



## Hartalega Holdings Berhad

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

**Upgrade to BUY**  
(Previously NEUTRAL)

**Revised Target Price: RM4.45**  
(Previously RM2.45)

### On the Upswing

#### KEY INVESTMENT HIGHLIGHTS

- **Turning a corner despite FY24 core earnings missed earnings expectations**
- **Recovering sales volume following depletion of pandemic stocks**
- **More pricing power to pass on higher cost**
- **Revised earnings forecast for FY25-26 higher and valuation upgrade**
- **Upgrade to BUY (from NEUTRAL) with a higher TP of RM4.45 (from RM2.45)**

**Turning a corner despite FY24 core earnings missing earnings expectations.** Hartalega reported a FY24 core PATANCI of RM8.5m, after excluding a one-time item of RM4.2m. This fell short of ours/consensus full-year FY24F projections of RM20.6m/RM94.5m respectively, even though revenue met expectations. The shortfall was mainly due to operating margin compression from higher-than-expected raw material and other operating costs. No dividend was declared during 4QFY24 to conserve cash for ramping up NGC1.0 production capacity and to protect against potential near-to-mid-term downside risks.

**Recovering sales volume following depletion of pandemic stocks.** In 4QFY24, Hartalega recorded higher revenue of RM529.8m (+2.7%yoy; +27.5%qoq) due to better sales volume and ASP. However, increased raw material and upkeep costs related to the NGC Sepang operations ramp-up led to a lower core PATANCI of RM20.3m (-50.9%yoy; -14.1%qoq).

**Softer market demand due to oversupply in FY24.** Harta's revenue decreased by -23.7%yoy to RM1.8b in FY24, mainly due to muted market demand that reduced sales volume and blended ASP. The lower utilization rate increased production costs per unit and diminished gross profit margin, causing core PATANCI to plunge from RM172.6m in FY23 to RM8.5m in FY24.

**Recovering gloves demand amidst customer replenishment activity.** Sales volume increased by +24%qoq to 5.6b pieces of gloves in 4QFY24, mainly driven by customer inventory replenishment. The group decommissioned the Bestari Jaya ("BJ") plant in early 1QCY24. Post decommissioning, total production capacity reduced from 44b pieces p.a. in FY23 to 32b pieces p.a. The plant utilisation rate was at 73% in 1QFY24, up from 43% in 4QFY23. We gather that the oversupply situation is softening thanks to the Malaysian manufacturers' capacity rationalisation and most newer players exiting the market. This, along with the depletion of pandemic stockpiles, has gradually recovered global demand (reflected in the improving glove orders in 1QFY24). We note that the NGC production capacity is fully utilised currently, and moving forward, the group plans to gradually ramp up production capacity to capture the market demand recovery.

#### RETURN STATISTICS

Price @ 21st May 2024 (RM)	3.59
Expected share price return (%)	+24.0
Expected dividend yield (%)	+0.0
Expected total return (%)	+24.0

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	38.8	32.2
3 months	32.7	32.8
12 months	40.9	23.9

#### INVESTMENT STATISTICS

FYE Mar	2024E	2025F	2026A
Revenue	1,837.6	2,664.4	3,119.8
EBITDA	(146.7)	370.7	464.1
Profit before tax (PBT)	38.7	287.9	377.0
Core PATANCI	8.5	225.1	294.8
Core EPS (sen)	0.2	6.6	8.6
DPS (sen)	0.0	2.5	0.0
Dividend Yield (%)	0.0	0.7	0.8

#### KEY STATISTICS


FBM KLCI	1,622.09
Issue shares (m)	3427.61
Estimated free float (%)	40.75
Market Capitalisation (RM'm)	12.458.41
52-wk price range	RM1.88-RM3.83
3-mth average daily volume (m)	5.88
3-mth average daily value (RM'm)	17.93
Top Shareholders (%)	
Hartalega Industries Sdn Bhd	34.43
BUDI TENGGARA SDN BHD	8.64
Kumpulan Wang Persaraan	3.21

#### Analyst(s)

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**More pricing power to pass on higher cost.** ASP rose by +2.2%qoq in 4QFY24. Management observed that customers are more receptive to ASP adjustments to pass on increased raw material costs given the improving global gloves demand. However, the impact on gross profit margins will lag, as shown by the modest +2.2%qoq ASP increase despite double-digit growth in raw material costs in 4QFY24. We also note that rising geopolitical tensions have led global customers to diversify their sources, which could sustain demand for Malaysian glovemakers despite the price gap between Chinese and Malaysian glovemakers remaining at USD1-2 per 1,000 pieces. Moving forward, we foresee that Hartalega will have more pricing power to adjust ASP higher to pass through higher raw material costs.

