

Hartalega (HART MK)

Rising tide lifts all boats

Raising EPS and TP; maintain HOLD

In view of the sector-wide ASP hikes, we raise our ASP assumptions for Hartalega and also include spot order sales in 2Q-3QFY3/21. We raise our FY21-23E EPS is raised by 40%/30%/9%. Consequently, our TP is raised to MYR12.15 (+34%), based on unchanged 41x CY21E P/E (+1SD to mean). Trading at CY21E P/E of 42x, stock is priced to perfection and leaves little room for disappointment. Maintain HOLD. For exposure to the sector, we prefer Top Glove (BUY; TP MYR20.00) for its superior earnings growth (2-year EPS CAGR: +90%) and undemanding CY21E P/E of 20x.

ASPs to smaller customers could be raised more

The top 5 customers account for 50% of Hartalega's revenue. These big customers are the big distributors which largely supply to the hospitals. Additionally, the big customers also have stronger bargaining power and long business relationship with Hartalega. Hence, the ASP hike for these customers would be milder. However, for the smaller customers, we believe Hartalega will be able to push for faster ASP hikes.

Our ASP assumptions for FY21E

We maintain our ASP hike of 5% QoQ for 1QFY3/21 (Apr-Jun 2020) and 2QFY21 (Jul-Sep 2020) and extend the 5% QoQ ASP hike into 3QFY21 (Oct-Dec 2020). We previously assumed for zero spot orders but now assume 10% of its sales volume to spot market in 2Q-3QFY21. Our spot ASP assumption is also conservative at USD50/k pieces (vs. current market's spot ASPs of USD100-120/k pieces). Overall, our blended ASP is raised by 8% in FY21E. We now project for its blended ASP to grow 14% in FY21E and to drop 9%/2% in FY22E/FY23E respectively.

Raising earnings forecasts

We have also raised our raised our FY21E sales volume growth by 3% on a faster capacity expansion assumption. Our sales volume assumptions for FY22-23E remain largely unchanged. We now project for its sales volume to grow 23%/8%/6% in FY21-23E. Consequently, our FY21-23E EPS is raised by 40%/30%/9%.

FYE Mar (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,827	2,924	4,212	4,097	4,124
EBITDA	673	724	1,664	1,342	1,216
Core net profit	455	435	1,190	922	813
Core FDEPS (sen)	13.7	12.9	35.4	27.4	24.2
Core FDEPS growth(%)	3.7	(5.5)	173.8	(22.6)	(11.9)
Net DPS (sen)	7.8	7.8	21.4	16.5	14.6
Core FD P/E (x)	33.8	53.2	35.4	45.7	51.8
P/BV (x)	6.8	9.1	13.9	12.4	11.3
Net dividend yield (%)	1.7	1.1	1.7	1.3	1.2
ROAE (%)	21.4	18.1	42.8	28.8	22.9
ROAA (%)	16.2	13.8	31.9	21.5	17.7
EV/EBITDA (x)	23.1	31.7	25.3	31.1	34.1
Net gearing (%) (incl perps)	8.6	net cash	5.9	net cash	net cash
Consensus net profit	-	-	698	696	666
MKE vs. Consensus (%)	-	-	70.5	32.4	22.0

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HOLD

Share Price MYR 12.52
12m Price Target MYR 12.15 (-1%)
Previous Price Target MYR 9.10

Company Description

Hartalega is the world's largest nitrile medical gloves producer.

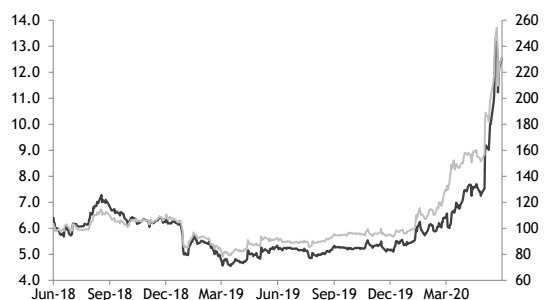
Statistics

52w high/low (MYR)	13.18/4.86
3m avg turnover (USDm)	20.9
Free float (%)	37.8
Issued shares (m)	3,379
Market capitalisation	MYR42.3B USD9.9B

