

Hartalega Holdings

Quantum Leap in Earnings

By Raymond Choo Ping Khoo / pkchoo@kenanga.com.my

Taking the cue from the other glove players' quarterly earnings announcements over the past month, we are raising our assumptions for HARTA. Specifically, the industry trend of rising ASPs is expected to substantially boost its bottom-line. Our analysis further suggests that ASP is expected to stay elevated over the next few quarters. Hence, we raised our FY21E/FY22E net profit by 47%/53%. TP is raised from RM13.90 to RM18.16 based on 43x CY21E EPS. Reiterate OP.

Expect quantum leap in earnings. Strong QoQ earnings results of glove players over the past month suggest that demand will be strong over the next few quarters with industry ASP higher on a weekly and monthly basis. Anecdotal evidence suggests that rubber glove players' explosive QoQ earnings growth is expected to sustain over the next few quarters. Judging by the results of other players over the past two weeks only, we are raising our assumptions for HARTA. Specifically, the industry trend of rising weekly and monthly ASPs between 5% to +15% is expected to boost its bottom-line.

Our analysis suggests shortage in supply. We have done an analysis to dispel any concerns of gloves oversupply. In anticipation of higher demand due to the pandemic, stock piling and entrant of new users, players are raising capacities to meet the surging demand. Our analysis (see table overleaf) suggests that acute supply and supernormal demand could persist over the next two years. Interestingly, players are getting orders from new users including airlines, restaurants, retail apparel chains and hotel operators. If we look at the capacity expansion numbers in isolation, it looks overwhelming. But viewed against the incremental new pandemic-driven demand in addition to the annual base level demand growth, the additional capacity is not a concern. In fact, the estimated new yearly capacity may not actually start as scheduled and hence the supply shortage will continue to be acute in 2021. Typically, to cater for normal demand, glove makers essentially need to build just one plant per year. However, from channel checks, to cater for this current pandemic-driven demand, two to three plants are required for each glove maker (on average) annually in order to meet the supernormal demand, which takes between 12 to 24 months to complete. Hence, we conclude that ASP tightness will continue going into 2021. We highlight that a player in China ramping up capacity by 30b pieces over 2-3 years could take longer than expected as it typically takes 8 to 10 years to build such a capacity.

China and low user per capita countries are potential high growth markets. We expect gloves consumption per capita in China to surge sharply following the COVID-19 experience. For illustration purposes, assuming a population of 1.4b and conservative 30 gloves per capita (from currently 9 – please refer to chart overleaf - compared to developed western countries which averaged 200 pieces per capita), this implies a massive 42b piece (from currently 2.8bn pieces) of rubber gloves consumption in China annually. Hence, any new supply from the Chinese players could be absorbed domestically.

Raised FY21E/FY22E net profit by 47%/53% after: (i) imputing higher ASP from USD29/1,000 pieces to USD30.50/1,000 pieces for each year, and (ii) assuming higher EBITDA margin of 35% compared to 26.5% previously. We raised our FY22E utilisation to 100% from 97%.

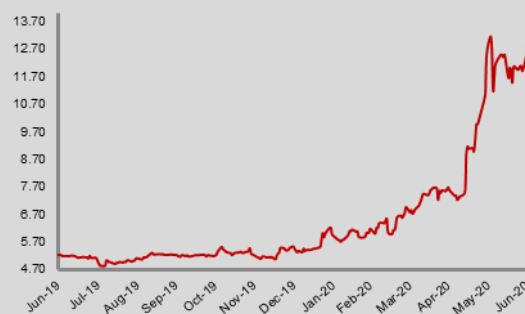
Reiterate OP. TP is raised from RM13.90 to RM18.16 based on 43x CY21E revised EPS (previously 50x) (at slightly below +2.0SD above 5-year historical forward mean). We lowered our PER rating as we believe valuations are pegged to supernormal earnings; hence, upside to peak earnings should have been factored in. We like Hartalega 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 ASPs and volume sales.

