

# Hartalega (HART MK)

## Valuations still palatable

### Trading at ex-cash FY24E PE of 25x; maintain BUY

4QFY21 results was below our expectation as COVID-19 outbreak at its plants has resulted in a sharp drop in its sales volume. However, we expect its 1QFY22 earnings to jump as its plant utilisation rate has already recovered to c.90% level and margin could expand on a slightly higher ASP amid a softer NBR cost. Maintain our FY22-23E EPS and introduce FY24E. Our DCF-based TP is lowered to MYR13.10 (-20%; WACC: 7.2%) as we lower our terminal growth rate to 3.5% (from 4.5%) to account for the rapid supply growth from China. Maintain BUY.

### Below our expectation but in line with street

Excluding the MYR90m contribution to COVID-19 fund, 4QFY3/21 core net profit of MYR1.21b (+21% QoQ, +10.5x YoY) brought FY21 core net profit to MYR2.98b (+6.8x YoY) and made up 91%/96% of our/street's full-year estimates. Results was below our expectation due to the lower-than-expected sales volume (-30% QoQ). Separately, a third interim DPS of 17.7sen was declared (YTD: 31sen) and we expect a final DPS of 20sen (based on 60% of net profit payout) to be declared at its AGM in Sep 21.

### 4QFY21: Higher ASP but lower sales volume

Key takeaways from 4QFY21 results: (i) Revenue increased 8% QoQ as the higher ASP of c.USD83/k pcs (+51% QoQ) outweighed the drop in sales volume (-30% QoQ). Plant utilisation rate fell to 64% (3QFY21: 95%) as production lines were closed to contain COVID-19 and also partially due to the unavailability of vessels to ship out its products; (ii) EBITDA margin expanded to 75% (+12.1-ppt QoQ) as the higher ASP outweighed the higher NBR cost (+50% QoQ; 50% of total production cost in 4QFY21).

### Earnings may peak in 1QFY22

Given that the affected production lines have already fully resumed production since Mar 21, its plant utilisation rate has recovered to the 90% level. Additionally, its blended ASP could be around USD90/k pieces in 1QFY22 (+9% QoQ). As such, we estimate its net profit to be around MYR1.8b in 1QFY22 (+50% QoQ), or 32% of our FY22E net profit as we expect its earnings to decline from 2QFY22 onwards on lower ASP.

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,924	6,696	12,365	9,223	6,043
EBITDA	724	4,065	8,119	4,722	1,670
Core net profit	435	2,975	6,028	3,497	1,149
Core FDEPS (sen)	12.9	86.6	175.5	101.8	33.4
Core FDEPS growth(%)	(5.5)	569.9	102.6	(42.0)	(67.2)
Net DPS (sen)	7.5	50.2	101.8	59.1	19.4
Core FD P/E (x)	53.2	10.3	5.7	9.8	29.7
P/BV (x)	9.1	6.1	4.5	3.8	3.6
Net dividend yield (%)	1.1	5.6	10.3	5.9	2.0
ROAE (%)	18.1	76.8	96.5	42.3	12.4
ROAA (%)	13.8	58.6	72.4	33.7	10.5
EV/EBITDA (x)	31.7	6.9	3.7	6.1	17.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,940	1,713	na
MKE vs. Consensus (%)	-	-	53.0	104.2	na

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# BUY

Share Price	MYR 9.93
12m Price Target	MYR 13.10 (+42%)
Previous Price Target	MYR 16.40

### Company Description

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

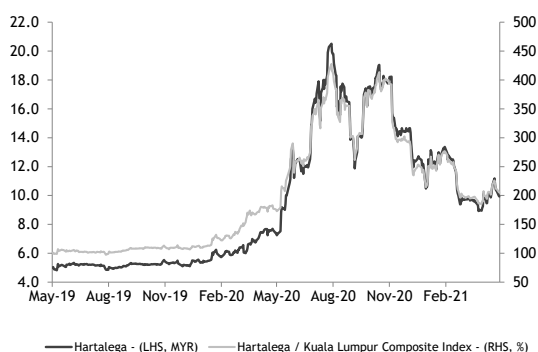
### Statistics

52w high/low (MYR)	20.50/7.25
3m avg turnover (USDm)	17.1
Free float (%)	33.7
Issued shares (m)	3,428
Market capitalisation	MYR34.0B USD8.3B

### Major shareholders:

Hartalega Industries Sdn. Bhd.	49.1%
Employees Provident Fund	7.1%
BNP Paribas Wealth Management	2.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	11	(26)	34
Relative to index (%)	10	(26)	16

