

Hartalega (HART MK)

Prosperity at risk

Profit more than halved in 2QFY22 versus 1QFY22

2QFY3/22 net profit of MYR914m (-60% QoQ, +68% YoY) came in above our estimate. However, 2HFY22 earnings performance will be weaker no thanks to declining ASP and the additional tax charges arising from the newly announced Prosperity Tax. We adjust our pre-Prosperity Tax FY22 earnings forecasts by +11%. Our TP is intact at MYR4.00 on 19.4x CY23 PER (+1sen; -1SD of historical mean). Reiterate SELL.

2QFY22 results hit by lockdown and lower ASP

2QFY3/22 net profit was MYR914m (-59.5% QoQ, +67.7% YoY), lifting 1HFY22 net profit to MYR3.2b (+3.2x YoY), or 91%/82% of our/street's full-year forecasts. The earnings gap could be due to better than expected utilisation rate of 63% in 2Q (vs. MKE's 50%), ASP of c.USD72/k pcs (vs. MKE's USD68) and exchange rate. The weaker 2QFY22 revenue (-49% QOQ) was dragged by: (i) lower sales volume (-34% QOQ); (ii) lower ASP (-27% QoQ) and (iii) lower utilisation rate of 63% (versus 88% in 1QFY22) on MCO. Hartalega has declared 1st interim div of 35.2 sen.

Key highlights from 2QFY22 concall:

(i) The decline in ASP is expected to slow down due to the energy crisis in China that has driven up their peers' operating cost there. ASP is expected to stabilise at USD30-35/k pcs for now but future movement of ASP will depend on raw material costs which are expected to decline by next year on higher supply. We understand that the Chinese players are now pricing their gloves at USD26-28/k pcs, (ii) utilization is expected to improve to 70-80% in 2022 with normalizing buying orders, (iii) management however, expects contraction in margin post-Covid due to rising global supply and (iv) Hartalega would be hit by the newly-announced Prosperity Tax, which is estimated at around MYR400m.

Earnings adjustments

We raise our FY22 earnings forecasts by +11% to factor in higher exchange rate of MYR4.15/USD (from MYR4.10/USD) and utilisation rate of 75% (from 72%) in FY22. We maintain our FY22/23/24 ASP assumptions of USD61/24/23 per k pcs. Nevertheless, we have not factored in the Prosperity Tax which would then lower our new FY22 pet profit by -2%.

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FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,924	6,696	8,387	3,911	4,442
EBITDA	724	4,065	5,247	1,031	1,123
Core net profit	435	2,975	3,857	666	717
Core FDEPS (sen)	12.9	86.6	112.3	19.4	20.9
Core FDEPS growth(%)	(5.5)	569.9	29.6	(82.7)	7.6
Net DPS (sen)	7.5	50.2	65.1	11.2	12.1
Core FD P/E (x)	53.2	10.3	5.1	29.7	27.6
P/BV (x)	9.1	6.1	3.0	2.9	2.7
Net dividend yield (%)	1.1	5.6	11.3	2.0	2.1
ROAE (%)	18.1	76.8	66.6	9.9	10.2
ROAA (%)	13.8	58.6	50.7	8.1	8.6
EV/EBITDA (x)	31.7	6.9	3.2	15.5	14.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,887	1,196	925
MKE vs. Consensus (%)	-	-	(0.8)	(44.3)	(22.5)

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SELL

Share Price MYR 5.75

12m Price Target MYR 4.00 (-28%)

Previous Price Target MYR 3.99

Company Description

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

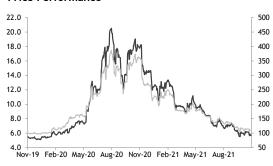
Statistics

52w high/low (MYR)	18.22/5.53
3m avg turnover (USDm)	9.3
Free float (%)	34.4
Issued shares (m)	3,428
Market capitalisation	MYR19.7B
	USD4.8B

Major shareholders:

Hartalega Industries Sdn. Bhd.	34.3%
Employees Provident Fund	8.6%
BNP Paribas Wealth Management	8.1%

Price Performance



—— Hartalega - (LHS, MYR) —— Hartalega / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(18)	(68)
Relative to index (%)	(5)	(20)	(69)

