



Hartalega Holdings Berhad

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

Returned to the Black

KEY INVESTMENT HIGHLIGHTS

- **Above our expectation**
- **Returned to the black in 2QFY24**
- **Slight turnaround in glove demand**
- **Raised earnings projection for FY24-26F**
- **Upgrade to NEUTRAL (from SELL) with a higher TP of RM2.20 (from RM1.66)**

Above our expectation. Hartalega Holdings ("Harta") reported a core net loss of -RM35.3m for 1HFY24, after excluding a one-time item of -RM10.6m. This was narrower than our full-year FY24F core net loss projection of -RM88.3m but within consensus' expectation of a full-year FY24F core net profit of RM33.9m. This deviation was primarily due to lower-than-expected production costs resulting from (1) improved sales volume, (2) decreased raw material costs, and (3) reduced operating expenses, all of which contributed to a decrease in production costs per unit. No dividend was declared during the quarter.

Returned to the black in 2QFY24. On a quarterly basis, Hartalega revenue improved by +2.7%qoq to RM452.1m in 2QFY24. This was driven by a +7%qoq rise in sales volume, which more than compensated for a -4.9%qoq decrease in blended ASP. The lower blended ASP was due to the continuous market oversupply, as price-sensitive buyers prefer lower pricing when raw material costs fall. This, along with higher operating income boosted the operating profit margin by +18.2ppt to 4.9%. As such, Hartalega returned to the black in 2QFY24, from a net loss of -RM58.9m in 1QFY24 to core PATANCI of RM23.6m in 2QFY24. On a yearly basis, the reduced core PATANCI of RM23.6m (-78.3%yoy) was in line with decreased revenue of -46.5%yoy to RM452.1m. The earnings decline was attributed to lower sales volume and average selling prices, which raised the production cost per unit.

Lower cumulative raw material and labour costs in 1HFY24. Cumulatively, Harta recorded a core net loss of -RM35.3m in 1HFY24 against core PATANCI of RM152.7m in 1HFY23. This was mainly due to lower sales volume (-27%yoy) and ASP that more than offset the lower raw material and labour cost.

Slight turnaround in glove demand. In 2QFY24, the sales volume increased by +7%qoq, leading to a 3ppt improvement in the utilization rate to 44%. We gathered that pandemic-related inventory is depleting, and while the buying patterns from customers remain inconsistent on monthly basis, consumption and demand are gradually recovering. Looking ahead, we opine that sales volume has reached its lowest point and we foresee a gradual improvement in replenishment activities, which might boost sales volume and utilization rates. However, we are cautious that demand for gloves may not fully recover to pre-pandemic levels in the near term, given the oversupply situation in the market.

Upgrade to NEUTRAL

(Previously SELL)

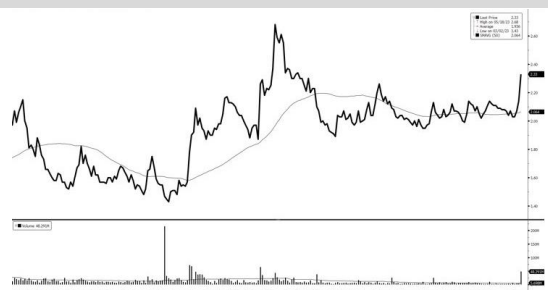
Revised Target Price: RM2.20

(Previously RM1.66)

RETURN STATISTICS

Price @ 7 th Nov 2023 (RM)	2.33
Expected share price return (%)	-5.8
Expected dividend yield (%)	0.00
Expected total return (%)	-5.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	12.6	9.0
3 months	17.1	8.6
12 months	18.3	16.6

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026A
Revenue	1,897.9	2,354.3	2,707.3
EBITDA	141.1	249.3	365.9
Profit before tax (PBT)	65.7	169.4	280.2
Core PATANCI	40.1	130.6	216.0
Core EPS (sen)	1.2	3.8	6.3
DPS (sen)	n.a.	2.3	3.8
Dividend Yield (%)	n.a.	1.1	1.8

KEY STATISTICS

FBM KLCI	1,463.37
Issue shares (m)	3427.61
Estimated free float (%)	40.77
Market Capitalisation (RM'm)	7,716.23
52-wk price range	RM1.41-RM2.71
3-mth average daily volume (m)	5.38
3-mth average daily value (RM'm)	11.11
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	34.42
BUDI TENGGARA SDN BHD	8.64
Kumpulan Wang Persaraan	3.21

Analyst(s)

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Flattish ASP outlook in the near term. The ASP disparity among Malaysian and China's glovemakers is now approximately USD2-3 per 1000 pieces. Given the continuous oversupply and intense competition from China's glovemakers, we expect ASP to stay flattish in the near term. Also, we are cautious that price-sensitive clients may impose pressure on companies to cut prices when raw material costs fall.

Raised earnings projection for FY24-26F. We raised our earnings forecast for FY24F to a core PATANCI of RM40.1m (from the previous net loss of -RM88.3m). This is after factoring in (1) higher utilization rate, (2) reduced production cost per unit due to improved utilization and lower raw material costs, as well as (3) better margin thanks to the improved production efficiency and cost savings following the decommissioning of the Bestari Jaya plant and its integration into NGC. Furthermore, we increased our earnings forecasts for FY25F and FY26F by +82.2% and +92.2%, respectively.

Upgrade to NEUTRAL (from SELL) with a higher TP of RM2.20 (from RM1.66). Our revised **TP** is based on a revised P/BV of 1.59x (close to its 2-year historical -mean), multiplied by a revised FY25F BVPS of 138sen (from FY24F BVPS of 132.6sen). Moving forward, we remained cautious about the ASP outlook, considering the oversupply situation, intense competition, and price-sensitive customers. On a positive note, we expect an increase in sales volume and utilization rate due to the depletion of pandemic inventory. The completion of decommissioning of Bestari Jaya (expected by mid-Jan 2024), is likely to further enhance production efficiency, reduce production costs per unit, and improve profit margins. Hence, we upgraded Hartalega to **NEUTRAL**. Hartalega is currently trading at an FY25F P/BV of 1.54x, below its 2y historical mean P/BV of 1.59x. **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.

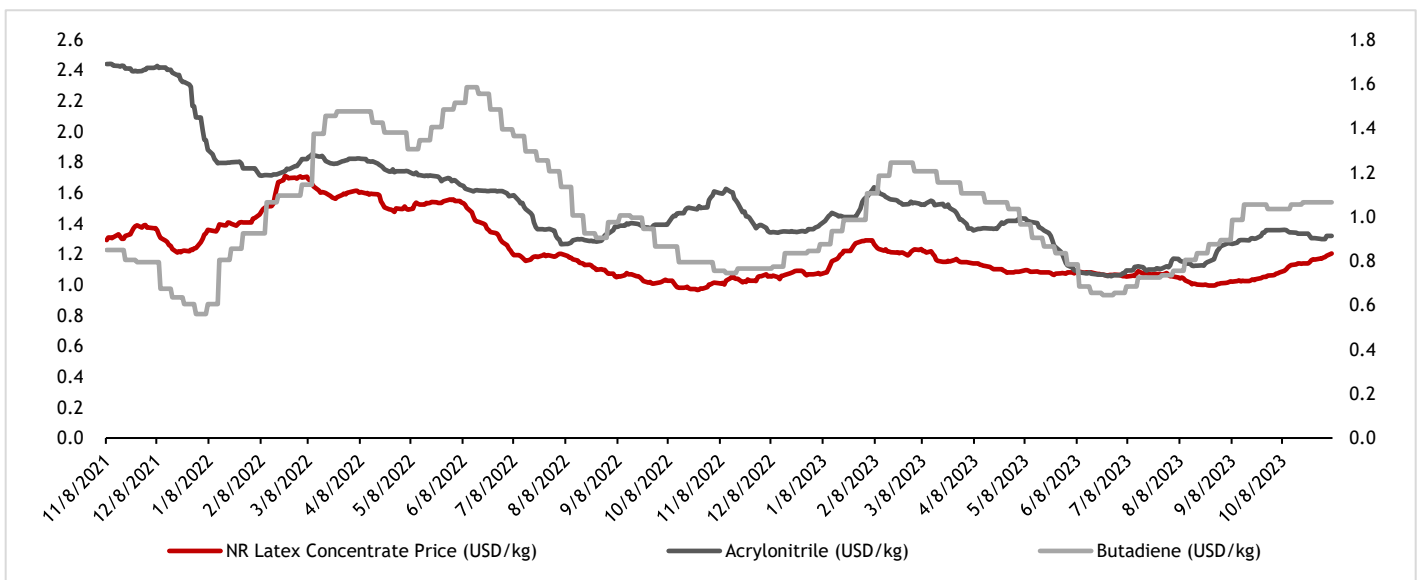


Hartalega Holdings: 2QFY24 Results Summary

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	1QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	452.1	440.0	845.7	(46.5)	2.7	892.1	1,430.2	(37.6)
Cost of Sales	(436.2)	(459.3)	(693.1)	(37.1)	(5.0)	(895.5)	(1,234.1)	(27.4)
Gross Profit	15.9	(19.3)	152.6	(89.6)	(182.5)	(3.4)	196.1	(101.7)
Other operating (expenses)/income	6.3	(39.0)	(17.3)	(136.3)	(116.1)	(32.7)	(31.5)	3.9
Operating profit (EBIT)	22.2	(58.3)	135.3	(83.6)	(138.1)	(36.1)	164.6	(121.9)
Net finance income/(cost)	13.3	13.6	0.3	3,778.8	(1.8)	26.9	8.4	221.7
Profit before tax (PBT)	35.5	(44.7)	135.6	(73.8)	(179.5)	(9.2)	173.0	(105.3)
Taxation	(6.7)	(6.4)	(43.3)	(84.6)	3.6	(13.1)	(51.2)	(74.4)
Profit After tax (PAT)	28.9	(51.2)	92.3	(68.7)	(156.4)	(22.3)	121.8	(118.3)
PATANCI	27.7	(52.5)	82.5	(66.4)	(152.8)	(24.8)	110.9	(122.3)
Core PATANCI	23.6	(58.9)	108.4	(78.3)	(140.0)	(35.3)	152.7	(123.1)
Basic EPS (sen)	0.8	(1.5)	2.6	(68.6)	(152.6)	(0.7)	3.4	(121.4)
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	4.9	(13.3)	16.0	(11.1)	18.2	(4.0)	11.5	(15.6)
PBT Margin	7.9	(10.2)	16.0	(8.2)	18.0	(1.0)	12.1	(13.1)
Core PATANCI Margin	5.2	(13.4)	12.8	(7.6)	18.6	(4.0)	10.7	(14.6)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	21.0	21.0	24.8	(3.9)	(0.1)	(21.0)	(24.4)	3.5
Effective tax rate (%)	18.8	(14.4)	31.9	(13.2)	33.1	(142.6)	29.6	(172.2)

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	1,897.9	2,354.3	2,707.3
Cost of Sales	(3,093.1)	(2,090.7)	(1,753.0)	(2,101.4)	(2,347.4)
Gross Profit	4,795.1	318.9	144.9	252.9	359.8
Other Income	3.4	19.0	7.5	12.4	19.0
Distribution expenses	(65.3)	(26.8)	(21.1)	(22.2)	(22.5)
Administrative expenses	(159.8)	(135.0)	(104.2)	(109.9)	(111.2)
Other operating expenses	(23.7)	(425.8)	(14.1)	(15.7)	(16.2)
EBITDA	4,701.6	259.3	141.1	249.3	365.9
Profit before tax (PBT)	4,555.5	(214.4)	65.7	169.4	280.2
Profit After tax (PAT)	3,160.9	(238.8)	50.7	130.6	216.0
Core PATANCI	3,123.5	(209.2)	40.1	130.6	216.0
Core EPS (sen)	91.4	(6.1)	1.2	3.8	6.3
DPS (sen)	53.5	0.0	0.0	2.3	3.8

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	2,367.0	1,943.1	1,925.8	1,949.7	1,990.0
Intangible assets	30.8	42.6	56.9	63.6	65.8
Total Non-current assets	3,150.1	2,944.5	2,952.3	2,993.1	3,045.8
Inventories	396.9	232.4	211.7	253.7	283.4
ST - Trade and other receivables	418.6	323.5	293.0	363.5	418.0
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	2,234.2	2,336.6	2,410.1
Total Assets	6,347.4	5,304.9	5,186.5	5,329.7	5,455.9
Total Equity	5,124.6	4,658.4	4,629.5	4,714.3	4,814.6
LT Lease Liabilities	3.2	2.0	1.4	1.7	1.8
LT Loans and borrowings	136.7	62.3	20.9	21.6	21.8
Total Non-current liabilities	385.7	292.4	250.1	263.4	258.3
ST Trade and other payables	378.2	252.7	212.2	254.4	284.1
ST Loans and borrowings	102.1	87.3	83.8	86.3	87.1
Total Current Liabilities	816.8	354.1	306.8	352.0	383.0
Total Liabilities	1,202.5	646.6	556.9	615.4	641.3

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	4,555.5	(214.4)	65.7	169.4	280.2
Cash flow from operations	3,716.4	(79.6)	(24.6)	39.9	110.5
Cash flow from investing	(810.0)	(266.4)	66.1	24.3	7.2
Cash flow from financing	(3,210.3)	(351.8)	(50.4)	(81.0)	(134.3)
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
Net Cash/Market Capitalisation (%)	29.4	21.6	21.5	21.3	21.0
P/BV ratio (x)	1.42	1.56	1.57	1.54	1.51
Inventories (Days)	60.8	55.1	44.1	44.1	44.1

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	60.8	13.2	7.6	10.7	13.3
EBITDA Margin (%)	59.6	10.8	7.4	10.6	13.5
EBIT Margin (%)	57.7	(10.4)	0.7	5.0	8.5
Core PATANCI Margin (%)	39.6	(8.7)	2.1	5.5	8.0

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