Source: FactSet

Figure 1: Hartalega's results summary

FY Mar (MYR m)	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	FY21	FY20	% YoY
Turnover	2,299.9	777.9	>100.0	2,129.9	8.0	6,695.9	2,924.3	>100.0
<b>EBITDA</b>	<b>1,728.1</b>	<b>205.9</b>	<b>&gt;100.0</b>	<b>1,343.5</b>	<b>28.6</b>	<b>4,064.5</b>	<b>724.2</b>	<b>&gt;100.0</b>
Depreciation and Amortisation	(35.8)	(32.1)	11.7	(34.7)	3.4	(137.4)	(125.1)	9.9
<b>EBIT</b>	<b>1,692.3</b>	<b>173.9</b>	<b>&gt;100.0</b>	<b>1,308.8</b>	<b>29.3</b>	<b>3,927.1</b>	<b>599.1</b>	<b>&gt;100.0</b>
Net interest exp	0.4	(1.2)	n.m.	0.0	>100.0	(0.9)	(7.6)	(88.6)
Unrealised forex gain/(loss)	35.2	6.9	>100.0	(15.2)	n.m.	12.8	2.0	>100.0
Fair value change on derivatives	(126.1)	(42.0)	>100.0	52.2	n.m.	(35.5)	(37.2)	(4.5)
Contribution to COVID-19 fund	(90.0)	0.0	n.m.	0.0	n.m.	(90.0)	0.0	n.m.
<b>Pre-tax profit</b>	<b>1,511.8</b>	<b>137.6</b>	<b>&gt;100.0</b>	<b>1,345.9</b>	<b>12.3</b>	<b>3,813.4</b>	<b>556.3</b>	<b>&gt;100.0</b>
Tax	(386.7)	(21.9)	>100.0	(338.0)	14.4	(909.8)	(120.4)	>100.0
Minority Interest	(6.0)	(0.1)	>100.0	(6.2)	(3.3)	(18.2)	(1.1)	>100.0
<b>Net profit</b>	<b>1,119.1</b>	<b>115.6</b>	<b>&gt;100.0</b>	<b>1,001.6</b>	<b>11.7</b>	<b>2,885.4</b>	<b>434.8</b>	<b>&gt;100.0</b>
<b>Core net profit</b>	<b>1,209.1</b>	<b>115.6</b>	<b>&gt;100.0</b>	<b>1,001.6</b>	<b>20.7</b>	<b>2,975.4</b>	<b>434.8</b>	<b>&gt;100.0</b>
<b>Margins and tax rate</b>	<b>4QFY21</b>	<b>4QFY20</b>	<b>+/- ppt</b>	<b>3QFY21</b>	<b>+/- ppt</b>	<b>FY21</b>	<b>FY20</b>	<b>+/- ppt</b>
EBITDA margin (%)	75.1	26.5	48.7	63.1	12.1	60.7	24.8	35.9
EBIT margin (%)	73.6	22.4	51.2	61.4	12.1	58.6	20.5	38.2
Pretax margin (%)	65.7	17.7	48.0	63.2	2.5	57.0	19.0	37.9
Tax rate (%)	25.6	15.9	9.7	25.1	0.5	23.9	21.6	2.2
<b>Operating metrics</b>	<b>4QFY21</b>	<b>4QFY20</b>	<b>% YoY</b>	<b>3QFY21</b>	<b>% QoQ</b>	<b>FY21</b>	<b>FY20</b>	<b>% YoY</b>
Effective capacity (b pieces)	41.6	35.3	17.9	40.0	4.0	39.2	35.1	11.6
Plant utilisation rate (%)	64.4	96.0	(32.9)	95.0	(32.2)	88.8	88.4	0.4
Sales volume (b pieces)	6.7	8.5	(20.9)	9.5	(29.5)	34.8	31.0	12.1

Source: Company data, Maybank Kim Eng

Figure 2: Maybank-KE's key assumptions

	FY22E	FY23E	FY24E
Blended ASP (USD/k pieces)	75.6	48.5	29.4
ASP growth (%)	64.7%	(35.8%)	(39.4%)
Sales volume (b pcs)	40.4	47.5	52.3
Sales volume growth (%)	16.0%	17.6%	10.0%
Effective capacity (b pcs)	42.5	50.0	55.0
Effective capacity growth (%)	8.4%	17.6%	10.0%
Plant utilisation rate (%)	95.0%	95.0%	95.0%
USD vs. MYR	4.05	4.00	4.00
NBR raw material cost (USD/kg)	2.06	1.86	1.48
Change (%)	30.0%	(10.0%)	(20.0%)

