

COMPANY RESULTS

Hartalega Holdings (HART MK)

4QFY24: Defining Moments

Harta's 4QFY24 results reflect sales volume expansion and marginally higher ASP, but margins were compressed due to delayed cost pass-through. Removing exceptional items, core net profit declined 25% qoq to RM1.8m. Nevertheless, FY25 prospects remain bright on demand uptick from customers' restocking cycle, consistent hikes in ASPs, and efficiency refinement. The recent deterioration of US-China trade tensions also adds into the positive equation. Maintain BUY with a higher target price of RM3.92.

4QFY24 RESULTS

Year to 31 Mar (RMm)	4QFY24	qoq % chg	yoy % chg	FY24	yoy % chg
Revenue	529.8	27.5	2.7	1837.6	-23.7
Operating exp.	-542.1	28.0	8.3	-1861.0	-16.4
EBITDA	51.6	-21.4	-117.9	177.7	-985.7
EBIT	20.0	-35.5	-106.1	46.3	-125.3
Finance costs	-1.1	-43.0	-53.7	-7.6	-0.3
PBT	18.9	-39.1	-105.7	40.7	-121.3
Taxation	0.7	-111.1	-96.8	-18.7	-37.2
Core net profit	1.9	-20.7	-95.7	32.7	-74.6
		qoq ppt chg	yoy ppt chg		yoy ppt chg
EBITDA margin (%)	9.7	-6.1	65.5	9.7	10.5
Eff. tax rate (%)	3.7	23.9	10.2	-45.9	-61.5
Core Net Margin (%)	0.4	-0.2	-8.2	1.8	-3.6

Source: Hartalega, UOB Kay Hian

RESULTS

- **Below expectations.** Hartalega Holdings (Harta) registered 4QFY24 core net profit of RM1.9m (-21% qoq), after stripping out exceptional items. FY24 earnings was below expectations, accounting for around 50% of our and consensus full-year estimates.
- **Top-line grew on volume sales uptick and backlog delivery.** Revenue increased by 27.5% qoq (+2.7% yoy) in 4QFY24. This was primarily due to stronger volume sales (+25% qoq) as a delayed shipment of 600m pieces of glove orders last quarter due to the Red Sea crisis have been shipped out. Management also alluded that customers' replenishment activities have ramped up in recent months.
- **ASP improved marginally, but delayed cost pass-through affected margins.** During the quarter, ASP surged 2.4% qoq and averaged close to US\$20.09/000 pieces. However, EBITDA margin declined 6ppt due to a surge in natural gas tariff (about 5% qoq) and raw material costs (about 10% qoq). We understand that this was due to a delay (normally 1-2 months) in terms of ASP hike, and the rising input costs not being passed through effectively.

KEY FINANCIALS

Year to 31 Mar (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2,408	1,838	3,120	4,007	4,172
EBITDA	181	(23)	467	825	861
Operating profit	18	(155)	298	655	689
Net profit (rep./act.)	(17)	(189)	216	487	513
Net profit (adj.)	330	(151)	216	487	513
EPS (sen)	9.7	(4.5)	6.4	14.4	15.2
PE (x)	36.9	n.m.	56.3	24.9	23.7
P/B (x)	2.6	2.6	2.6	2.5	2.3
EV/EBITDA (x)	60.2	n.m.	23.3	13.2	12.6
Dividend yield (%)	0.6	0.1	1.0	2.2	2.4
Net margin (%)	(0.7)	(10.3)	6.9	12.2	12.3
Net debt/(cash) to equity (%)	(33.8)	(29.3)	(28.3)	(31.5)	(36.7)
Interest cover (x)	23.9	(3.1)	114.3	201.9	210.6
ROE (%)	n.a.	n.a.	4.6	10.1	10.1
Consensus net profit	-	-	193	323	334
UOBKH/Consensus (x)	-	-	1.12	1.51	1.54

Source: Hartalega Holdings, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM3.59
Target Price	RM3.92
Upside	+9.1%
(Previous TP)	RM3.61

