

Hartalega Holdings Bhd

Marred by extended normalisation in ASP

Summary

- Hartalega Holdings Bhd's (HARTA) 3QFY23 core net loss stood at -RM31.9m vs. a net profit of RM259.1m recorded in the previous corresponding quarter, mainly dragged by the extended normalisation of average selling prices (ASP), weaker sales volume and higher energy as well as labour costs. Revenue for the quarter slipped 54.1% YoY to RM461.8m.
- For 9MFY23, cumulative core net profit tumbled 97.5% YoY to RM84.7m. The figure accounts to 46.6% of our core net profit forecast of RM181.9m and 53.6% of consensus expectations of RM158.0m. The variance is mainly due to further decline in ASP.
- During the quarter, we gather that average plant utilisation rate fell to 42.2% (vs. 49.0% recorded in 2QFY23), impacted by the competitive landscape environment. We reckon that plant utilisation rate may hover below 50.0% in the subsequent quarters, on the back of the stiff price competition, while stockpiling activities from purchases has yet to see significant drawdown.
- With the plant utilisation rate remains largely below pre-Covid 19 levels at 80-90%, the expansion of NGC 1.5 will remain on hold over the foreseeable future. For the time being, key focus will be towards the improvement of production efficiency through adoption of automation and digitalisation process and energy optimisation to reduce green-house gas emissions.
- Blended ASP declined -8.3% QoQ in 3QFY23. Given the intense market competition, we reckon that ASP may remain under pressure, before mild signs of revival towards mid-to-end 2023 as purchasers' inventory levels from previous stockpiling activities dialed down and exit of new entrants from recent years.
- Although the softening raw material prices in recent times are a boon for glovemakers, this may be capped by the rising labour costs as well as revision in natural gas tariff by 25.0%. Meanwhile, HARTA is also exploring for opportunities for M&A activities such as potentially expanding manufacturing production into overseas and strengthen the distributing business segment.

Quarterly performance								
FYE Mar (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	1,005.4	584.6	461.8	(21.0)	(54.1)	6,919.6	1,892.1	(72.7)
EBITDA	387.2	69.6	2.0	(97.1)	(99.5)	4,525.5	246.0	(94.6)
PBT	352.4	37.3	(30.7)	(182.3)	(108.7)	4,418.8	140.7	(96.8)
PAT	256.1	29.4	(31.1)	(205.7)	(112.1)	3,432.4	89.2	(97.4)
Core PATMI	259.1	28.3	(31.9)	(212.6)	(112.3)	3,432.6	84.7	(97.5)
Reported PATMI	259.1	28.3	(31.9)	(212.6)	(112.3)	3,432.6	84.7	(97.5)
Core EPS (sen)	7.6	0.8	(0.9)	(212.6)	(112.3)	100.1	2.5	(97.5)
EBITDA margin (%)	38.5	11.9	0.4			65.4	13.0	
PBT margin (%)	35.0	6.4	(6.6)			63.9	7.4	
Core PATMI margin (%)	25.8	4.8	(6.9)			49.6	4.5	

Results Note – 3QFY23

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SELL

Share price	RM1.58
Target price	RM1.26
Previous TP	RM1.69
Capital upside	-20.3%
Dividend return	1.1%
Total return	-19.2%

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)	5,415.6
52W High/Low	5.97/1.46
Est. Free float	38.1%
Beta (x)	1.0
3-mth avg vol ('000)	1,129.2
Shariah compliant	Yes

Major shareholders

Hartalega Industries SB	34.4
Budi Tenggara SB	8.6
EPF	5.0

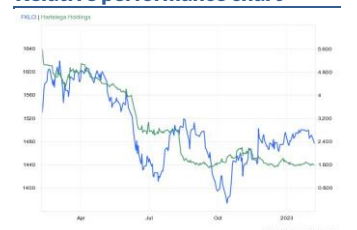
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.5	-19.8	-71.2
Relative	-2.4	-15.9	-68.5

Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PATMI (m)	3,584.5	99.5	171.6
EPS (sen)	104.6	2.9	5.0
P/E (x)	1.5	54.4	31.6