**Revised earnings forecast for FY25-26 higher and valuation upgrade.** Despite earnings coming in below expectation, we believe the worst is over with normalizing global demand amid replenishment activities. Customers are now more receptive to ASP adjustments. The decommissioning of the BJ plant, along with increased pricing power, could lower production costs per unit and improve margins. As such, we raised our earnings forecast for FY25-26F by +72.3% and +36.5%, respectively. This factors in a (1) higher utilisation rate due to improved demand and decommissioning of the Bestari Jaya plant, as well as (2) higher ASPs. Given the positive outlook, we upgrade our valuation from a 2-year historical mean P/BV of 1.78x to a 3-year historical +1.0 SD P/BV of 3.05x. We also bring forward our valuation to FY26 BVPS of 146 sen from FY25F BVPS of 138 sen.

**Upgrade to BUY (previously NEUTRAL) with a higher TP of RM4.45 (previously RM2.45).** Our revised target price is based on a revised P/BV of 3.05x (from 1.78x), pegged to a revised FY26F BVPS of 146 sen. We turned positive on Hartalega's FY25F outlook due to the easing global oversupply situation, driven by capacity rationalisation among Malaysian players, exit of newer players, customer diversification in sourcing, and normalising global demand with replenishment activities. We also expect utilisation rates to remain above 70%, supported by better glove demand and the decommissioning of the old Bestari Jaya plant, enhancing production efficiency. This, along with increased capability to pass on higher costs via price adjustments, is expected to lower production costs per unit, improve margins, and enhance earnings. **Downside risks** are higher-than-expected production costs, slower-than-expected global demand recovery, and significant customer resistance to ASP hikes. 

## Hartalega Holdings: 4QFY24 Results Summary

FYE Mar (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	12MFY24	12MFY23	YoY (%)
Revenue	529.8	415.6	515.7	2.7	27.5	1,837.6	2,407.8	(23.7)
Cost of Sales	(542.1)	(423.5)	(500.5)	8.3	28.0	(1,861.0)	(2,227.0)	(16.4)
<b>Gross Profit</b>	<b>(12.3)</b>	<b>(7.8)</b>	<b>15.2</b>	<b>(180.6)</b>	<b>57.0</b>	<b>(23.4)</b>	<b>180.8</b>	<b>(113.0)</b>
Other operating (expenses)/income	19.0	22.9	(365.5)	(105.2)	(17.2)	9.2	(405.2)	(102.3)
<b>Operating profit/Loss</b>	<b>6.7</b>	<b>15.1</b>	<b>(350.3)</b>	<b>(101.9)</b>	<b>(55.5)</b>	<b>(14.3)</b>	<b>(224.4)</b>	<b>(93.6)</b>
Net finance income/(cost)	12.2	13.9	18.8	(35.5)	(12.7)	53.0	35.2	50.6
Profit before tax (PBT)	18.9	29.0	(331.4)	(105.7)	(35.0)	38.7	(189.2)	(120.5)
Taxation	0.7	(6.3)	21.8	(96.8)	(111.1)	(18.7)	(29.8)	(37.4)
<b>PAT/LAT</b>	<b>19.6</b>	<b>22.8</b>	<b>(309.7)</b>	<b>(106.3)</b>	<b>(14.0)</b>	<b>20.1</b>	<b>(219.0)</b>	<b>(109.2)</b>
PATANCI/ LATANCI	15.1	22.4	(302.8)	(105.0)	(32.5)	12.7	(223.7)	(105.7)
<b>Core PATANCI/ Core net loss</b>	<b>20.3</b>	<b>23.6</b>	<b>41.2</b>	<b>(50.9)</b>	<b>(14.1)</b>	<b>8.5</b>	<b>172.6</b>	<b>(95.1)</b>
Basic EPS (sen)	0.4	0.7	(8.9)	(105.0)	(33.3)	0.4	(6.4)	(105.8)
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	1.3	3.6	(67.9)	69.2	(2.4)	(0.8)	(9.3)	8.5
PBT/LBT Margin	3.6	7.0	(64.3)	67.8	(3.4)	2.1	(7.9)	10.0
Core PATANCI/LATANCI Margin	3.8	5.7	8.0	(4.2)	(1.8)	0.5	7.2	(6.7)
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net cash/market cap (%)	11.1	11.8	12.8	(1.7)	(0.7)	(11.1)	(12.8)	1.7
Effective tax rate (%)	(3.7)	21.6	6.6	(10.2)	(25.3)	48.2	(15.8)	64.0

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Revenue	7,888.3	2,409.6	1,837.6	2,664.4	3,119.8
Cost of Sales	(3,093.1)	(2,090.7)	(1,722.8)	(2,220.8)	(2,561.4)
<b>Gross Profit</b>	<b>4,795.1</b>	<b>318.9</b>	<b>114.8</b>	<b>443.6</b>	<b>558.5</b>
Other Income	3.4	19.0	9.2	13.3	15.6
Distribution expenses	(65.3)	(26.8)	(20.4)	(30.5)	(36.1)
Administrative expenses	(159.8)	(135.0)	(100.9)	(108.9)	(117.7)
Other operating expenses	(23.7)	(425.8)	(17.0)	(83.3)	(97.5)
<b>EBITDA</b>	<b>4,701.6</b>	<b>259.3</b>	<b>(146.7)</b>	<b>370.7</b>	<b>464.1</b>
<b>Profit before tax (PBT)</b>	<b>4,555.5</b>	<b>(214.4)</b>	<b>38.7</b>	<b>287.9</b>	<b>377.0</b>
<b>Profit After tax (PAT)</b>	<b>3,160.9</b>	<b>(238.8)</b>	<b>20.1</b>	<b>225.1</b>	<b>294.8</b>
<b>Core PATANCI</b>	<b>3,123.5</b>	<b>(209.2)</b>	<b>8.5</b>	<b>225.1</b>	<b>294.8</b>
Core EPS (sen)	91.4	(6.1)	0.2	6.6	8.6
DPS (sen)	53.5	0.0	0.0	2.5	3.0

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	2,367.0	1,943.1	1,901.0	1,977.5	2,023.3
Intangible assets	30.8	42.6	45.2	49.1	50.6
<b>Total Non-current assets</b>	<b>3,150.1</b>	<b>2,944.5</b>	<b>2,977.4</b>	<b>3,114.3</b>	<b>3,224.0</b>
Inventories	396.9	232.4	385.7	373.1	430.3
ST - Trade and other receivables	418.6	323.5	386.3	433.9	508.1
Cash and cash equivalents	2,378.1	1,724.5	1,427.4	1,444.5	1,458.9
<b>Total current assets</b>	<b>3,197.3</b>	<b>2,360.4</b>	<b>2,279.9</b>	<b>2,332.9</b>	<b>2,479.6</b>
<b>Total Assets</b>	<b>6,347.4</b>	<b>5,304.9</b>	<b>5,257.3</b>	<b>5,447.2</b>	<b>5,703.5</b>
<b>Total Equity</b>	<b>5,124.6</b>	<b>4,658.4</b>	<b>4,644.6</b>	<b>4,793.0</b>	<b>4,992.1</b>
LT Lease Liabilities	3.2	2.0	2.4	3.4	3.5
LT Loans and borrowings	136.7	62.3	4.3	4.3	4.4
<b>Total Non-current liabilities</b>	<b>385.7</b>	<b>292.4</b>	<b>228.3</b>	<b>231.4</b>	<b>234.0</b>
ST Trade and other payables	378.2	252.7	316.1	352.3	406.4
ST Loans and borrowings	102.1	87.3	62.3	62.6	62.9
<b>Total Current Liabilities</b>	<b>816.8</b>	<b>354.1</b>	<b>384.5</b>	<b>422.8</b>	<b>477.4</b>
<b>Total Liabilities</b>	<b>1,202.5</b>	<b>646.6</b>	<b>612.8</b>	<b>654.2</b>	<b>711.4</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	4,555.5	(214.4)	38.7	287.9	377.0
Cash flow from operations	3,716.4	(36.8)	(55.2)	181.3	170.4
Cash flow from investing	(810.0)	(266.4)	(106.7)	(71.5)	(46.2)
Cash flow from financing	(3,210.3)	(351.8)	(141.6)	(92.6)	(109.8)
<b>Net cash flow</b>	<b>(303.9)</b>	<b>(655.0)</b>	<b>(303.5)</b>	<b>17.1</b>	<b>14.4</b>
(+/-) Adjustments	13.3	1.3	6.4	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>2,668.8</b>	<b>2,378.1</b>	<b>1,724.5</b>	<b>1,427.4</b>	<b>1,444.5</b>
<b>Net cash/(debt) c/f</b>	<b>2,378.1</b>	<b>1,724.5</b>	<b>1,427.4</b>	<b>1,444.5</b>	<b>1,458.9</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Net Cash/Market Capitalisation (%)	17.4	12.8	11.1	11.2	11.4
P/BV ratio (x)	2.39	2.63	2.64	2.56	2.46
Inventories (Days)	60.8	55.1	65.8	61.3	61.3

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	60.8	13.2	6.2	16.6	17.9
EBITDA Margin (%)	59.6	10.8	(8.0)	13.9	14.9
EBIT Margin (%)	57.7	(10.4)	(0.8)	8.8	10.3
Core PATANCI Margin (%)	39.6	(8.7)	0.5	8.4	9.4

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