

Hartalega Holdings

A Minor Production Hiccup

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We reiterate our positive view on HARTA's prospects over the next two quarters following a meeting with management together with other sell-side analysts. Key highlights include:- (i) the group conducted precautionary mass testing for all workers, and (ii) management is confident of sustained strong demand with capacity booked up till end CY21, with ASP higher QoQ between 40% and 50% in 2HFY21. We maintain our TP of RM26.22 based on 19.7x CY21E EPS (at -0.5SD below 5-year historical forward mean). At current price, the stock offers 7.5% dividend yield in FY22E.

Hit by COVID but minimal impact to FY20E net profit. The group underwent precautionary mass testing (PMT) in phases from Dec 7 to Dec 10. The PMT covered all employees as well as canteen & grocery shop operators within Hartalega premises at all locations (NGC, Bestari Jaya, Petaling Jaya & Sri Damansara offices). Out of the 8,772 workers, there were 35 positive cases (20 from Bestari Jaya, 15 from NGC). Following the results received, the positive cases were transported to hospitals as per Ministry of Health's instruction. A thorough disinfection of all areas has been carried out by a third-party professional provider. The primary contacts identified are also undergoing quarantine for 14 days and will undergo subsequent testing before they are permitted to return to work. The temporary loss of a month production is <0.5% of total output is expected to impact FY20E bottom-line by <1%.

ASP higher in 3Q and 4QFY21. The group is confident of sustained strong demand with orders filled up till end-CY21, reassuring us that lag impact from ASP hike will be felt in 3QFY21 (50% QoQ compared to previously guided +40%) and 4QFY21 (+40%+50% QoQ). ASPs still lag behind industry leaders by 25%. Our ASP assumption for FY21E/FY22E remains unchanged at USD50/USD65 per 1,000 pieces compared to current market price of USD90-100. Management expect ASP hikes to gradually ease somewhere in CY23 rather than undergoing a steep decline.

Outlook. To date, all 12 lines of Plant 6 (installed capacity of 4.7b pieces) have commenced commercial operations. The first 3 lines of Plant 7 have commenced operations in Nov and another 3 by Mar 2021 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 piling works have started in 4Q 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, expected to start in 1Q 2022.

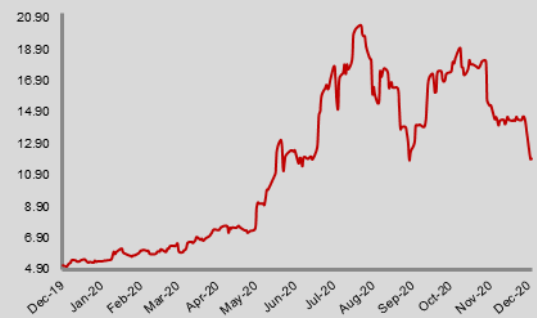
Reiterate OP. We highlight that to reduce the spread of COVID-19 infection; vaccine coverage should reach 60%-70% to build some form of herd immunity. Typically, herd immunity occurs when enough people in a population develop protection against a disease that it can no longer spread easily among them. Elsewhere, scaling up production of vaccines and distribution could pose a challenge which means the pandemic is likely to remain over the medium term. 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. At current price, **the stock offers 7.5% dividend yield in FY22E.**

Risks to our call include: (i) lower-than-expected ASP and volume sales beyond FY21, and (ii) faster-than-expected vaccine inoculation.

OUTPERFORM ↔

Price: RM11.98
Target Price: RM26.22 ↔

Share Price Performance



KLCI	1,674.02
YTD KLCI chg	5.4%
YTD stock price chg	118.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK Equity
Market Cap (RM m)	41,062.7
Shares Outstanding	3,427.6
52-week range (H)	21.16
52-week range (L)	5.10
3-mth avg daily vol:	8,255,406
Free Float	37%
Beta	0.9

Major Shareholders

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

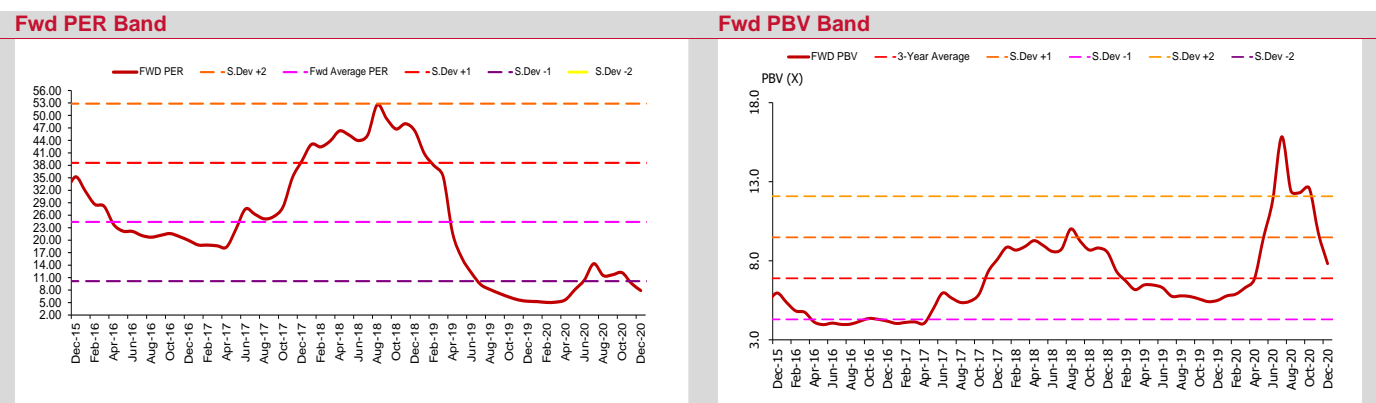
Summary Earnings Table

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)	-	2445.6	3159.1
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)	87.4	14.1	8.0
CY PER (x)	17.9	9.0	10.8
NDPS (sen)	7.8	50.9	89.5
BVPS (RM)	0.75	1.08	1.68
PBV (x)	15.9	11.1	7.2
Net Gearing (%)	1.2	Net	Net
		Cash	Cash
Dividend Yield (%)	0.7	4.3	7.5

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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E	FY Mar	2018A	2019A	2020A	2021E	2022E
Revenue	2405.6	2827.9	2924.0	7552.9	11188.5	Growth (%)					
EBITDA	575.9	675.6	720.5	3852.0	6668.4	Turnover	32.0	17.6	3.4	158.3	48.1
Depre. & Amort	-88.1	-103.6	-125.1	-145.6	-166.7	EBITDA	37.3	17.3	6.6	434.6	73.1
Operating Profit	487.8	572.0	595.4	3706.4	6501.6	Operating Profit	39.9	17.3	4.1	522.5	75.4
PBT	526.8	551.9	556.3	3704.5	6509.4	PBT	51.1	4.8	0.8	566.0	75.7
Taxation	-86.6	-95.6	-120.4	-815.0	-1432.1	Net Profit /(loss)	55.2	3.8	-4.7	564.0	75.7
MI	-0.8	0.0	-1.1	-2.7	-4.0	Profitability (%)					
Net Profit	439.4	456.2	434.8	2886.8	5073.3	EBITDA Margin	23.9	23.9	24.6%	51.0	59.6
Balance Sheet						Operating Margin	20.3	20.2	20.4	20.4	49.1
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E	PBT Margin	21.9	19.5	19.0%	49.0	58.2
Fixed Assets	1589.5	1896.2	2002.1	2156.6	2289.8	Core Net Margin	18.3	16.1	14.9%	38.2	45.3
Int. Assets	20.2	22.9	28.8	28.8	28.8	Eff. Tax Rate	18.0	21.0	18.0%	22.0	22.0
Other FA	156.1	175.0	195.1	195.1	195.1	ROA	16.7	15.2	13.1%	56.6	65.7
Inventories	290.9	275.8	276.1	736.5	1091.0	ROE	22.0	20.2	17.1%	78.1	88.6
Receivables	407.2	458.2	503.1	1223.7	1812.7	DuPont Analysis					
Other CA	11.8	13.3	7.4	7.4	7.4	Net Margin (%)	18.3	16.1	14.9%	38.2	45.3
Cash	152.7	150.2	305.0	751.2	2294.8	Assets T/O (x)	1.1	1.1	1.1	0.7	0.7
Total Assets	2628.4	2991.5	3317.6	5099.3	7719.7	Lev. Factor (x)	1.3	1.3	1.3	1.4	1.3
Payables	103.8	103.9	112.3	277.3	410.8	ROE (%)	22.0	20.2	17.1	78.1	88.6
ST Borrowings	194.4	223.4	85.4	85.4	135.4	Leverage					
Ot. ST Liability	111.3	157.3	211.7	470.9	674.4	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
LT Borrowings	122.3	120.6	188.6	388.6	588.6	Debt/Equity (x)	0.2	0.2	0.1	0.1	0.2
Ot. LT Liability	98.8	125.9	175.1	175.1	175.1	Valuations					
Minorities Int.	3.2	3.1	3.6	6.3	10.3	EPS (sen)	13.3	13.8	13.1	84.9	149.2
Net Assets	1994.7	2257.3	2541.0	3695.7	5725.0	NDPS (sen)	7.0	7.0	7.0	50.9	89.5
Share Capital	1312.3	1401.0	1509.6	1509.6	1509.6	BVPS (RM)	0.60	0.68	0.75	1.08	1.68
Reserves	682.4	856.5	1031.4	2186.1	4215.4	PER (x)	90.0	86.7	87.4	14.1	8.0
Equity	1994.7	2257.4	2541.0	3695.7	5725.0	Net Div. Yield (%)	0.6	0.6	0.6	4.3	7.5
Cashflow Statement						PBV (x)	20.0	17.7	15.9	11.1	7.2
FY Mar (RM m)	2018A	2019A	2020A	2021E	2022E						
Operating CF	401.5	625.4	658.9	2,278.3	4,637.6						
Investing CF	(263.2)	(431.8)	(250.4)	(300.0)	(300.0)						
Financing CF	(106.6)	(200.0)	(253.9)	(1,532)	(2,794)						
Change In Cash	31.7	(6.3)	154.6	446.2	1,543.6						
Free CF	101.5	325.4	358.9	1,978.3	4,337.6						

Source: Bursa Malaysia, Kenanga Research



Source: Kenanga Research, Bloomberg

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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	11.98	41,063	Y	03/2021	158%	48%	564%	75.7%	87.4	14.1	8.0	15.9	11.0	92.6%	4.3%	26.22	OP
KOSSAN RUBBER INDUSTRIES	4.90	12,533	Y	12/2020	72.9%	60%	358%	111%	55.8	12.2	5.8	8.8	5.7	56.8%	2.0%	9.36	OP
SUPERMAX CORP BHD	6.79	17,829	Y	06/2021	229%	-27%	510%	-41%	35.6	5.8	10.0	11.6	5.3	125%	6.9%	12.00	OP
TOP GLOVE CORP BHD	6.41	51,400	Y	08/2021	205%	-39%	400%	-56%	28.1	5.6	12.8	10.5	5.9	134%	9.0%	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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