

Hartalega Holdings Berhad

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

Maintain BUY

Boosted by ASP hike

Revised Target Price: RM18.25

(Previously RM22.96)

KEY INVESTMENT HIGHLIGHTS

- **9MFY21 earnings exceeded expectation**
- **Net profit for 3QFY21 surged by 83.8%qoq to RM1.00b**
- **Expect ASP to continue the uptrend in the coming quarter**
- **Well-paced expansion plan to meet demand**
- **Maintain BUY with a revised TP of RM18.25 (previously RM22.96)**

9MFY21 earnings exceeded expectation. Hartalega Holdings Berhad's (Hartalega) 9MFY21 core net income (CNI) of RM1.77b was above our full year forecast at 85.0% but within consensus estimates at 69.0%. An interim dividend of 9.65sen was announced during the quarter, bringing ytd DPS to 15.60sen.

Net profit for 3QFY21 surged by +83.8%qoq to RM1.00b as revenue jumped by +58.2%qoq to RM2.13b. The surge in revenue was attributed to the increase in average selling prices (ASP) of nitrile gloves, which we estimated at more than 50% sequentially as well as higher volume sold. Meanwhile, bottomline grew more than topline primarily due to better economies of scale as well as lower power and maintenance expenses. These factors offset the rise in raw material costs as well as remediation cost for its foreign workers.

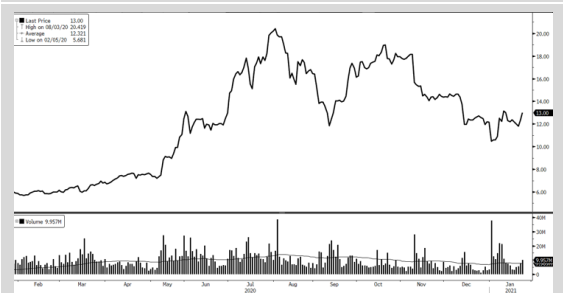
Expect ASP to continue the uptrend in the coming quarter. In-line with the industry trend, we think that ASPs for nitrile gloves are likely to continue its upward trajectory for the quarter ending March. As Hartalega has been lagging in price adjustments compared to some of its peers, we believe that the sequential increase in ASP could possibly exceed 40% compared to the current quarter. Based on channel checks, supply remains tight for rubber gloves. On top of the demand from combating the Covid-19 pandemic, increasing demand is seen in emerging markets with low gloves consumption per capita due to higher hygiene awareness.

Well-paced expansion plan to meet demand. Hartalega has completed all the 12 production lines in Plant 6 of NGC. Meanwhile, 4 out of 10 lines in Plant 7 have been commissioned. We understand that another 2 more lines at Plant 7 are to be commissioned by end of FY21 while the remaining 4 lines, which are allocated for surgical gloves will be installed in the coming quarters. Separately, Plant 8, which is part of NGC 1.5, is slated for the commissioning of its first line by 4QCY21. With all these plans in place, we think that the full completion of NGC 1.0 may pave way for the start of NGC 2.0 in 2022.

RETURN STATISTICS

Price @ 25 th January 2021	13.00
Expected share price return (%)	+40.4
Expected dividend yield (%)	+2.7
Expected total return (%)	+43.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.3	7.6
3 months	7.1	-28.8
12 months	115.6	115.1

KEY STATISTICS

FBM KLCI	1,576.62
Syariah compliant	Yes
Issue shares (m)	3383.41
Estimated free float (%)	36.10
Market Capitalisation (RM'm)	44,558.89
52-wk price range	RM5.67 - RM21.1
Beta vs FBM KLCI (x)	0.98
Monthly volatility (%)	15.48
3-mth average daily volume (m)	7.76
3-mth average daily value (RM'm)	106.40
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	47.22
Employees Provident Fund Board	5.88
KUAN KAM PENG	1.78

Analyst(s)
 Ng BEI SHAN
 ng.bs@midf.com.my
 03-2173 8461

Earnings forecast for FY21E revised upwards. We increase our earnings forecast for FY21E by 49% in anticipation of further upside on ASPs, which in turn will drive up revenue and profit. We believe that the increase in ASP will offset higher raw material costs. On the other hand, we make no changes to our FY22F/FY23F forecast for now.

