

## Hartalega Holdings Bhd

### Double whammy from weaker sales and falling ASP

#### Summary

- Hartalega Holdings Bhd's (HARTA) 1QFY23 net profit sank 96.1% YoY to RM88.3m, mainly dragged down by normalisation of average selling prices (ASP), weaker sales volume, higher energy and labour costs. Revenue for the quarter tumbled 78.3% YoY to RM845.7m.
- The reported earnings came in only at 2.7% of our core net profit forecast of RM801.2m and 15.1% of consensus net profit forecast of RM586.3m. The variance is mainly due to the depressed ASP which has yet to demonstrate any major signs of recovery and weaker-than-expected sales volume.
- Moving forward, further commissioning of remaining plants under NGC 1.5 will be paced in accordance to the demand-supply condition. Still, HARTA remains committed to improve production efficiency through adoption of digitalisation and energy efficient processes.
- We gather that plants utilisation rate has demonstrated stabilisation at approximately 69.0%, as production activity remains uninterrupted. Albeit that, current production is operating well below pre-pandemic levels (80-90%) whereby the meteoric demand during the Covid-19 pandemic has fizzled down.
- Blended ASP continues to decline, falling -12.6% QoQ. Moving forward, we were guided the stiff competition that resulted in the oversupply condition and inventories from previous stockpiling activities have yet to tapered. Thus, we expect this would continue to depress ASP, and we expect prices to remain soft throughout FY23f.
- On a brighter note, the weakening ringgit against the USD remains favourable for the export-oriented glovemakers. Meanwhile, we note that HARTA maintained its leader position among 82 companies in the health care equipment & supplies industry under the MSCI ESG Rating at "AA".
- Still, we remain cautious on the volatility in raw material prices, on-going shipping constraints, electricity cost, labour shortages and threat of stiff competition from local and overseas players.

Quarterly performance					
FYE Mar (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	3,902.8	968.7	845.7	(12.7)	(78.3)
EBITDA	2,915.5	257.8	174.3	(32.4)	(94.0)
PBT	2,879.1	218.4	134.1	(38.6)	(95.3)
PAT	2,262.3	(189.7)	90.9	147.9	(96.0)
Core PATMI	2,259.4	202.1	88.3	(56.3)	(96.1)
Reported PATMI	2,259.4	(197.9)	88.3	144.6	(96.1)
Core EPS (sen)	65.9	(5.8)	2.6	144.6	(96.1)
EBITDA margin (%)	74.7	26.6	20.6		
PBT margin (%)	73.8	22.5	15.9		
Core PATMI margin (%)	57.9	20.9	10.4		

#### Results Note – 1QFY23

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#### HOLD

Share price	RM2.80
Target price	RM2.61
Previous TP	RM4.69
Capital upside	-6.8%
Dividend return	1.8%
Total return	-5.0%

#### Company profile

Manufacturing and sale of latex and nitrile gloves.

#### Stock information

Bursa Code	5168
Bloomberg ticker	HART MK
Listing market	Main
Share issued (m)	3,427.6
Market Cap (m)	9,597.3
52W High/Low	7.45/2.56
Est. Free float	35.9%
Beta (x)	1.0
3-mth avg vol ('000)	6,613.7
Shariah compliant	Yes

#### Major shareholders

	%
Hartalega Industries SB	34.4
Budi Tenggara SB	8.6
EPF	7.2

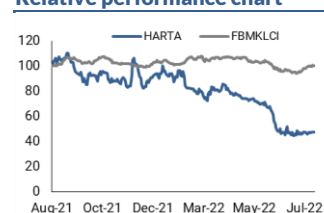
#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	6.9	-34.6	-58.3
Absolute	1.9	-32.3	-58.3
Relative			

#### Earnings summary

	FYE Mar	FY22	FY23f	FY24f
PATMI	3,234.5	356.9	434.9	
(m)				
EPS (sen)	104.6	10.4	12.7	
P/E (x)	2.7	26.9	22.1	

#### Relative performance chart



## Valuation & Recommendation

- We slashed our earnings forecast by 55.5% and 51.9% to RM356.9m and RM434.9m for FY23f and FY24f, after taking into account for the weaker-than-expected ASP and sluggish sales momentum. We maintained our **HOLD** recommendation on HARTA, but with a lower target price of RM2.61.
- Our target price is derived by ascribing a targeted PER of 25.0x to their revised FY23f EPS of 10.4 sen. The ascribed targeted PER represents -0.5 SD against 5-year historical mean average.
- Downside risks to our recommendation include weaker-than-expected ASP, slower-than-expected sales, as well as a weaker USD against the ringgit. The latter could result in margins compression as HARTA's sales are mainly export-oriented.

## Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Mar (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Mar (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	2,924.3	6,703.5	7,888.3	3,309.9	3,732.0	Cash	305.2	2,668.7	2,378.1	2,006.3	1,503.3
EBITDA	692.1	3,957.4	4,781.1	662.0	783.7	Receivables	429.9	974.4	338.7	453.4	460.1
EBIT	566.8	3,819.6	4,629.3	508.0	610.8	Inventories	273.9	633.5	396.9	374.1	383.4
Net finance income/ (cost)	(7.7)	(0.9)	5.7	4.2	2.7	PPE	2,002.2	2,156.4	2,367.0	3,078.6	3,819.4
Associates & JV	-	-	-	-	-	Others	302.8	433.0	866.6	869.1	880.0
Profit before tax	555.4	3,813.4	4,636.9	512.2	613.5	Assets	3,313.9	6,866.0	6,347.4	6,781.5	7,046.3
Tax	(121.0)	(909.6)	(1,394.6)	(146.0)	(168.7)	Debts	278.5	346.8	243.8	193.8	183.8
Net profit	434.4	2,903.7	3,242.3	366.3	444.8	Payables	112.1	183.2	117.9	119.0	134.2
Minority interest	0.8	18.2	7.8	9.4	9.9	Others	380.1	1,336.8	840.8	1,136.0	1,163.7
Core earnings	433.6	2,885.5	3,584.5	356.9	434.9	Liabilities	770.8	1,866.9	1,202.5	1,448.8	1,481.7
Exceptional items	-	-	350.0	-	-	Shareholder's equity	2,539.8	4,974.9	5,121.3	5,306.8	5,536.0
Reported earnings	433.6	2,885.5	3,234.5	356.9	434.9	Minority interest	3.3	24.2	23.6	25.9	28.5
						Equity	2,543.1	4,999.1	5,144.9	5,332.7	5,564.6
Cash Flow Statement						Valuation & Ratios					
FYE Mar (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Mar (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	555.4	3,813.4	4,636.9	512.2	613.5	Core EPS (sen)	12.7	84.2	104.6	10.4	12.7
Depreciation & amortisation	125.3	137.8	151.9	153.9	172.9	P/E (x)	22.1	3.3	2.7	26.9	22.1
Changes in working capital	(27.8)	(75.4)	32.4	188.3	2.0	DPS (sen)	7.6	33.3	73.3	5.0	6.0
Share of JV profits	-	-	-	-	-	Dividend yield	2.7%	11.9%	26.2%	1.8%	2.1%
Taxation	(72.7)	(730.7)	(1,169.5)	(146.0)	(168.7)	BVPS (RM)	0.74	1.46	1.50	1.56	1.62
Others	-	-	-	-	-	P/B (x)	3.8	1.9	1.9	1.8	1.7
Operating cash flow	655.7	3,088.2	3,716.4	678.7	591.3	EBITDA margin	23.7%	59.0%	60.6%	20.0%	21.0%
Net capex	(324.6)	(392.1)	(934.5)	(928.2)	(984.8)	EBIT margin	19.4%	57.0%	58.7%	15.3%	16.4%
Others	-	-	-	-	-	PBT margin	19.0%	56.9%	58.8%	15.5%	16.4%
Investing cash flow	(244.9)	(345.7)	(810.0)	(828.0)	(878.2)	PAT margin	14.9%	43.3%	41.1%	11.1%	11.9%
Changes in borrowings	(65.4)	68.3	(103.0)	(50.0)	(10.0)	Core PAT margin	14.8%	43.0%	45.4%	10.8%	11.7%
Issuance of shares	-	-	-	-	-	ROE	17.1%	57.7%	69.7%	6.7%	7.8%
Dividends paid	(249.0)	(604.2)	(2,997.2)	(171.4)	(205.7)	ROA	13.1%	42.0%	56.5%	5.3%	6.2%
Others	-	-	-	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Financing cash flow	(265.4)	(384.7)	(3,210.3)	(227.4)	(221.2)						
Net cash flow	145.4	2,357.8	(303.9)	(376.8)	(508.0)						
Forex	9.4	5.8	(1.9)	5.0	5.0						
Others	-	-	-	-	-						
Beginning cash	150.4	305.2	2,668.7	2,378.1	2,006.3						
Ending cash	305.2	2,668.7	2,378.1	2,006.3	1,503.3						

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