



Hartalega Holdings Berhad

(5168 | HART MK) Main | Health Care | Health Care Equipment & Services

Downgrade to Sell*(Previously Trading Sell)*

Compensating ASP Hike with Lower Utilization Rate

Revised Target Price: RM1.66*(Previously RM1.75)*

KEY INVESTMENT HIGHLIGHTS

- **Missed estimations**
- **Disappointed 1QFY24 earnings**
- **Demand remained weak**
- **Revised earnings projection for FY24-25F and introduction of the new earnings projection for FY26F**
- **Downgrade to Sell (from Trading Sell) with a lower TP of RM1.66**

Missed estimations. Hartalega ("Harta") 1QFY24 reported a core net loss of -RM58.9m for 3MFY24 (after excluding one-time items of -RM6.4m), which exceeded our full-year FY24F estimated net loss of -RM66m and consensus' projection of a net profit of RM223.8m for FY25F. The negative deviation was partially attributed to lower-than-anticipated revenue resulting from reduced sales volume. As anticipated, no dividends were declared during the quarter due to ongoing net loss.

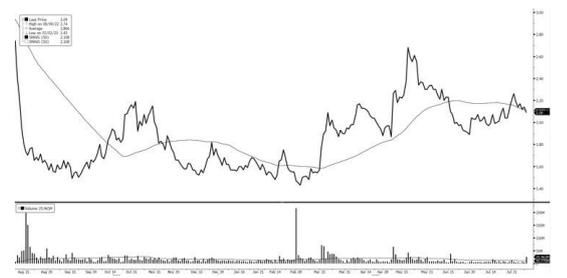
Disappointed 1QFY24 earnings. On a sequential basis, the group's revenue dropped by -14.7%qoq to RM440m in 1QFY24. This was mostly due to the reduced sales volume (-25%qoq) resulting from continuous weaker demand, as increase in the ASP (+14.9%qoq) prompted buyers to shift to other sellers. Consequently, earnings dropped to a net loss of -RM58.9m in 1QFY24, compared to a core PATANCI of RM41.2m (excluding the one-off impairment loss) in 4QFY23. This was mainly due to the recognition of the provision for severance pay, along with lower revenue. On yearly basis, topline continued to be impacted by lower sales volume and ASP due to the ongoing oversupply situation and supply chain inventory adjustment. This led to a -48%yoy drop in revenue in 1QFY24. Along with the low utilization rate, the continued pressure on production cost per unit caused core earnings to plummet from a net profit of RM108.4m in 1QFY23 to a net loss of -RM58.9m in 1QFY24.

Demand remained weak. The group's utilization rate dropped from 55% in 4QFY23 to 41% in 1QFY24, resulting in a 25%qoq drop in sales volume to 4.3b pieces of gloves. We gather that the global demand for gloves remains soft, with the monthly global import of gloves now at around 15b gloves per month in first 4 months of CY23, as compared to the pre-pandemic level of 20-25b pieces of gloves per month. Hence, management remains cautious that the demand will remain weak for the remaining of CY23 and will only be expected to show marginal improvement in CY24, given that most of the gloves purchased during the pandemic period should be expired by the end of this year.

RETURN STATISTICS

Price @ 9 th August 2023 (RM)	2.09
Expected share price return (%)	(22.20)
Expected dividend yield (%)	0.00
Expected total return (%)	(22.16)

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.0	-2.0
3 months	10.6	-9.4
12 months	-25.4	-23.5

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026A
Revenue	1,785.4	1,703.3	1,794.1
EBITDA	(33.6)	100.7	130.9
Profit before tax (PBT)	(67.8)	87.6	138.8
Core PATANCI	(88.3)	71.7	112.4
Core EPS (sen)	(2.6)	2.1	3.3
DPS (sen)	na	1.3	2.0
Dividend Yield (%)	na	0.6	1.0

KEY STATISTICS

FBM KLCI	1,462.03
Issue shares (m)	3427.61
Estimated free float (%)	40.83
Market Capitalisation (RM'm)	7,142.50
52-wk price range	RM1.41-RM2.81
3-mth average daily volume (m)	12.00
3-mth average daily value (RM'm)	26.70
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	34.39
BUDI TENGGARA SDN BHD	8.63
Kumpulan Wang Persaraan	3.21

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Input costs remain challenging. While the recent decline in energy costs is expected to benefit Hartalega, we gather that the energy costs for Chinese glovemakers could plunge further, hence giving Chinese glovemakers a greater cost advantage than Malaysian players. Note that Chinese glovemakers use coal to generate energy, which is cheaper.

Gloomy outlook for ASP. With the cost advantage from Chinese glovemakers, it could cause Chinese glovemakers to lower their pricing to continue securing market share. This, combined with softer demand post-pandemic, makes us cautious that the ASP for Hartalega will remain at least flat in the next 2 quarters, or even fall to a lower ASP in order to secure volumes.

