

| Malaysia

HOLD (no change)

Consensus ratings*: Buy 3 Hold 11 Sell 6

Current price:	RM5.45
Target price:	RM5.40
Previous target:	RM5.58
Up/downside:	-1.0%
CGS-CIMB / Consensus:	-2.9%
Reuters:	HTHB.KL
Bloomberg:	HART MK
Market cap:	US\$4,460m
	RM18,165m
Average daily turnover:	US\$5.87m
	RM24.33m
Current shares o/s:	3,306m
Free float:	41.0%

*Source: Bloomberg

Key changes in this note

- FY19-21F EPS lowered by 2.5-5.5%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.7	-13.2	-1.5
Relative (%)	7.5	-12.7	6.3

Major shareholders

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

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Hartalega Holdings

Slowing down its horses

- 9MFY3/19 net profit of RM365m came in below expectations, making up only 71% of our and 72% of Bloomberg consensus' FY19 estimates.
- The weaker-than-expected 3QFY19 results were due to: i) increase in tax rates, ii) slower sales growth, and iii) higher operating costs.
- Maintain Hold, with lower TP of RM5.40 (28.2x CY20F P/E).

9MFY18: Below expectations from slower sales growth

After accounting for one-off inventory write-offs of RM0.5m, 9MFY3/19 core net profit rose 13.5% yoy to RM365m. Yet, this was below our and Bloomberg consensus expectations, at 71% and 72% respectively. The weaker-than-expected 9MFY18 results were attributable to sluggish 3QFY19 results from: i) lower-than-anticipated sales volume growth leading to a shortfall vs. our revenue forecast, ii) higher tax rates, and iii) spike in operating costs.

3QFY19 net profit flat qoq

On a qoq basis, 3QFY19 revenue rose only 1.3% as higher glove sales (+4.6% qoq) were offset by lower average selling price (ASP, -6% qoq). Note that the decline in ASP was to reflect the 10% qoq decline in raw material prices, which led to 3QFY19 EBITDA margin rising 1.1% pts qoq to 23.7%. However, 3QFY19 core net profit was flattish at RM120.3m as a result of higher tax rates (+5% pts qoq). The company declared a dividend of 2.2sen/share for 3QFY19, which we deem within expectations.

Slowing down ramp-up in capacity to ease overcapacity concerns

For 2019F, we are of the view that Hartalega will face short-term increased competition with the addition in sector capacity, especially in the nitrile glove space. Hartalega has taken measures to ease any overcapacity concerns by slowing down the commissioning of the remaining six new production lines at Plant 5 (4.7bn pieces p.a.) of its Next Generation Glove Complex (NGC). Previously, it aimed to commercialise all remaining six lines by end-1Q19 but has pushed that back to end-2Q19. For Plant 6 (4.7bn pieces p.a.), construction works are underway; we now believe the installation of Plant 6's first production line will begin only at end-4Q19F vs. our earlier forecast of 3Q19F.

Maintain Hold

To reflect a slower ramp-up of its new production capacity, we lower our FY19-21F EPS by 2.5-5.5%. Accordingly, our TP declines to RM5.40, still based on 28.2x CY19F P/E (in line with its 5-year historical mean). Our Hold call remains. Despite expectations of short-term competition in the nitrile glove space, we think Hartalega's robust long-term structural growth story remains intact. Although we think it is fairly valued at current levels, investors can look to accumulate the stock in the event of any potential sell-down due to concerns of a competitive environment. Weaker-than-expected earnings delivery is a downside risk to our call. Stronger-than-expected demand for gloves is an upside risk.