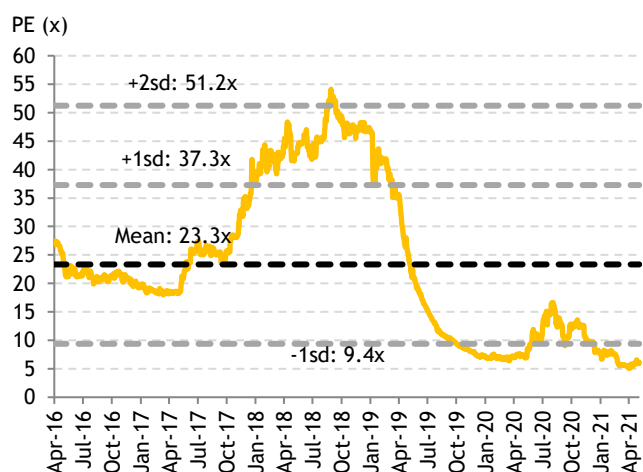
Source: Maybank Kim Eng

Figure 3: Maybank-KE's key assumptions for DCF and implied valuations

MYRm	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue	2,827.2	2,924.3	6,695.9	12,365.1	9,223.5	6,043.2	6,949.7	7,992.2	9,191.0	10,569.6
YoY growth (%)	17.5	3.4	129.0	84.7	(25.4)	(34.5)	15.0	15.0	15.0	15.0
Cash EBITDA (A)	673.2	724.2	4,064.5	8,119.3	4,721.6	1,669.6	1,920.1	2,208.1	2,539.3	2,920.2
EBITDA margin (%)	23.8	24.8	60.7	65.7	51.2	27.6	27.6	27.6	27.6	27.6
Depreciation	(103.6)	(125.1)	(137.4)	(164.9)	(192.4)	(219.9)	(241.9)	(266.1)	(292.7)	(322.0)
Tax (B)	(95.9)	(120.4)	(909.8)	(1,915.3)	(1,051.1)	(345.2)	(402.8)	(466.1)	(539.2)	(623.6)
Capex (C)	(23.3)	(3.1)	(1.7)	(550.0)	(550.0)	(550.0)	(500.0)	(500.0)	(450.0)	(400.0)
Working capital (D)	(1.4)	(20.3)	(146.6)	(947.5)	406.6	411.6	(100.0)	(115.0)	(132.3)	(152.1)
Enterprise FCF (A+B+C+D)	552.5	580.4	3,006.5	4,706.5	3,527.1	1,186.0	917.3	1,127.0	1,417.9	1,744.6
Net profit	455.2	434.8	2,885.4	6,028.3	3,497.3	1,148.7	1,275.4	1,475.9	1,707.4	1,974.6
Net margin (%)	16.1	14.9	43.1	48.8	37.9	19.0	18.4	18.5	18.6	18.7
<b>Implied P/E at our TP of MYR13.10</b>										
Implied PE	98.5	103.2	15.5	7.4	12.8	39.0	35.2	30.4	26.3	22.7
Ex-cash PE	99.0	103.1	14.7	6.8	11.4	34.1	30.7	26.5	22.9	19.8
<b>DCF analysis</b>										
Year from now						0	1	2	3	4
Discount factor						1.0	0.9	0.9	0.8	0.8
Present value						1,186.0	855.9	981.2	1,151.8	1,322.3
Terminal value										37,147.5
WACC	7.2%									
Terminal growth rate	3.5%									
PV	33,653.4									
Net cash: End-FY24E (MYRm)	5,700.3									
Target equity value (MYRm)	44,851.0									
No. of shares (m)	3,417.5									
Target price (MYR/shr)	13.10									

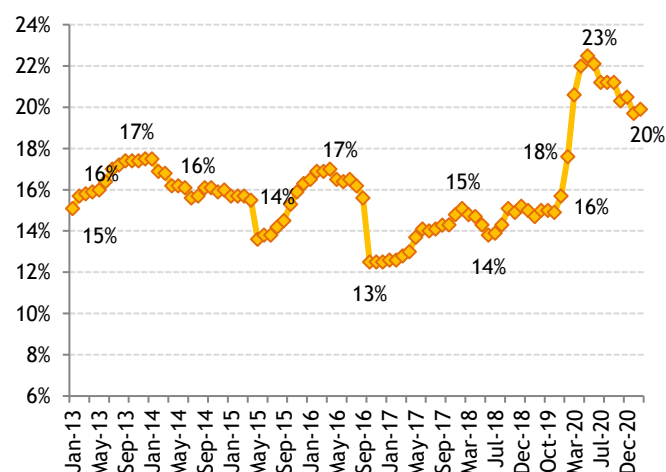
Source: Maybank Kim Eng

Figure 4: Hartalega's 12M forward P/E



Source: Bloomberg, Company data, Maybank Kim Eng

Figure 5: Foreign shareholder (end-Mar 2021: 20%)



