

# Malaysia Company Update

## Hartalega Holdings

Bloomberg: HART MK | Reuters: HTHB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Jan 2021

### BUY

Last Traded Price (25 Jan 2021): RM13.00 (KLCI : 1,576.62)

Price Target 12-mth: RM25.30 (95% upside) (Prev RM24.80)

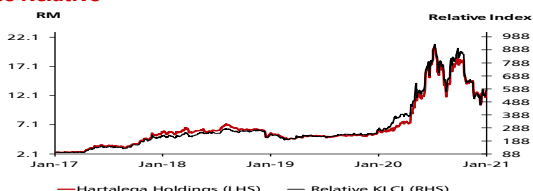
#### Analyst

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### What's New

- Robust earnings above expectations
- Solid performance due to surge in volume and higher ASP
- Expect strong earnings to persist, backed by higher ASP
- Maintain BUY with TP of RM25.30

#### Price Relative



#### Forecasts and Valuation

FY Mar (RMm)	2020A	2021F	2022F	2023F
Revenue	2,924	6,551	7,428	5,121
EBITDA	724	3,861	4,411	1,986
Pre-tax Profit	556	3,728	4,274	1,849
Net Profit	435	2,960	3,394	1,467
Net Pft (Pre Ex.)	470	2,960	3,394	1,467
Net Pft Gth (Pre-ex) (%)	0.9	529.8	14.6	(56.8)
EPS (sen)	12.9	87.8	101	43.5
EPS Pre Ex. (sen)	13.9	87.8	101	43.5
EPS Gth Pre Ex (%)	(1)	530	15	(57)
Diluted EPS (sen)	12.9	87.8	101	43.5
Net DPS (sen)	5.75	41.7	47.8	20.7
BV Per Share (sen)	75.3	137	193	203
PE (X)	100.8	14.8	12.9	29.9
PE Pre Ex. (X)	93.3	14.8	12.9	29.9
P/Cash Flow (X)	66.5	17.8	12.9	21.6
EV/EBITDA (X)	60.5	11.1	9.3	20.5
Net Div Yield (%)	0.4	3.2	3.7	1.6
P/Book Value (X)	17.3	9.5	6.7	6.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	18.1	82.6	61.0	22.0
Earnings Rev (%):		11	15	14
Consensus EPS (sen):		75.2	105	56.8
Other Broker Recs:		B: 15	S: 1	H: 6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### Buoyed by higher ASP

#### Investment Thesis:

**Demand for rubber gloves remains robust, resulting in continued shortage in the market.** COVID-19 global daily infection rates have exceeded 500k. Increasingly tight supply of raw materials may impede new industry nitrile glove capacity that newer players plan to bring online.

**Strong ASP trend to continue in 4QFY21.** We understand average selling price (ASP) in 4QFY21 is set to be stronger q-o-q, led by nitrile gloves. We expect this to support another quarter of stellar earnings in 4QFY21 and increase our FY21-23F earnings by 11-15%.

**Capacity expansion to fulfil robust demand.** Hartalega Holdings (HART) is targeting to increase its capacity to 43bn pieces by the end of December 2021 (+10% y-o-y). Coupled with strong ASP, HART is on course for a record net profit and impressive cashflow generation.

#### Valuation:

Our RM25.30 TP is based on 26x CY21F EPS equivalent to its historical 5-year mean.

#### Where we differ:

Our FY21F net profit forecasts are on the higher end of consensus. The near-term step-up in pricing for gloves remains strong. We expect this to support HART's solid earnings momentum.

#### Key Risks to Our View:

##### Lower-than-expected demand for gloves and ASP.

Weaker-than-expected sales volume and ASP could dampen earnings and suppress margins.

#### At A Glance

Issued Capital (m shrs)	3,428
Mkt. Cap (RMm/US\$m)	44,559 / 11,020
Major Shareholders (%)	
Hartalega Industries	49.3
Employees Provident Fund	7.5
Budi Tenggara	3.0
Free Float (%)	36.8
36.83m Avg. Daily Val (US\$m)	25.6

**GIC Industry** : Health Care / Health Care Equipment & Services



Live more, Bank less

## WHAT'S NEW

### Buoyed by higher ASP

#### Another record quarter, earnings above expectations.

Excluding unrealised foreign exchange (forex) loss and fair value gain on derivatives, HART's core net profit stood at RM964.6m (+714.1% y-o-y; +81.1% q-o-q) in 3QFY21, bringing 9MFY21 earnings to RM1.7bn (+436.1% y-o-y). 9MFY21 core net profit accounted for 64% of our initial full-year net profit forecasts. We expect a stronger 4QFY21.

