



Hartalega Holdings Berhad

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

Profit Margin Compression to Persist

KEY INVESTMENT HIGHLIGHTS

- **Downgrade to NEUTRAL with a lower target price of RM2.52 post the announcement on 1QFY25 financial performance**
- **1QFY25 normalised earnings improved at a slower-than-expected pace to RM40.4m from a loss of -RM58.9m a year ago**
- **The worst is over as restocking activities has resumed in conjunction with the depletion of pandemic stockpiles**
- **Nonetheless, pricing need to remain competitive to maintain a healthy utilisation rate, at the expense of profit margin**

Sacrificing margin to build up the business. We are downgrading our recommendation for Hartalega to **NEUTRAL** (from BUY) with a lower target price of RM2.52 (from RM4.45). This is in conjunction with the release of the group's 1QFY25 financial results. We take comfort in the fact that restocking activities have resumed in conjunction with the depletion of pandemic stockpiles. Despite this, we understand that there is still excess capacity in the market. We view that this would compel the group to be more competitive in its pricing as there seems to be little room for the group to pass on rising costs to the customer. Thus, to maintain a healthy production volume, we anticipate profit margin to be below 10% in the foreseeable term. Notwithstanding this, we understand that there is active effort to be more efficient operationally via NGC1.5 with the adoption of new technologies which could potentially provide a better operating margin.

On recovery path. Hartalega's 1QFY25 normalised earnings recorded a profit of RM40.4m, a reversal from a loss of -RM58.9m. This was supported by the improvement in utilisation rate to above 80% as well as a slight increase in ASP which led to higher revenue of RM583.8m (+32.7%yoy).

Note that the total glove production capacity has reduced to 32b pieces from 44b pieces post the decommissioning of its plant in Batang Berjuntai. Nonetheless, the total capacity will rebound to 37b pieces by the end of FY25 via the commissioning of NGC1.5 (i.e. Plant 8 and 9) at Sepang.

All in, the group's 1QFY25 financial performance came in lower-than-expected which account for 17.9% of our full year number.

A more conservative earnings estimate. Premised on 1QFY25 performance, we reduced FY25 and FY26 earnings estimates by -25% and -9.1% to RM191.3m and RM268.0m respectively. Our reduction in earnings forecast is premised on lower profit margin assumption.

Shift in valuation methodology. The overall landscape has become more favourable in view of capacity streamlining and exit of newer entrants. Coupled with active effort to optimize production and cost efficiencies, we view that it is highly unlikely that the group would be loss-making in the foreseeable term. Thus, we take this opportunity to switch our valuation methodology to PER from PBV previously.

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM2.52

(Previously RM4.45)

RETURN STATISTICS

Price @ 6 th August 2024 (RM)	2.65
Expected share price return (%)	-5.0
Expected dividend yield (%)	+1.3
Expected total return (%)	-3.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-22.9	-20.8
3 months	-20.1	-8.6
12 months	20.7	11.4

INVESTMENT STATISTICS


FYE Mar	2024E	2025F	2026A
Revenue	2,664.4	3,119.8	3,678.5
EBITDA	327.5	429.7	542.7
Profit before tax (PBT)	244.7	342.7	451.4
Core PATANCI	191.3	268.0	352.9
Core EPS (sen)	5.6	7.8	10.3
DPS (sen)	3.5	4.5	6.0
Dividend Yield (%)	1.3	1.7	2.3

KEY STATISTICS

FBM KLCI	1,574.39
Issue shares (m)	3427.61
Estimated free float (%)	40.98
Market Capitalisation (RM'm)	8,942.75
52-wk price range	RM1.92-RM3.83
3-mth average daily volume (m)	8.20
3-mth average daily value (RM'm)	27.43
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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Palatable target price of RM2.52. We are valuing Hartalega at RM2.52 (previously RM4.45). This is achieved by pegging FY26 EPS of 7.8sen against PER of 32.1x which is the five-year mean. 

