Corporate Update | Wednesday, 14 December 2022

Hartalega Holdings Berhad

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

***Upgrade to* NEUTRAL**

Land Acquisition in Delapan SBEZ

***Revised* Target Price: RM1.68**

KEY INVESTMENT HIGHLIGHTS

- **Acquisition of land in Delapan SBEZ**
- **Not a new S&P agreement for land purchase in the Delapan SBEZ**
- **Neutral on land acquisition**
- **Earnings forecast maintained**
- **Upgrade to NEUTRAL with a lower TP of RM1.68 (previously RM1.78)**

Acquisition of land in Delapan SBEZ. Hartalega announced that its wholly owned subsidiary Hartalega NSM Sdn. Bhd. ("HNSM") has on 13th December 2022 entered into a sale and purchase agreement (S&P) with Northern Gateway Free Zone Sdn. Bhd. ("NGFZ") for acquisition of 60 acres of land in Delapan Special Border Economic Zone (Delapan SBEZ) for RM54.3m. The land acquisition is expected to be completed by 12th July 2023, assuming all parties are able to meet the agreement within the time frame of 6 months.

More about NGFZ. NGFZ is a Malaysian company that primarily engages in property holding, real estate development, and other free zone-related activities. It is wholly owned by Northern Gateway Sdn Bhd ("NGX"), which is a wholly owned company by the Ministry of Finance Incorporated ("MOF Inc"). NGX is the master developer of Delapan SBEZ and had obtained approval from the Malaysian government for the Free Commercial Zone and Free Industrial Zone status, as well as for all commercial and industrial activities within the Delapan SBEZ. Note that land acquisition by Hartalega in Delapan SBEZ is not new as HNSM entered into an S&P agreement with NGFZ to purchase approximately 250 acres of NGFZ land back in March 2021. However, the acquisition was lawfully terminated because the parties were unable to fulfil the conditions precedent within the time frame specified in the SPA.

Neutral on land acquisition. We are neutral on the land acquisition as the land acquisition is to facilitate Hartalega's mid-to long-term expansion plans. Nevertheless, expansion plans on the land is not disclosed. Meanwhile, land acquisiton price of RM20.78 per sq.ft is slightly lower than the price valuation of RM21 per sq.ft. in first land acquisition announced in 2021. The land acquisition will be funded by internally generated funds and/or the company's existing credit facilities. Impact on balance sheet is marginal considering the group's net cash position of RM1.78b as of 2QFY23. We estimate the net cash of Hartalega to decline from RM1.78b in 2QFY23 to RM1.73b post the land acquisition.

RETURN STATISTICS	
Price @ 13th December 2022	1.57
Expected share price return (%)	6.73
Expected dividend yield (%)	2.09
Expected total return (%)	8.82

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-27.0	-27.3
3 months	-5.4	-4.4
12 months	-68.7	-68.5

KEY STATISTICS	
FBM KLCI	1,470.12
Syariah compliant	Yes
Issue shares (m)	3427.61
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	38.13
Market Capitalisation (RM'm)	5,365.42
52-wk price range	RM1.46 - RM6.1
Beta vs FBM KLCI (x)	0.95
3-mth average daily volume (m)	17.34
3-mth average daily value (RM'm)	31.21
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	34.39
BUDI TENGGARA SDN BHD	8.63
Employees Provident Fund Board	4.97

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Upgrade to NEUTRAL with a lower TP of RM1.68 (previously RM1.78). We make no changes to our earnings forecast for FY23F-25F pending further details from management on expansion plan in SBEZ. Meanwhile, we revise our **TP** for Hartalega from RM1.78 to **RM1.68** as we peg FY24EPS of 7.13sen to a revised PER of 23.5x (previously PER of 25x), which is close to its most recent 2-years historical average. Meanwhile, we upgrade Hartalega to **Neutral** from Sell due to limited downside and as the anticipated total return of +8.82% falls within the Neutral recommendation's range of -10% to +10%. We remain cautious on outlook for Hartalega as we are wary that the oversupply of the glove would persist in 2023, mainly due to the: (1) aggressive capacity installation from both existing and new entrants during the pandemic, (2) overstock conditions in the industry, as well as (3) subsequent inventory adjustment that result in uneven demand-supply dynamics. However, the group's net cash position of RM1.78b can provide support against potential downside risk moving forward. Upside risks are (1) industry consolidation due to recent share price declines that have resulted in a low valuation, (2) rising demand as big buyers replenish their inventories, (3) supply-demand equilibrium with small players leaving the market or existing players ceasing some production lines.

INVESTMENT STATISTICS

FYE MAR (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
Revenue	**6,695.7**	**7,888.3**	**2,280.2**	**2,819.1**	**3,357.1**
Operating expenses	(3,036.4)	(3,487.5)	(2,031.1)	(2,494.5)	(2,914.5)
Operating profit	**3,659.3**	**4,400.7**	**249.1**	**324.6**	**442.6**
Profit Before Tax (PBT)	**3,813.4**	**4,636.9**	**239.5**	**312.4**	**428.1**
Income Tax Expenses	(909.6)	(1,394.6)	(52.7)	(68.7)	(94.2)
Profit After Tax (PAT)	**2,903.7**	**3,242.3**	**186.8**	**243.7**	**333.9**
PATANCI	**2,879.5**	**3,218.7**	**186.8**	**243.7**	**333.9**
CORE PATANCI	**2,885.2**	**3,224.1**	**186.8**	**243.7**	**333.9**
EPS (sen)	84.0	94.2	5.5	7.1	9.8
Dividend per share (sen)	51.0	53.5	3.3	4.3	5.9
Growth & Valuation (%)					
Revenue Growth	129.0	17.8	(71.1)	23.6	19.1
Operating Profit Growth	564.2	20.3	(94.3)	30.3	36.4
Core PATANCI Growth	565.3	11.7	(94.2)	30.4	37.0
Operating Profit Margin	54.7	55.8	10.9	11.5	13.2
PBT Margin	57.0	58.8	10.5	11.1	12.8
Core Patanci Margin	43.1	40.9	8.2	8.6	9.9
Effective tax rate	23.9	30.1	22.0	22.0	22.0
Ratios & Valuation					
Adj. PER (x)	2.5	2.2	37.9	29.0	21.2
Dividend yield (%)	24.6	25.8	1.6	2.1	2.8
Net debt/Total Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend payout (%)	60.6	56.8	60.0	60.0	60.0
Cash/Mkt Cap (x)	37.6	33.6	28.2	29.0	29.9

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology