

11 May 2022

Hartalega Holdings

4QFY22 Hit By One-off Prosperity Tax

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FY22 PATAMI of RM3,235m (+12% YoY) came in within expectations, at 94%/98% of our/consensus full-year forecasts. Excluding the one-off prosperity tax, normalised 4QFY22 net profit is expected to come in at RM152m bringing FY22 net profit to RM3,584m. We downgrade our FY23E net profit by 16% taking into account: (i) ASP reduced from USD26 to USD25 per 1,000 pieces, and (ii) EBITDA margin shaved from 22% to 20%. TP is reduced from RM7.00 to RM5.60 based on 30x CY23E EPS. Reiterate OUTPERFORM.

QoQ, 4QFY22 revenue fell 4%, due to lower ASP (-28%) but offset by higher volume sales (+33%). The higher sales were attributed to back-logged orders from previous quarter due to logistic challenges such as capacity constraints on shipping vessels. EBITDA margin decreased by 12ppt from 37% in 3QFY22 to 25% in 4QFY22 due to lower ASP which fell faster than a corresponding decline in input raw material cost. This brings 4QFY22 reported loss or LATAMI to RM198m compared to a profit of RM259m in 3QFY22, dragged down by one-off prosperity tax which we guesstimate at RM350m. Excluding this one-off prosperity tax in 4QFY22, normalised net profit is RM152m. A 3rd interim DPS of 3.50 sen was declared, bringing FY22 DPS to 53.50 sen. We expect a final dividend in 3QCY22. **YTD, FY22 PATAMI of RM3,235m** was driven by an 18% surge in revenue, underpinned by higher ASP (+39%) which more than offset lower volume sales (-15%).

Outlook. In the 4QFY22 result briefing, management highlighted that back-logged orders in 3QFY22 were captured in 4QFY22 which boosted utilisation rate to 70% compared to 52% in 3QFY22. However, the shipping delay is expected to continue in subsequent quarters whereby order back log will continue. Separately, due to higher operating cost including higher minimum wage, ASPs are expected to inch up slightly starting from June delivery but this is insufficient to fully pass on the cost increases. With a cash chest of RM2.4b as at 31 March 2022, the group could be on a lookout for any merger/acquisition potential going forward. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. In line with the growing rubber glove demand globally, the Group will continue to expand capacity in NGC, Sepang. To date, 8 out of 9 lines in Plant 7 have been commissioned. Upon full commissioning, Plant 7 will have an annual installed capacity of 2.6b pieces. The construction for the upcoming expansion under NGC 1.5, is currently underway and the Group targets to commission the first line by 4Q 2022. NGC 1.5 will house 4 additional production plants which will contribute 19b pieces to the annual installed capacity. With the completion of NGC 1.5, the Group's annual installed capacity will increase to 63b pieces per annum.

We lower our FY23E net profit by 16%. We downgrade our FY23E net profit by 16% taking into account: (i) ASP reduced from USD26 to USD25 per 1,000 pieces, and (ii) EBITDA margin shaved from 22% to 20%. We also introduce FY24E numbers into our earnings model.

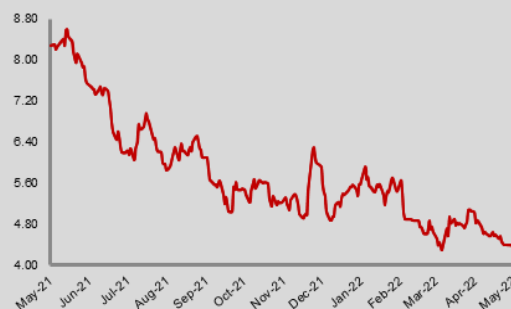
Reiterate OP. TP is reduced from RM7.00 to RM5.60 based on 30x CY23E EPS (at slightly above 5-year pre-COVID forward historical mean). We rollover our valuation from CY22E to CY23E. We like Hartalega due to its solid management and margins of which are head and shoulders above its peers. Since ASPs are no longer lofty, expectations of disappointments in subsequent quarters are expected to be capped.

Risk to our call is lower-than-expected ASP.

OUTPERFORM ↔

Price: RM4.34
Target Price: RM5.60 ↓

Share Price Performance



KLCI	1,554.58
YTD KLCI chg	-0.8%
YTD stock price chg	-24.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK EQUITY
Market Cap (RM m)	14,831.8
Shares Outstanding	3,417.5
52-week range (H)	10.06
52-week range (L)	4.15
3-mth avg daily vol:	5,645,058
Free Float	34%
Beta	1.2

Major Shareholders

Hartalega Industries	34.4%
Budi Tenggara Sdn Bhd	8.6%
Employees Provident	8.2%

Summary Earnings Table

FY Mar (RM m)	2022A	2023E	2024E
Turnover	7888.3	4620.6	4634.5
PBT	4637.2	755.8	840.4
Net Profit (NP)	3234.7	585.6	651.6
Consensus (NP)		714	722
Earnings Revision		-16%	New
EPS (sen)	95.1	17.2	19.2
EPS growth (%)	12.1	-81.9	11.3
PER (x)	4.6	25.2	22.6
NDPS (sen)	57.1	10.3	11.5
BVPS (RM)	1.50	1.57	1.64
PBV (x)	2.9	2.8	2.6
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	13.2	2.4	2.6

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Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Mar (RM m)	FY22	FY22	Chg %	FY21	Chg %	FY21	FY22	Chg %
Turnover	968.7	1,005.4	(3.7)	2,307.5	(58.0)	6,703.5	7,888.3	17.7
EBITDA	246.2	369.2	(33.3)	1,605.1	(84.7)	3,942.2	4,722.3	19.8
PBT	218.4	352.3	(38.0)	1,511.7	(85.6)	3,813.4	4,637.2	21.6
Net Profit (NP)	(197.9)	259.0	(176.4)	1,119.2	(117.7)	2,885.5	3,234.6	12.1
EPS (sen)	(5.8)	7.6	(176.4)	32.8	(117.7)	84.4	94.6	12.1
EBITDA margin (%)	25.4	36.7		69.6		58.9	59.9	
PBT margin (%)	22.5	35.0		65.5		57.0	58.8	
NP margin (%)	(20.4)	25.8		48.5		43.1	41.0	
Effective tax rate (%)	186.9	27.3		25.5		23.9	30.1	

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	4.34	14,832	Y	03/2022	-41%	0%	-82%	11%	4.6	25.2	22.6	2.9	2.8	11%	2%	5.60	OP
KOSSAN RUBBER INDUSTRIES	1.87	4,772	Y	12/2022	-56%	-4%	-90%	4%	1.6	16.0	15.3	1.2	1.1	7%	3%	1.60	UP
SUPERMAX CORP BHD	1.05	2,798	Y	06/2022	-55%	-35%	-79%	-72%	0.7	3.6	12.9	0.6	0.5	16%	10%	0.900	UP
TOP GLOVE CORP BHD	1.55	12,411	Y	08/2022	-55%	3%	-93%	8%	1.6	24.6	22.7	2.1	2.2	9%	2%	1.30	UP

Source: Bloomberg, Kenanga Research

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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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