Source: Company data

## 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	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	41.4	15.7	5.6	9.7	29.5
Core P/E (x)	52.9	10.3	5.6	9.7	29.5
Core FD P/E (x)	53.2	10.3	5.7	9.8	29.7
P/BV (x)	9.1	6.1	4.5	3.8	3.6
P/NTA (x)	9.2	6.2	4.5	3.8	3.6
Net dividend yield (%)	1.1	5.6	10.3	5.9	2.0
FCF yield (%)	2.8	10.1	13.9	10.4	3.5
EV/EBITDA (x)	31.7	6.9	3.7	6.1	17.0
EV/EBIT (x)	38.4	7.2	3.8	6.4	19.5

**INCOME STATEMENT (MYR m)**

Revenue	2,924.3	6,695.9	12,365.1	9,223.5	6,043.2
EBITDA	724.2	4,064.5	8,119.3	4,721.6	1,669.6
Depreciation	(125.1)	(137.4)	(164.9)	(192.4)	(219.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	599.1	3,927.1	7,954.3	4,529.1	1,449.7
Net interest income / (exp)	(7.6)	(0.9)	26.2	40.7	51.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(90.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	556.3	3,813.4	7,980.6	4,569.9	1,501.0
Income tax	(120.4)	(909.8)	(1,915.3)	(1,051.1)	(345.2)
Minorities	(1.1)	(18.2)	(37.0)	(21.5)	(7.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	434.8	2,885.4	6,028.3	3,497.3	1,148.7
Core net profit	434.8	2,975.4	6,028.3	3,497.3	1,148.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	305.0	2,668.7	3,822.8	5,372.6	5,947.0
Accounts receivable	503.1	1,065.5	1,967.7	1,467.8	961.7
Inventory	276.1	646.7	1,194.3	890.9	583.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,002.1	2,156.4	2,541.5	2,899.0	3,229.1
Intangible assets	28.8	32.6	32.6	32.6	32.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	202.5	262.1	262.1	262.1	262.1
<b>Total assets</b>	<b>3,317.6</b>	<b>6,832.1</b>	<b>9,821.0</b>	<b>10,924.9</b>	<b>11,016.2</b>
ST interest bearing debt	85.4	105.0	105.0	105.0	105.0
Accounts payable	276.0	1,059.3	1,561.6	1,164.8	763.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	188.6	241.7	141.7	141.7	141.7
Other liabilities	223.0	427.0	427.0	427.0	427.0
<b>Total Liabilities</b>	<b>773.0</b>	<b>1,833.0</b>	<b>2,235.3</b>	<b>1,838.6</b>	<b>1,436.9</b>
Shareholders Equity	2,541.0	4,974.8	7,524.5	9,003.7	9,489.6
Minority Interest	3.6	24.2	61.2	82.6	89.7
<b>Total shareholder equity</b>	<b>2,544.6</b>	<b>4,999.0</b>	<b>7,585.7</b>	<b>9,086.3</b>	<b>9,579.3</b>
<b>Total liabilities and equity</b>	<b>3,317.6</b>	<b>6,832.1</b>	<b>9,821.0</b>	<b>10,924.9</b>	<b>11,016.2</b>

**CASH FLOW (MYR m)**

Pretax profit	556.3	3,813.4	7,980.6	4,569.9	1,501.0
Depreciation & amortisation	125.1	137.4	164.9	192.4	219.9
Adj net interest (income)/exp	7.6	0.9	(26.2)	(40.7)	(51.3)
Change in working capital	(20.3)	(146.6)	(947.5)	406.6	411.6
Cash taxes paid	(72.7)	(730.8)	(1,915.3)	(1,051.1)	(345.2)
Other operating cash flow	59.7	13.3	0.0	0.0	0.0
Cash flow from operations	655.7	3,087.7	5,256.5	4,077.1	1,736.0
Capex	(3.1)	(2.2)	(550.0)	(550.0)	(550.0)
Free cash flow	652.6	3,085.5	4,706.5	3,527.1	1,186.0
Dividends paid	(249.0)	(604.2)	(3,478.6)	(2,018.1)	(662.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(78.1)	80.9	(100.0)	0.0	0.0
Other invest/financing cash flow	(170.9)	(204.6)	26.2	40.7	51.3
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>154.6</b>	<b>2,357.6</b>	<b>1,154.1</b>	<b>1,549.7</b>	<b>574.5</b>