Hartalega Holdings: 1QFY25 Results Summary

FYE Mar (RM'm)	Quarterly results				
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)
Revenue	583.8	529.8	440.0	32.7	10.2
Cost of Sales	(549.3)	(542.1)	(459.3)	19.6	1.3
Gross Profit	34.6	(12.3)	(19.3)	(279.2)	(382.0)
Other operating (expenses)/income	(4.6)	19.0	(39.0)	(88.1)	(124.5)
Operating profit/Loss	29.9	6.7	(58.3)	(151.3)	345.2
Net finance income/(cost)	11.2	12.2	13.6	(17.6)	(7.8)
Profit before tax (PBT)	41.1	18.9	(44.7)	(192.0)	117.9
Taxation	(9.2)	0.7	(6.4)	43.6	(1,428.8)
PAT/LAT	31.9	19.6	(51.2)	(162.3)	63.0
PATANCI/ LATANCI	31.9	15.1	(52.5)	(160.8)	111.2
Core PATANCI/ Core net loss	40.4	20.3	(58.9)	(168.5)	99.2
Basic EPS (sen)	0.9	0.4	(1.5)	(161.0)	113.6
DPS (sen)	0.4	0.0	0.0	n.m.	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts
Operating Profit/Loss Margin	5.9	(2.3)	(4.4)	10.3	8.2
PBT/LBT Margin	5.1	1.3	(13.3)	18.4	3.9
Core PATANCI/LATANCI Margin	7.0	3.6	(10.2)	17.2	3.5
Ratios & Valuation	6.9	3.8	(13.4)	20.3	3.1
Net cash/market cap (%)				+ / (-) ppts	+ / (-) ppts
Effective tax rate (%)	14.7	14.8	16.6	(2.0)	(0.1)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	2,409.6	1,837.6	2,664.4	3,119.8	3,678.5
Cost of Sales	(2,090.7)	(1,722.8)	(2,264.0)	(2,595.7)	(3,015.4)
Gross Profit	318.9	114.8	400.4	524.1	663.2
Other Income	19.0	9.2	13.3	15.6	18.3
Distribution expenses	(26.8)	(20.4)	(30.5)	(36.1)	(43.0)
Administrative expenses	(135.0)	(100.9)	(108.9)	(117.7)	(127.1)
Other operating expenses	(425.8)	(17.0)	(83.3)	(97.5)	(115.0)
EBITDA	259.3	(146.7)	327.5	429.7	542.7
Profit before tax (PBT)	(214.4)	38.7	244.7	342.7	451.4
Profit After tax (PAT)	(238.8)	20.1	191.3	268.0	352.9
Core PATANCI	(209.2)	8.5	191.3	268.0	352.9
Core EPS (sen)	(6.1)	0.2	5.6	7.8	10.3
DPS (sen)	53.5	0.0	0.0	2.5	3.0

Balance Sheet (RM'm)	2023A	2024A	2025E	2026F	2027F
Property, plant and equipment	1,943.1	1,901.0	1,977.5	2,023.3	2,060.8
Intangible assets	42.6	45.2	49.1	50.6	53.7
Others	958.8	1,031.2	1,087.6	1,150.0	1,219.4
Total Non-current assets	2,944.5	2,977.4	3,114.3	3,224.0	3,334.0
Inventories	232.4	385.7	380.3	436.1	506.6
ST - Trade and other receivables	323.5	386.3	433.9	508.1	599.0
Cash and cash equivalents	1,724.5	1,427.4	1,444.5	1,458.9	1,473.5
Others	80.1	80.5	81.4	82.3	83.2
Total current assets	2,360.4	2,279.9	2,340.2	2,485.3	2,662.3
Total Assets	5,304.9	5,257.3	5,454.5	5,709.3	5,996.2
Total Equity	4,658.4	4,644.6	4,793.4	4,992.4	5,209.0
LT Lease Liabilities	2.0	2.4	3.4	3.5	3.7
LT Loans and borrowings	62.3	4.3	4.3	4.4	4.4
Others	228.2	221.5	223.7	226.2	228.9
Total Non-current liabilities	292.4	228.3	231.4	234.0	237.0
ST Trade and other payables	252.7	316.1	359.2	411.8	478.4
ST Loans and borrowings	87.3	62.3	62.6	62.9	63.2
Others	14.1	6.1	7.9	8.1	8.6
Total Current Liabilities	354.1	384.5	429.6	482.8	550.2
Total Liabilities	646.6	612.8	661.1	716.9	787.2

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
Pretax profit	(214.4)	38.7	244.7	342.7	451.4
Cash flow from operations	(36.8)	(55.2)	215.4	221.6	271.1
Cash flow from investing	(266.4)	(106.7)	(71.5)	(46.2)	(44.3)
Cash flow from financing	(351.8)	(141.6)	(126.8)	(161.0)	(212.3)
Net cash flow	(655.0)	(303.5)	17.1	14.4	14.6
(+/-) Adjustments	1.3	6.4	0.0	0.0	0.0
Net cash/(debt) b/f	2,378.1	1,724.5	1,427.4	1,444.5	1,458.9
Net cash/(debt) c/f	1,724.5	1,427.4	1,444.5	1,458.9	1,473.5

Profitability Margins	2023A	2024A	2025E	2026F	2027F
Gross Profit Margin (%)	13.2	6.2	15.0	16.8	18.0
EBITDA Margin (%)	10.8	(8.0)	12.3	13.8	14.8
EBIT Margin (%)	(10.4)	(0.8)	7.2	9.2	10.8
Core PATANCI Margin (%)	(8.7)	0.5	7.2	8.6	9.6

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