

09 November 2018 | 2QFY19 Results Review

## Hartalega Holdings Berhad

*Profit margin remains stable at 17%*

### INVESTMENT HIGHLIGHTS

- **1HFY19 earnings rose by +6.1%yoy to RM120.2n, in-line with ours and consensus expectations**
- **Earnings boosted by the increase in sales volume (+15.4%yoy) and higher average selling price (+4.0%yoy)**
- **Prospect remain positive in view of resilient demand and NGC capacity expansion well on track**
- **First interim dividend declared for FY19 of 2.2sen per share**
- **Maintain NEUTRAL with a revised TP of RM5.63**

**Within expectations.** Hartalega Holdings Berhad (Hartalega)'s 2QFY19 earnings rose by +6.1%yoy to RM120.2m, whilst the 1HFY19 earnings rose by +16.9%yoy to RM245.1m. The cumulative earnings met our and consensus expectations, both accounting for 48.0% full year FY19 earnings forecasts.

**Profit margins remain stable.** 1HFY19 sales revenue rose by +19.8%yoy to RM1.4b. This is driven by the +15.4%yoy increase in sales volume, in-line with the growing demands for nitrile glove as well as the continuous capacity expansion in the Next Generation Integrated Glove Manufacturing Complex (NGC). In terms of geographical contribution, bulk of the contribution came from North America and Europe region at 53.8% and 27.0% respectively. Meanwhile, the higher sales revenue is further propelled by the +4.0%yoy increase in average selling price as Hartalega passed on the increase in nitrile cost to its customer. As a result, net profit margin remains stable at 17.0% level.

**Prospect continue to be positive.** The global glove consumption remains healthy growing at 8.0% to 10.0% per annum. Moreover, Hartalega is currently working on securing the Federal Drug Administration (FDA) approval to increase its presence in the US market by 2HCY19. To keep up with rising demand, Hartalega has commissioned three new lines at Plant 5 and is targeting to commence two new lines every month. To prevent supply disruption, the group plans to construct Plant 6 and Plant 7 which are expected to commission their first line by 2HCY19. These three plants will add +7.3b pieces to the 28.5b pieces existing group's annual capacity as at the end of FY18.

**First interim dividend declared for FY19.** The group has declared its first interim dividend of 2.2sen per ordinary share for FY19 (vs 3.5sen per ordinary share for FY18).

**Maintain NEUTRAL**

**Revised Target Price (TP): RM5.63**  
(Previously RM5.49)

### RETURN STATS


Price (8 <sup>th</sup> November 2018)	RM6.31
Target Price	RM5.63
Expected Share Price Return	-10.7%
Expected Dividend Yield	+1.6%
<b>Expected Total Return</b>	<b>-9.1%</b>

### STOCK INFO

KLCI	1,721.42
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	3,328.17
Market cap. (RM'm)	21,000.72
Price over NA	10.11
52-wk price Range	RM4.07 – RM7.45
Beta (against KLCI)	1.00
3-mth Avg Daily Vol	4.29m
3-mth Avg Daily Value	RM28.4m
Major Shareholders (%)	
Hartalega Industries	48.63
EPF	6.51
Oversea Chinese Bank	2.62

**Earnings forecasts.** We are revising upwards our FY19F and FY20F earnings estimates by +3.3% and +2.1% respectively as we update our 2018 average MYR/USD exchange rate to RM4.00 (previously RM3.95) in line with our house forecast. The key risks to our earnings are the: (i) fluctuation of USD vs MYR; (ii) lower demand from customers and; (iii) delay in plants completion.

**Target Price.** We revise our target price to **RM5.63** per share (previously RM5.49). Our TP is derived via pegging our FY20F EPS of 20.1sen to an unchanged PER19 of 28.0x, which is 0.5SD below its five-year average historical PER.