Revised earnings projection for FY24-25F and introduce new earnings projection for FY26F. We adjusted our net loss forecast for FY24F to -RM88.3m (from -RM66m) considering that 1QFY24 earnings came in below our estimates and due to ongoing challenging outlook. This adjustment accounts for lower sales volume and relatively stable ASP. We also revised our FY25F forecast by -18.3%. Meanwhile, we introduce our earnings forecast for FY26F.

Downgrade to Sell (from Trading Sell) with a lower TP of RM1.66. Our revised **TP** is based on its 2-year historical -1SD P/BV of 1.2x multiplied by a revised FY25F BVPS of 132.6sen (from FY24F BVPS of 145.5sen). With demand remaining below pre-pandemic levels, combined with the cost advantage from Chinese glovemakers that could further exert pressure on the ASP, as well as the remaining provision for contractual obligation expenses (RM23m) due to the decommissioning of Bestari Plant, we remain cautious that the company could continue to report a net loss in the next two quarters. Hence, downgrade Hartalega to **SELL from Trading Sell**. Hartalega is currently trading at an unjustified FY25F P/BV of 1.61x, above its historical -1SD P/BV of 1.2x given its continuous challenging outlook.

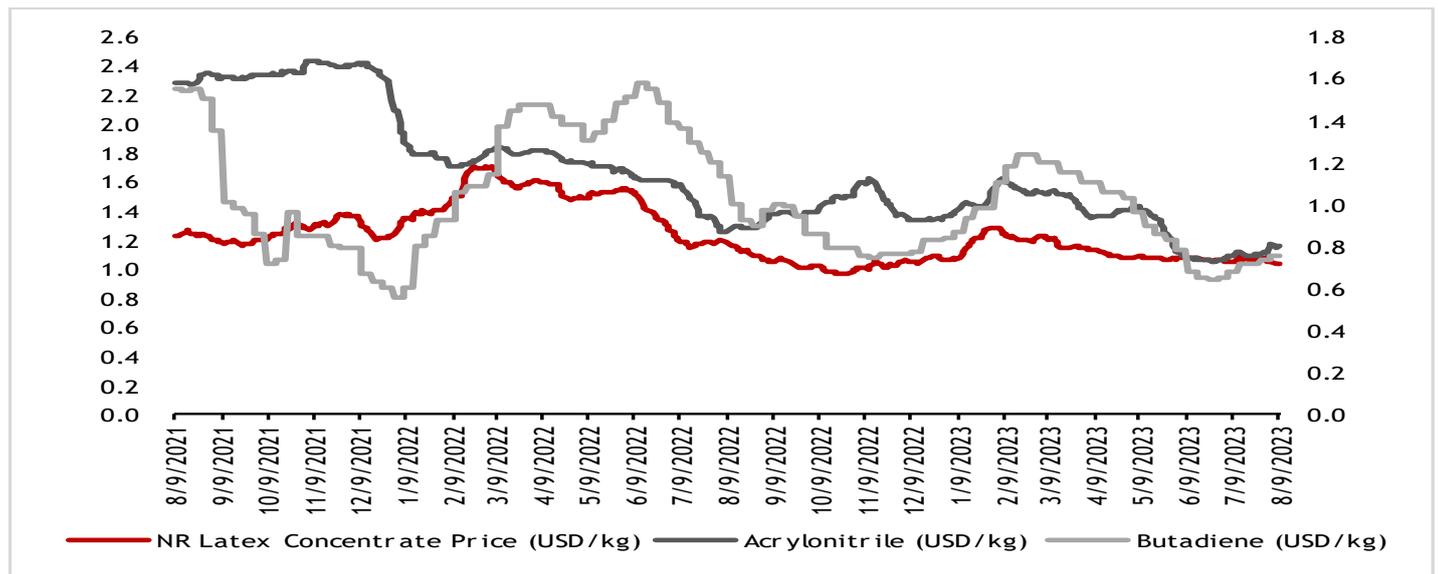
Upside risks are: (1) further exits of new and existing players from the market, (2) fluctuations in raw material prices and currency exchange rates, and (3) potential increased demand due to the emergence of new variants or diseases. 