OUTPERFORM ↔

Price: RM13.00
Target Price: RM18.16 ↑

Share Price Performance



KLCI 1,500.97
YTD KLCI chg -5.5%
YTD stock price chg 137.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK Equity
Market Cap (RM m)	44,044.1
Shares Outstanding	3,388.0
52-week range (H)	13.50
52-week range (L)	4.80
3-mth avg daily vol:	10,239,470
Free Float	38%
Beta	0.9

Major Shareholders

Hartalega Industries	47.8%
KWAP	3.0%
Kuan Kam Peng	1.8%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Turnover	2924.0	4923.9	5776.5
PBT	556.3	1574.8	1882.4
Net Profit (NP)	434.8	1226.6	1466.2
Consensus (NP)	-	919.7	856.5
Earnings Revision (%)	-	+47%	+53%
EPS (sen)	13.7	36.8	44.0
EPS growth (%)	-4.7	168.9	19.5
CY EPS (sen)	30.9	42.2	46.7
CY EPS growth (%)	133.2	36.7	10.5
PER (x)	99.6	35.3	29.5
CY PER (x)	42.1	30.8	27.9
NDPS (sen)	7.0	18.4	22.0
BVPS (RM)	0.75	0.94	1.16
PBV (x)	17.2	13.9	11.2
Net Gearing (%)	Net	Net	Net
Cash	Cash	Cash	Cash
Dividend Yield (%)	0.5	1.4	1.7

01 July 2020

Estimated incoming capacity indicating potential acute supply shortage

	Top Glove	Supermax	Kossan	Hartalega	Total
Estimated capacity in start of CY2020 (bn pieces)	70.5	21.8	28.0	36.6	156.9
Estimated new capacity	15.9	4.4	3.0	2.8	26.1
Total estimated capacity by end CY2020	86.4	26.2	31.0	39.4	183.0
	Top Glove	Supermax	Kossan	Hartalega	Total
Estimated capacity start of CY2021 (bn pieces)	86.4	26.2	31.0	39.4	183.0
Estimated new capacity	14.0	4.9	4.5	3.8	27.2
Total estimated capacity by end CY2021	100.4	31.1	35.5	43.2	210.2

Estimated new supply from Malaysia and new world demand in 2020 (demand > supply)

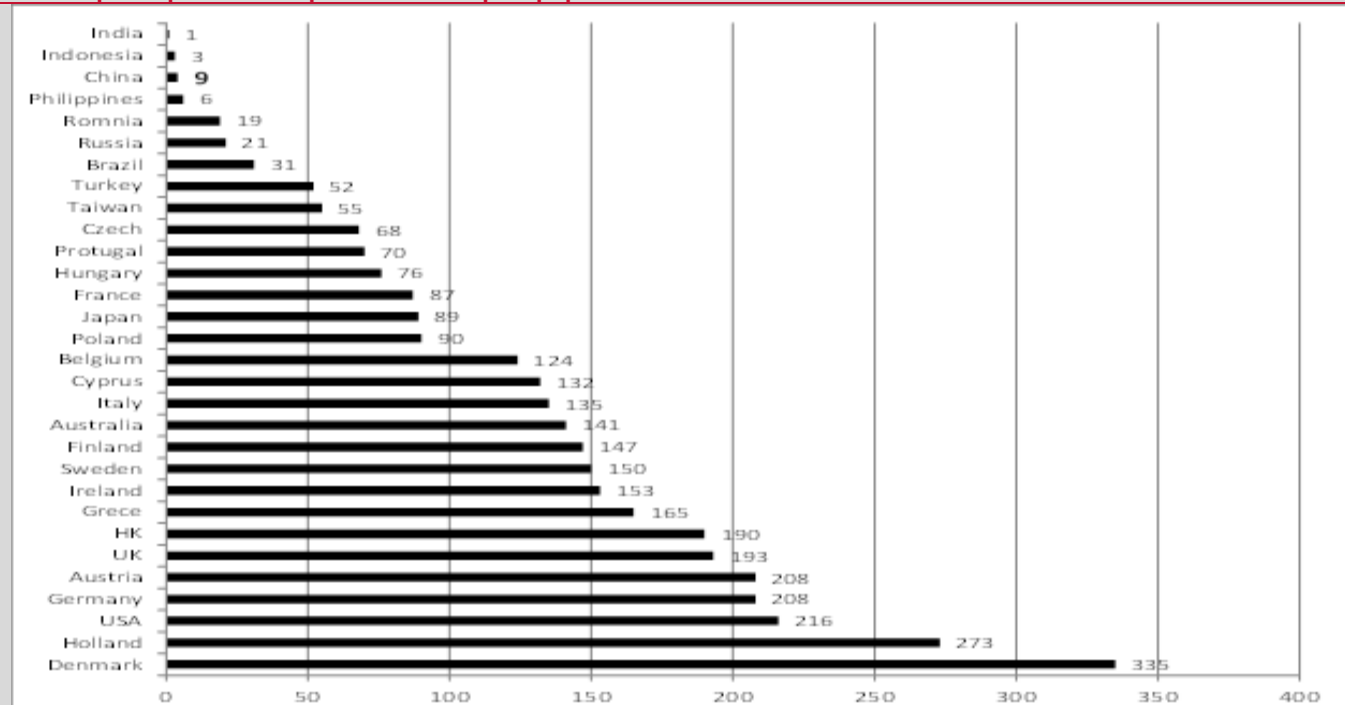
(a) Estimated world demand (b pieces)	360b
(b) Estimated new global demand growth [20% = pandemic demand (10%) + normal demand (10%)]	60b
(c) Top four (Kossan, Supermax, Top Glove and Hartalega) incremental net capacity increase in CY20	26.1
(d) Malaysia accounts for 65% world market share and new demand = (b) x 65%	39
(e) Total estimated of new supply in Malaysia (assumption: Top four accounts for an estimated 80% to total production in Malaysia) = (C) / 80%	33