Source: FactSet

FY Mar (MYR m)	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	6MFY22	6MFY21	% YoY
Turnover	2,011.3	1,346.0	49.4	3,902.8	(48.5)	5,914.2	2,266.1	>+100
EBITDA	1,231.1	705.1	74.6	2,871.4	(57.1)	4,102.5	992.9	>+100
Depreciation and Amortisation	(37.3)	(34.1)	9.1	(37.3)	0.1	(74.5)	(66.9)	-11.4
EBIT	1,193.8	671.0	<i>77</i> .9	2,834.1	(57.9)	4,028.0	926.0	>+100
Net interest exp	1.8	(0.4)	>+100	0.8	>+100	2.7	(1.3)	>+100
Unrealised forex gain/(loss)	(24.4)	(2.2)	>-100	(10.6)	>-100	(61.2)	(31.6)	-93.7
Fair value change on derivatives	16.1	14.5	10.7	54.7	(70.6)	70.8	38.4	84.4
Contribution to COVID-19 fund	0.0	0.0	NA	0.0	NA	0.0	0.0	NA
Pre-tax profit	1,187.4	683.0	73.9	2,879.1	(58.8)	4,066.4	955.8	>+100
Tax	(273.3)	(133.3)	>-100	(616.8)	55. <i>7</i>	(890.1)	(185.0)	>-100
Minority Interest	(0.0)	(4.7)	99.5	(2.7)	99.0	(2.8)	(6.1)	54.7
Net profit	914.0	545.0	67.7	2,259.5	(59.5)	3,173.5	764.7	>+100
Core net profit	914.0	545.0	67.7	2,259.5	(59.5)	3,173.5	764.7	>+100
Margins and tax rate	2QFY22	2QFY21	+/- ppt	1QFY22	+/- ppt	6MFY22	6MFY21	+/- ppt
EBITDA margin (%)	61.2	52.4	8.8	73.6	(12.4)	69.4	43.8	25.6
EBIT margin (%)	59.4	49.8	9.5	72.6	(13.3)	68.1	40.9	27.2
Pretax margin (%)	59.0	50.7	8.3	73.8	(14.7)	68.8	42.2	26.6
Tax rate (%)	23.0	19.5	3.5	21.4	1.6	21.9	19.4	2.5
Operating metrics	2QFY22	2QFY21	% YoY	1QFY22	% QoQ	6MFY22	6MFY21	% YoY
Effective capacity (b pieces)	10.5	9.7	8.2	42.0	(75.0)	21.0	18.8	11.7
Plant utilisation rate (%)	63.0	98.0	(35.7)	88.0	(28.4)	79.6	99.0	(19.4)
Sales volume (b pieces)	6.6	9.5	(30.5)	10.1	(34.6)	16.7	18.6	(10.2)

Source: Company, Maybank KE

Upside risks

i) USA reinstates the punitive import tariffs on China's exam and non-medical gloves, which may result in China losing competitive edges and market share in the US, (ii) Raw material prices decline faster than ASP and (ii) Higher demand/consumption for gloves from non-healthcare industries post pandemic.