Major shareholders:

Hartalega Industries Sdn. Bhd.	47.9%
Employees Provident Fund	5.0%
BNP Paribas Wealth Management	3.0%

Price Performance

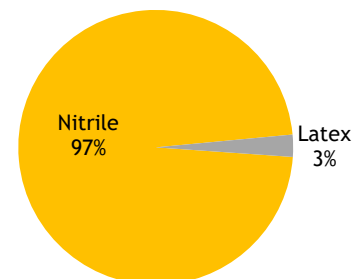


— Hartalega - (LHS, MYR) — Hartalega / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	70	95	138
Relative to index (%)	51	78	152

Source: FactSet

Hartalega: Sales volume breakdown (FY20)



Source: Company

Figure 1: Maybank-KE's key assumptions

	New			Old			Change (% / -ppt)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Blended ASP (USD/k pieces)	25.7	23.3	22.8	23.8	22.6	22.6	8.0%	3.1%	1.0%
ASP growth (%)	13.5%	(9.2%)	(2.0%)	5.1%	(5.0%)	0.0%	8.4	(4.2)	(2.0)
Sales volume (b pcs)	38.1	41.3	43.8	37.2	41.5	43.8	2.5%	(0.3%)	0.1%
Sales volume growth (%)	22.8%	8.4%	6.0%	19.8%	11.5%	5.5%	3.0	(3.1)	0.4
Effective capacity (b pcs)	35.1	39.7	43.5	35.1	38.7	43.0	0.0%	2.6%	1.2%
Effective capacity growth (%)	13.0%	9.6%	6.0%	10.2%	11.1%	6.0%	2.8	(1.5)	(0.1)
Plant utilisation rate (%)	96.0%	95.0%	95.0%	96.0%	96.4%	95.9%	(0.0)	(1.4)	(0.9)
USD vs. MYR	4.30	4.25	4.25	4.30	4.25	4.25	0.0%	0.0%	0.0%

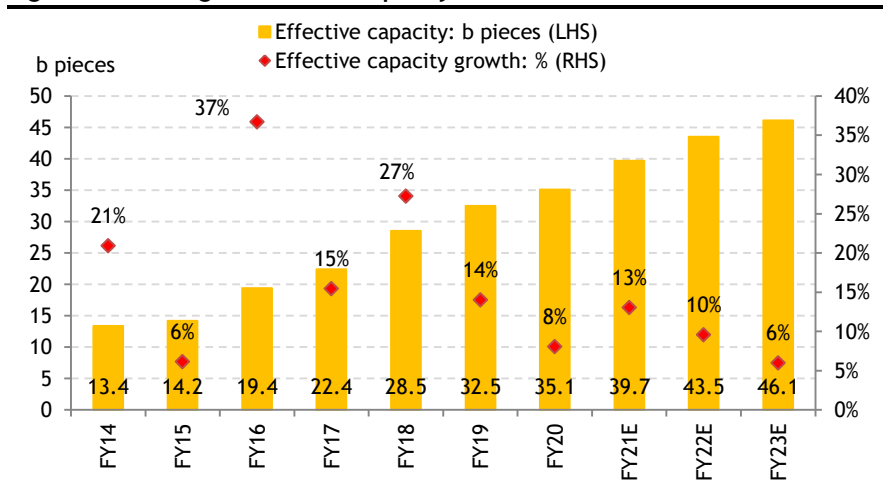
Source: Maybank Kim Eng

Figure 2: Maybank KE's quarterly capacity estimates

	4QFY20	1QFY21E	2QFY21E	3QFY21E	4QFY21E
Capacity (b pcs)	35.3	36.9	38.5	40.7	42.7
Capacity : % QoQ growth	0.1	4.6	4.3	5.7	4.9

