

COMPANY RESULTS

Hartalega Holdings (HART MK)

1QFY24: Storm Is Not Over Yet

Harta reported a lacklustre set of results, mainly reflecting sales volume contraction and lower utilisation which outweighed improving ASP. Removing exceptional items, core net profit was merely breaking even at RM1.2m. Nevertheless, some positives are noted from the sector's depleting inventory and we expect Harta to operate with better efficiency following the decommissioning of its Bestari Jaya facility by end-23. Maintain BUY with a lower target price of RM2.32.

1QFY24 RESULTS

Year to 31 Mar (RMm)	1QFY24	qoq % chg	yoy % chg	Comments
Revenue	440.0	-14.7	-48.0	Decline qoq led by lower volume sales (-25.8%) albeit buffered by improvement in ASPs (+10.7%).
Operating exp.	-459.3	-8.2	-33.7	
EBITDA	-10.0	-96.5	-105.7	Adjusted EBITDA earnings of RM37m a deterioration vs 4QFY23: RM59.5m.
EBIT	-42.5	-87.1	-131.4	
Finance costs	-2.2	-11.0	90.2	
PBT	-44.7	-86.5	-133.4	
Taxation	-6.4	-129.6	-85.1	
Core net profit	1.2	-97.2	-98.6	Below expectations at about 1% of our and consensus' full-year estimates.
		qoq ppt chg	yoy ppt chg	
EBITDA margin (%)	-2.3	53.5	-23.1	
Eff. tax rate (%)	14.4	20.9	46.6	
Core Net Margin (%)	0.3	-8.3	-10.2	

Source: Hartalega, UOB Kay Hian

RESULTS

- **Below expectations.** Hartalega Holdings (Harta) registered 1QFY24 core net profit of RM1.2m (-97% qoq, -99% yoy), after stripping off exceptional items. This was below our and consensus expectations, accounting for about 1% of our and consensus full-year estimates respectively. The negative deviation is attributed to weaker-than-expected volume sales and margins.
- **One-off expenses from Bestari Jaya plant decommissioning.** In the quarter, Harta also recognised a severance payment provision of RM47m for the decommissioning of its Bestari Jaya plant. We understand that this is part of the RM70m provision for retrenchment costs and contract obligation expenses that management guided earlier, while the remaining RM23m will be expensed out in FY24.

KEY FINANCIALS

Year to 31 Mar (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	7,888	2,408	2,421	3,231	3,859
EBITDA	4,717	181	453	569	703
Operating profit	4,565	18	287	400	533
Net profit (rep./act.)	3,229	(17)	220	305	404
Net profit (adj.)	3,229	330	220	305	404
EPS (sen)	95.4	9.7	6.5	9.0	11.9
PE (x)	2.2	21.5	32.2	23.2	17.5
P/B (x)	1.4	1.5	1.5	1.4	1.4
EV/EBITDA (x)	1.2	30.9	12.3	9.8	7.9
Dividend yield (%)	25.2	1.0	1.7	2.4	3.1
Net margin (%)	40.9	(0.7)	9.1	9.4	10.5
Net debt/(cash) to equity (%)	(41.8)	(33.8)	(31.0)	(33.5)	(36.1)
Interest cover (x)	988.1	23.9	110.9	139.3	172.1
ROE (%)	64.0	n.a.	4.7	6.3	8.1
Consensus net profit	-	-	215	235	323
UOBKH/Consensus (x)	-	-	1.02	1.29	1.25

Source: Hartalega Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.09
Target Price	RM2.32
Upside	+10.9%
(Previous TP	RM2.45)

COMPANY DESCRIPTION

Hartalega is the world's leading nitrile glove manufacturer.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	HART MK
Shares issued (m):	3,417.5
Market cap (RMm):	7,142.5
Market cap (US\$m):	1,561.9
3-mth avg daily t'over (US\$m):	5.8

Price Performance (%)

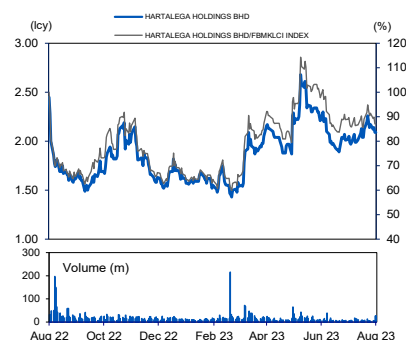
52-week high/low	RM2.68/RM1.43
1mth	4.0
3mth	(7.5)
6mth	34.8
1yr	(25.4)
YTD	22.9

