 | 9.5 | 10.3 |
| Dividend yield (%) | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 |

Source: Company, MIDFR

Table 1: Hartalega's quarterly earnings review

| FYE Mar (RM'm) | Quarterly results | | | | | Cumulative results | | |
|--------------------------|-------------------|--------------|--------------|--------------|-------------|--------------------|--------------|--------------|
| | 1QFY21 | 4QFY20 | 1QFY20 | YoY (%) | QoQ (%) | 3MFY21 | 3MFY20 | YoY (%) |
| Revenue | 920.1 | 796.6 | 640.1 | 43.7 | 15.5 | 920.1 | 640.1 | 43.7 |
| Operating expenses | (651.6) | (642.3) | (515.6) | 26.4 | 1.4 | (651.6) | (515.6) | 26.4 |
| Other operating income | 6.1 | 7.8 | 0.4 | 1,453.3 | (21.9) | 6.1 | 0.4 | nm |
| Finance costs | (1.8) | (2.4) | (3.3) | (43.4) | (24.0) | (1.8) | (3.3) | (43.4) |
| Profit Before Tax | 272.8 | 159.7 | 121.7 | 124.3 | 70.8 | 272.8 | 121.7 | 124.3 |
| Taxation | (51.8) | (38.0) | (27.4) | 88.9 | 36.1 | (51.8) | (27.4) | 88.9 |
| Profit After Tax | 221.1 | 121.7 | 94.3 | 134.5 | 81.7 | 221.1 | 94.3 | 134.5 |
| Non-controlling interest | 1.3 | 0.3 | 0.2 | 601.6 | 295.3 | 1.3 | 0.2 | nm |
| PATANCI | 219.7 | 121.3 | 94.1 | 133.6 | 81.1 | 219.7 | 94.1 | 133.6 |
| Basic EPS (sen) | 6.6 | 3.6 | 2.8 | 134.4 | 81.1 | 6.6 | 2.8 | 134.4 |
| Diluted EPS (sen) | 6.5 | 3.6 | 2.8 | 134.7 | 81.2 | 6.5 | 2.8 | 134.7 |
| PBT margin (%) | 29.7 | 20.0 | 19.0 | 10.6 | 9.6 | 29.7 | 19.0 | 10.6 |
| PAT margin (%) | 24.0 | 15.3 | 14.7 | 9.3 | 8.8 | 24.0 | 14.7 | 9.3 |
| PATANCI margin (%) | 23.9 | 15.2 | 14.7 | 9.2 | 8.6 | 23.9 | 14.7 | 9.2 |
| Effective tax rate (%) | 19.0 | 23.8 | 22.5 | (3.6) | (4.8) | 19.0 | 22.5 | (3.6) |

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|---------------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% 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. |