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	3.4	129.0	84.7	(25.4)	(34.5)
EBITDA growth	7.6	461.2	99.8	(41.8)	(64.6)
EBIT growth	5.2	555.5	102.6	(43.1)	(68.0)
Pretax growth	1.0	585.6	109.3	(42.7)	(67.2)
Reported net profit growth	(4.5)	563.6	108.9	(42.0)	(67.2)
Core net profit growth	(4.5)	584.3	102.6	(42.0)	(67.2)
<b>Profitability ratios (%)</b>					
EBITDA margin	24.8	60.7	65.7	51.2	27.6
EBIT margin	20.5	58.6	64.3	49.1	24.0
Pretax profit margin	19.0	57.0	64.5	49.5	24.8
Payout ratio	57.7	59.5	57.7	57.7	57.7
<b>DuPont analysis</b>					
Net profit margin (%)	14.9	43.1	48.8	37.9	19.0
Revenue/Assets (x)	0.9	1.0	1.3	0.8	0.5
Assets/Equity (x)	1.3	1.4	1.3	1.2	1.2
ROAE (%)	18.1	76.8	96.5	42.3	12.4
ROAA (%)	13.8	58.6	72.4	33.7	10.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	60.6	15.3	9.6	40.6	53.0
Days receivable outstanding	59.2	42.2	44.2	67.0	72.4
Days inventory outstanding	45.5	60.2	81.5	86.1	62.9
Days payables outstanding	44.1	87.1	116.0	112.6	82.3
Dividend cover (x)	1.7	1.7	1.7	1.7	1.7
Current ratio (x)	2.7	3.1	3.7	5.2	6.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.3	3.7	4.4	5.9	7.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	78.6	nm	na	na	na
Debt/EBITDA (x)	0.4	0.1	0.0	0.1	0.1
Capex/revenue (%)	0.1	0.0	4.4	6.0	9.1
Net debt/ (net cash)	(31.0)	(2,322.0)	(3,576.2)	(5,125.9)	(5,700.3)

Source: Company; Maybank

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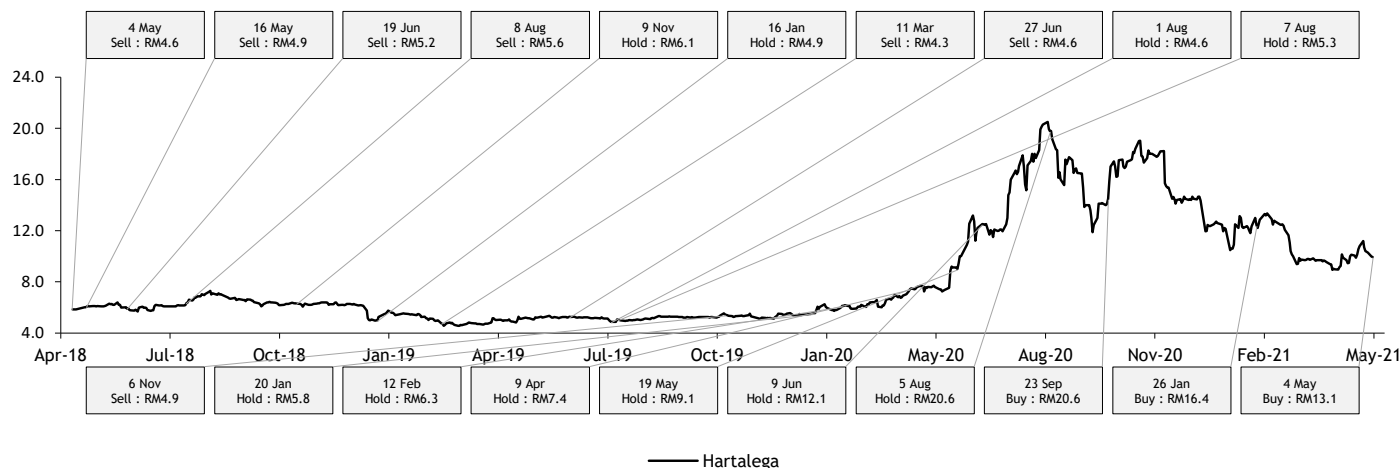
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