

16 May 2018 | 4QFY18 Results Review

## Hartalega Holdings Berhad

*Sales volume increase boosted revenue*

### INVESTMENT HIGHLIGHTS

- **4QFY18 earnings within expectations**
- **Revenue boosted by increase in sales volume**
- **NGC capacity expansion well on track**
- **Potential inclusion into FBMKLCI Top 30**
- **FY19F earnings forecasts maintained**
- **Maintain NEUTRAL (negative bias) with revised TP of RM5.49**

**Within expectations.** Hartalega's 4QFY18 earnings came in at RM116.6m which is within our and consensus expectations, representing 101% and 102% of full-year earnings forecasts respectively. On a quarterly sequential basis, revenue and earnings grew marginally by +2.3%qoq and +3.3% whilst yoy, revenue and earnings increased by +17% and +30.7% respectively. A third interim dividend of 2.0sen was also declared for the quarter under review which brings the total dividend declared to date to 7.0sen or 1.2% yield to yesterday's closing price.

**Earnings boosted by increase in sales volume.** In 4QFY18, sales volume for nitrile gloves increased by +27.9%yoy while on a quarterly sequential basis, nitrile gloves volume increased by +3.8%qoq. 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. It is also worth noting that the more stable condition of USD vs MYR which traded at an average of RM3.92 per USD during the quarter assisted in boosting both the revenue and earnings.

**NGC capacity expansion well on track.** Management disclosed that the commissioning of Plant 4 of NGC was completed in 1QCY18. We also understand that the capacity from Plant 4 is fully sold out as with the rest of the NGC plants. Meanwhile, the construction of its Plant 5 is completed, and it will start commissioning this coming July 2018. Additionally, Hartalega has also started constructing its Plant 6 and it is expecting Plant 6 to start commissioning in 1QCY19. 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 by March CY19.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM5.49**  
(Previously RM4.83)

RETURN STATS	
Price (15 May 2018)	RM6.00
Target Price	RM5.49
Expected Share Price Return	-8.5%
Expected Dividend Yield	+1.3%
<b>Expected Total Return</b>	<b>-7.2%</b>

STOCK INFO	
KLCI	1,848.2
Bursa / Bloomberg	5168 / HART MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	3,312.41
Market cap. (RM'm)	19,874.43
Price over NA	10.3
52-wk price Range	RM2.74 – RM6.64
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	3.16m
3-mth Avg Daily Value	RM18.7m
Major Shareholders (%)	
Hartalega Industries	48.86
EPF	6.92
Budi Tenggara Sdn Bhd	3.01

**Potential inclusion into FBMKLCI Top 30.** We opine that the recent share price increase for Hartalega is due to the potential inclusion into the FBMKLCI Top 30 index in the next review period. According to our analysis, Hartalega's potential inclusion is based on the fact that it has met FTSE's criteria for a non-constituent which has a turnover of at least 0.05% of shares in their issue (after the application of any investability weightings). This is based on their median daily trading volume per month for at least ten of the 12 months prior to the semi-annual review, making it eligible for inclusion into the FBMKLCI 30, in addition to already being included into the reserve list.

**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.

**Recommendation.** Post earnings announcement, we are maintaining our **Neutral** (negative bias) recommendation on Hartalega with a revised TP of **RM5.49** (from RM4.83) per share as we roll forward our valuation parameters to FY20F. Our negative bias is premised on the fact that we believe Hartalega's share price will retrace further in the coming three months to trade closer to its fundamentals once the inclusion of the new FBMKLCI component stocks has been announced. Additionally, we have also 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					Cumulative results		
	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	527.0	603.1	616.8	2.3	17.0	1,822.1	2,405.6	32.0
Operating expenses	(410.6)	(470.5)	(499.8)	6.2	21.7	(1,435.2)	(1,917.4)	33.6
Other operating income	2.5	8.3	20.2	144.7	713.6	(37.2)	46.5	nm
Finance costs	(0.4)	(2.0)	(2.3)	12.8	468.2	(1.0)	(7.9)	nm
<b>Profit Before Tax</b>	<b>118.5</b>	<b>138.9</b>	<b>135.0</b>	(2.8)	13.9	<b>348.7</b>	<b>526.8</b>	51.1
Taxation	(29.1)	(25.7)	(18.1)	(29.8)	(37.8)	(65.3)	(86.6)	32.6
<b>Profit After Tax</b>	<b>89.4</b>	<b>113.1</b>	<b>116.9</b>	3.3	30.7	<b>283.4</b>	<b>440.2</b>	55.3
Non-controlling interest	0.0	0.1	0.3	nm	nm	0.4	0.8	114.6
<b>PATANCI</b>	<b>89.4</b>	<b>113.0</b>	<b>116.6</b>	3.2	30.4	<b>283.0</b>	<b>439.4</b>	55.2
Basic EPS (sen)	5.4	6.9	3.5	(48.5)	(35.2)	17.3	23.1	33.9
FD EPS (sen)	5.4	6.8	3.5	(48.7)	(35.9)	17.1	22.8	33.2
PBT margin (%)	22.5	9.3	9.0	(2.8)	(59.9)	23.3	35.2	11.9
PAT margin (%)	17.0	7.6	7.8	3.3	(54.0)	18.9	29.4	10.5
PATANCI margin (%)	17.0	18.7	18.9	0.9	11.4	15.5	18.3	2.7
Tax rate (%)	24.5	18.5	13.4	(27.7)	(45.4)	18.7	16.4	(2.3)

