

# Hartalega Holdings Berhad

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

## Positive earnings outlook priced in

### KEY INVESTMENT HIGHLIGHTS

- **FY20 earnings above our expectation**
- **Higher sequential earnings due to lower cost**
- **Flattish earnings in FY20**
- **Earnings forecast revised higher due to robust demand for gloves**
- **Upgrade to Neutral with a revised TP of RM8.78**

**FY20 earnings above our expectation.** Hartalega Holdings Berhad's (Hartalega) FY20 core net earnings of RM472.6m came in within consensus but above our expectation, making up 110% of our estimate. The positive deviation was mainly due to lower than expected raw material cost. Dividend of 2.05sen per share was announced, bringing total dividend to 7.55sen per share in FY20. That translates into dividend yield of 0.8%.

**Flattish earnings in FY20.** On sequential basis, topline was lower at RM777.9m (-2.3%qoq) mainly due to lower average selling price (ASP) as a result of lower material cost. Nevertheless, 4QFY20 core net earnings were higher at RM152.1m (+26.2%qoq) due to lower raw material and energy cost coupled with cost control initiative. Meanwhile, 4QFY20 earnings grew 71.6%yoy, bringing cumulative earnings to RM472.6m in FY20. Note that we have excluded mainly fair value losses in our core net income calculations. Core net earnings in FY20 were little-changed at -0.3%yoy as higher sales volume were mitigated by lower ASP of gloves amid competitive industry pricing. Besides, higher tax rate of 21% in FY20 against tax rate of 17% in FY19 has also partially weighed on earnings.

**Earnings forecast revised higher due to robust demand for gloves.** We revised our FY21/22F earnings forecast by +12.3%/+16.3% as we expect ASP of gloves and sales volume to grow stronger in 2H20. Demand for gloves remains robust due to outbreak of Covid19 which had led to upward revision in ASP. Meanwhile, Hartalega will continue with its NGC capacity expansion plan whereby annual installed capacity is expected to increase from current 38.1 billion to 43.7 billion pieces by FY22.

**Upgrade to Neutral with a revised TP of RM8.78.** Corresponding to the higher forward earnings, our TP for Hartalega is revised to RM8.78 from RM4.90, pegging FY21F EPS of 18.3sen to PER of 48x, which is close to +2SD of its 5-year mean. We think that above mean valuation is justified due to the robust outlook for Hartalega in the near to medium term. We upgrade our call on Hartalega to Neutral from Sell as we see its earnings outlook to be positive. Nevertheless, we think that the positives have been largely priced in following the good run in share price recently.

## Upgrade to NEUTRAL

(Previously Sell)

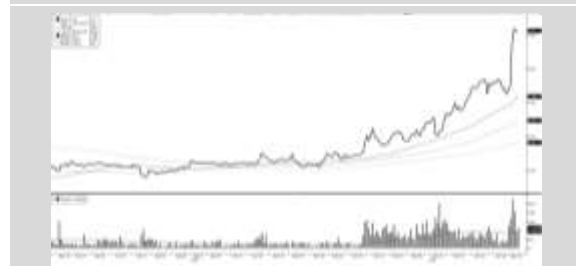
## Revised Target Price: RM8.78

(Previously RM4.90)

### RETURN STATISTICS

Price @ 18th May 2020	9.13
Expected share price return (%)	-3.8
Expected dividend yield (%)	+1.2
Expected total return (%)	-2.6

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	18.9	18.6
3 months	32.7	67.8
12 months	79.0	103.8

### KEY STATISTICS

FBM KLCI	1410.16
Syariah compliant	Yes
Issue shares (m)	3383.41
Estimated free float (%)	38.09
Market Capitalisation (RM'm)	30906.30
52-wk price range	RM4.8 - RM9.74
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	0.00
Monthly volatility (%)	15.48
3-mth average daily volume (m)	9.30
3-mth average daily value (RM'm)	65.04
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	47.81
Kumpulan Wang Persaraan Diperbadan	2.97
KUAN KAM PENG	1.75

### Analyst(s)

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## INVESTMENT STATISTICS

Financial year ending 31st March (in RM'm, unless otherwise stated)	FY2017	FY2018	FY2019	FY2020	FY2021F	F2022F
<b>Revenue</b>	<b>1821.9</b>	<b>2405.6</b>	<b>2827.2</b>	<b>2961.3</b>	<b>3892.3</b>	<b>4332.7</b>
Cost of goods sold	-1331.3	-1790.9	-2119.0	-2328.6	-2881.7	-3197.5
<b>Gross profit</b>	<b>490.6</b>	<b>614.8</b>	<b>708.2</b>	<b>595.4</b>	<b>1010.6</b>	<b>1135.2</b>
Finance costs	-1.0	-7.9	-10.6	-10.8	-13.6	-17.3
<b>Profit before tax</b>	<b>349.0</b>	<b>526.4</b>	<b>550.8</b>	<b>556.3</b>	<b>742.0</b>	<b>832.9</b>
<b>Core PATANCI</b>	<b>283.3</b>	<b>439.6</b>	<b>474.0</b>	<b>472.6</b>	<b>608.4</b>	<b>683.0</b>
EPS (sen)	8.3	12.8	13.7	14.2	18.3	20.5
EPS Growth (%)		55.1	7.0	3.4	28.8	12.3
PER (x)	110.6	71.3	36.8	64.2	49.9	44.5
Dividend Per Share (sen)	4.3	5.9	8.2	7.6	11.0	12.5
Dividend yield (%)	0.5	0.6	0.9	0.8	1.2	1.4

Source: Company, MIDFR

### Table 1: Hartalega's quarterly earnings review

FYE March (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	814.4	19.1%	2.2%	2961.3	4.7%
Core EBIT	139.7	23.5%	-13.2%	567.0	-2.1%
Profit Before Tax	137.6	21.0%	-13.9%	556.3	0.8%
Profit After Tax	115.7	26.6%	-4.9%	435.8	-4.5%
PATANCI	115.6	26.5%	-5.0%	435.2	-4.6%
Core PATANCI	152.1	71.6%	26.2%	472.6	-0.3%
Basic EPS (sen)	3.44	26.5%	-5.2%	12.96	-4.4%
Core EPS (sen)	4.52	71.5%	26.1%	14.04	-0.3%
DPS (sen)	2.05	7.9%	13.9%	7.5	-9.1%
Core EBIT margin	17.2%	N/A	N/A	19.1%	N/A

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.