Major Shareholders

Hartalega Industries Sdn Bhd	34.4
Budi Tenggara Sdn Bhd	8.6
EPF	7.4

FY24 NAV/Share (RM)	1.41
FY24 Net Cash/Share (RM)	0.44

PRICE CHART



Source: Bloomberg

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1QFY24 OPERATING METRICS

	1QFY24	qoq % chg	yoy % chg	Comments
Gloves (b pcs.)	4,261	-25.8	-3.8	Dragged by lower demand
Utilisation rate (%)	41%	-25.0	-2.8	
Blended ASP (US\$)	22.7	10.6	0.6	Limited downside to ASPs at this juncture.
Exchange rate	4.53	3.7	-1.9	
COG/ '000 gloves (RM)	107.8	23.6	-3.1	

Source: Hartalega

- Volume sales dropped on lacklustre demand, offsetting ASP uptick.** Revenue reduced by 14.7% qoq (-48% yoy) in 1QFY24. This was primarily due to weaker volume sales (-25.8% qoq) and normalisation from higher seasonal sales that were realised in 4QFY23. The declining volume sales offset ASPs improvement (+10.7% qoq) and favourable exchange rate (+3.7% qoq). In the quarter, ASP averaged close to US\$22.80/'000 pieces. Moving forward, we expect volume sales to gradually trend up in 2QFY24 as management may lower ASP following the confluence of input costs moderation in order to boost utilisation rate and sales.
- Margins under pressure.** Adjusted EBITDA margin fell to around 8.4% (-3.1ppt qoq) due to sub-optimal utilisation of 41% (4QFY23:55%) and weak volume sales in the quarter. This is against the backdrop of moderating natural gas tariff (about -15% qoq) and raw material costs (around -8% qoq), besides sequential strengthening of the US dollar against the ringgit (+3.3%). Nevertheless, we expect margin to see some recovery over upcoming quarters as sales recover and Harta now operates with leaner opex.

STOCK IMPACT

- Industry dynamic navigating towards turning point, but meaningful earnings recovery takes time.** We retain our view that sector earnings will bottom in 2H23 with tailwinds flowing through the Malaysian glove sectors, including: a) improving ASP outlook, b) depleting excess inventory which points to demand recovery, c) scaled back capacity, and d) moderating input costs. Nevertheless, we think that the earnings recovery momentum will be gradual and in phases, given that oversupply and sub-optimal utilisation rate following aggressive capacity expansion by China players will likely persist.
- Better efficiency in 2024 after Bestari Jaya decommissioning.** Harta's Bestari Jaya production facility's decommissioning plan is on track to be completed by end-23. We understand that some of the product lines and about 1,600 headcounts will be relocated to Hartalega's state-of-the-art Next Generation Integrated Glove Manufacturing Complex (NGC). We are upbeat that the consolidation efforts will allow Harta to operate with better efficiency, given that Bestari Jaya's production lines are less efficient as compared with the NGC (energy cost 23% higher, labour cost double).

EARNINGS REVISION/RISK

- We reduced our FY24 and FY25 earnings forecasts by 5% and 7% respectively to account for lower volume sales and margin assumptions.

VALUATION/RECOMMENDATION

- Maintain BUY with lower target price of RM2.32** (from RM2.45) as we recalibrated our earnings forecasts. Harta still offers palatable upside in view that the sector is on the cusp of recovery, and is our preferred sector pick for its above-industry operating efficiency. Our target price is pegged to 28.0x 2024F PE (pre-pandemic's five-year PE mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

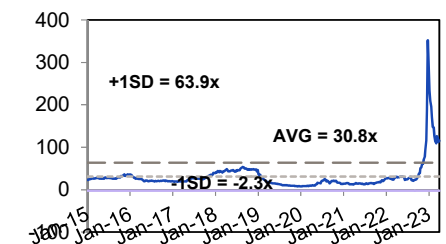
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Emissions management. Harta is progressively working to reduce its carbon footprint, aiming to achieve a 22% reduction in greenhouse gas (GHG) emission intensity by 2024.
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> Social compliance. Harta's social compliance policy is in accordance with local and international standards including the International Labour Organisation's (ILO) 11 indicators of Forced Labour.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> Board balance and composition. Five board members are independent directors, amounting to 63% of the board members.

