

08 August 2018 | 1QFY19 Results Review

Hartalega Holdings Berhad

Lofty valuations limit capital upside

Maintain NEUTRAL

Unchanged Target Price (TP): RM5.49

INVESTMENT HIGHLIGHTS

- **1QFY19 earnings within expectations**
- **Earnings boosted by increase in sales volume**
- **NGC capacity expansion well on track**
- **FY19F earnings forecasts maintained**
- **Maintain NEUTRAL (negative bias) with a TP of RM5.49**

Within expectations. Hartalega's 1QFY19 earnings came in at RM124.9m which is in line with our and consensus expectations, representing 24.3% and 25.0% of full-year earnings forecasts respectively. On a quarterly sequential basis, revenue and earnings grew marginally by +14.5% and +7.0% whilst yoy, revenue and earnings increased by +17.5% and +29.7% respectively. No dividend was declared for the quarter under review.

Earnings boosted by higher sales volume. In 1QFY19, sales volume for both nitrile and rubber gloves increased by +19.6%yoy and +34.4%yoy respectively while on a quarterly sequential basis, sales volume increased by +5.0%qoq and +47.3%qoq respectively for both type of gloves. This helped in reducing the impact from the +23% increase in natural gas tariff earlier this year. The improved sales volume during the quarter was mainly attributable to: (i) better demand; (ii) increase in average selling prices (ASPs); (iii) higher utilisation rate of above 90% and; (iv) improvement in internal processes.

NGC capacity expansion well on track. Management disclosed that the newly completed Plant 5 will start commissioning two new lines every month beginning August 2018. Additionally, Hartalega has also started constructing its Plant 6 in June 2018 and it is expecting Plant 6 to start commissioning in 1HCY19. Furthermore, we understand from the management that the company will also be constructing Plant 7 which will be focusing more on specialty gloves and small orders. Hartalega targets to commission the first line of Plant 7 in 2HCY19.

Earnings forecasts. We are maintaining our FY19F earnings estimates at this juncture as we opine that Hartalega is on track to meet our earnings projection. The key risks to our earnings are the: (i) fluctuation of USD vs MYR; (ii) lower than expected raw material prices; and (iii) lower demand from customers.

RETURN STATS	
Price (7 August 2018)	RM6.17
Target Price	RM5.49
Expected Share Price Return	-11.0%
Expected Dividend Yield	+1.5%
Expected Total Return	-9.5%

STOCK INFO	
KLCI	1,791.09
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	3,312.41
Market cap. (RM'm)	20.487.58
Price over NA	10.25
52-wk price Range	RM3.19 – RM6.64
Beta (against KLCI)	0.96
3-mth Avg Daily Vol	2.95m
3-mth Avg Daily Value	RM17.9m
Major Shareholders (%)	
Hartalega Industries	48.74
EPF	7.21
Budi Tenggara Sdn Bhd	3.00

Recommendation. Post earnings announcement, we are maintaining our **Neutral** (negative bias) recommendation on Hartalega with an unchanged TP of **RM5.49** per share. We have previously included the capacity expansion timeline into our financial estimates and we opine that all positives have been priced in at this juncture. Our TP is derived via pegging our FY20F EPS of 19.6sen pegged to an unchanged PER19 of 28x, which is its five-year average PER.



Table 1: Hartalega's quarterly earnings review

FYE Mar (RM'm)	Quarterly results				
	1QFY18	3QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	601.0	616.8	706.4	14.5	17.5
Operating expenses	(492.5)	(499.8)	(551.2)	10.3	11.9
Other operating income	9.0	20.2	(6.9)	(134.0)	(176.5)
Finance costs	(1.8)	(2.3)	(2.4)	6.0	38.1
Profit Before Tax	115.7	135.0	145.8	8.0	26.0
Taxation	(19.3)	(18.1)	(20.7)	14.8	7.4
Profit After Tax	96.4	116.9	125.1	7.0	29.7
Non-controlling interest	0.0	0.3	0.2	(15.0)	nm
PATANCI	96.4	116.6	124.9	7.1	29.6
Basic EPS (sen)	2.9	3.5	3.8	6.8	28.7
FD EPS (sen)	2.9	3.5	3.7	6.6	27.6
PBT margin (%)	19.3	9.0	9.7	8.0	(49.5)
PAT margin (%)	16.0	7.8	8.3	7.0	(48.0)
PATANCI margin (%)	16.0	18.9	17.7	(6.5)	10.2
Tax rate (%)	16.7	13.4	14.2	6.2	(14.7)