Relative performance chart



Valuation & Recommendation

- We slashed our earnings forecast by 45.3% and 25.8% to RM99.5m and RM171.6m for FY23f and FY24f respectively, adjusting to the weaker plant utilisation rate and further normalisation of ASP. We maintained our **SELL** recommendation on HARTA with a lower target price of RM1.26.
- Our target price is derived by ascribing a PER of 25.0x to their FY24f EPS of 5.0 sen. The ascribed targeted PER represents -0.5 SD against 5-year historical mean average.
- Risks to our recommendation include stronger-than-expected ASP, quicker-than-expected recovery in sales, as well as a stronger USD against the ringgit. The latter could result in margins expansion 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	2,346.0	2,645.1	Cash	305.2	2,668.7	2,378.1	2,170.3	1,816.4
EBITDA	692.1	3,957.4	4,781.1	281.5	383.5	Receivables	429.9	974.4	338.7	192.8	235.5
EBIT	556.0	3,813.1	4,624.5	143.7	243.0	Inventories	273.9	633.5	396.9	168.7	190.2
Net finance income/ (cost)	(7.7)	(0.9)	5.7	4.9	4.0	PPE	2,002.2	2,156.4	2,367.0	2,464.1	2,572.8
Associates & JV	-	-	-	-	-	Others	302.8	433.0	866.6	953.6	1,047.7
Profit before tax	555.4	3,813.4	4,636.9	152.3	250.2	Assets	3,313.9	6,866.0	6,347.4	5,949.4	5,862.6
Tax	(121.0)	(909.6)	(1,394.6)	(43.4)	(68.8)	Debts	278.5	346.8	243.8	193.8	183.8
Net profit	434.4	2,903.7	3,242.3	108.9	181.4	Payables	112.1	183.2	117.9	96.4	108.7
Minority interest	0.8	18.2	7.8	9.4	9.9	Others	380.1	1,336.8	840.8	472.4	312.0
Core earnings	433.6	2,885.5	3,584.5	99.5	171.6	Liabilities	770.8	1,866.9	1,202.5	762.6	604.5
Exceptional items	-	-	350.0	-	-	Shareholder's equity	2,539.8	4,974.9	5,121.3	5,160.9	5,229.6
Reported earnings	433.6	2,885.5	3,234.5	99.5	171.6	Minority interest	3.3	24.2	23.6	25.9	28.5
						Equity	2,543.1	4,999.1	5,144.9	5,186.8	5,258.1
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	152.3	250.2	Core EPS (sen)	12.7	84.2	104.6	2.9	5.0
Depreciation & amortisation	125.3	137.8	151.9	134.0	137.3	P/E (x)	12.5	1.9	1.5	54.4	31.6
Changes in working capital	(27.8)	(75.4)	32.4	344.5	(43.7)	DPS (sen)	7.6	33.3	73.3	1.8	3.0
Share of JV profits	-	-	-	-	-	Dividend yield	4.8%	21.1%	46.4%	1.1%	1.9%
Taxation	(72.7)	(730.7)	(1,169.5)	(43.4)	(68.8)	BVPS (RM)	0.74	1.46	1.50	1.51	1.53
Others	-	-	-	-	-	P/B (x)	2.1	1.1	1.1	1.0	1.0
Operating cash flow	655.7	3,088.2	3,716.4	556.9	245.4	EBITDA margin	23.7%	59.0%	60.6%	12.0%	14.5%
Net capex	(324.6)	(392.1)	(934.5)	(452.1)	(482.0)	EBIT margin	19.0%	56.9%	58.6%	6.1%	9.2%
Others	-	-	-	-	-	PBT margin	19.0%	56.9%	58.8%	6.5%	9.5%
Investing cash flow	(244.9)	(345.7)	(810.0)	(370.5)	(395.8)	PAT margin	14.9%	43.3%	41.1%	4.6%	6.9%
Changes in borrowings	(65.4)	68.3	(103.0)	(50.0)	(10.0)	Core PAT margin	14.8%	43.0%	45.4%	4.2%	6.5%
Issuance of shares	-	-	-	-	-	ROE	17.1%	57.7%	69.7%	1.9%	3.3%
Dividends paid	(249.0)	(604.2)	(2,997.2)	(293.2)	(102.8)	ROA	13.1%	42.0%	56.5%	1.7%	2.9%
Others	-	-	-	-	-	Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Financing cash flow	(265.4)	(384.7)	(3,210.3)	(399.3)	(208.3)						
Net cash flow	145.4	2,357.8	(303.9)	(212.9)	(358.8)						
Forex	9.4	5.8	(1.9)	5.0	5.0						
Others	-	-	-	-	-						
Beginning cash	150.4	305.2	2,668.7	2,378.1	2,170.3						
Ending cash	305.2	2,668.7	2,378.1	2,170.3	1,816.4						