



# Hartalega Holdings Berhad

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

**Maintain NEUTRAL**

## Better Sales Volume Ahead After Inventory Depletion

**Revised Target Price: RM2.45**  
(Previously RM2.20)

### KEY INVESTMENT HIGHLIGHTS

- **Below expectations due to lower-than-expected revenue**
- **Flattish 3QFY24 core PATANCI despite lower revenue**
- **Decommissioning of Bestari Jaya expected to complete by 1QCY24**
- **Revised earnings projection for F24F and maintained earnings forecast for FY25-26F**
- **Maintain NEUTRAL with a higher TP of RM2.45 (previously RM2.20) after updating to the latest 2-year historical mean P/BV data**

### Below expectations due to lower-than-expected revenue.

Hartalega reported a 9MFY24 core net loss of -RM11.8m, excluding a one-time off item of -RM9.4m. This falls short of both our and consensus full-year FY24F estimations of a core net profit of RM40.1m and RM49.1m respectively. The negative deviation was primarily stemming from (1) weaker-than-expected sales volume due to logistical challenges resulting from the ongoing Red Sea crisis, and (2) lower-than-expected ASP owing to continuous price competition among industry players. No dividends were declared during the quarter as the group was amidst a turnaround.

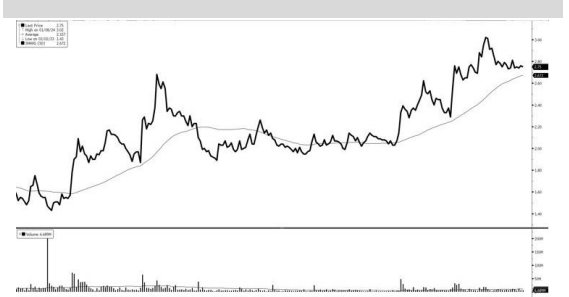
**Flattish 3QFY24 core PATANCI despite lower revenue.** On a quarterly basis, revenue dropped by -8.1%qoq to RM415.6m, mainly due to (1) lower sales volume (-2.8%qoq) following shipment constraints amidst the ongoing Red Sea crisis, which caused delays in the shipment of 600m pieces of gloves ordered, and (2) reduced ASP (-5.1%qoq) due to ongoing price competition among industry players. Nevertheless, core PATANCI was flattish at RM23.6m in 3QFY24, mainly driven by higher operating income that more than offset the lower revenue. On a yearly basis, core net earnings turned positive, from a core net loss of -RM21.4m in 3QFY23 to a core PATANCI of RM23.6m in 3QFY24. This was mainly due to lower raw material costs (-17%yoy), reduced utilities expenses, improved production efficiency due to higher capacity utilization, and cost savings from operational rationalization exercises.

**Oversupply situation persists in 9MFY24.** Cumulatively, the 9MFY24 core net loss of -RM11.8m (vs. a core net profit of RM131.3m in 9MFY23) was in line with the reduced revenue. This was mainly due to the ongoing oversupply situation that dragged down sales volume (-20.4%yoy) and increased production costs per unit, attributable to weaker operational efficiency resulting from lower capacity utilization, with the average utilization rate declined -11ppt yoy to 42.4% in 9MFY24.

### RETURN STATISTICS

Price @ 7 <sup>th</sup> Feb. 2024 (RM)	2.66
Expected share price return (%)	-7.8%
Expected dividend yield (%)	+0.0
Expected total return (%)	-7.8%

### 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	1,750.5	2,354.4	2,707.2
EBITDA	114.0	249.2	365.7
Profit before tax (PBT)	40.5	169.5	280.2
Core PATANCI	20.6	130.6	216.0
Core EPS (sen)	0.6	3.8	6.3
DPS (sen)	0.0	2.3	3.8
Dividend Yield (%)	0.0	1.1	1.8

### KEY STATISTICS


FBM KLCI	1,512.98
Issue shares (m)	3427.61
Estimated free float (%)	40.75
Market Capitalisation (RM'm)	9,386.47
52-wk price range	RM1.41-RM3.05
3-mth average daily volume (m)	10.92
3-mth average daily value (RM'm)	28.38
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	34.43
BUDI TENGGARA SDN BHD	8.64
Kumpulan Wang Persaraan	3.21

