

Hartalega Holdings Berhad

Next up, Plant 7

Summary

- Hartalega's 2QFY21 net profit surged 432.0% YoY to RM545.0m on the combination of higher sales volumes, higher average selling prices (ASPs) and improved production efficiency. Revenue for the quarter jumped 89.7% YoY to RM1.35bn. A first interim dividend of 3.85 sen, payable on 18th December 2020 was declared.
- For 6MFY20, cumulative net profit soared 285.7% YoY to RM764.7m. Revenue for the period rose 67.9% YoY to RM2.27bn. The reported earnings accounted for 66.5% of our previous estimates of RM1.15bn and 38.3% against consensus forecast of RM1.99bn. The reported figures came above expectations, owing to the elevated ASPs, which we expect the trend to stay put over subsequent quarters.
- Moving forward, Plant 7 of NGC is slated to commence by end-2020. Upon completion in 2022, the total annual installed capacity would increase by 2.7bn pieces to 44.00bn pieces. Beyond that, the acquisition of 95.0-ac. of land will house NGC 2.0 comprises of 7 production plants that will add 82 production lines with total installed capacity of 32.30bn pieces, bringing total production capacity to 76.30bn pieces per annum.
- The elevated demand has brought customers stock holdings down to 2-3 weeks as oppose to 2-3 months during pre-Covid-19 levels. With the number of new Covid-19 cases across the globe remain on the rise, we reckon that demand will be sustainable throughout FY21 and potentially till FY22.
- Meanwhile, MARGMA expects the Malaysian rubber glove exports to jump to 220.00bn pieces of gloves valued at RM21.80bn in 2020 (up from 170.00bn pieces valued at RM17.40bn in 2019) which accounts to about two-third of the global supply. Already, the first seven months of the year saw glove exports rose 50.1% YoY to RM15.06bn.
- We continue to view that the potential imposition of windfall tax on glovemakers companies will not be on the table given that the supernormal profits are also translating to higher tax paid (in absolute value). The aforementioned imposition may also derail rubber glove industry players reinvestment plans.

Quarterly performance								
FYE Mar (RM m)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
Revenue	709.4	920.1	1,346.0	46.3	89.7	1,349.5	2,266.1	67.9
EBITDA	170.9	306.6	716.7	133.8	319.4	325.1	1,023.3	214.8
PBT	137.3	272.8	683.0	150.3	397.3	259.0	955.8	269.1
PAT	103.9	221.1	549.7	148.7	429.2	198.1	770.8	289.0
Core PATMI	104.2	219.7	545.0	148.0	423.0	198.3	764.7	285.7
Reported PATMI	104.2	219.7	545.0	148.0	423.0	198.3	764.7	285.7
Core EPS (sen)	3.0	6.4	15.9	148.0	423.0	5.8	22.3	285.7
EBITDA margin (%)	24.1	33.3	53.2			24.1	45.2	
PBT margin (%)	19.4	29.7	50.7			19.2	42.2	
Core PATMI margin (%)	14.7	23.9	40.5			14.7	33.7	

Results Note – 2QFY21

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BUY

Share price	RM18.36
Target price	RM23.34
Previous TP	RM18.44
Capital upside	27.1%
Dividend return	1.0%
Total return	28.1%

Company profile

Manufacturing and sale of latex and nitrile gloves.

Stock information

Bursa Code	5168
Bloomberg ticker	HART MK
Listing market	Main
Share issued (m)	3,427.6
Market Cap (m)	62,930.6
52W High/Low	20.37/5.07
Est. Free float	40.3%
3-mth avg vol ('000)	10,395.2
Shariah compliant	Yes

Major shareholders

	%
Hartalega Industries SB	47.2
EPF	2.0
Kuan Kam Peng	1.8

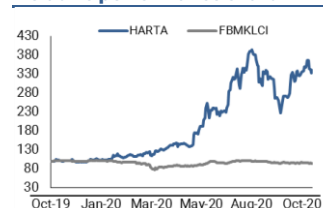
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	8.0	0.3	250.4
Absolute	8.6	6.4	266.7
Relative			

Earnings summary

	FYE (Mar)	FY20	FY21f	FY22f
PATMI (m)	433.6	1,860.0	2,118.2	
EPS (sen)	12.7	54.3	61.8	
P/E (x)	145.1	33.8	29.7	

Relative performance chart



Valuation & Recommendation

- With the reported earnings coming above expectations, we raised our earnings forecast by 61.9% and 84.3% to RM1.86bn and RM2.12bn for FY21f and FY22f respectively to account for the higher-than-expected ASPs.
- Consequently, we upgrade our recommendation to **BUY** (from Hold) with a higher target price of RM23.34 (from RM18.44). Our target price is derived by ascribing a targeted PER of 43.0x to their FY21f EPS of 54.3 sen. The target PER is in line with the 5Y historical forward average.
- Downside risks to our recommendation include slower demand should Covid-19 pandemic be contained sooner-than-expected as well as a weaker USD against the ringgit. The latter could result in margins compression as Hartalega's sales are mainly export-oriented.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	2,405.6	2,827.2	2,924.3	5,554.4	6,715.3	Cash	156.6	150.4	305.2	1,120.8	2,165.0
EBITDA	621.5	662.9	688.5	2,499.5	2,854.0	Receivables	323.8	402.5	429.9	608.7	689.9
EBIT	350.0	534.4	561.4	1,166.4	1,166.4	Inventories	291.3	275.5	273.9	370.9	448.5
Net finance income/ (cost)	(6.6)	(8.1)	(7.7)	(5.3)	(2.9)	PPE	1,589.5	1,896.2	2,002.2	2,333.5	2,734.4
Associates & JV	-	-	-	-	-	Others	270.9	267.4	302.8	352.1	370.7
Profit before tax	526.4	550.8	555.4	2,322.5	2,644.6	Assets	2,632.0	2,992.1	3,313.9	4,785.9	6,408.5
Tax	(86.8)	(95.9)	(121.0)	(464.5)	(528.9)	Debts	316.6	343.9	278.5	243.9	193.9
Net profit	439.6	454.9	434.4	1,858.0	2,115.7	Payables	104.5	105.7	112.1	205.5	345.0
Minority interest	0.7	(0.2)	0.8	(2.0)	(2.5)	Others	213.5	283.2	380.1	542.8	631.8
Core earnings	438.9	455.2	433.6	1,860.0	2,118.2	Liabilities	634.6	732.9	770.8	992.2	1,170.7
Exceptional items	-	-	-	-	-	Shareholder's equity	1,994.2	2,256.4	2,539.8	3,782.8	5,215.5
Reported earnings	438.9	455.2	433.6	1,860.0	2,118.2	Minority interest	3.2	2.8	3.3	10.9	22.3
						Equity	1,997.4	2,259.2	2,543.1	3,793.7	5,237.8
Cash Flow Statement						Valuation & Ratios					
FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	526.4	550.8	555.4	2,322.5	2,644.6	Core EPS (sen)	12.8	13.3	12.7	54.3	61.8
Depreciation & amortisation	70.7	88.4	104.0	125.3	171.6	P/E (x)	143.4	138.3	145.1	33.8	29.7
Changes in working capital	(92.7)	(55.3)	(11.8)	(109.7)	30.1	DPS (sen)	11.7	8.2	7.6	18.0	20.0
Share of JV profits	-	-	-	-	-	Dividend yield	0.6%	0.4%	0.4%	1.0%	1.1%
Taxation	(70.1)	(78.3)	(72.7)	(464.5)	(528.9)	BVPS (RM)	0.58	0.66	0.74	1.11	1.53
Others	-	-	-	-	-	P/B (x)	31.5	27.9	24.7	16.6	12.0
Operating cash flow	336.8	403.9	627.4	658.9	1,909.1	EBITDA margin	25.8%	23.4%	23.5%	45.0%	42.5%
Net capex	(300.3)	(466.0)	(280.4)	(556.9)	(673.0)	EBIT margin	14.5%	18.9%	19.2%	11.1%	17.4%
Others	-	-	-	-	-	PBT margin	21.9%	19.5%	19.0%	41.8%	39.4%
Investing cash flow	(260.3)	(428.6)	(250.4)	(501.1)	(605.5)	PAT margin	18.3%	16.1%	14.9%	33.5%	31.5%
Changes in borrowings	6.6	27.3	(50.0)	(50.0)	(50.0)	Core PAT margin	18.2%	16.1%	14.8%	33.5%	31.5%
Issuance of shares	-	-	-	-	-	ROE	22.0%	20.1%	17.1%	49.0%	40.4%
Dividends paid	(198.2)	(286.2)	(249.0)	(617.0)	(685.5)	ROA	16.7%	15.2%	13.1%	38.9%	33.1%
Others	-	-	-	-	-	Net gearing	8.0%	8.6%	-	-	-
Financing cash flow	(106.6)	(206.6)	(253.9)	(592.3)	(659.1)						
Net cash flow	37.0	(7.8)	154.6	815.7	1,044.3						
Forex	(1.5)	1.7	-	-	-						
Others	-	-	-	-	-						
Beginning cash	121.0	156.6	150.4	305.0	1,120.8						
Ending cash	156.6	150.4	305.0	1,120.8	2,165.0						

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