

**Company Result**

# Hartalega Holdings Berhad

Exciting moments ahead but fully valued

16 May 2018

**HOLD**  
**Maintained**

<b>Share Price</b>	<b>RM6.00</b>
<b>Target Price</b>	<b>RM6.05</b>

**Company Description**

Hartalega Holdings Bhd. manufactures a wide range of latex gloves. The Company's products include natural rubber examination gloves, nitrile examination gloves, nitrile clean room gloves and natural rubber surgical gloves.

**Stock Data**

Bursa / Bloomberg code	5168 / HART MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	3312.41
Par Value (RM)	0.50
Market cap. (RM'm)	19874.43
52-week price Range(RM)	2.76-6.64
Beta (against KLCI)	0.95
3-m Average Daily Volume	3.28m
3-m Average Daily Value^	RM19.53m

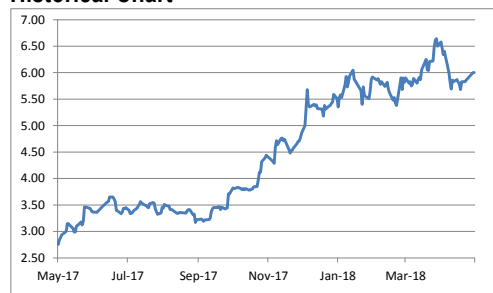
**Share Performance**

	1m	3m	12m
Absolute (%)	-8.3	-0.8	114.7
Relative (%-pts)	-7.3	0.5	106.5

**Major Shareholders**

	%
Hartalega Industries SB	48.86
EPF	6.92
Budi Tenggara Sdn Bhd	3.01

**Historical Chart**



Source: Bloomberg

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**Result**

- **Hartalega reported a net profit of RM116.6mil for its 4QFY18 results.** The quarterly net profit increased 3.7% QoQ and 30.4% YoY. Meanwhile, the Group recorded a quarterly revenue of RM616.8m, which increased by 2.3% QoQ and 17% YoY.
- **For 12MFY18,** the Group attained a higher top line and bottom line of 32.1% and 55.1% YoY respectively.
- **12FY18 net earnings within our estimate but below market expectation.** The Group's 12MFY18 recorded a core net profit of RM397.46m which accounts for 98.7% of our full year estimate and 93% of market forecast.

**Comments**

- **Better earnings QoQ.** The Group reported a growth in revenue was mainly due to a higher sales volume, +3.7%, thanks to higher demand from customers (revenue and PAT up 2.3% and 3.3% respectively). However, a lower operating profit margin is recorded as a result of higher energy and upkeep cost (EBIT and EBIT margin decreased by 11.5% and -3ppts respectively).
- **Stronger earnings YoY.** As compared to 4QFY17, higher revenue was recorded underpinned by strong demand growth for nitrile gloves amid better production capacity with sales volume increased by 30.1% (revenue up by 17%). Besides, a higher PBT is recorded, mainly contributed by a forex gain of RM18.8m as compared to RM1.3m in 4QFY17 as PBT up by 15.8%.
- **Excellent result for 12MFY18.** The Group achieved huge growth in revenue, again thanks to continuous expansion in production capacity, along with higher sales volume of 32.5% and demand in nitrile glove from the China market as revenue increased by 32.0%. In addition, the Group achieved higher PBT and PBT margin as a result of net forex gain of RM41.1m as PBT and PBT margin increased by 51% and +2.9ppts respectively.
- **Dividend declared.** The Group has declared a third interim dividend of 2.0 sen/share.
- **Continuous expansion to meet rising demand.** Currently, the Group has commissioned all the 12 production lines in Plant 4 and Plant 5 which will start to commence in 2HCY18 onwards. In meeting rising demand, the Group will proceed with the construction of Plant 6 with an annual capacity of 4.7b pieces. Moreover, Plant 7 will be set up with annual capacity of 2.6b pieces, which will tailor to small orders and focus on specialty products. We foresee that revenue will continue to boost upon commencement of Plant 5.

- **Launching of its new product.** The Group will launch its antimicrobial gloves (AMG) on 31 May 2018 in Europe and is working on securing Federal Drug Administration (FDA) approval to enter the US market. However, we only expect the antimicrobial gloves to contribute significant revenue and yield better margin to the Group in the long run due to price competition.
- **Demand for gloves remains robust.** Overall, the prospects of glove sector still remain strong with the switching trend from latex gloves towards nitrile gloves which accounts for 60% of Malaysian rubber glove export. Moreover, the Group will continue to benefit from supply shortage in China as vinyl glove producers still face difficulties in conforming strict environmental law in China.
- **Positive Outlook.** We believe that the Group is able to achieve higher sales volume in FY19 upon the commission of Plant 5 amid resilient demand attributable to China market and the launch of new anti-microbial gloves in FY19.

