

Malaysia

HOLD (no change)

Consensus ratings*: Buy 1 Hold 12 Sell 7

Current price:	RM5.15
Target price:	RM5.58
Previous target:	RM6.78
Up/downside:	8.3%
CGS-CIMB / Consensus:	-3.5%
Reuters:	HTHB.KL
Bloomberg:	HART MK
Market cap:	US\$4,169m
	RM17,152m
Average daily turnover:	US\$4.58m
	RM19.90m
Current shares o/s:	3,306m
Free float:	41.0%

*Source: Bloomberg

Key changes in this note

➤ FY19-21F EPS decreased by 0.5-1.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-17.6	-18.4	-4.5
Relative (%)	-17.1	-12.6	4.2

Major shareholders

	% held
Hartalega Industries Sdn Bhd	49.3
Kuan family	2.4
Employees Provident Fund	7.4

Analyst(s)

Walter AW

T (60) 3 2261 9093

E walter.aw@cimb.com

Hartalega Holdings

Rising pressure in the nitrile glove segment?

- We attribute the recent sell-down of Hartalega shares to keener competition in nitrile glove segment and rising cost.
- We estimate impact of stronger ringgit vs. US\$ as well as gas and minimum wage hikes to be minimal, given the recent decline in nitrile butadiene prices.
- Maintain Hold. We lower our P/E multiple from 36.5x to 28.2x to account for potential weaknesses in its near term earnings. Our revised TP is RM5.58.

Budding margin pressure from 17.8% rise in sector capacity in 2019

Our recent meeting with Hartalega suggests that it expects intensified pricing competition in the near term, especially in the nitrile glove segment. This is on the back of the sector's increased nitrile glove production capacity, which is likely to impact Hartalega the most as it is the world's largest nitrile glove producer. We estimate that the sector's capacity will rise by 17.8% in 2019F vs. 13.1% in 2018, albeit on a gradual basis throughout the year.

Minimal impact from stronger ringgit and rising cost pressures

We are not overly concerned about the recent strengthening of ringgit vs. US\$ and various cost hikes in 2019 (0.7% higher gas cost and 10% minimum wage hike). We believe this will have negligible impact on profit margins as this should be offset by the recent decline in nitrile butadiene prices (-13% qoq in 4QCY18) and ongoing cost efficiency efforts. However, Hartalega has indicated that it is not discounting the fact that it may have to lower selling prices (ASPs) in the event of further intensified competition.

Still deserves to trade at a premium vs. its peers

In our view, Hartalega still deserves to trade at a premium to the sector. This is given the group's industry-leading margins and technological advances in the nitrile segment, which supports its robust structural story. The stock is trading at 26x CY19 P/E, a 16.4% premium to the sector's weighted average, which we deem as fair. Note that the stock is also trading below its 3-year historical mean of 30.3x.

Lowering our FY19-21F EPS forecasts by 0.5-1.2%

As we expect keener pricing competition in the nitrile segment, we cut our FY19-21F EPS forecasts by 0.5-1.2%. This is to account for: i) lower ASPs from pricing pressure, ii) decline in nitrile butadiene prices, and iii) increased gas and labor costs. We still expect Hartalega to record a 3-year EPS CAGR of 16.8% (FY19-21F).

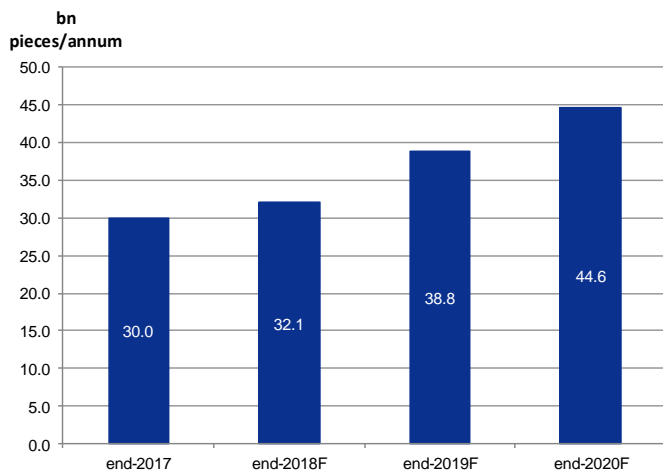
Maintain Hold with a lower TP of RM5.58

We keep our Hold call on Hartalega with a lower TP of RM5.58. This is based on 28.2x P/E multiple (in line with its 5-year historical) from 36.5x previously, to reflect keener competition in the glove sector and lack of re-rating catalysts to drive valuations higher. Nevertheless, we still like Hartalega's robust long-term structural story and recommend investors to accumulate the stock in the event of further sell-down beyond current share price levels. Downside/upside risk: stronger/weaker-than-expected pricing competition.