**Revenue grew on stronger sales volume and ASP.** HART's 3QFY21 revenue came in at RM2.13bn (+167.4% y-o-y), supported by the increase in sales volume (+12.2% y-o-y) and ASP in US dollar (USD) terms that surged 147.1% y-o-y. In line with the higher revenue, core net profit rose 714.1% y-o-y. Earnings before interest and taxes (EBIT)/k gloves came in at RM137.77 (+636.0% y-o-y) mainly due to higher ASP and lower raw material costs.

#### Outlook

#### Sales volume to be supported by demand amid COVID-19.

We are expecting sales volume to increase 15% y-o-y for FY21 (vs. 9% in FY20) on the back of strong glove demand due to COVID-19. Its utilisation rate in 3QFY21 remained high at 95% (vs 2QFY21: 98% and 3QFY20: 96%). Management has indicated that the glove shortage may not ease in the short to medium term. A typical glove plant could take 9-12 months to build and a further 4-6 months to commission its product lines.

**Staggered commissioning of NGC.** HART's Plant #6 with a total of 12 production lines was fully commissioned in October 2020. Its ongoing expansion includes Plant #7 that has commissioned four lines with another two lines by March. NGC 1.5 (Plant #8 to Plant #11) with a total capacity of 18.9bn pieces of gloves is targeting to commence its first line in 4QCY21. NGC 2.0 is scheduled to start groundwork in February 2021 with the first production line likely to come onstream in 1QCY22.

In view of strong rubber glove ASP, raw material prices are expected to increase. Margins are expected to improve as the

rise in ASP is expected to mitigate the increase in raw material prices.

**Adjust earnings.** We are expecting ASP to increase further in the coming quarter. As such, we bump up our earnings by 11%-15% for FY21-22F. The higher ASP coupled with the strong demand will continue to register strong earnings for the group.

#### Valuation

**Reiterate BUY with higher TP of RM25.30.** Following our earnings adjustments, we increase our TP to RM25.30 based on a CY21F price-to-earnings (PE) of 26x. This is based on its 5-year mean PE. HART is trading at 15x FY21F PE or close to -0.6SD of its 5-year mean PE.

Maintain BUY in view of its strong earnings outlook. We expect HART's robust earnings to support its share price. Demand for gloves is not likely to taper off immediately once a COVID-19 vaccine is developed. The timeline for sufficiently accessible vaccine to contain the global pandemic remains to be seen. Even though various vaccines are expected to be introduced, manufacturing, delivering and administering the vaccine will take time. In the long term, even as infection rates ease, we expect increased health awareness to drive increased usage of gloves globally, sustaining a "new normal" of demand.

#### Company Background

Hartalega Holdings (HART) manufactures a wide range of glove products including natural rubber examination gloves, nitrile examination gloves, nitrile clean room gloves and natural rubber surgical gloves. It has the largest nitrile glove capacity among the glove makers under our coverage.

## Hartalega Holdings

### Quarterly Income Statement (RMm)

FY Mar	3Q2020	2Q2021	3Q2021	% chg yoy	% chg qoq
Revenue	797	1,346	2,130	167.4	58.2
Cost of Goods Sold	(642)	(669)	(840)	30.8	25.6
<b>Gross Profit</b>	<b>154</b>	<b>677</b>	<b>1,290</b>	<b>735.9</b>	<b>90.5</b>
Other Oper. (Exp)/Inc	4.23	(6.0)	19.2	353.5	(422.3)
<b>Operating Profit</b>	<b>159</b>	<b>671</b>	<b>1,309</b>	<b>725.7</b>	<b>95.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(1.6)	(0.4)	0.02	nm	nm
Exceptional Gain/(Loss)	2.78	12.4	37.1	nm	199.5
<b>Pre-tax Profit</b>	<b>160</b>	<b>683</b>	<b>1,346</b>	<b>742.8</b>	<b>97.1</b>
Tax	(38.0)	(133)	(338)	788.8	153.7
Minority Interest	(0.4)	(4.7)	(6.2)	(1,409.0)	30.5
<b>Net Profit</b>	<b>121</b>	<b>545</b>	<b>1,002</b>	<b>726.1</b>	<b>83.8</b>
Net profit bef Except.	118	533	965	714.2	81.1
EBITDA	190	705	1,344	606.6	90.6
<b>Margins (%)</b>					
Gross Margins	19.4	50.3	60.5		
Opg Profit Margins	19.9	49.8	61.4		
Net Profit Margins	15.2	40.5	47.0		