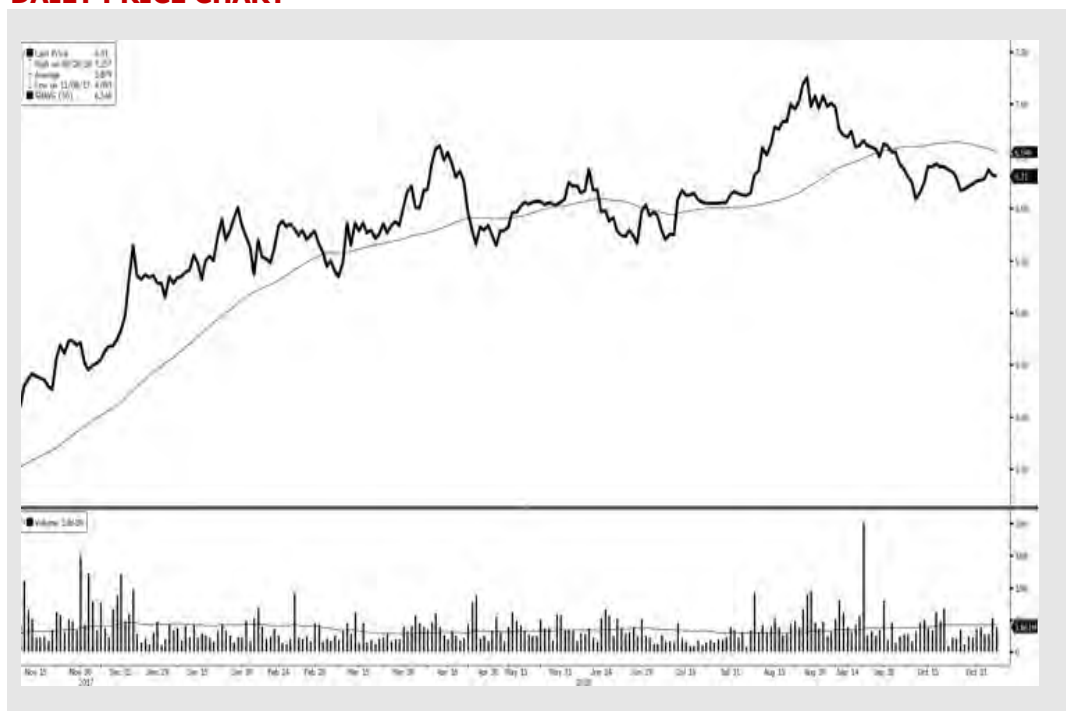
**Maintain NEUTRAL.** Post earnings announcement, we are maintaining our **Neutral** recommendation on Hartalega. We like the stock due to its strong: (i) strong revenue growth; (ii) robust balance sheet and; (iii) efficiency in production in comparison to its peers. Nonetheless, we opine that all positives have been priced in at this juncture as the stock is currently trading at 44.0x PER which is 1.5SD above its five-year average historical PER. In addition, we opine that the group's dividend yield is the lower as compared to its peers which generally more than two percent. 

## INVESTMENT STATISTICS

FYE Mar (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
<b>Revenue</b>	<b>1,498.3</b>	<b>1,822.1</b>	<b>2,405.6</b>	<b>3,117.6</b>	<b>3,828.5</b>
Cost of goods sold	(1,181.9)	(1,435.2)	(1,917.4)	(2,312.0)	(2,839.2)
<b>Gross profit</b>	<b>316.4</b>	<b>386.9</b>	<b>488.2</b>	<b>805.6</b>	<b>989.3</b>
Finance costs	(0.4)	(1.0)	(7.9)	(15.5)	(15.6)
<b>Profit before tax</b>	<b>317.3</b>	<b>348.7</b>	<b>526.8</b>	<b>634.2</b>	<b>820.6</b>
Income tax expense	(59.4)	(65.3)	(86.6)	(101.5)	(131.3)
<b>Net Profit (RM'm)</b>	<b>257.9</b>	<b>283.4</b>	<b>440.2</b>	<b>532.7</b>	<b>689.3</b>
EPS (sen)	7.5	8.3	12.8	15.5	20.1
EPS Growth (%)	19.6	9.8	55.5	21.0	29.4
PER (x)	83.9	76.4	49.1	40.6	31.4
Dividend Per Share (sen)	4.0	4.3	5.9	7.5	10.0
Dividend yield (%)	0.6	0.7	0.9	1.2	1.6

Source: Company, MIDFR

## DAILY PRICE CHART



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**Table 1: Hartalega's quarterly earnings review**

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	2QFY19	1QFY19	2QFY18	YoY (%)	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue	714.2	706.4	584.6	22.2	1.1	1,420.6	1,185.7	19.8
Operating expenses	(558.3)	(551.2)	(454.6)	22.8	1.3	(1,109.5)	(947.1)	17.1
Other operating income	(11.1)	(6.9)	9.1	(222.0)	61.7	(18.0)	18.1	(199.4)
Finance costs	(2.5)	(2.4)	(1.9)	35.0	4.0	(4.9)	(3.6)	36.5
<b>Profit Before Tax</b>	<b>142.4</b>	<b>145.8</b>	<b>137.2</b>	3.7	(2.4)	<b>288.2</b>	<b>253.0</b>	13.9
Taxation	(22.0)	(20.7)	(23.5)	(6.5)	5.9	(42.7)	(42.8)	(0.2)
<b>Profit After Tax</b>	<b>120.4</b>	<b>125.1</b>	<b>113.7</b>	5.8	(3.8)	<b>245.5</b>	<b>210.2</b>	16.8
Non-controlling interest	0.2	0.2	0.4	(58.5)	(23.3)	0.4	0.4	(13.8)
<b>PATANCI</b>	<b>120.2</b>	<b>124.9</b>	<b>113.3</b>	6.1	(3.7)	<b>245.1</b>	<b>209.7</b>	16.9
Basic EPS (sen)	3.6	3.8	3.4	5.4	(4.0)	7.4	6.4	16.1
Diluted EPS (sen)	3.6	3.7	3.4	4.7	(3.8)	7.3	6.3	15.2
PBT margin (%)	19.9	20.6	23.5	(3.5)	3.6	20.3	21.3	(1.1)
PAT margin (%)	16.9	17.7	19.5	(2.6)	5.1	17.3	17.7	(0.4)
PATANCI margin (%)	16.8	17.7	19.4	(2.6)	5.0	17.3	17.7	(0.4)
Effective Tax rate (%)	15.4	14.2	17.1	(1.7)	(7.8)	14.8	16.9	(2.1)

Source: Company, MIDFR

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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.