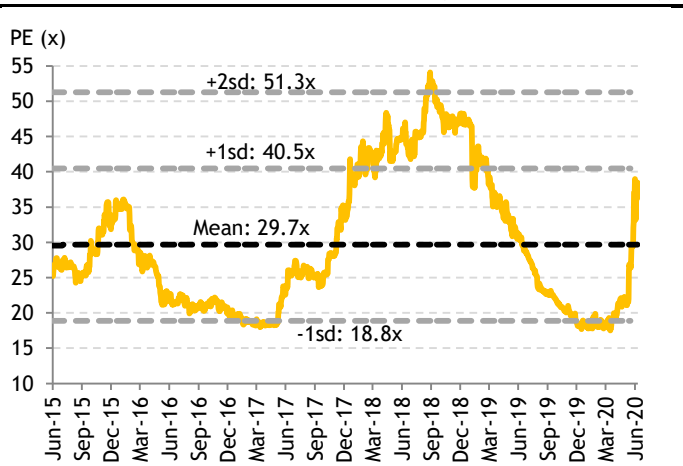
Source: Company data, Maybank Kim Eng

Figure 3: Hartalega's effective capacity



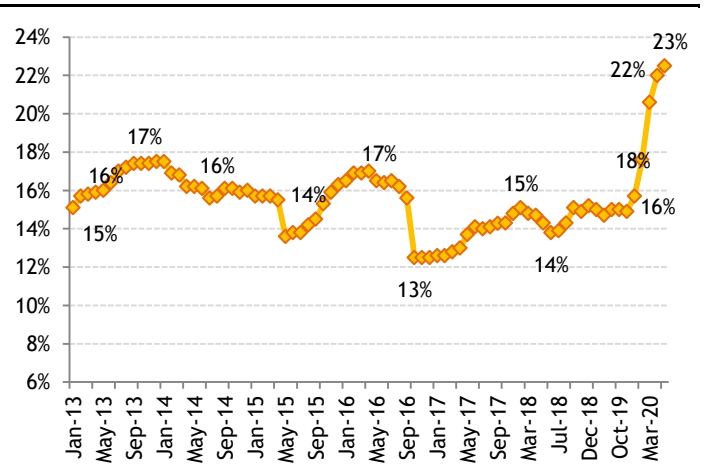
Source: Company data, Maybank Kim Eng

Figure 4: 12 months rolling forward P/E (trading at 39x now)



Source: Company data, Maybank Kim Eng

Figure 5: Foreign shareholding (end-May 2020: 23%)



Source: Company data, Maybank Kim Eng

Figure 6: Malaysia glove sector valuation comparison

Stock	B'berg ticker	Rec	Mkt cap (USD m)	Shr px (Local)	TP (Local)	P/E (x)			P/B (x)		ROE (%)	DY (%)	2-year (CY19-21E) EPS CAGR (%)	PEG (x)
						CY19	CY20E	CY21E	CY20E	CY20E	CY20E	CY20E		
Top Glove	TOPG MK	Buy	10,478.8	17.00	20.00	71.1	25.0	19.6	9.5	40.6%	2.0%	90.4%	0.3	
Hartalega	HART MK	Hold	9,917.7	12.52	12.15	94.9	41.8	42.3	14.5	33.9%	1.4%	49.7%	0.8	
Kossan	KRI MK	Buy	2,730.1	9.13	10.95	51.9	21.9	22.6	6.7	30.6%	1.8%	51.7%	0.4	
Supermax *	SUCB MK	NR	2,611.8	8.65	NR	64.3	39.2	34.1	8.2	21.9%	1.1%	37.4%	0.4	
Comfort*	CG MK	NR	463.4	3.40	NR	49.8	27.2	22.9	4.5	18.1%	0.6%	49.7%	0.2	
Average						66.4	31.0	28.3	8.7	29.0%	1.4%	55.8%	0.4	

Source: Bloomberg, Company data, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Hartalega. Abrupt changes in NBR and latex costs, as well as intense competition may lower earnings. So would sharp appreciation of MYR against USD, as almost its entire revenue is in USD.