Source: Company, MIDFR

Table 2: Hartalega's NGC capacity expansion timeline

Plants	Phase	Production Lines	Capacity (pcs per annum)	Expected full commissioning
5 plants at Bestari Jaya		45	13.5bn	-
Plant 1 of NGC	1	12	4.7bn	Fully Commissioned
Plant 2 of NGC		12	4.7bn	Fully Commissioned
Plant 3 of NGC	2	12	4.7bn	Fully Commissioned
Plant 4 of NGC		12	4.7bn	Fully Commissioned
Plant 5 of NGC	3	12	4.7bn	3QCY18
Plant 6 of NGC		12	4.7bn	1HCY19
Plant 7 of NGC		TBA	2.6bn	2HCY19
			30.8bn	
Capacity by 2020			44.3bn	

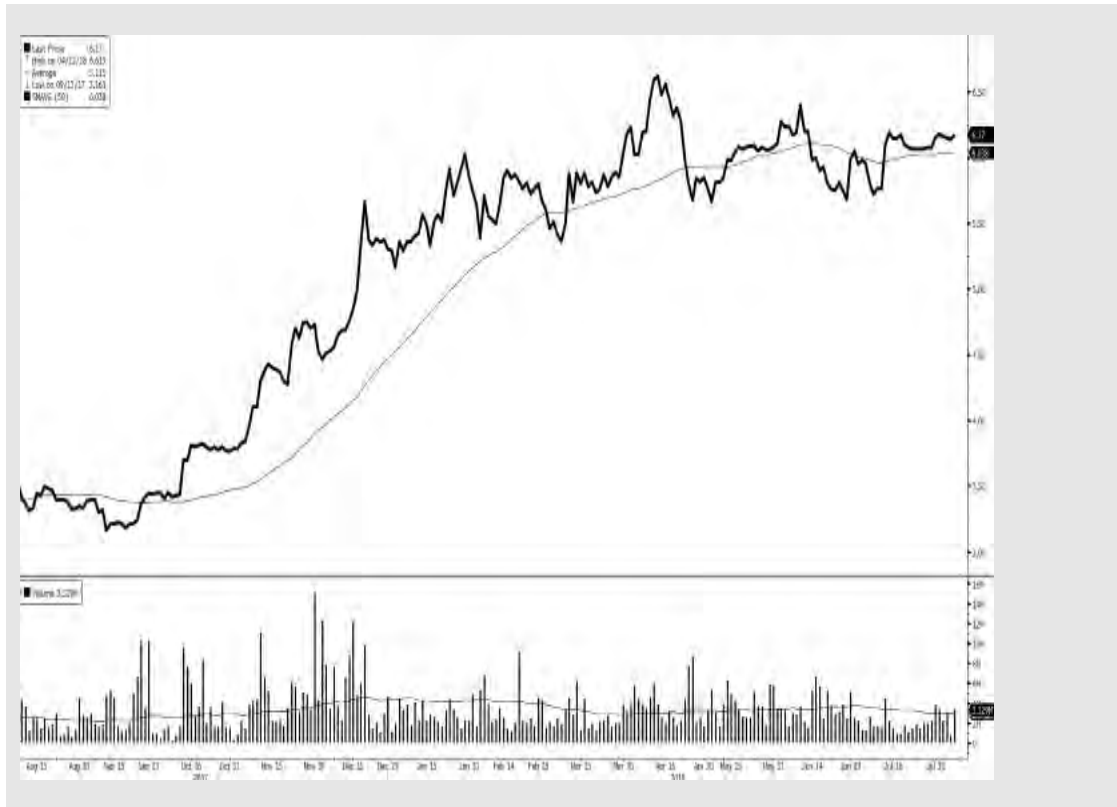
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Mar (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,498.3	1,822.1	2,405.6	3,005.5	3,737.3
Cost of goods sold	(1,181.9)	(1,435.2)	(1,917.4)	(2,228.9)	(2,771.6)
Gross profit	316.4	386.9	488.2	776.6	965.7
Finance costs	(0.4)	(1.0)	(7.9)	(15.5)	(15.6)
Profit before tax	317.3	348.7	526.8	610.9	800.6
Income tax expense	(59.4)	(65.3)	(86.6)	(97.7)	(128.1)
Net Profit (RM'm)	257.9	283.4	440.2	513.1	672.5
EPS (sen)	7.5	8.3	12.8	15.0	19.6
EPS Growth (%)	19.6	9.8	55.5	16.6	31.1
PER (x)	82.0	74.7	48.1	41.2	31.5
Dividend Per Share (sen)	4.0	4.3	8.0	9.0	11.5
Dividend yield (%)	0.6	0.7	1.3	1.5	1.9

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.