### Analyst(s)

Genevieve Ng Pei Fen  
Genevieve.ng@midf.com.my

**Decommissioning of Bestari Jaya expected to be completed by 1QCY24.** As of 3QFY24, the utilization rate for the Bestari Jaya plant was 6% and 57% for the NGC plant. The group completed the product transfer and deployment of 1.6k employees to NGC. Moving forward, Hartalega expects no further impairment for the decommissioning of the factory buildings, plant, and machinery as it has been fully impaired. Meanwhile, all production lines have been successfully decommissioned, with expected completion by 1QCY24. Post-decommissioning, the production capacity of the group will reduce from 44b pieces p.a. to 32b pieces p.a. However, the management alludes to gradually increasing the production capacity back to 44b pieces p.a. based on market supply and demand via future expansion in NGC1.5 Sepang.

**Revised earnings projection for F24F and maintained earnings forecast for FY25-26F.** We lowered our earnings forecast for FY24F by -48.6% after factoring in (1) lower sales volume due to delays in delivering customer orders amidst the ongoing Red Sea crisis and (2) lower ASP of USD19.8/1k pieces from USD20.5/1k pieces due to continuous price competition not only from Chinese glove makers but also from Malaysian and Thai glove makers. We kept our earnings forecast for FY25-26F unchanged, considering the anticipated customer restocking activities starting from FY25 onwards due to the depletion or expiration of inventory purchased during the pandemic period.

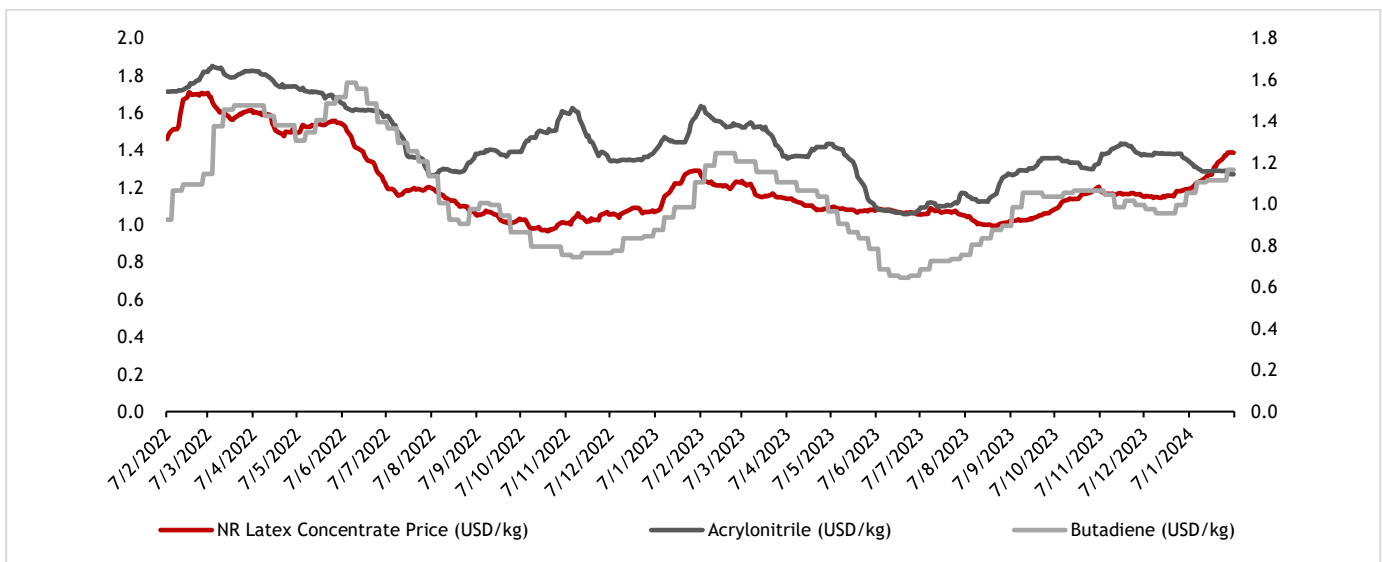
**Maintain NEUTRAL with a higher TP of RM2.45(from RM2.20) after updating to the latest 2-year historical mean P/BV data.** Our revised TP is based on a revised P/BV of 1.78x (from 1.59x; 2-year historical mean), multiplied by an unchanged FY25F BVPS of 138sen. Moving forward, we remain cautious about 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 the decommissioning of Bestari Jaya (expected by 1QCY24) is likely to further increase the capacity utilization rate, enhance production efficiency, reduce production costs per unit, and improve profit margins. Hence, we maintain **NEUTRAL** on Hartalega. Hartalega is currently trading at an FY25F P/BV of 1.55x, below its 2y historical mean P/BV of 1.78x. **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: 3QFY24 Results Summary