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	43.7	41.4	35.2	45.4	51.5
Core P/E (x)	33.7	52.9	35.2	45.4	51.5
Core FD P/E (x)	33.8	53.2	35.4	45.7	51.8
P/BV (x)	6.8	9.1	13.9	12.4	11.3
P/NTA (x)	6.9	9.2	14.0	12.5	11.4
Net dividend yield (%)	1.7	1.1	1.7	1.3	1.2
FCF yield (%)	3.9	2.8	1.9	2.1	1.8
EV/EBITDA (x)	23.1	31.7	25.3	31.1	34.1
EV/EBIT (x)	27.2	38.4	27.7	35.5	40.1

INCOME STATEMENT (MYR m)

Revenue	2,827.2	2,924.0	4,212.0	4,096.6	4,124.4
Gross profit	1,130.9	1,169.6	1,684.8	1,638.6	1,649.7
EBITDA	673.2	724.2	1,664.5	1,342.3	1,215.7
Depreciation	(103.6)	(125.1)	(148.4)	(165.1)	(181.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	569.6	599.1	1,516.0	1,177.2	1,033.9
Net interest income / (exp)	(8.1)	(7.6)	(9.1)	(10.2)	(5.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	550.8	556.3	1,506.9	1,167.0	1,028.6
Income tax	(95.9)	(120.4)	(316.5)	(245.1)	(216.0)
Minorities	0.2	(1.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	455.2	434.8	1,190.5	921.9	812.6
Core net profit	455.2	434.8	1,190.5	921.9	812.6

BALANCE SHEET (MYR m)

Cash & Short Term Investments	150.2	305.0	315.0	568.7	770.7
Accounts receivable	458.2	503.1	724.6	704.8	709.6
Inventory	275.8	276.1	397.7	386.8	389.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,896.2	2,002.1	2,466.7	2,551.6	2,619.8
Intangible assets	22.9	28.8	28.8	28.8	28.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	188.3	202.5	202.5	202.5	202.5
Total assets	2,991.5	3,317.6	4,135.3	4,443.2	4,720.9
ST interest bearing debt	223.4	85.4	85.4	85.4	85.4
Accounts payable	258.3	276.0	397.6	386.7	389.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	120.6	188.6	408.6	358.6	308.6
Other liabilities	129.0	223.0	223.0	223.0	223.0
Total Liabilities	731.0	773.0	1,114.6	1,053.7	1,006.3
Shareholders Equity	2,257.4	2,541.0	3,017.2	3,385.9	3,711.0
Minority Interest	3.1	3.6	3.6	3.6	3.6
Total shareholder equity	2,260.5	2,544.6	3,020.7	3,389.5	3,714.5
Total liabilities and equity	2,991.5	3,317.6	4,135.3	4,443.2	4,720.9

CASH FLOW (MYR m)

Pretax profit	550.8	556.3	1,506.9	1,167.0	1,028.6
Depreciation & amortisation	103.6	125.1	148.4	165.1	181.8
Adj net interest (income)/exp	8.1	7.6	9.1	10.2	5.3
Change in working capital	(1.4)	(20.3)	(221.6)	19.9	(4.8)
Cash taxes paid	(78.1)	(72.7)	(316.5)	(245.1)	(216.0)
Other operating cash flow	35.3	59.7	0.0	0.0	0.0
Cash flow from operations	618.3	655.7	1,126.4	1,117.1	994.9
Capex	(23.3)	(3.1)	(350.0)	(250.0)	(250.0)
Free cash flow	595.0	652.6	776.4	867.1	744.9
Dividends paid	(286.2)	(249.0)	(714.3)	(553.1)	(487.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	27.3	(78.1)	220.0	(50.0)	(50.0)
Other invest/financing cash flow	(342.5)	(170.9)	(272.1)	(10.2)	(5.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(6.3)	154.6	10.0	253.7	202.0

