

Hartalega Holdings Bhd

Near term outlook remained murky

Summary

- Hartalega Holdings Bhd's (HARTA) prospects remain challenging, owing to the global gloves oversupply condition following the influx of capacity from new entrants in the industry in recent years. We expect the oversupply condition to persist moving into 2024 as capacity rationalisation takes shape at present.
- We gather that the gloves industry is undergoing the capacity rationalisation phase with planned expansions halted or deferred until the situation turns favourable. At the same time, part of the capacity from of the new entrants (particularly smaller players) is also winding down, given the absence of economics of scales in their operations.
- On a brighter note, recall that HARTA managed to raise their ASP in 1QFY24 by 14.9% QoQ. This has mitigated some weakness towards the slower sales volume that fell 25.8% QoQ. Looking ahead, we expect ASP to hover at current levels until the demand-supply conditions turns more favourable. Still, we reckon that any further recovery will be gradual and measured overtime.
- We also lauded HARTA's move to decommission the aging Bestari Jaya plant that house 40 production lines with an annual installed capacity of 13.0bn gloves/annum. In bid to navigate the challenging operating landscape. We gather that some 1,600 employees will be deployed to NGC at Sepang. The consolidation of operations slated for completion by 1Q24 is expected to generate cost savings from energy, labour and plant maintenance.
- Going forward, HARTA is embarking onto a 5-year strategic approach. Key measures include;
 - **Production efficiency** which involves the decommissioning of the aging Bestari Jaya plant.
 - **Continuously adopt automation process** such as auto compounding system, auto packing machine (APM) as well as digital manufacturing system (DMS).
 - **Energy optimisation** through the implementation of advanced burner system and optimising heating temperature.
 - **Research and development & innovation** of ecological system such as idea bank and harvesting.
- Given the near-term outlook remain clouded by the on-going oversupply condition and prospects of recovery remain a distance, we are ceasing coverage on HARTA due to reallocation of internal resources. Our last recommendation on HARTA was **HOLD** with a fair value at 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.

Ceasing Coverage Note

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

HOLD

Share price	RM2.04
Target price	-
Previous TP	RM2.05
Capital upside	0.5%
Dividend return	-
Total return	0.5%

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)	6,992.3
52W High/Low	2.71 / 1.41
Est. Free float	40.8%
Beta (x)	0.8
3-mth avg vol ('000)	10,449.9
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	2.5	-9.3	15.3
Relative	-1.1	-11.8	19.6

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)	54.2	80.1	109.7

Relative performance chart



Financial Highlights

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
Revenue	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
Profit before tax	3,813.4	4,636.9	(190.7)	19.6	81.5	Assets	6,866.0	6,347.4	5,326.9	5,568.2	5,469.7
Tax	(909.6)	(1,394.6)	(29.8)	(4.9)	(20.4)	Debts	346.8	243.8	154.1	154.1	173.8
Net profit	2,903.7	3,242.3	(220.5)	14.7	61.1	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
Core earnings	2,885.5	3,234.5	129.0	87.3	63.8	Liabilities	1,866.9	1,202.5	650.2	872.3	727.3
Exceptional items	-	-	(370.0)	(70.0)	-	Shareholder's equity	4,974.9	5,121.3	4,657.1	4,674.4	4,720.7
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
						Equity	4,999.1	5,144.9	4,676.7	4,695.9	4,744.3
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)	2.4	2.2	54.2	80.1	109.7
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	16.3%	35.9%	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
Operating cash flow	3,088.2	3,716.4	(38.1)	162.1	242.8	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%
Investing cash flow	(345.7)	(810.0)	(262.7)	(418.1)	(447.5)	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)	-	(17.5)	ROA	42.0%	51.0%	2.4%	1.6%	1.2%
Others	-	-	-	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Financing cash flow	(384.7)	(3,210.3)	(351.5)	(107.0)	(124.0)						
Net cash flow	2,357.8	(303.9)	(652.3)	(362.9)	(328.8)						
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						

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of **Thursday, 17 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.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	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
TRADING SELL	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
NOT RATED	No recommendation is assigned