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	1QCY19
Plant 7 of NGC		TBA	TBA	March CY19
			<b>28.2bn</b>	
<b>Capacity by 2020</b>			<b>41.7bn</b>	

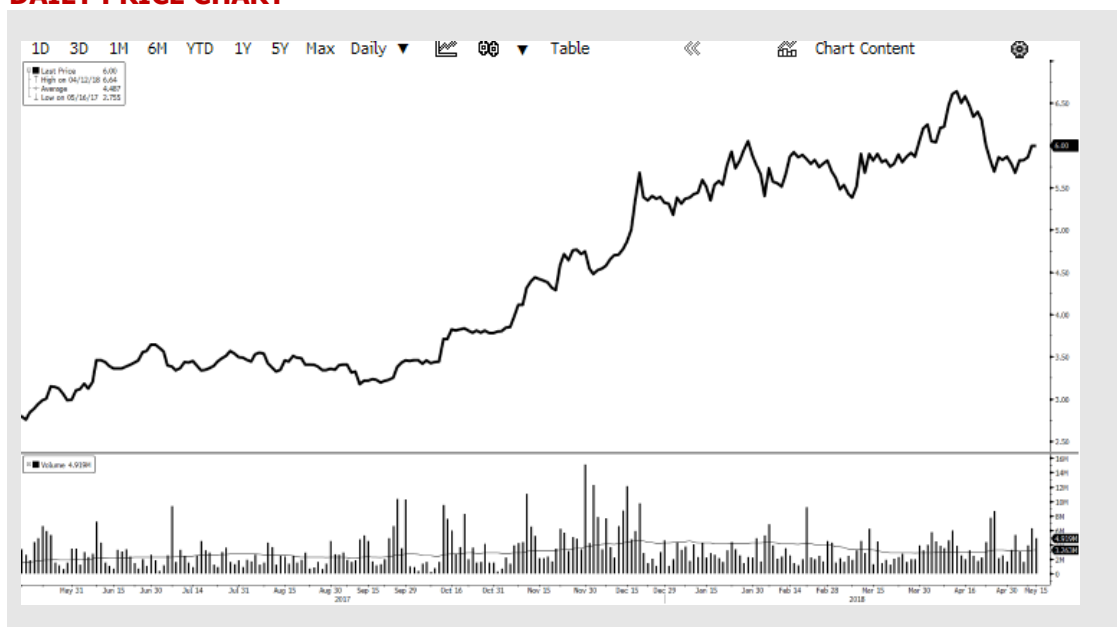
Source: Company, MIDFR

## 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>3,005.5</b>	<b>3,737.3</b>
Cost of goods sold	(1,181.9)	(1,435.2)	(1,917.4)	(2,228.9)	(2,771.6)
<b>Gross profit</b>	<b>316.4</b>	<b>386.9</b>	<b>488.2</b>	<b>776.6</b>	<b>965.7</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>610.9</b>	<b>800.6</b>
Income tax expense	(59.4)	(65.3)	(86.6)	(97.7)	(128.1)
<b>Net Profit (RM'm)</b>	<b>257.7</b>	<b>283.4</b>	<b>440.2</b>	<b>513.1</b>	<b>672.5</b>
EPS (sen)	15.7	17.2	12.8	15.0	19.6
EPS Growth (%)	19.6	9.8	-25.6	16.6	31.1
PER (x)	38.2	34.8	46.7	40.1	30.6
Dividend Per Share (sen)	6.3	6.0	7.0	7.5	8.0
Dividend yield (%)	1.0	1.0	1.2	1.3	1.3

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.