Estimated new supply from Malaysia and new world demand in 2021 (demand > supply)

(a) Estimated world demand (b pieces)	432b
(b) Estimated new global demand growth [20% = pandemic demand (10%) + normal demand (10%)]	72b
(c) Top four (Kossan, Supermax, Top Glove and Hartalega) new incremental net capacity increase in CY21	27.2
(d) Malaysia accounts for 65% world market share and new demand = (b) x 65%	47
(e) Total estimated of new supply in Malaysia (assumption: Top four accounts for an estimated 80% to total production) = (C) / 80%	34

Source: Companies, Kenanga Research

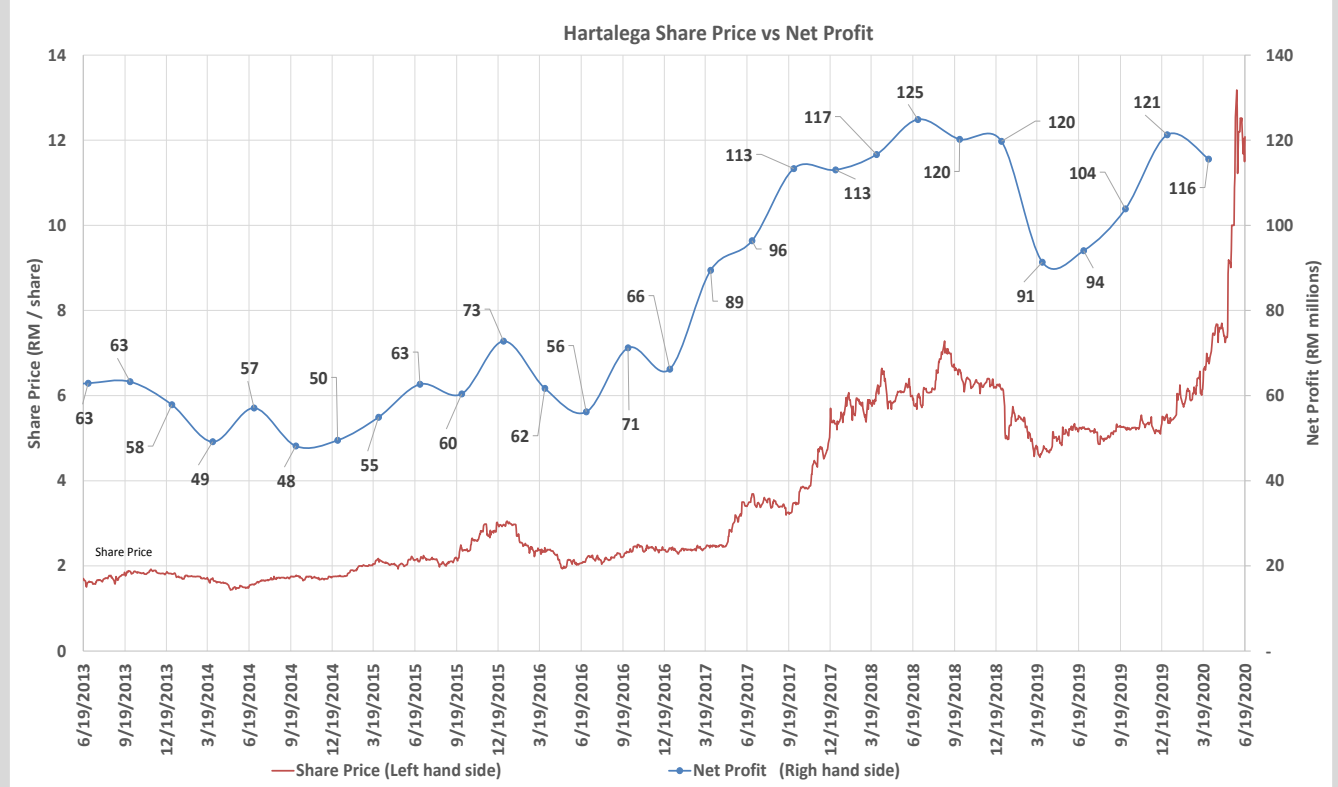
^actual estimated new capacity is lower caused unable to come onstream all at one go, hence the effective capacity is lower