### Historical PE and PB band



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

## Hartalega Holdings

### Key Assumptions

FY Mar	2019A	2020A	2021F	2022F	2023F
Capacity (m gloves)	32,506	35,120	39,620	43,620	46,620
Utilisation rate (%)	87.7	88.4	90.0	90.0	87.5
Output (m gloves)	28,511	31,030	35,658	39,258	40,793
EBIT/k gloves (RM)	20.0	19.3	105	109	44.7

### Income Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Revenue	2,828	2,924	6,551	7,428	5,121
Cost of Goods Sold	(2,098)	(2,166)	(2,635)	(2,962)	(3,089)
<b>Gross Profit</b>	<b>730</b>	<b>758</b>	<b>3,916</b>	<b>4,466</b>	<b>2,032</b>
Other Opng (Exp)/Inc	(161)	(159)	(184)	(200)	(207)
<b>Operating Profit</b>	<b>569</b>	<b>599</b>	<b>3,732</b>	<b>4,266</b>	<b>1,825</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.4)	(7.6)	(4.0)	7.83	23.8
Exceptional Gain/(Loss)	(9.8)	(35.2)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>552</b>	<b>556</b>	<b>3,728</b>	<b>4,274</b>	<b>1,849</b>
Tax	(95.7)	(120)	(767)	(879)	(380)
Minority Interest	0.0	(1.1)	(1.1)	(1.1)	(1.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>456</b>	<b>435</b>	<b>2,960</b>	<b>3,394</b>	<b>1,467</b>
Net Profit before Except.	466	470	2,960	3,394	1,467
EBITDA	673	724	3,861	4,411	1,986

### Growth

Revenue Gth (%)	17.6	3.4	124.0	13.4	(31.1)
EBITDA Gth (%)	11.1	7.7	433.1	14.3	(55.0)
Opg Profit Gth (%)	10.0	5.3	522.9	14.3	(57.2)
Net Profit Gth (Pre-ex) (%)	10.1	0.9	529.8	14.6	(56.8)

### Margins & Ratio

Gross Margins (%)	25.8	25.9	59.8	60.1	39.7
Opg Profit Margin (%)	20.1	20.5	57.0	57.4	35.6
Net Profit Margin (%)	16.1	14.9	45.2	45.7	28.7
ROAE (%)	21.5	18.1	82.6	61.0	22.0
ROA (%)	16.2	13.8	68.0	53.1	19.3
ROCE (%)	17.8	16.2	73.9	56.9	20.8
Div Payout Ratio (%)	62.7	44.6	47.5	47.5	47.5
Net Interest Cover (x)	77.1	78.6	937.1	NM	NM

Source: Company, AllianceDBS

## Hartalega Holdings

## Quarterly Income Statement (RMm)

FY Mar	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021
Revenue	797	778	920	1,346	2,130
Cost of Goods Sold	(642)	(604)	(652)	(669)	(840)
<b>Gross Profit</b>	<b>154</b>	<b>174</b>	<b>269</b>	<b>677</b>	<b>1,290</b>
Other Oper. (Exp)/Inc	4.23	0.0	(13.5)	(6.0)	19.2
<b>Operating Profit</b>	<b>159</b>	<b>174</b>	<b>255</b>	<b>671</b>	<b>1,309</b>
Other Non Opq (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.6)	(1.2)	(0.9)	(0.4)	0.02
Exceptional Gain/(Loss)	2.78	(35.1)	18.8	12.4	37.1
<b>Pre-tax Profit</b>	<b>160</b>	<b>138</b>	<b>273</b>	<b>683</b>	<b>1,346</b>
Tax	(38.0)	(21.9)	(51.8)	(133)	(338)
Minority Interest	(0.4)	(0.1)	(1.3)	(4.7)	(6.2)
<b>Net Profit</b>	<b>121</b>	<b>116</b>	<b>220</b>	<b>545</b>	<b>1,002</b>
Net profit bef Except.	118	151	201	533	965
EBITDA	190	206	288	705	1,344