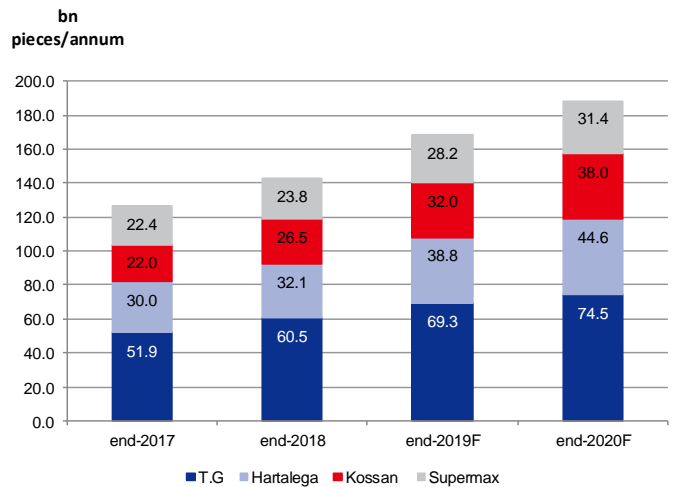
Financial Summary

	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
Revenue (RMm)	1,822	2,406	2,956	3,350	3,718
Operating EBITDA (RMm)	434.4	622.3	761.7	856.9	959.4
Net Profit (RMm)	283.0	439.4	518.0	597.8	673.3
Core EPS (RM)	0.09	0.13	0.16	0.18	0.20
Core EPS Growth	14.6%	43.1%	22.6%	15.4%	12.6%
FD Core P/E (x)	57.67	40.31	32.87	28.48	25.29
DPS (RM)	0.04	0.07	0.09	0.11	0.12
Dividend Yield	0.77%	1.36%	1.83%	2.11%	2.37%
EV/EBITDA (x)	39.85	27.63	22.61	20.06	17.83
P/FCFE (x)	101.1	91.7	73.5	57.8	39.0
Net Gearing	17.0%	8.2%	8.8%	6.4%	2.7%
P/BV (x)	10.29	8.54	7.73	6.97	6.28
ROE	18.7%	23.2%	24.7%	25.8%	26.1%
% Change In Core EPS Estimates			(1.21%)	(1.15%)	(0.56%)
CIMB/consensus EPS (x)			1.01	1.03	1.04

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Hartalega's capacity expansion plans (bn pieces/annum)


SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 2: Indicated increase in sector capacity (bn pieces/annum)


SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 3: Sector Comparisons

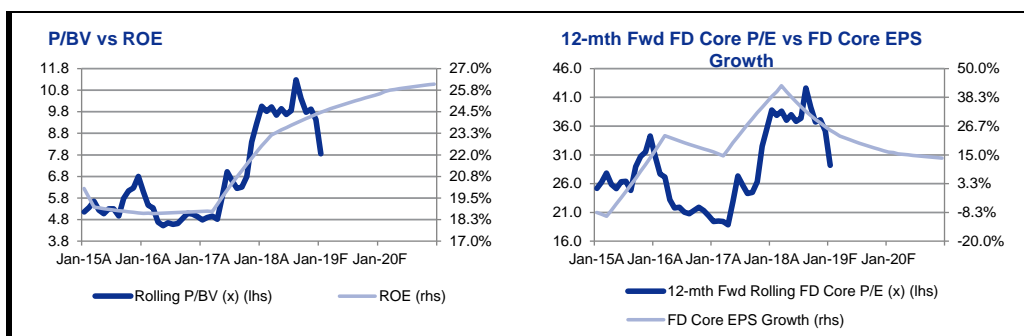
Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY19	CY20		CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
Hartalega Holdings	HART MK	Hold	5.15	5.58	4,169	29.5	26.0	16.5%	7.1	6.4	25.7%	26.1%	20.5	18.3	2.0%	2.3%
Kossan Rubber Industries	KRI MK	Add	3.88	5.16	1,206	19.9	16.8	18.7%	3.6	3.3	19.0%	20.4%	12.1	10.4	2.5%	3.0%
Supermax Corp	SUCB MK	Add	1.64	2.23	523	15.8	13.5	22.4%	1.8	1.7	11.6%	12.6%	10.0	8.9	2.9%	3.3%
Weighted Average						24.5	22.3	19.8%	4.7	4.3	23.6%	24.5%	14.3	12.9	3.2%	3.5%
Simple Average						21.6	19.3	20.4%	3.7	3.4	20.2%	21.3%	12.6	11.3	3.2%	3.5%