Hartalega Holdings: 1QFY24 Results Summary

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	440.0	515.7	845.7	(48.0)	(14.7)	440.0	845.7	(48.0)
Cost of Sales	(459.3)	(500.5)	(693.1)	(33.7)	(8.2)	(459.3)	(693.1)	(33.7)
Gross Profit	(19.3)	15.2	152.6	(112.6)	(226.8)	(19.3)	152.6	(112.6)
Other operating (expenses)/income	(39.0)	(365.5)	(17.3)	125.6	(89.3)	(39.0)	(17.3)	125.6
Operating profit (EBIT)	(58.3)	(350.3)	135.3	(143.1)	(83.3)	(58.3)	135.3	(143.1)
Net finance income/(cost)	13.6	18.8	0.3	3,851.2	(27.9)	13.6	0.3	3,851.2
Profit before tax (PBT)	(44.7)	(331.4)	135.6	(133.0)	(86.5)	(44.7)	135.6	(133.0)
Taxation	(6.4)	21.8	(43.3)	(85.1)	(129.6)	(6.4)	(43.3)	(85.1)
Profit After tax (PAT)	(51.2)	(309.7)	92.3	(155.4)	(83.5)	(51.2)	92.3	(155.4)
PATANCI	(52.5)	(302.8)	82.5	(163.6)	(82.7)	(52.5)	82.5	(163.6)
Core PATANCI	(58.9)	41.2	108.4	(154.3)	(242.9)	(58.9)	108.4	(154.3)
Basic EPS (sen)	(1.5)	(8.9)	2.6	(159.7)	(82.6)	(1.5)	2.6	(159.7)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	(13.3)	(67.9)	16.0	(29.3)	54.7	(13.3)	16.0	(29.3)
PBT Margin	(10.2)	(64.3)	16.0	(26.2)	54.1	(10.2)	16.0	(26.2)
Core PATANCI Margin	(13.4)	8.0	12.8	(26.2)	(21.4)	(13.4)	12.8	(26.2)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	21.0	21.6	24.8	(3.8)	(0.6)	(21.0)	(24.8)	3.8
Effective tax rate (%)	(14.4)	6.6	31.9	(46.3)	(20.9)	(14.4)	31.9	(46.3)

Source: Company, MIDFR

TABLE 1: Raw Material Futures Price Trend (USD/MT)



Source: MIDFR, Bloomberg

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	7,888.3	2,409.6	1,785.4	1,703.3	1,794.1
Cost of Sales	(3,093.1)	(2,090.7)	(1,609.2)	(1,483.0)	(1,538.6)
Gross Profit	4,795.1	318.9	176.2	220.3	255.5
EBITDA	4,701.6	259.3	(33.6)	100.7	130.9
EBIT	4,549.7	(249.6)	(105.2)	51.0	102.8
Profit before tax (PBT)	4,555.5	(214.4)	(67.8)	87.6	138.8
Tax expense	(1,394.6)	(24.4)	(8.5)	(15.9)	(26.4)
Profit After tax (PAT)	3,160.9	(238.8)	(76.3)	71.7	112.4
Core PATANCI	3,123.5	(209.2)	(88.3)	71.7	112.4
Core EPS (sen)	91.4	(6.1)	(2.6)	2.1	3.3
DPS (sen)	53.5	0.0	0.0	1.3	2.0

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,367.0	1,943.1	1,925.0	1,926.3	1,951.8
Intangible assets	30.8	42.6	53.6	46.0	43.6
Total Non-current assets	3,150.1	2,944.5	2,947.9	2,950.9	2,983.8
Inventories	396.9	232.4	352.1	292.1	303.0
ST - Trade and other receivables	418.6	323.5	372.2	337.3	355.3
Cash and cash equivalents	2,378.1	1,724.5	1,672.7	1,656.0	1,639.4
Total current assets	3,197.3	2,360.4	2,450.4	2,331.2	2,343.6
Total Assets	6,347.4	5,304.9	5,398.3	5,282.1	5,327.4
Total Equity	5,124.6	4,658.4	4,585.3	4,531.7	4,549.1
LT Lease Liabilities	3.2	2.0	1.3	1.2	1.2
LT Loans and borrowings	136.7	62.3	65.4	67.4	68.1
Total Non-current liabilities	385.7	292.4	370.3	358.1	374.2
ST Trade and other payables	378.2	252.7	340.9	289.0	299.8
ST Loans and borrowings	102.1	87.3	91.6	94.4	95.3
Total Current Liabilities	816.8	354.1	442.7	392.3	404.0
Total Liabilities	1,202.5	646.6	813.0	750.4	778.3

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	4,555.5	(214.4)	(67.8)	87.6	138.8
Cash flow from operations	3,716.4	(79.6)	(62.5)	(2.8)	50.5
Cash flow from investing	(810.0)	(266.4)	54.4	34.5	9.7
Cash flow from financing	(3,210.3)	(351.8)	(0.9)	(48.4)	(76.8)
Net cash flow	(303.9)	(697.8)	(9.0)	(16.7)	(16.6)
(+/-) Adjustments	13.3	1.3	0.0	0.0	0.0
Net cash/(debt) b/f	2,668.8	2,378.1	1,681.7	1,672.7	1,656.0
Net cash/(debt) c/f	2,378.1	1,681.7	1,672.7	1,656.0	1,639.4

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	30.6	(11.4)	(12.5)	18.1	19.0
Net Cash/Market Capitalisation (%)	29.4	21.6	20.8	20.5	20.3
P/BV ratio (x)	1.42	1.56	1.59	1.61	1.60
PER (x)	2.3	na	na	101.5	64.8

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	60.8	13.2	9.9	12.9	14.2
EBITDA Margin (%)	59.6	10.8	(1.9)	5.9	7.3
EBIT Margin (%)	57.7	(10.4)	(5.9)	3.0	5.7
Core PATANCI Margin (%)	39.6	(8.7)	(4.9)	4.2	6.3

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology