

## Hartalega Holdings Bhd

### Weak start to 1QFY24

#### Summary

- Hartalega Holdings Bhd's (HARTA) 1QFY24 net loss stood at -RM52.5m vs. a net profit of RM88.3m recorded in the previous corresponding quarter, owing to the lower sales volume, normalising of average selling price (ASP) and one-off provision amounting to RM47.0m for the severance pay due to the decommissioning of Bestari Jaya plant. Revenue for the quarter decreased 48.0% YoY to RM515.7m.
- Core net loss at -RM5.5m fell short of our expected core net profit of RM87.3m and of consensus expectations of RM158.0m. Still, we reckon that recovery will be on the cards moving into subsequent quarters following the inventory de-stocking activities from major purchases. Meanwhile, balance sheet remains fairly strong, equipped with a net cash position of RM1.53bn.
- After booking the recent impairment, we understand that the FY24f bottomline will continue to be impacted by c.RM23.0m of balance impairment for the severance package of employees at Bestari Jaya plant.
- During the quarter, we gather that average plant utilisation rate fell to 40.6% vs 53.6% recorded in 4QFY23, impacted by the softer demand. Looking ahead, we reckon that the utilisation rate may hover around current levels over the foreseeable future. Nevertheless, HARTA remain committed in the 5-year strategic plan that entails operational rationalisation and production efficiency.
- The decommissioning of Bestari Jaya plant will (i) ensure cost saving from energy, (ii) lower annual capex maintenance and (iii) the consolidation of operations into NGC in bid to improve competitive lead and business resilience. Hence, we are in favour of the operational rationalisation and production efficiency plan.
- We gather that the gloves industry is now on the capacity rationalisation phase. Major glove players have either deferred or stopped their expansion plans. This will allow excess capacity to be gradually absorbed in the market (which we reckon may take a period of time) before achieving a breakeven level.
- Blended ASP declined -3.5% QoQ in 4QFY23 as the overcapacity in the gloves industry is still at large. We expect that the revision of ASP may remain a distance until the excess capacity emerged in recent years be absorbed in the market. Hence, we maintain our stance that the overcapacity situation may only turn favourable towards end-2024/early-2025.

Quarterly performance								
FYE Mar (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)
Revenue	845.7	515.7	440.0	(14.7)	(48.0)	845.7	440.0	(48.0)
EBITDA	174.3	(308.7)	(16.8)	94.6	(109.6)	174.3	(16.8)	(109.6)
PBT	134.1	(331.4)	(44.7)	86.5	(133.4)	134.1	(44.7)	(133.4)
PAT	90.9	(309.7)	(51.2)	83.5	(156.3)	90.9	(51.2)	(156.3)
Core PATMI	88.3	41.2	(5.5)	(113.3)	(106.2)	88.3	(5.5)	(106.2)
Reported PATMI	88.3	(302.8)	(52.5)	82.7	(159.4)	88.3	(52.5)	(159.4)
Core EPS (sen)	2.6	(8.8)	(1.5)	82.7	(159.4)	2.6	(1.5)	(159.4)
EBITDA margin (%)	20.6	(59.9)	(3.8)			20.6	(3.8)	
PBT margin (%)	15.9	(64.3)	(10.2)			15.9	(10.2)	
Core PATMI margin (%)	10.4	8.0	(1.2)			10.4	(1.2)	

#### Results Note – 1QFY24

**Kenneth Leong**  
[kennethleong@msec.com.my](mailto:kennethleong@msec.com.my)  
(603) 2201 2100

#### HOLD

Share price	RM2.09
Target price	RM2.05
Previous TP	RM2.05
Capital upside	-1.9%
Dividend return	-
Total return	-1.9%

#### 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)	7,163.7
52W High/Low	2.81 /1.41
Est. Free float	40.8%
Beta (x)	0.8
3-mth avg vol ('000)	11,996.9
Shariah compliant	Yes

#### Major shareholders

Hartalega Industries SB	34.4
Budi Tenggara SB	8.6
KWAP	3.2

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

Hist. return	1M	3M	12M
Absolute	4.0	-7.5	-25.4
Relative	-1.6	-9.8	-23.8

#### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	129.0	87.3	63.8
EPS (sen)	3.8	2.5	1.9
P/E (x)	55.6	82.1	112.3