SOURCES: CIMB, COMPANY REPORTS

Figure 4: Earnings revision table

RMm	2018A	2019F			2020F			2021F		
		Old	New	chg	Old	New	chg	Old	New	chg
Revenue	2,406	2,973	2,956	-1%	3,370	3,350	-1%	3,800	3,718	-2%
EBITDA	622	768	762	-1%	865	857	-1%	980	959	-2%
Core pretax profit	506	634	628	-1%	735	727	-1%	830	819	-1%
Core net profit	422	524	518	-1%	605	598	-1%	677	673	-1%
Core EPS	13	16	16	-1%	18	18	-1%	20	20	-1%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
Total Net Revenues	1,822	2,406	2,956	3,350	3,719
Gross Profit	387	857	995	1,122	1,248
Operating EBITDA	434	622	762	857	959
Depreciation And Amortisation	(71)	(88)	(127)	(126)	(139)
Operating EBIT	364	534	635	731	821
Financial Income/(Expense)	(0)	(7)	(7)	(3)	(2)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	364	527	628	727	819
Exceptional Items	(15)		0	0	0
Pre-tax Profit	349	527	628	727	819
Taxation	(65)	(87)	(110)	(129)	(145)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	283	440	518	598	674
Minority Interests	(0)	(1)	(0)	(0)	(0)
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	0	0	0	0	0
Net Profit	283	439	518	598	673
Recurring Net Profit	295	422	518	598	673
Fully Diluted Recurring Net Profit	295	422	518	598	673

Cash Flow

(RMm)	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
EBITDA	434.4	622.3	761.7	856.9	959.4
Cash Flow from Inv. & Assoc.					
Change In Working Capital	14.4	(143.1)	(113.3)	(80.0)	(74.2)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(15.0)	(9.4)	0.0	0.0	(1.0)
Net Interest (Paid)/Received	(0.0)	1.3	(7.0)	(3.5)	(2.0)
Tax Paid	(65.3)	(69.7)	(109.9)	(129.1)	(145.2)
Cashflow From Operations	368.5	401.5	531.6	644.3	737.1
Capex	(350.0)	(145.7)	(250.0)	(250.0)	(250.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	(117.1)	0.0	0.0	0.0
Other Investing Cashflow	0.0	(0.4)	0.0	0.0	0.0
Cash Flow From Investing	(350.0)	(263.2)	(250.0)	(250.0)	(250.0)
Debt Raised/(repaid)	150.0	47.3	(50.0)	(100.0)	(50.0)
Proceeds From Issue Of Shares	0.0	52.3	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(131.3)	(198.2)	(310.8)	(358.7)	(403.4)
Preferred Dividends					
Other Financing Cashflow	0.0	44.3	0.0	0.0	0.0
Cash Flow From Financing	18.7	(54.3)	(360.8)	(458.7)	(453.4)
Total Cash Generated	37.1	84.0	(79.2)	(64.4)	33.7
Free Cashflow To Equity	168.5	185.6	231.6	294.3	437.1
Free Cashflow To Firm	19.5	138.3	289.6	399.3	490.6