Financial Summary

	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
Revenue (RMm)	1,822	2,406	2,896	3,286	3,664
Operating EBITDA (RMm)	434.4	622.3	709.9	808.2	926.5
Net Profit (RMm)	283.0	439.4	490.0	564.9	656.4
Core EPS (RM)	0.09	0.13	0.15	0.17	0.20
Core EPS Growth	14.6%	43.1%	16.0%	15.3%	16.2%
FD Core P/E (x)	61.02	42.65	36.77	31.89	27.45
DPS (RM)	0.04	0.07	0.09	0.10	0.12
Dividend Yield	0.73%	1.29%	1.63%	1.88%	2.18%
EV/EBITDA (x)	42.13	29.22	25.61	22.42	19.44
P/FCFE (x)	107.0	97.1	73.3	59.8	39.7
Net Gearing	17.0%	8.2%	7.4%	4.1%	(0.4%)
P/BV (x)	10.89	9.03	8.22	7.46	6.73
ROE	18.7%	23.2%	23.4%	24.5%	25.8%
% Change In Core EPS Estimates			(5.40%)	(5.51%)	(2.51%)
CIMB/consensus EPS (x)			0.96	0.98	1.02

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Mar	3Q	3Q	yoy %	qoq %	3QFY19	3QFY18	yoy %	Prev.	Comments
(RM m)	FY19	FY18	chg	chg	Cum	Cum	chg	FY19F	
Revenue	723.4	603.1	19.9	1.3	2,144	1,789	19.9	2,973	Thanks to higher sales volume and increase in ASPs
Operating costs	(544.5)	(439.8)	23.8	(0.1)	(1,624)	(1,329)	22.2	(2,205)	
EBITDA	178.9	163.3	9.5	5.8	520.3	460.2	13.1	767.5	
EBITDA margin (%)	24.7	27.1	(2.4)	1.1	24.3	25.7	(1.5)	25.8	Decline due to higher nitrile raw material prices and higher operating
Depn & amort.	(26.2)	(22.5)	16.4	5.7	(75.5)	(64.4)	17.1	(126.5)	costs
EBIT	152.7	140.8	8.4	5.9	444.8	395.7	12.4	641.0	
Interest expense	(2.8)	(2.0)	37.2	10.4	(7.7)	(5.6)	36.8	(8.0)	Net borrowings of RM250.1m (as of 3QFY19)
Interest & invt inc	0.6	0.4	33.6	(2.5)	1.7	0.9	81.3	1.0	
Associates' contrib	-	-	-	-	-	-	-	-	
Exceptionals	(0.5)	(0.4)	-	-	(0.6)	0.8	(>100)		
Pretax profit	150.0	138.9	8.0	5.4	438.2	391.8	11.8	634.0	
Tax	(30.7)	(25.7)	19.2	39.6	(73.4)	(68.5)	7.1	(109.4)	
Tax rate (%)	20.4	18.5	1.9	5.0	16.7	17.5	(0.7)	18.0	Spike in 3QFY19 tax rates due to under provision in previous quarters
Minority interests	0.4	(0.1)	(520.0)	(354.5)	0.0	(0.5)	(107.4)	(0.3)	
Net profit	119.8	113.0	6.0	(0.4)	364.8	322.7	13.0	524.3	Below expectations at 71% of our full-year estimates
Core net profit	120.3	113.4	6.1	0.0	365.4	321.9	13.5	524.3	
EPS (sen)	7.3	6.9	6.0	(0.4)	22.2	19.7	13.0	15.9	
Core EPS (sen)	7.3	6.9	6.1	0.0	22.3	19.6	13.5	15.9	Based on outstanding shares of 3.3bn

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Earnings revision table

RMm	2018A	2019F			2020F			2021F		
		Old	New	chg	Old	New	chg	Old	New	chg
Revenue	2,406	2,956	2,896	-2%	3,350	3,286	-2%	3,718	3,664	-1%
EBITDA	622	762	710	-7%	857	808	-6%	959	926	-3%
Core pretax profit	506	628	594	-5%	727	687	-6%	819	798	-3%
Core net profit	422	518	490	-5%	598	565	-6%	673	656	-3%
Core EPS	13	16	15	-5%	18	17	-6%	20	20	-3%