#### Relative performance chart



## Valuation & Recommendation

- We made no changes to our earnings forecast, given that ASP has now turned stable over the past 3 quarters and the group may likely to return to the black in subsequent quarters. Therefore, we re-iterate our **HOLD** recommendation on HARTA with an unchanged target price of RM2.05.
- Our target price is derived by ascribing a 1.5x to their FY24f BV of RM1.36. The ascribed targeted price to book is in line with 1-year historical mean average.
- Risks to our recommendation include weaker-than-expected ASP, slower-than-expected recovery in 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)	FY21	FY22	FY23	FY24f	FY25f	FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f
<b>Revenue</b>	6,703.5	7,888.3	2,407.8	2,476.0	2,927.9	Cash	2,668.7	2,378.1	1,724.5	1,366.6	1,040.9
EBITDA	3,957.4	4,767.9	(38.3)	173.3	234.2	Receivables	974.4	338.7	200.4	271.3	280.8
EBIT	3,813.1	4,611.3	(209.0)	12.8	76.3	Inventories	633.5	396.9	253.5	305.3	300.8
Net finance income/ (cost)	(0.9)	5.7	2.9	(0.1)	(1.4)	PPE	2,156.4	2,367.0	1,942.8	2,550.9	2,660.6
Associates & JV	-	-	-	-	-	Others	433.0	866.6	1,205.6	1,074.1	1,186.7
<b>Profit before tax</b>	<b>3,813.4</b>	<b>4,636.9</b>	<b>(190.7)</b>	<b>19.6</b>	<b>81.5</b>	<b>Assets</b>	<b>6,866.0</b>	<b>6,347.4</b>	<b>5,326.9</b>	<b>5,568.2</b>	<b>5,469.7</b>
Tax	(909.6)	(1,394.6)	(29.8)	(4.9)	(20.4)	Debts	346.8	243.8	154.1	154.1	173.8
<b>Net profit</b>	<b>2,903.7</b>	<b>3,242.3</b>	<b>(220.5)</b>	<b>14.7</b>	<b>61.1</b>	Payables	183.2	117.9	88.6	101.8	120.3
Minority interest	18.2	7.8	(2.4)	(2.5)	(2.7)	Others	1,336.8	840.8	407.5	616.5	433.2
<b>Core earnings</b>	<b>2,885.5</b>	<b>3,234.5</b>	<b>129.0</b>	<b>87.3</b>	<b>63.8</b>	<b>Liabilities</b>	<b>1,866.9</b>	<b>1,202.5</b>	<b>650.2</b>	<b>872.3</b>	<b>727.3</b>
Exceptional items	-	-	(370.0)	-	-	Shareholder's equity	4,974.9	5,121.3	4,657.1	4,674.4	4,720.2
Reported earnings	2,885.5	3,234.5	(218.0)	17.3	63.8	Minority interest	24.2	23.6	19.6	21.5	23.7
						<b>Equity</b>	<b>4,999.1</b>	<b>5,144.9</b>	<b>4,676.7</b>	<b>4,695.9</b>	<b>4,743.9</b>
Cash Flow Statement						Valuation & Ratios					
FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Mar (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	3,813.4	4,636.9	(190.7)	19.6	81.5	Core EPS (sen)	84.2	94.4	3.8	2.5	1.9
Depreciation & amortisation	137.8	151.9	163.2	153.6	151.4	P/E (x)	2.5	2.2	55.6	82.1	112.3
Changes in working capital	(75.4)	32.4	162.7	(5.8)	29.4	DPS (sen)	33.3	73.3	3.5	-	0.3
Share of JV profits	-	-	-	-	-	Dividend yield	15.9%	35.0%	1.7%	0.0%	0.1%
Taxation	(730.7)	(1,169.5)	(442.0)	(4.9)	(20.4)	BVPS (RM)	1.46	1.50	1.36	1.37	1.38
Others	-	-	-	-	-	P/B (x)	1.4	1.4	1.5	1.5	1.5
<b>Operating cash flow</b>	<b>3,088.2</b>	<b>3,716.4</b>	<b>(38.1)</b>	<b>162.1</b>	<b>242.8</b>	EBITDA margin	59.0%	60.4%	-1.6%	7.0%	8.0%
Net capex	(392.1)	(934.5)	(355.2)	(475.2)	(512.1)	EBIT margin	56.9%	58.5%	-8.7%	0.5%	2.6%
Others	-	-	-	-	-	PBT margin	56.9%	58.8%	-7.9%	0.8%	2.8%
<b>Investing cash flow</b>	<b>(345.7)</b>	<b>(810.0)</b>	<b>(262.7)</b>	<b>(418.1)</b>	<b>(447.5)</b>	PAT margin	43.3%	41.1%	-9.2%	0.6%	2.1%
Changes in borrowings	68.3	(103.0)	(50.0)	(39.7)	19.7	Core PAT margin	43.0%	41.0%	5.4%	3.5%	2.2%
Issuance of shares	-	-	-	-	-	ROE	57.7%	62.9%	2.8%	1.9%	1.3%
Dividends paid	(604.2)	(2,997.2)	(239.2)	-	(17.9)	ROA	42.0%	51.0%	2.4%	1.6%	1.2%
Others	-	-	-	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Financing cash flow</b>	<b>(384.7)</b>	<b>(3,210.3)</b>	<b>(351.5)</b>	<b>(107.0)</b>	<b>(124.5)</b>						
<b>Net cash flow</b>	<b>2,357.8</b>	<b>(303.9)</b>	<b>(652.3)</b>	<b>(362.9)</b>	<b>(329.2)</b>						
Forex	5.8	(1.9)	(3.5)	5.0	5.0						
Others	-	-	-	-	-						
Beginning cash	305.2	2,668.7	2,378.1	1,724.5	1,366.6						
Ending cash	2,668.7	2,378.1	1,724.5	1,366.6	1,040.9						

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As of **Thursday, 10 Aug, 2023**, the analyst(s), Kenneth Leong, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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## Stock recommendation guide

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<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
<b>TRADING SELL</b>	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
<b>NOT RATED</b>	No recommendation is assigned

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