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
Total Cash And Equivalents	116	153	74	9	43
Total Debtors	290	407	500	567	629
Inventories	202	291	368	419	464
Total Other Current Assets	14	12	12	12	12
Total Current Assets	622	863	954	1,007	1,148
Fixed Assets	1,418	1,589	1,713	1,837	1,948
Total Investments	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	288	176	176	176	176
Total Non-current Assets	1,706	1,766	1,889	2,013	2,124
Short-term Debt	41	194	144	94	44
Current Portion of Long-Term Debt					
Total Creditors	213	215	272	309	343
Other Current Liabilities	1	0	0	0	0
Total Current Liabilities	255	409	417	404	388
Total Long-term Debt	357	122	122	72	72
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	357	122	122	72	72
Total Provisions	61	99	99	99	99
Total Liabilities	673	630	638	575	559
Shareholders' Equity	1,654	1,995	2,202	2,441	2,710
Minority Interests	3	3	4	4	4
Total Equity	1,656	1,998	2,205	2,445	2,714

Key Ratios

	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
Revenue Growth	21.6%	32.0%	22.9%	13.4%	11.0%
Operating EBITDA Growth	12.2%	43.3%	22.4%	12.5%	12.0%
Operating EBITDA Margin	23.8%	25.9%	25.8%	25.6%	25.8%
Net Cash Per Share (RM)	(0.085)	(0.050)	(0.058)	(0.048)	(0.022)
BVPS (RM)	0.50	0.60	0.67	0.74	0.82
Gross Interest Cover	357.3	67.4	79.4	146.2	234.5
Effective Tax Rate	18.7%	16.4%	17.5%	17.8%	17.7%
Net Dividend Payout Ratio	44.1%	52.9%	60.0%	60.0%	59.9%
Accounts Receivables Days	52.99	52.91	56.03	58.30	58.72
Inventory Days	51.40	58.09	61.36	64.60	65.19
Accounts Payables Days	45.79	50.44	45.35	47.75	48.18
ROIC (%)	15.8%	20.0%	21.1%	21.9%	(7.6%)
ROCE (%)	18.6%	23.6%	25.5%	27.7%	29.2%
Return On Average Assets	13.9%	18.0%	19.1%	20.5%	21.4%

Key Drivers

	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
ASP (% chg, main prod./serv.)	0.5%	3.5%	5.3%	1.3%	0.5%
Unit sales grth (% , main prod./serv.)	24.3%	24.5%	19.8%	11.9%	10.4%
Util. rate (% , main prod./serv.)	80.5%	84.0%	85.0%	85.3%	85.3%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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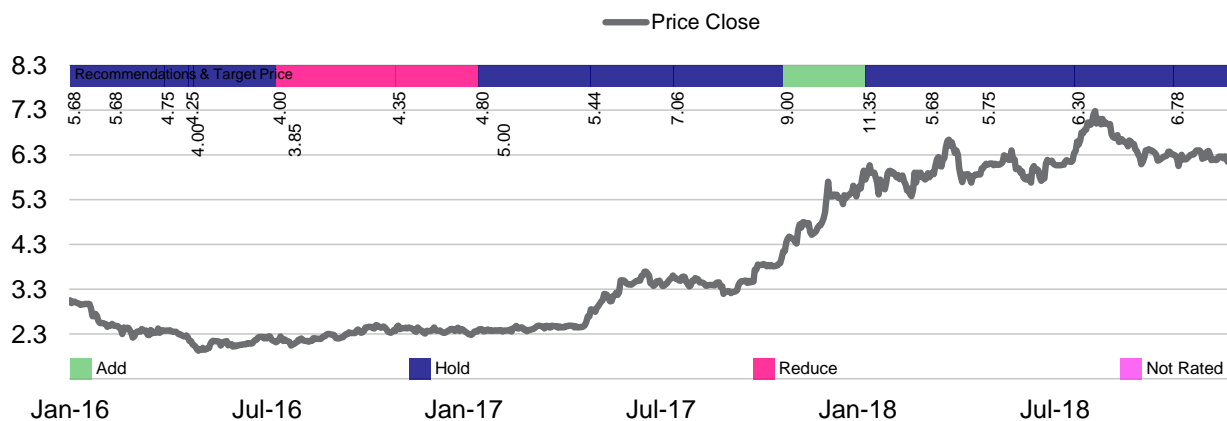
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2018		
759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)

Hartalega Holdings (HART MK)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC’s regulations or charged with corruption.

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Add	The stock’s total return is expected to exceed 10% over the next 12 months.
Hold	The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock’s total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight

An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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