FYE 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	17.5	3.4	44.0	(2.7)	0.7
EBITDA growth	13.2	7.6	129.8	(19.4)	(9.4)
EBIT growth	12.5	5.2	153.0	(22.3)	(12.2)
Pretax growth	4.6	1.0	170.9	(22.6)	(11.9)
Reported net profit growth	3.7	(4.5)	173.8	(22.6)	(11.9)
Core net profit growth	3.7	(4.5)	173.8	(22.6)	(11.9)
Profitability ratios (%)					
EBITDA margin	23.8	24.8	39.5	32.8	29.5
EBIT margin	20.1	20.5	36.0	28.7	25.1
Pretax profit margin	19.5	19.0	35.8	28.5	24.9
Payout ratio	56.7	60.0	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	16.1	14.9	28.3	22.5	19.7
Revenue/Assets (x)	0.9	0.9	1.0	0.9	0.9
Assets/Equity (x)	1.3	1.3	1.4	1.3	1.3
ROAE (%)	21.4	18.1	42.8	28.8	22.9
ROAA (%)	16.2	13.8	31.9	21.5	17.7
Liquidity & Efficiency					
Cash conversion cycle	65.0	61.0	52.5	62.8	61.8
Days receivable outstanding	55.1	59.2	52.5	62.8	61.7
Days inventory outstanding	60.1	56.6	48.0	57.5	56.5
Days payables outstanding	50.2	54.8	48.0	57.4	56.4
Dividend cover (x)	1.8	1.7	1.7	1.7	1.7
Current ratio (x)	1.9	2.7	2.7	3.2	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	4.1	4.3	3.7	4.2	4.7
Net gearing (%) (incl perps)	8.6	net cash	5.9	net cash	net cash
Net gearing (%) (excl. perps)	8.6	net cash	5.9	net cash	net cash
Net interest cover (x)	70.2	78.6	nm	115.1	nm
Debt/EBITDA (x)	0.5	0.4	0.3	0.3	0.3
Capex/revenue (%)	0.8	0.1	8.3	6.1	6.1
Net debt/ (net cash)	193.7	(31.0)	179.0	(124.7)	(376.7)

Source: Company; Maybank

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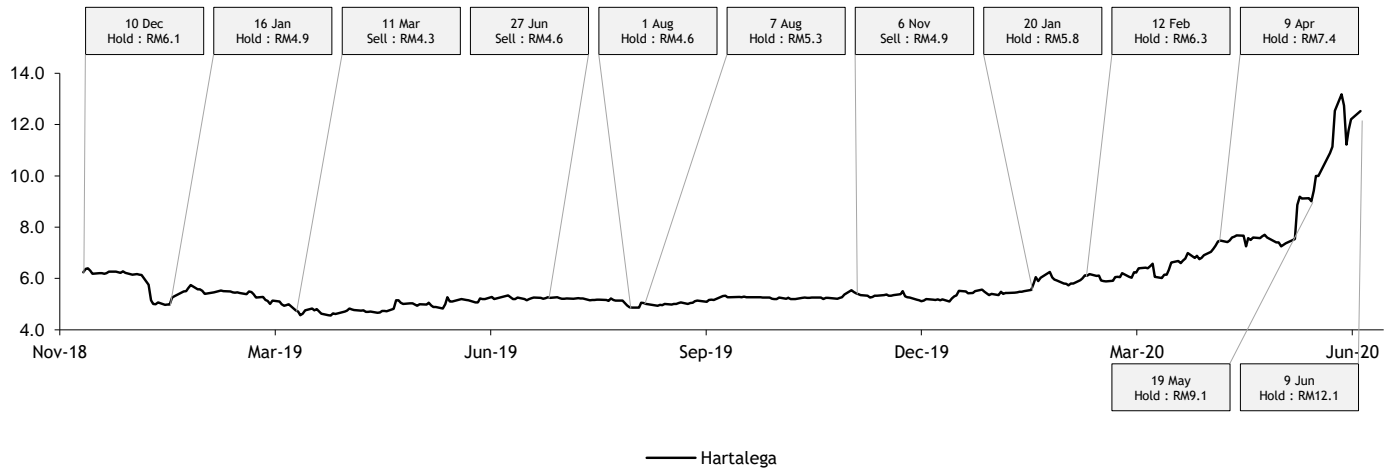
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