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	1QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	415.6	452.1	461.8	(10.0)	(8.1)	1,307.8	1,892.1	(30.9)
Cost of Sales	(423.5)	(436.2)	(492.4)	(14.0)	(2.9)	(1,319.0)	(1,726.5)	(23.6)
<b>Gross Profit</b>	<b>(7.8)</b>	<b>15.9</b>	<b>(30.5)</b>	<b>(74.4)</b>	<b>(149.0)</b>	<b>(11.2)</b>	<b>165.6</b>	<b>(106.8)</b>
Other operating (expenses)/income	22.9	6.3	(8.1)	(381.8)	264.8	(9.8)	(39.7)	(75.2)
<b>Operating profit/Loss</b>	<b>15.1</b>	<b>22.2</b>	<b>(38.7)</b>	<b>&gt;(100.0)</b>	<b>(31.9)</b>	<b>(21.0)</b>	<b>125.9</b>	<b>(116.7)</b>
Net finance income/(cost)	13.9	13.3	8.0	74.5	4.3	40.9	16.3	149.9
Profit before tax (PBT)	29.0	35.5	(30.7)	(194.6)	(18.3)	19.9	142.3	(86.0)
Taxation	(6.3)	(6.7)	(0.4)	1,479.3	(5.9)	(19.4)	(51.6)	(62.5)
<b>PAT/LAT</b>	<b>22.8</b>	<b>28.9</b>	<b>(31.1)</b>	<b>&gt;(100.0)</b>	<b>(21.2)</b>	<b>0.5</b>	<b>90.7</b>	<b>(99.5)</b>
PATANCI/ LATANCI	22.4	27.7	(31.9)	>(100.0)	(19.2)	(2.4)	79.0	(103.0)
<b>Core PATANCI/ Core net loss</b>	<b>23.6</b>	<b>23.6</b>	<b>(21.4)</b>	<b>&gt;(100.0)</b>	<b>0.1</b>	<b>(11.8)</b>	<b>131.3</b>	<b>(109.0)</b>
Basic EPS (sen)	0.7	0.8	(0.9)	>(100.0)	(18.5)	(0.1)	2.5	(102.8)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
<b>Growth &amp; Margin (%)</b>				<b>+ /(-) ppts</b>	<b>+ /(-) ppts</b>			<b>+ /(-) ppts</b>
Operating Profit/Loss Margin	3.6	4.9	(8.4)	12.0	(1.3)	(1.6)	6.7	(8.3)
PBT/LBT Margin	7.0	7.9	(6.6)	13.6	(0.9)	1.5	7.5	(6.0)
Core PATANCI/LATANCI Margin	5.7	5.2	(4.6)	10.3	0.5	(0.9)	6.9	(7.8)
<b>Ratios &amp; Valuation</b>				<b>+ /(-) ppts</b>	<b>+ /(-) ppts</b>			<b>+ /(-) ppts</b>
Net cash/market cap (%)	19.8	21.0	24.1	(4.3)	(1.1)	(19.8)	(24.1)	4.3
Effective tax rate (%)	21.6	18.8	(1.3)	22.9	2.8	97.6	36.3	61.3

Source: Company, MIDFR

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



Source: MIDFR, Bloomberg

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Revenue	7,888.3	2,409.6	1,750.5	2,354.4	2,707.2
Cost of Sales	(3,093.1)	(2,090.7)	(1,641.2)	(2,101.5)	(2,347.4)
<b>Gross Profit</b>	<b>4,795.1</b>	<b>318.9</b>	<b>109.4</b>	<b>252.9</b>	<b>359.8</b>
Other Income	3.4	19.0	6.9	12.4	19.0
Distribution expenses	(65.3)	(26.8)	(19.5)	(22.2)	(22.5)
Administrative expenses	(159.8)	(135.0)	(96.1)	(109.9)	(111.2)
Other operating expenses	(23.7)	(425.8)	(13.0)	(15.7)	(16.2)
<b>EBITDA</b>	<b>4,701.6</b>	<b>259.3</b>	<b>114.0</b>	<b>249.2</b>	<b>365.7</b>
<b>Profit before tax (PBT)</b>	<b>4,555.5</b>	<b>(214.4)</b>	<b>40.5</b>	<b>169.5</b>	<b>280.2</b>
<b>Profit After tax (PAT)</b>	<b>3,160.9</b>	<b>(238.8)</b>	<b>31.2</b>	<b>130.6</b>	<b>216.0</b>
<b>Core PATANCI</b>	<b>3,123.5</b>	<b>(209.2)</b>	<b>20.6</b>	<b>130.6</b>	<b>216.0</b>
Core EPS (sen)	91.4	(6.1)	0.6	3.8	6.3
DPS (sen)	53.5	0.0	0.0	2.3	3.8

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	2,367.0	1,943.1	1,921.7	1,945.7	1,986.1
Intangible assets	30.8	42.6	52.5	63.6	65.8
<b>Total Non-current assets</b>	<b>3,150.1</b>	<b>2,944.5</b>	<b>2,943.5</b>	<b>2,989.1</b>	<b>3,041.9</b>
Inventories	396.9	232.4	198.1	253.7	283.4
ST - Trade and other receivables	418.6	323.5	270.3	363.5	418.0
Cash and cash equivalents	2,378.1	1,724.5	1,672.7	1,656.0	1,639.4
<b>Total current assets</b>	<b>3,197.3</b>	<b>2,360.4</b>	<b>2,193.5</b>	<b>2,336.6</b>	<b>2,410.1</b>
<b>Total Assets</b>	<b>6,347.4</b>	<b>5,304.9</b>	<b>5,137.0</b>	<b>5,325.7</b>	<b>5,452.0</b>
<b>Total Equity</b>	<b>5,124.6</b>	<b>4,658.4</b>	<b>4,612.3</b>	<b>4,710.3</b>	<b>4,810.7</b>
LT Lease Liabilities	3.2	2.0	1.3	1.7	1.8
LT Loans and borrowings	136.7	62.3	20.9	21.6	21.8
<b>Total Non-current liabilities</b>	<b>385.7</b>	<b>292.4</b>	<b>232.3</b>	<b>263.4</b>	<b>258.3</b>
ST Trade and other payables	378.2	252.7	198.6	254.4	284.1
ST Loans and borrowings	102.1	87.3	83.8	86.3	87.1
<b>Total Current Liabilities</b>	<b>816.8</b>	<b>354.1</b>	<b>292.4</b>	<b>352.0</b>	<b>383.0</b>
<b>Total Liabilities</b>	<b>1,202.5</b>	<b>646.6</b>	<b>524.7</b>	<b>615.4</b>	<b>641.3</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	4,555.5	(214.4)	40.5	169.5	280.2
Cash flow from operations	3,716.4	(79.6)	(28.7)	40.0	110.6
Cash flow from investing	(810.0)	(266.4)	70.2	24.2	7.1
Cash flow from financing	(3,210.3)	(351.8)	(50.4)	(81.0)	(134.3)
<b>Net cash flow</b>	<b>(303.9)</b>	<b>(697.8)</b>	<b>(9.0)</b>	<b>(16.7)</b>	<b>(16.6)</b>
(+/-) Adjustments	13.3	1.3	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>2,668.8</b>	<b>2,378.1</b>	<b>1,681.7</b>	<b>1,672.7</b>	<b>1,656.0</b>
<b>Net cash/(debt) c/f</b>	<b>2,378.1</b>	<b>1,681.7</b>	<b>1,672.7</b>	<b>1,656.0</b>	<b>1,639.4</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Net Cash/Market Capitalisation (%)	29.4	21.6	21.5	21.3	21.0
P/BV ratio (x)	1.42	1.56	1.58	1.55	1.51
Inventories (Days)	60.8	55.1	44.1	44.1	44.1

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	60.8	13.2	6.2	10.7	13.3
EBITDA Margin (%)	59.6	10.8	6.5	10.6	13.5
EBIT Margin (%)	57.7	(10.4)	(0.7)	5.0	8.5
Core PATANCI Margin (%)	39.6	(8.7)	1.2	5.5	8.0

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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