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	41.4	15.7	5.1	29.5	27.4
Core P/E (x)	52.9	10.3	5.1	29.5	27.4
Core FD P/E (x)	53.2	10.3	5.1	29.7	27.6
P/BV (x)	9.1	6.1	3.0	2.9	2.7
P/NTA (x)	9.2	6.2	3.0	2.9	2.7
Net dividend yield (%)	1.1	5.6	11.3	2.0	2.1
FCF yield (%)	2.8	10.1	15.5	4.4	1.5
EV/EBITDA (x)	31.7	6.9	3.2	15.5	14.4
EV/EBIT (x)	38.4	7.2	3.3	19.1	17.9
INCOME STATEMENT (MYR m)					
Revenue	2,924.3	6,695.9	8,386.6	3,910.5	4,442.5
EBITDA	724.2	4,064.5	5,247.0	1,031.3	1,122.8
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	5,082.1	838.9	902.8
Net interest income /(exp)	(7.6)	(0.9)	24.1	31.4	33.5
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	5,106.2	870.3	936.3
Income tax	(120.4)	(909.8)	(1,225.5)	(200.2)	(215.3)
Minorities	(1.1)	(18.2)	(23.7)	(4.1)	(4.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	434.8	2,885.4	3,857.1	666.0	716.6
Core net profit	434.8	2,975.4	3,857.1	666.0	716.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	305.0	2,668.7	3,406.2	3,913.7	3,822.3
Accounts receivable	503.1	1,065.5	1,334.6	622.3	707.0
Inventory	276.1	646.7	810.0	377.7	429.1
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
Total assets	3,317.6	6,832.1	8,386.9	8,107.4	8,482.0
ST interest bearing debt	85.4	105.0	105.0	105.0	105.0
Accounts payable	276.0	1,059.3	1,059.2	493.9	561.0
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
Total Liabilities	773.0	1,833.0	1,732.9	1,167.6	1,234.8
Shareholders Equity	2,541.0	4,974.8	6,606.2	6,887.9	7,190.9
Minority Interest	3.6	24.2	47.9	52.0	56.4
Total shareholder equity	2,544.6	4,999.0	6,654.0	6,939.8	7,247.3
Total liabilities and equity	3,317.6	6,832.1	8,386.9	8,107.4	8,482.0
CASH FLOW (MYR m)					
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Pretax profit		3,813.4	5,106.2	870.3	936.3
Depreciation & amortisation	125.1	137.4	164.9	192.4 (31.4)	219.9
Adj net interest (income)/exp	7.6	0.9	(24.1)	, ,	(33.5)
Change in working capital Cash taxes paid	(20.3)	(146.6)	(432.5)	579.3	(68.8)
•	(72.7)	(730.8)	(1,225.5)	(200.2)	(215.3)
Other operating cash flow Cash flow from operations	59.7 655.7	13.3 3,087.7	0.0 3,589.0	0.0 1,410.5	0.0 838.6
·					
Capex Free cash flow	(3.1) 652.6	(2.2)	(550.0) 3 039 0	(550.0) 860.5	(550.0) 288.6
		3,085.5	3,039.0	860.5 (384.3)	
Dividends paid	(249.0) 0.0	(604.2)	(2,225.7)	(384.3)	(413.5)
Equity raised / (purchased)	U.U	0.0	0.0	0.0	0.0
		00.0	(100.0)	0.0	0.0
Change in Debt	(78.1)	80.9	(100.0)	0.0	
Equity raised / (purchased) Change in Debt Other invest/financing cash flow Effect of exch rate changes		80.9 (204.6) 0.0	(100.0) 24.1 0.0	0.0 31.4 0.0	0.0 33.5 0.0

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.4	129.0	25.3	(53.4)	13.6
EBITDA growth	7.6	461.2	29.1	(80.3)	8.9
EBIT growth	5.2	555.5	29.4	(83.5)	7.6
Pretax growth	1.0	585.6	33.9	(83.0)	7.6
Reported net profit growth	(4.5)	563.6	33.7	(82.7)	7.6
Core net profit growth	(4.5)	584.3	29.6	(82.7)	7.6
Profitability ratios (%)					
EBITDA margin	24.8	60.7	62.6	26.4	25.3
EBIT margin	20.5	58.6	60.6	21.5	20.3
Pretax profit margin	19.0	57.0	60.9	22.3	21.1
Payout ratio	57.7	59.5	57.7	57.7	57.7
DuPont analysis					
Net profit margin (%)	14.9	43.1	46.0	17.0	16.1
Revenue/Assets (x)	0.9	1.0	1.0	0.5	0.5
Assets/Equity (x)	1.3	1.4	1.3	1.2	1.2
ROAE (%)	18.1	76.8	66.6	9.9	10.2
ROAA (%)	13.8	58.6	50.7	8.1	8.6
Liquidity & Efficiency					
Cash conversion cycle	60.6	15.3	12.0	66.7	39.9
Days receivable outstanding	59.2	42.2	51.5	90.1	53.9
Days inventory outstanding	45.5	60.2	87.0	75.9	45.3
Days payables outstanding	44.1	87.1	126.5	99.2	59.3
Dividend cover (x)	1.7	1.7	1.7	1.7	1.7
Current ratio (x)	2.7	3.1	4.0	5.9	5.5
Leverage & Expense Analysis					
Asset/Liability (x)	4.3	3.7	4.8	6.9	6.9
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	0.2	0.2
Capex/revenue (%)	0.1	0.0	6.6	14.1	12.4
Net debt/ (net cash)	(31.0)	(2,322.0)	(3,159.5)	(3,667.0)	(3,575.6)

Source: Company; Maybank

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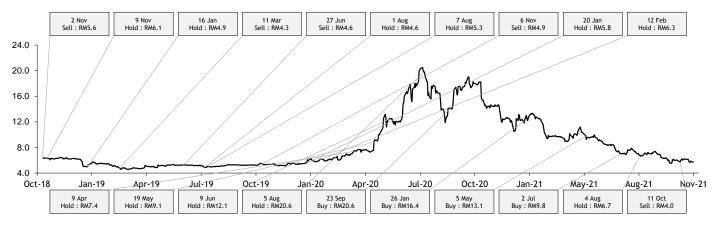
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------ Hartalega

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