## Growth

Revenue Gth (%)	12.3	(2.3)	18.3	46.3	58.2
EBITDA Gth (%)	12.4	8.3	39.7	145.0	90.6
Opq Profit Gth (%)	14.8	9.7	46.7	163.1	95.1
Net Profit Gth (Pre-ex) (%)	15.9	27.1	33.4	165.0	81.1

## Margins

Gross Margins (%)	19.4	22.4	29.2	50.3	60.5
Opg Profit Margins (%)	19.9	22.4	27.7	49.8	61.4
Net Profit Margins (%)	15.2	14.9	23.9	40.5	47.0

## Balance Sheet (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	2,070	2,191	2,550	2,805	3,043
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	23.9	35.0	30.5	30.5	30.5
Cash & ST Invts	150	305	1,338	2,890	3,462
Inventory	276	276	336	378	394
Debtors	458	503	1,127	1,278	881
Other Current Assets	13.3	7.40	7.40	7.40	7.40
<b>Total Assets</b>	<b>2,992</b>	<b>3,318</b>	<b>5,389</b>	<b>7,388</b>	<b>7,818</b>
ST Debt	223	85.4	85.4	85.4	85.4
Creditor	258	276	336	378	394
Other Current Liab	2.90	47.9	47.9	47.9	47.9
LT Debt	121	189	112	189	265
Other LT Liabilities	126	175	175	175	175
Shareholder's Equity	2,257	2,541	4,628	6,507	6,844
Minority Interests	3.06	3.60	4.65	5.70	6.75
<b>Total Cap. &amp; Liab.</b>	<b>2,992</b>	<b>3,318</b>	<b>5,389</b>	<b>7,388</b>	<b>7,818</b>
Non-Cash Wkq. Capital	486	463	1,087	1,238	841
Net Cash/(Debt)	(194)	31.0	1,141	2,616	3,112
Debtors Turn (avg days)	55.8	60.0	45.4	59.1	76.9
Creditors Turn (avg days)	43.6	47.8	44.6	46.2	48.1
Inventory Turn (avg days)	51.9	49.4	44.6	46.2	48.1
Asset Turnover (x)	1.0	0.9	1.5	1.2	0.7
Current Ratio (x)	1.9	2.7	6.0	8.9	9.0
Quick Ratio (x)	1.3	2.0	5.3	8.2	8.2
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	125.1	91.3	244.7	146.0	114.1
Z-Score (X)	41.1	39.5	42.1	36.9	32.8

Source: Company, AllianceDBS

## Hartalega Holdings

### Cash Flow Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	552	556	3,728	4,274	1,849
Dep. & Amort.	104	125	129	145	161
Tax Paid	(78.3)	(120)	(767)	(879)	(380)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1.5)	(53.2)	(624)	(151)	397
Other Operating CF	49.7	151	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>625</b>	<b>659</b>	<b>2,466</b>	<b>3,389</b>	<b>2,027</b>
Capital Exp.(net)	(430)	(250)	(483)	(400)	(400)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(1.5)	(0.3)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(432)</b>	<b>(250)</b>	<b>(483)</b>	<b>(400)</b>	<b>(400)</b>
Div Paid	(286)	(249)	(873)	(1,515)	(1,131)
Chg in Gross Debt	27.3	(76.6)	(76.6)	76.6	76.6
Capital Issues	68.8	84.0	0.0	0.0	0.0
Other Financing CF	(9.9)	(12.3)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(200)</b>	<b>(254)</b>	<b>(950)</b>	<b>(1,438)</b>	<b>(1,054)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(6.3)	155	1,033	1,551	573
Opg CFPS (sen)	18.8	21.1	91.6	105	48.3
Free CFPS (sen)	5.86	12.1	58.8	88.6	48.2

Source: Company, AllianceDBS

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Feb 20	6.12	5.05	FULLY VALUED
2:	26 Mar 20	6.78	5.05	FULLY VALUED
3:	19 May 20	9.01	5.95	FULLY VALUED
4:	05 Jun 20	12.20	13.75	BUY
5:	23 Jul 20	18.00	21.50	BUY
6:	05 Aug 20	19.80	24.70	BUY
7:	11 Aug 20	18.30	24.70	BUY
8:	28 Oct 20	18.02	24.80	BUY

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 26 Jan 2021 07:04:52 (MYT)

Dissemination Date: 26 Jan 2021 08:23:07 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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