Gloves per capita consumption – 2019 import/population estimate

Source: Hartalega, various, Kenanga Research

01 July 2020

Historical stock price movement indicating share prices move two quarters ahead of results



Source: Bloomberg, Kenanga Research

01 July 2020

Income Statement

FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	2405.6	2827.9	3017.4	4923.9	5776.5
EBITDA	575.9	675.6	724.2	1723.4	2050.7
Depre. & Amort	-88.1	-103.6	-125.0	-145.6	-166.7
Operating Profit	487.8	572.0	599.2	1577.8	1883.9
PBT	526.8	551.9	592.7	1574.8	1882.4
Taxation	-86.6	-95.6	-106.7	-346.5	-414.1
MI	-0.8	0.0	0.0	-1.8	-2.1
Net Profit	439.4	456.2	486.0	1226.6	1466.2

Balance Sheet

FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	1589.5	1896.2	2071.2	2156.6	2289.8
Int. Assets	20.2	22.9	22.9	28.8	28.8
Other FA	156.1	175.0	175.0	195.1	195.1
Inventories	290.9	275.8	294.2	480.1	563.3
Receivables	407.2	458.2	488.9	797.8	935.9
Other CA	11.8	13.3	13.3	7.4	7.4
Cash	152.7	150.2	217.9	647.4	1357.1
Total Assets	2628.4	2991.5	3283.4	4313.2	5377.4
Payables	103.8	103.9	110.8	180.8	212.1
ST Borrowings	194.4	223.4	223.4	85.4	135.4
Ot. ST Liability	111.3	157.3	167.7	323.6	371.4
LT Borrowings	122.3	120.6	120.6	388.6	588.6
Ot. LT Liability	98.8	125.9	125.9	175.1	175.1
Minorities Int.	3.2	3.1	3.1	5.4	7.4
Net Assets	1994.7	2257.3	2532.0	3154.3	3887.4
Share Capital	1312.3	1401.0	1401.0	1509.6	1509.6
Reserves	682.4	856.5	1131.0	1644.7	2377.8
Equity	1994.7	2257.4	2532.0	3154.3	3887.4

Cashflow Statement

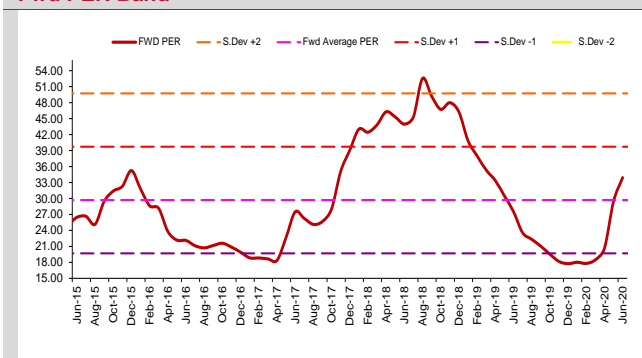
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	401.5	625.4	579.1	1,055.7	1,492.8
Investing CF	(263.2)	(431.8)	(300.0)	(300.0)	(300.0)
Financing CF	(106.6)	(200.0)	(211.4)	(413.3)	(483.1)
Change In Cash	31.7	(6.3)	67.7	342.4	709.7
Free CF	101.5	325.4	279.1	755.7	1,192.8

