

07 August 2019

Hartalega Holdings

A Few Wrinkles But Market Dynamics Turning Positive

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1Q20 PATAMI of RM94.1m (+3% QoQ; -25% YoY) came in at 18% each of our and consensus full-year forecasts. We consider the results to be within our expectation as we are expecting better performance in subsequent quarters on the back of uptick in demand and potential margins expansion emanating from operating efficiency and better economies of scale due to increased capacity and higher volume sales. Our TP is RM5.85 is based on 36x CY20 EPS. Reiterate OP.

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Key results' highlights. QoQ, 1Q20 revenue fell 6.4% due to lower sales volume (-8%) but negated by a higher ASP (+2%). The lower volume sales were due to competitive pressure. We are not overly concerned as nascent signs of uptick in demand are emerging and expected to drive earnings in subsequent quarters. 1Q20 PBT margin rose 2.3ppt to 19% from 16.6% in 4Q19 due to operating efficiency and better economies of scale due to increased capacity and higher volume sales. This brings 1Q20 PATAMI to RM94.1m (+3% QoQ).

YoY, 1Q20 revenue fell by 9.4% due to lower sales volume (-9%) and ASP (-1%). Correspondingly, PBT fell 16.6% as PBT margin fell 1.6ppt to 19% from 20.6% in 1Q19 as a result of lower sales and economies of scale. This brings 1Q20 PATAMI to RM94.1m (+3% YoY) dragged down by a higher effective tax rate of 22.5% compared to 14.2% in 1Q19.

Stage is set for a further recovery in ASPs and volume sales. There are nascent signs of a solid uptick in demand for rubber gloves, which could potentially lead to higher ASPs for players in subsequent quarters, including HARTA. From our ground checks, demand for nitrile gloves is peaking up again whereby players' new capacities are swiftly taken up. We believe this uptick in demand is turning positive and should be reflected in players' bottom-line in subsequent quarters beyond 2Q 2019.

Outlook. Plant 5 of its NGC facility has been fully commissioned in 2Q 2019. Construction of Plant 6's structure has started and the first line is targeted to commence commercial operations in 1Q 2020 with an annual installed capacity of 4.7b pieces. Plant 7 is expected to be commissioned by 2H 2020, which will focus on small orders as well as specialty products with an annual installed capacity of 3.4b pieces. We expect contributions from Plant 5 to drive FY20 earnings growth. All in, Plant 5, 6 and 7 will add a total capacity of 12.1b pieces, raising installed capacity by 27% to 44.6b pieces per annum.

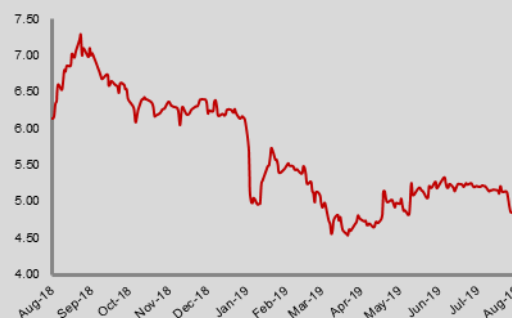
Reiterate OUTPERFORM. We like HARTA for: (i) its "highly automated production processes" model, which is moving from 'good' to 'great' as they are head and shoulders above its peers in terms of better margins and cost reduction management, (ii) constantly evolving via innovative products development, and (iii) its booming nitrile gloves segment. We keep our FY20E and FY21E earnings forecasts unchanged. Our TP of RM5.85 is based on unchanged 36x CY20 EPS (at +1.0SD above 5-year historical forward mean). Reiterate OUTPERFORM.

Risks to our call. Lower-than-expected ASPs, volume sales and longer-than-expected approval for its anti-microbial gloves.

OUTPERFORM ↔

Price: RM5.05
Target Price: RM5.85 ↔

Share Price Performance



KLCI 1,611.79
YTD KLCI chg -4.7%
YTD stock price chg -17.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK Equity
Market Cap (RM m)	16,922.3
Shares Outstanding	3,350.9
52-week range (H)	7.45
52-week range (L)	4.52
3-mth avg daily vol:	3,893,272
Free Float	42%
Beta	0.9

Major Shareholders

Hartalega Industries	48.4%
Employees Provident Fund	6.3%
Oversea-Chinese Banking Corp Ltd	3.0%

Summary Earnings Table

FY Mar (RM'm)	2019A	2020E	2021E
Turnover	2827.9	2933.1	3115.3
PBT	551.9	621.1	663.0
Net Profit (NP)	456.2	509.3	543.6
Consensus (NP)	-	519.7	570.6
Earnings Revision(%)	-	-	-
EPS (sen)	13.7	15.4	16.5
CY EPS (sen)	15.0	16.2	17.2
CY EPS growth (%)	10.5	7.9	6.2
PER (x)	36.9	32.7	30.7
CY PER (x)	33.8	31.1	29.3
NDPS (sen)	7.0	7.0	7.0
BVPS (RM)	0.68	0.76	0.86
PBV (x)	7.5	6.6	5.9
Net Gearing (%)	8.6	3.9	N.Cash
Dividend Yield (%)	1.4	1.4	1.4



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Result Highlight

	1Q	4Q	1Q	YoY	QoQ
FY Mar (RM 'm)	FY19	FY19	FY20	Chg %	Chg %
Turnover	706.4	683.9	640.1	(9.4)	(6.4)
EBITDA	172.2	138.1	154.7	(10.2)	12.0
PBT	145.8	113.7	121.7	(16.6)	7.0
Net Profit (NP)	124.9	91.4	94.1	(24.7)	3.0
EPS (sen)	3.8	2.8	2.8	(25.5)	2.2
EBITDA margin (%)	24.4	20.2	24.2		
PBT margin (%)	20.6	16.6	19.0		
NP margin (%)	17.7	13.4	14.7		
Effective tax rate (%)	14.2	19.6	22.5		

Source: Bursa Malaysia, Kenanga Research

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Peer Comparison

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	5.05	16922.3	Y	03/2020	3.7	6.2	11.6	6.7	36.9	32.7	30.7	7.5	6.6	20.3	1.4	5.85	OP
KOSSAN RUBBER INDUSTRIES	4.10	5243.6	Y	12/2019	8.4	4.4	23.7	6.0	26.1	21.1	19.9	4.0	3.5	16.7	1.5	5.25	OP
SUPERMAX CORP BHD	1.61	2103.2	Y	06/2019	11.9	4.9	19.1	4.0	20.5	17.2	16.5	2.1	2.0	11.4	2.5	1.70	MP
TOP GLOVE CORP BHD	4.59	11749.5	Y	08/2019	4.5	4.6	-5.2	13.8	27.0	28.4	25.0	4.9	4.5	15.8	1.9	4.70	MP

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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