#### Earnings Outlook/Revision

- **We maintain our earnings forecasts for FY19F at RM495.9m whilst introducing our FY20F earnings forecast of RM550.2m.** Our net profits for FY19F and FY20F represent commendable year earnings growth of 12.9% and 10.9% respectively as we account for: (a) higher sales growth due to Plant 5 in operation (expected to commission on 2HCY18), (b) better margin due to the new ERP system and (c) sustainable strong demand contributed by China market.
- **Risks include:** 1) potential hike in raw material price due to shortage of supply (eg. Latex) and 2) forex losses as a result of forex fluctuations as the Group is unable to negotiate and pass on the costs to customer in a short span of time.

#### Valuation & Recommendation

- **Valuation looks stretched.** Maintain HOLD with a higher target price of RM6.05 (previous target price of RM5.59) after applying higher PE valuation. Our revised target price is now pegged at 40.3x FY19F EPS (from previous 37.3x). We ascribed higher PER, which is at its +2 SD above its mean as to better reflect the Group's strong margin ahead as compared to its peers along with its strong demand for FY19F. Nevertheless, we believe that current share price has fully reflected its strong fundamental and the positive outlook of the Group.

### Quarterly Figures

Year ending 31 March	4QFY18	3QFY18	4QFY17	QoQ	YoY	12MFY18	12MFY17	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	616.8	603.1	527.0	2.3%	17.0%	2,405.64	1,822.1	32.0%
EBIT	117.1	132.6	116.4	-11.7%	0.5%	488.21	386.9	26.2%
PBT	137.3	138.9	118.5	-1.2%	15.8%	529.09	348.7	51.7%
PAT	116.9	113.1	89.4	3.3%	30.7%	440.19	283.4	55.3%
Net profit	116.6	112.5	89.4	3.7%	30.4%	438.86	283.0	55.1%
Core net profit	97.9	105.6	87.5	-7.3%	11.8%	397.86	242.6	64.0%
<b>Margin (%)</b>								
EBIT margin	19.0%	22.0%	22.1%	-3ppts	-3.1ppts	20.3%	21.2%	-0.9ppts
PBT margin	22.3%	23.0%	22.5%	-0.8ppts	-0.2ppts	22.0%	19.1%	2.9ppts
PAT margin	19.0%	18.8%	17.0%	0.2ppts	2ppts	18.3%	15.6%	2.7ppts
Net profit margin	18.9%	18.7%	17.0%	0.3ppts	1.9ppts	18.2%	15.5%	2.7ppts

Source: Company, JF Apex

### Peer Comparison

Company	Price RM	Recommendation	T. price RM	P/E	P/B	P/S	PAT margin (%)	Div yield
Hartalega	6.0	HOLD	6.05	45.1	10.3	8.5	18.3	1.3
Top Glove	10.1	HOLD	10.3	32.5	6.0	3.5	11.2	1.4
Kossan	7.1	-	-	24.5	3.9	2.2	11.7	0.9
Supermx	3.1	-	-	22.7	1.9	1.6	9.6	1.0
Mean				29.0	3.8	2.7	12.0	1.1

**Financial Summary**

Year ending 31 March	FY15	FY16	FY17	FY18	FY19F	FY20F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	1,146.0	1,498.3	1,821.9	2,405.6	3,060.9	3,250.8
Operating profit	276.0	317.3	350.0	534.7	553.0	700.8
PBT	275.9	316.9	348.9	526.8	618.3	700.2
PAT	209.2	257.8	283.3	440.2	495.9	550.2
Net profit	209.7	257.4	283.0	439.4	495.9	550.2
<b>Growth (%)</b>						
Revenue	3.5%	30.7%	21.6%	32.0%	27.2%	6.2%
Operating profit	-10.8%	15.0%	10.3%	52.8%	3.4%	26.7%
PBT	-10.7%	14.9%	10.1%	51.0%	17.4%	13.2%
PAT	-10.3%	23.2%	9.9%	55.4%	12.7%	10.9%
Net profit	-9.9%	22.7%	9.9%	55.3%	12.9%	10.9%
<b>Margin (%)</b>						
Operating profit	24.1%	21.2%	19.2%	22.2%	18.1%	21.6%
PBT	24.1%	21.1%	19.2%	21.9%	20.2%	21.5%
PAT	18.3%	17.2%	15.5%	18.3%	16.2%	16.9%
Net profit	18.3%	17.2%	15.5%	18.3%	16.2%	16.9%
ROE	16.5%	17.1%	16.8%	22.0%	23.9%	27.3%
ROA	14.4%	13.1%	12.4%	16.7%	17.6%	18.4%
EPS	0.06	0.08	0.09	0.13	0.15	0.17
P/S	17.3	13.3	10.9	8.3	6.5	6.1
P/E	94.7	77.2	70.2	45.2	40.1	36.1
Net gearing	Net cash	0.1	0.1	0.1	0.1	0.1
Dividend yield	1.1%	1.0%	1.1%	1.3%	1.3%	1.3%
Dividend payout	50.1%	47.7%	49.3%	30.8%	48.0%	50.0%
DPS (sen)	9.0	8.0	8.5	12.0	12.5	13

Source: Company, JF Apex

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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