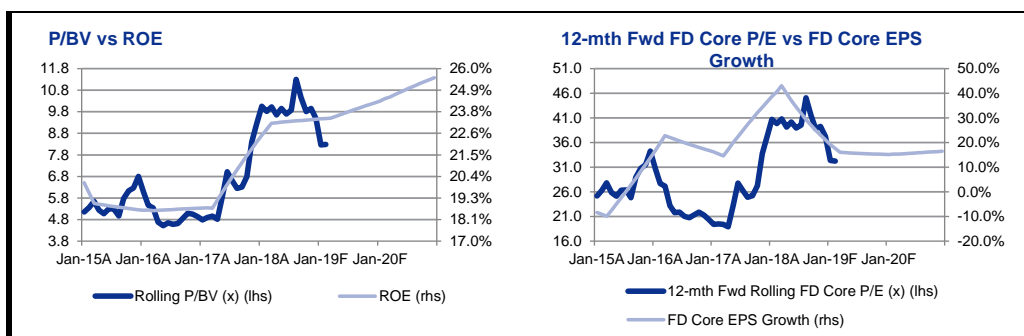
SOURCES: CIMB, COMPANY REPORTS

Figure 3: Sector comparison

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 (%)	
						CY18	CY19		CY18	CY19	CY18	CY19	CY18	CY19	CY18	CY19
Hartalega Holdings	HART MK	Hold	5.45	5.40	4,460	38.1	33.0	18.6%	8.4	7.6	23.4%	24.4%	26.1	23.0	1.5%	1.8%
Top Glove Corporation	TOPG MK	Add	4.90	10.80	3,076	25.2	20.6	24.1%	2.7	2.4	21.7%	24.6%	9.8	7.6	4.2%	5.3%
Kossan Rubber Industries	KRI MK	Add	3.76	5.16	1,181	22.9	19.3	18.0%	3.8	3.5	17.7%	19.0%	13.4	11.8	2.2%	2.6%
Supermax Corp	SUCB MK	Add	1.60	2.23	515	18.5	15.4	23.7%	1.8	1.7	10.2%	11.6%	11.2	9.8	2.6%	2.9%
Weighted Average						30.7	26.2	20.6%	5.6	5.0	21.3%	23.1%	18.2	15.7	2.6%	3.1%
Simple Average						26.1	22.1	21.1%	4.2	3.8	18.2%	19.9%	15.1	13.1	2.6%	3.2%

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	2,896	3,286	3,665
Gross Profit	387	857	950	1,074	1,212
Operating EBITDA	434	622	710	808	926
Depreciation And Amortisation	(71)	(88)	(108)	(115)	(124)
Operating EBIT	364	534	602	693	802
Financial Income/(Expense)	(0)	(7)	(8)	(6)	(4)
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	594	687	798
Exceptional Items	(15)		0	0	0
Pre-tax Profit	349	527	594	687	798
Taxation	(65)	(87)	(104)	(122)	(142)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	283	440	490	565	657
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	490	565	656
Recurring Net Profit	295	422	490	565	656
Fully Diluted Recurring Net Profit	295	422	490	565	656

Cash Flow

(RMm)	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
EBITDA	434.4	622.3	709.9	808.2	926.5
Cash Flow from Inv. & Assoc.					
Change In Working Capital	14.4	(143.1)	(102.4)	(79.0)	(75.8)
(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	(7.7)	(6.0)	(3.7)
Tax Paid	(65.3)	(69.7)	(104.0)	(122.0)	(141.5)
Cashflow From Operations	368.5	401.5	495.8	601.3	704.4
Capex	(350.0)	(145.7)	(200.0)	(200.0)	(200.0)
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)	(200.0)	(200.0)	(200.0)
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)	(294.0)	(338.9)	(393.3)
Preferred Dividends					
Other Financing Cashflow	0.0	44.3	0.0	0.0	0.0
Cash Flow From Financing	18.7	(54.3)	(344.0)	(438.9)	(443.3)
Total Cash Generated	37.1	84.0	(48.2)	(37.7)	61.1
Free Cashflow To Equity	168.5	185.6	245.8	301.3	454.4
Free Cashflow To Firm	19.5	138.3	304.5	408.8	509.6

