

28 October 2020

Hartalega Holdings

More Great Quarters to Come

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1HFY21 PATAMI of RM765m (+286% YoY) came in at 27%/38% of our/consensus full-year forecasts. We consider the results to be within expectations as impact from higher ASPs will be felt in subsequent quarters. The group is confident of sustained strong demand with its production capacity booked up till end CY21, reassuring us that the lagged impact from ASP hike will be felt in 2HFY21. Our TP is RM26.22 based on 19.7x CY21E EPS. Reiterate Outperform.

Results' review. QoQ, 2QFY21 revenue rose 46%, thanks to higher ASP (+40%) and sales volume (+4%). Correspondingly, EBITDA margin expanded by 20ppt from 32.8% to 52.8% due to higher ASP and better production efficiency. This brings 2QFY21 PATAMI to RM545m (+148%). A first interim DPS of 3.85 sen was proposed which is within with our expectation.

YoY, 1HFY21 revenue rose 68% due to higher volume sales (+32%), and ASP (+27%). Correspondingly, EBITDA margin expanded by 20.4ppt to 44.7% from 24.3% due to higher ASP and lower raw material and energy costs coupled with cost control initiative to reduce operation costs. This brings 1HFY21 PATAMI to RM765m (+286% YoY), boosted by a lower effective tax rate of 19% compared to 23% in 1HFY20.

Salient points from 2QFY21 results' briefing conference call. Management is of the view that demand will stay strong at least over the next two years and shortage in supply will remain tight due to formers shortage and raw material constraint. We highlight that industry ASP has risen for Sept to Dec delivery suggesting that the robust demand will continue over the next few quarters. In line with higher industry ASP, HARTA is expected to raise ASP by 30% and 40% in 3QFY21 and 4QFY21, respectively. We do not expect supply to flood the market at least in the first three quarters of 2021 despite growing concern amongst investors that a number of Malaysian listed companies' have announced new ventures into the gloves manufacturing segment. Furthermore, the typical timeline to complete a plant takes 12-15 months from land acquisition to obtaining approvals in terms of audit checks by clients and regulatory approvals to commissioning the first line.

Outlook. To date, all 12 lines of Plant 6 (installed capacity of 4.7b pieces) have commenced commercial operations. Plant 7 is expected to be commissioned by end-2020, which will focus on small orders as well as specialty products with an installed capacity of 2.7b pieces. With the progressive commissioning of Plant 6 and 7, the group's annual installed capacity is expected to increase from current 39bn to 44bn pieces by FY22. Beyond plant 7, NGC 1.5 is expected to have four plants built with an estimated capacity of 19b pieces and construction is expected to start some time in 2021. NGC 2 is expected to have 82 new production lines with a capacity of 32.3b pieces which we believe would be mostly for nitrile gloves and expected to start in 1Q 2022.

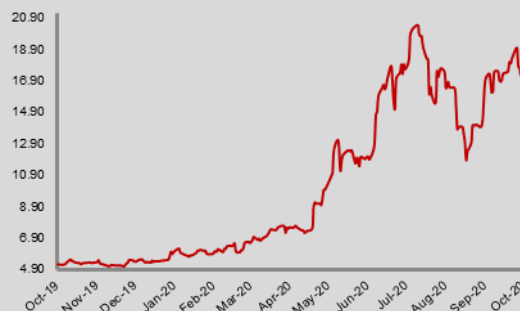
Reiterate OP. We maintain our TP of RM26.22 based on 19.7x CY21E EPS (at -0.5SD below 5-year historical forward mean). We like HART for: (i) its solid management, (ii) constantly evolving via innovative products development, and (iii) its booming nitrile gloves segment.

Risks to our call. Lower-than-expected ASP and volume sales.

OUTPERFORM ↔

Price: RM18.40
Target Price: RM26.22 ↔

Share Price Performance



KLCI	1,500.35
YTD KLCI chg	-5.6%
YTD stock price chg	233.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK Equity
Market Cap (RM m)	62,656.7
Shares Outstanding	3,427.6
52-week range (H)	21.16
52-week range (L)	5.08
3-mth avg daily vol:	10,395,160
Free Float	40%
Beta	1.3

Major Shareholders

Hartalega Industries	47.2%
KWAP	2.1%
Kuan Kam Peng	1.8%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Turnover	2924.0	7552.9	11188.5
PBT	556.3	3704.5	6509.4
Net Profit (NP)	434.8	2886.8	5073.3
Consensus (NP)	-	1994	2317
Earnings Revision (%)	-	-	-
EPS (sen)	13.7	84.9	149.2
EPS growth (%)	-4.7	519.7	75.7
CY EPS (sen)	66.9	133.1	158.2
CY EPS growth (%)	405.3	98.9	18.8
PER (x)	134.3	21.7	12.3
CY PER (x)	27.3	13.7	11.6
NDPS (sen)	7.8	50.9	89.5
BVPS (RM)	0.75	1.08	1.68
PBV (x)	24.2	16.9	10.9
Net Gearing (%)	1.2	Net	Net
		Cash	Cash
Dividend Yield (%)	0.4	2.8	4.9

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Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Mar (RM m)	FY21	FY21	Chg %	FY20	Chg %	FY20	FY21	Chg %
Turnover	1,346.0	920.1	46.3	709.4	89.7	1,349.5	2,266.1	67.9
EBITDA	711.1	301.3	136.0	173.9	308.9	328.6	1,012.4	208.1
PBT	683.0	272.8	150.3	137.3	397.3	259.0	955.8	269.1
Net Profit (NP)	545.0	219.7	148.0	104.0	424.2	198.0	764.7	286.2
EPS (sen)	16.0	6.5	145.8	3.1	416.2	5.9	22.4	279.3
EBITDA margin	52.8	32.8		24.5		24.3	44.7	
PBT margin	50.7	29.7		19.4		19.2	42.2	
NP margin	40.5	23.9		14.7		14.7	33.7	
Effective tax rate	19.5	19.0		24.1		23.4	19.4	

Source: Bursa Malaysia, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	18.28	62,657	Y	03/2021	158%	48%	564%	75.7%	134.3	21.7	12.3	24.2	16.9	92.6%	2.8%	26.22	OP
KOSSAN RUBBER INDUSTRIES	7.52	19,235	Y	12/2020	53.9%	21%	203%	19.0%	85.6	28.2	23.7	13.5	9.7	40.0%	0.7%	8.55	OP
SUPERMAX CORP BHD	9.78	25,122	Y	06/2021	229%	-27%	510%	-41%	24.3	8.4	14.3	16.8	7.6	125%	4.8%	12.00	OP
TOP GLOVE CORP BHD	8.91	72,562	Y	08/2021	139%	-22%	257%	-38%	39.0	10.9	17.7	14.6	9.6	106%	4.6%	10.68	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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