Source: Bursa Malaysia, Kenanga Research

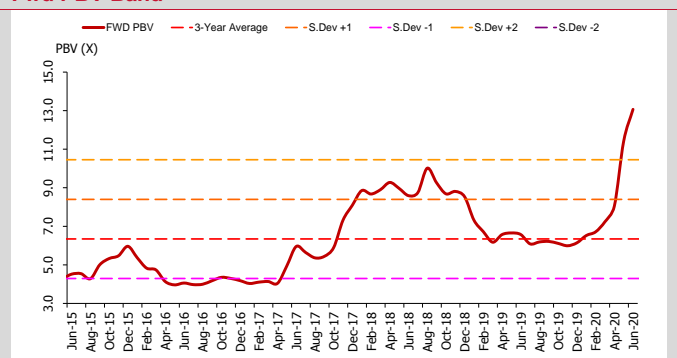
Financial Data & Ratios

FY Mar	2018A	2019A	2020A	2021E	2022E
Growth (%)					
Turnover	32.0	17.6	6.7	68.4	17.3
EBITDA	37.3	17.3	7.2	139.2	19.0
Operating Profit	39.9	17.3	4.8	165.0	19.4
PBT	51.1	4.8	7.4	183.1	19.5
Net Profit /(loss)	55.2	3.8	6.5	182.1	19.5
Profitability (%)					
EBITDA Margin	23.9	23.9	24.0	35.0	35.5
Operating Margin	20.3	20.2	20.4	32.0	32.6
PBT Margin	21.9	19.5	19.6	32.0	32.6
Core Net Margin	18.3	16.1	16.1	24.9	25.4
Eff. Tax Rate	18.0	21.0	18.0	22.0	22.0
ROA	16.7	15.2	13.1	28.4	27.3
ROE	22.0	20.2	17.1	38.9	37.7
DuPont Analysis					
Net Margin (%)	18.3	16.1	16.1	24.9	25.4
Assets T/O (x)	1.1	1.1	1.1	0.9	0.9
Lev. Factor (x)	1.3	1.3	1.3	1.4	1.4
ROE (%)	22.0	20.2	19.2	38.9	37.7
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.2
Debt/Equity (x)	0.2	0.2	0.1	0.2	0.2
Valuations					
EPS (sen)	13.3	13.8	13.1	36.8	44.0
NDPS (sen)	7.0	7.0	7.0	18.4	22.0
BVPS (RM)	0.60	0.68	0.75	0.94	1.16
PER (x)	97.6	94.0	99.6	35.3	29.5
Net Div. Yield (%)	0.5	0.5	0.5	1.4	1.7
PBV (x)	21.7	19.2	17.2	13.9	11.2

Fwd PER Band



Fwd PBV Band



Source: Bursa Malaysia, Kenanga Research, Bloomberg

01 July 2020

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^	13.00	44,044	Y	03/2021	68.4%	17.3%	182%	19.5%	99.6	35.3	29.5	17.2	13.9	43.1%	1.4%	18.16	OP
KOSSAN RUBBER INDUSTRIES	8.51	10,883	Y	12/2020	42.1%	18.1%	72.6%	22.8%	48.4	28.0	22.8	7.6	6.5	24.9%	1.2%	11.20	OP
SUPERMAX CORP BHD	8.00	10,331	Y	06/2020	29.4%	53.1%	113%	124%	92.8	43.5	19.4	9.7	8.7	21.1%	0.5%	10.90	OP
TOP GLOVE CORP BHD	16.10	43,374	Y	08/2020	36.7%	23.0%	226%	50.8%	110.6	35.3	23.4	16.9	14.1	44.2%	1.4%	25.00	OP

Source: Bloomberg, Kenanga Research
 ^refer to FY21E and FY22E

The rest of the page is intentionally left blank

01 July 2020

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my Email: research@kenanga.com.my