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	105	67	128
Total Debtors	290	407	490	556	620
Inventories	202	291	365	415	461
Total Other Current Assets	14	12	12	12	12
Total Current Assets	622	863	972	1,050	1,220
Fixed Assets	1,418	1,589	1,682	1,766	1,842
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	1,858	1,943	2,018
Short-term Debt	41	194	144	94	44
Current Portion of Long-Term Debt					
Total Creditors	213	215	270	307	340
Other Current Liabilities	1	0	0	0	0
Total Current Liabilities	255	409	415	401	385
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	636	572	556
Shareholders' Equity	1,654	1,995	2,191	2,417	2,679
Minority Interests	3	3	4	4	4
Total Equity	1,656	1,998	2,194	2,420	2,683

Key Ratios

	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
Revenue Growth	21.6%	32.0%	20.4%	13.5%	11.5%
Operating EBITDA Growth	12.2%	43.3%	14.1%	13.9%	14.6%
Operating EBITDA Margin	23.8%	25.9%	24.5%	24.6%	25.3%
Net Cash Per Share (RM)	(0.085)	(0.050)	(0.049)	(0.030)	0.003
BVPS (RM)	0.50	0.60	0.66	0.73	0.81
Gross Interest Cover	357.3	67.4	69.5	92.4	152.8
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	56.55	58.27	58.59
Inventory Days	51.40	58.09	61.57	64.61	65.18
Accounts Payables Days	45.79	50.44	45.50	47.75	48.17
ROIC (%)	15.8%	20.0%	20.0%	21.2%	(7.7%)
ROCE (%)	18.6%	23.6%	24.3%	26.5%	28.8%
Return On Average Assets	13.9%	18.0%	18.2%	19.6%	21.0%

Key Drivers

	Mar-17A	Mar-18A	Mar-19F	Mar-20F	Mar-21F
ASP (% chg, main prod./serv.)	0.5%	3.5%	3.1%	1.4%	1.0%
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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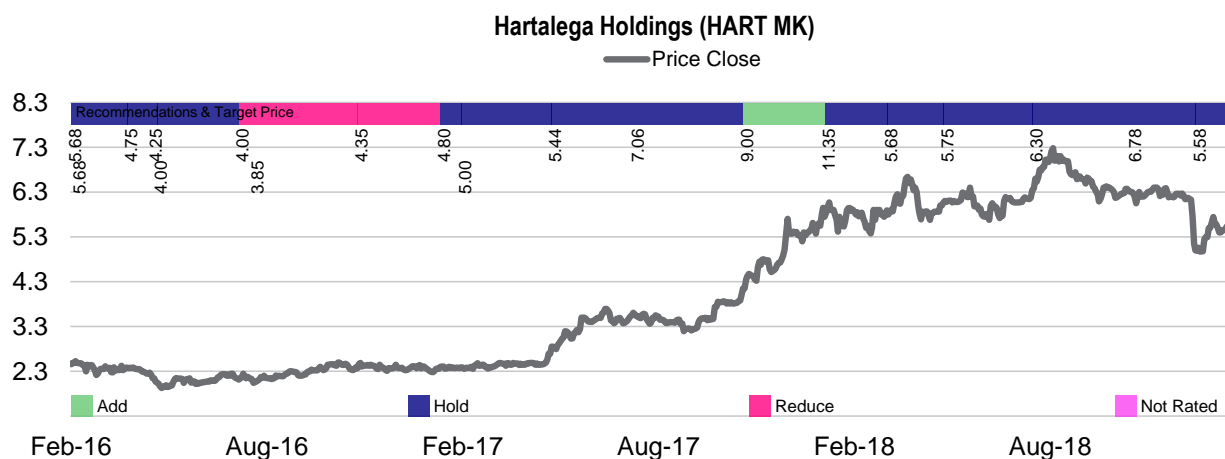
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758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



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, **CENDEL** – 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, **TIPIP** – 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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Stock Ratings

Definition:

- 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.

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.

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Definition:

- 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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Definition:

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

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