ASSUMPTIONS

	2024F	2025F	2026F
Revenue (RMm)	2421	3231	3859
Growth yoy (%)	1%	33%	19%
ASP growth yoy (%)	0%	3%	0%
Volume growth (%)	2%	40%	19%
Profit (RMm)	220	305	404
Growth yoy (%)	72%	39%	33%
Profit margin (%)	9%	9%	10%

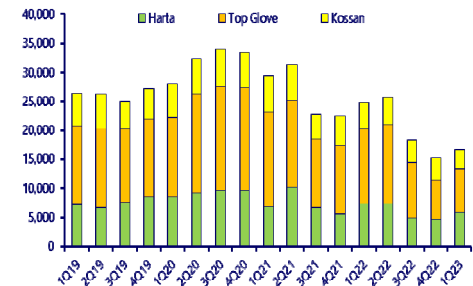
Source: UOB Kay Hian

FIVE-YEAR FORWARD PE BAND



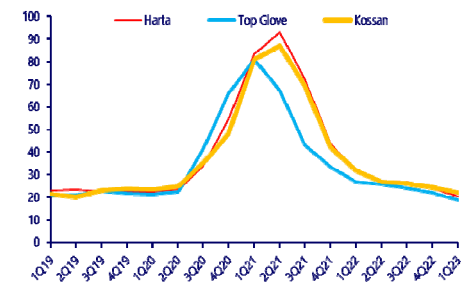
Source: Bloomberg, UOB Kay Hian

MALYSIAN GLOVE PLAYERS VOLUME SALES (M' PIECES)



Source: Respective companies, UOB Kay Hian

MALYSIAN GLOVE PLAYERS QUARTERLY ASP CHART (USD' 1000 PIECES)



Source: Respective companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Net turnover	2,408	2,421	3,231	3,859
EBITDA	181	453	569	703
Deprec. & amort.	163	166	169	171
EBIT	18	287	400	533
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(8)	(4)	(4)	(4)
Pre-tax profit	10	283	396	528
Tax	(30)	(65)	(93)	(127)
Minorities	2	2	2	2
Net profit	(17)	220	305	404
Net profit (adj.)	330	220	305	404

CASH FLOW

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Operating	(38)	187	341	471
Pre-tax profit	(191)	283	396	528
Tax	(442)	(65)	(93)	(127)
Deprec. & amort.	163	166	169	171
Associates	0	0	0	0
Working capital changes	108	(201)	(136)	(105)
Non-cash items	323	0	0	0
Other operating cashflows	0	4	4	4
Investing	(263)	(122)	0	(53)
Capex (growth)	(18)	(122)	0	(53)
Proceeds from sale of assets	(288)	0	0	0
Others	44	0	0	0
Financing	(352)	(124)	(171)	(225)
Dividend payments	(239)	(120)	(167)	(221)
Proceeds from borrowings	0	0	0	0
Loan repayment	(102)	0	0	0
Others/interest paid	(10)	(4)	(4)	(4)
Net cash inflow (outflow)	(652)	(59)	170	193
Beginning cash & cash equivalent	2,378	1,724	1,666	1,835
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	1,724	1,666	1,835	2,029

BALANCE SHEET

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Fixed assets	1,943	2,183	2,014	1,896
Other LT assets	1,002	999	999	999
Cash/ST investment	1,724	1,666	1,835	2,029
Other current assets	658	835	1,050	1,212
Total assets	5,327	5,682	5,898	6,135
ST debt	87	54	54	54
Other current liabilities	265	474	549	601
LT debt	62	140	140	140
Other LT liabilities	235	235	235	235
Shareholders' equity	4,657	4,757	4,895	5,078
Minority interest	20	22	24	27
Total liabilities & equity	5,327	5,682	5,898	6,135

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	7.5	18.7	17.6	18.2
Pre-tax margin	0.4	11.7	12.2	13.7
Net margin	(0.7)	9.1	9.4	10.5
ROA	n.a.	4.0	5.3	6.7
ROE	n.a.	4.7	6.3	8.1
Growth				
Turnover	(69.5)	0.5	33.5	19.4
EBITDA	(96.2)	150.6	25.6	23.6
Pre-tax profit	(99.8)	2,699.9	40.0	33.6
Net profit	(100.5)	n.a.	38.7	32.4
Net profit (adj.)	(89.8)	(33.2)	38.7	32.4
EPS	(89.8)	(33.2)	38.7	32.4
Leverage				
Debt to total capital	3.1	3.9	3.8	3.6
Debt to equity	3.2	4.1	3.9	3.8
Net debt/(cash) to equity	(33.8)	(31.0)	(33.5)	(36.1)
Interest cover (x)	23.9	110.9	139.3	172.1

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