

Hartalega

COMPANY UPDATE

TRADING BUY

Current Price	RM 12.04
Target Price	RM 13.18
Consensus Price	RM 11.58

Stock Return Information

KLCI	1517.71
Expected share price return (%)	9.4
Expected dividend return (%)	0.9
Expected total return (%)	10.3

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	HART MK
Masa Ticker / Stock Code	HARTA/5168
Shares Issued (m)	3,388
Market Capitalisation (RM'm)	40,249
52 Week Hi/Lo Price (RM)	12.50/4.80
Avg Trading Volume (3-mth)	10,692,000
Est Free Float (m)	1,289
YTD Returns (%)	116.8
Beta (x)	0.86

Share Price Performance (%)

Price change	Absolute	Relative
1mth	125.8	140.8
3 mth	149.5	177.6
12 mth	128.5	148.1

Major Shareholders (%)

Hartalega Holdings	47.8
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Industry re-rating

We upgrade our call on Hartalega to TRADING BUY, from NEUTRAL, with a higher target price of RM13.18 (+RM5.14). We believe the recent rise in price has not fully reflected Hartalega's FY21-22 earnings growth potential (+122% Y-o-Y). Our valuation is based on an unchanged 46x target PER valuation, +1.5 STDEV above the 3-year average PER of 31x, pegged to an upgraded FY21's EPS that is raised in accordance to the industry wide improved ASP. Current valuation seems expensive given the run up in its share price (YTD: +157%), however, we believe the glove industry has more room for positive earnings surprises in the coming 2 financial quarters.

In the view of industry wide ASP hikes, we increase Hartalega's FY21 ASP assumption from RM99 per thousand pcs to RM 107 per thousand pcs & FY22 ASP from RM98 to RM106; and production volume from 35.9b pcs to 37.9b pcs in light of higher utilisation rate. Majority of Hartalega's sales are to U.S. where an increase in prices are relative lower hence and we envisage Hartalega's price hike would be milder.

In all, we raise our FY21/FY20 earnings estimate by 71% and 63% to RM968m/RM940m in light of higher ASP prices and higher production efficiency from improved utilisation rate. We expect Hartalega's capacity to reach 38.1b pcs by end of FY21 from its current capacity of 36.4b pcs. Potential downside risks are: 1) volatility in foreign exchange rates, 2) steep increase in production costs (energy, packaging materials and labor), and 3) shortage of workers.

Table 1: Investment Highlights & Earnings Forecasts

FYE 31st Mar (m)	FY18	FY19	FY20	FY21(F)	FY22(F)
Revenue	2405	2827	2924	4047	4160
EBITDA	460.9	467.2	452.7	1144.7	1087.9
EBIT Margin (%)	19.2	16.5	15.5	28.3	26.2
PATAMI	437.9	454.9	434.8	968.8	940.8
PAT Margin (%)	18.2	16.1	14.9	23.9	22.6
Earnings Growth (%)	54.6	3.9	-4.4	122.8	-2.9
EPS (sen)	12.9	13.5	12.9	28.6	27.8
PER (x)	93.0	89.5	93.7	42.0	43.3
DPS (sen)	7.0	8.0	7.5	15.0	14.5
Dividend Yield (%)	0.6	0.7	0.6	1.2	1.2
ROE (%)	22.0	20.2	17.8	33.4	28.1
Net Gearing Ratio (%)	8.2	8.6	5.9	0.9	Net Cash
Key Assumption					
Glove Sales (Billion pcs)	25.8	28.5	33.1	37.9	39.4
Basket Glove Price (Sen)	99.2	99.2	94.2	106.9	105.6

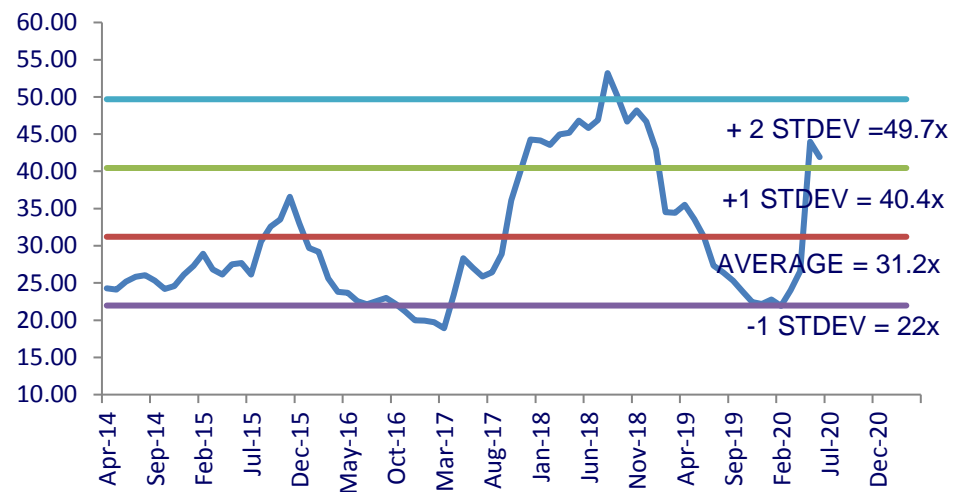
Source: Inter-Pacific Research, Company

Table 2: Target Price Sensitivity Analysis

PER	FY21 EPS						
	-15%	-10%	-5%	28.6	5%	10%	15%
42	10.23	10.83	11.43	12.03	12.63	13.23	13.84
43	10.47	11.09	11.70	12.32	12.93	13.55	14.16
45	10.96	11.60	12.25	12.89	13.53	14.18	14.82
46	11.20	11.86	12.52	13.18	13.84	14.49	15.15
47	11.44	12.12	12.79	13.46	14.14	14.81	15.48
48	11.69	12.37	13.06	13.75	14.44	15.12	15.81
49	11.93	12.63	13.33	14.04	14.74	15.44	16.14
50	12.17	12.89	13.61	14.32	15.04	15.75	16.47

Source: Inter-Pacific Research, Company

Chart 2: Rolling 1-Year forward PER Band



Source: Inter-Pacific Research

Chart 3: 1 Year Price Chart



Source: Inter-Pacific Research

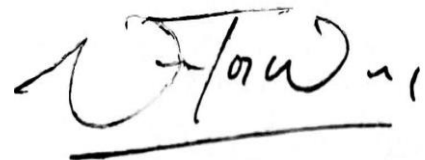
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Signed



Wan Kum Seng
Director
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below 15% in the next 12 months
TRADING SELL	Total return is expected to be below 10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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