Maintain BUY with a revised TP of RM18.25 (previously RM22.96). We now peg the TP to 31.0x FY22F EPS of 58.9. The 31.0x PER is based on Hartalega's 10-year mean, which we opine is more reflective of its long-term prospects. Previously, we ascribed it to 39.0x PER, which is 0.5SD above its long-term mean. We believe that demand for rubber gloves will remain robust in the near-to-medium term as they are part of the essential personal protection equipment for front-line workers. The increase in usage is also likely to come from emerging markets that used to consume less rubber gloves. We also like Hartalega for its proactive measures in minimising the risk of infection among its workers to ensure that its production is not disrupted.



INVESTMENT STATISTICS

Financial year ending 31st March (in RM'm, unless otherwise stated)	FY2019	FY2020	FY2021F	F2022F	F2023F
Revenue	2827.2	2961.3	7397.2	9046.9	6628.6
Cost of goods sold	-2119.0	-2328.6	-3006.7	-5968.9	-4966.8
Gross profit	708.2	595.4	4390.5	3077.9	1661.8
Finance costs	-10.6	-10.8	-25.8	-36.2	106.1
Profit before tax	550.8	556.3	3880.0	2446.8	1464.5
PATANCI	456.2	435.8	3104.0	1957.5	1316.0
Core PATANCI	474.0	472.6	3104.0	1957.5	1316.0
EPS (sen)	13.7	14.2	93.3	58.9	39.6
EPS Growth (%)	7.0	3.4	556.9	-36.9	-32.8
PER (x)	36.8	91.5	13.9	22.1	0.0
PBT margin (%)	19.5	18.8	52.5	27.0	22.1
PATANCI margin (%)	16.8	16.0	42.0	21.6	19.9
Dividend Per Share (sen)	8.2	7.6	56.0	35.3	23.7
Dividend yield (%)	0.6	0.6	4.3	2.7	1.8

Source: Company, MIDFR

Table 1: Hartalega's 3QFY21 earnings review

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	3QFY21	2QFY21	3QFY20	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	2,129.9	1,346.0	796.6	167.4	58.2	4,396.0	2,146.1	104.8
Operating expenses	(840.3)	(642.3)	(642.3)	30.8	30.8	(2,160.9)	(1,724.6)	25.3
Other operating income	57.8	7.7	7.8	637.9	653.0	71.6	5.8	1,128.6
Finance costs	(1.6)	(1.7)	(2.4)	(35.6)	(5.5)	(5.1)	(8.7)	(41.8)
Profit Before Tax	1,345.9	683.0	159.7	742.8	97.1	2,301.7	418.7	449.7
Taxation	(338.1)	(133.3)	(38.0)	788.8	153.7	(523.1)	(98.6)	430.7
Profit After Tax	1,007.8	549.7	121.7	728.4	83.3	1,778.6	320.1	455.6
Non-controlling interest	6.2	4.7	0.3	1,726.0	30.6	12.3	0.9	1,312.0
PATANCI	1,001.6	545.0	121.3	725.6	83.8	1,766.3	319.3	453.3
Core PATANCI	1,001.6	541.5	121.7	723.0	85.0	1,766.3	319.6	452.6
Basic EPS (sen)	29.3	15.8	3.6	708.0	85.0	51.7	9.5	442.5
Diluted EPS (sen)	29.3	15.8	3.6	713.4	85.0	51.7	9.5	446.2
PBT margin (%)	63.2	50.7	20.0	43.1	12.5	250.2	19.5	230.6
PAT margin (%)	47.3	40.8	15.3	32.0	6.5	193.3	14.9	178.4
PATANCI margin (%)	47.0	40.5	15.2	31.8	6.5	40.2	14.9	25.3
Effective tax rate (%)	25.1	19.5	23.8	1.3	5.6	22.7	23.5	(0.8)

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.