COMPANY DESCRIPTION

Hartalega is the world's leading nitrile glove manufacturer.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	HART MK
Shares issued (m):	3,413.3
Market cap (RMm):	12,253.6
Market cap (US\$m):	2,608.9
3-mth avg daily t'over (US\$m):	3.9

Price Performance (%)

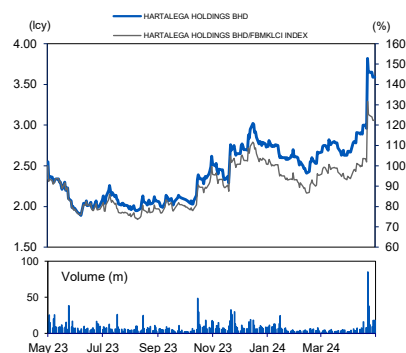
52-week high/low	RM3.82/RM1.89
1mth	36.5
3mth	37.0
6mth	47.1
1yr	38.6
YTD	33.0

Major Shareholders

Hartalega Industries Sdn Bhd	34.4
Budi Tenggara Sdn Bhd	8.6
KWAP	3.2

FY25 NAV/Share (RM)	1.40
FY25 Net Cash/Share (RM)	0.40

PRICE CHART



Source: Bloomberg

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### 4QFY24 OPERATING METRICS

	4QFY24	qoq % chg	yoy % chg	Comments
Gloves (b pcs.)	5,588	24.7	-2.6	Increased qoq on better demand
Utilisation rate (%)	73%	71.4	33.8	
Blended ASP (US\$)	20.1	2.4	-2.4	ASPs marginally increased
Exchange rate	4.72	-0.5	8.1	USD weakening qoq against RM
COG/ '000 gloves (RM)	97.0	2.7	11.2	Cost per unit surged on higher raw material prices

Source: Hartalega

• **Mixed operating matrixes but signs of recovery visible.** Core net margin dropped to c.0.4% (-0.2ppt qoq) despite a higher utilisation rate of 73% (3QFY24:59%) based on adjusted capacity and improving volume sales (+25% qoq). The margin contraction mainly reflects surging input costs which offset the marginal ASP hike, and was compounded by the US dollar weakening against the ringgit (-0.5%). Nevertheless, there are signs that demand is picking up, and further ASP hikes in May-Jun 24 (+5% from 4QFY24) remain as strong indicators that sector dynamics are fine-tuning towards a better direction.

### STOCK IMPACT

• **Brighter prospects in FY25.** We anticipate multiple tailwinds throughout FY25, which include: a) increasing demand from customers, b) margin expansion on better efficiency and supply rationalisation, c) ASP upcycle across major manufacturers, and d) stabilising input costs. As a result, Harta should deliver sequentially stronger earnings on the back of demand recovery, improving margins amid cost efficiency, and better capacity utilisation.

• **The US' tariff hike on China's medical-grade gloves a structural game changer.** Note that the US authority recently increased tariffs on China's rubber medical and surgical gloves' exports into the US to 25% (from 7.5%), beginning 2026. With a 25% tariff imposed on an estimated China glove ASP of US\$19-20/'000 pcs by 2026 (current ASP: US\$17), Harta may be able to command ASPs of US\$24-25/'000 pcs while maintaining optimal utilisation rate of >90% as meaningful nitrile glove demand flows back to Malaysian manufacturers. We estimate that the group's profitability and margin will surpass pre-pandemic levels in 2026.

• **Flexibility for capacity expansion, with NGC 1.5 ready for commission.** Following decommissioning of the Bestari Jaya plant, Harta's production capacity was curtailed from 43-44b to around 31b pieces annually. While we understand that current orderbook has surged to c.2.2b pieces monthly, Harta's utilisation rate at its NGC 1.0 plant will be lifted to c.98% (4QFY24: 73%) based on the current c.31b capacity. Nevertheless, we understand that management has begun commissioning the new NGC 1.5 plant, which will add around 11b in glove production capacity upon full commencement.

### EARNINGS REVISION/RISK

• **We reduce our FY25 earnings forecast by 16% but raise our FY26 earnings forecast by 12%** as we adjust our utilisation rate forecasts. We also introduce FY27 earnings forecasts.

### VALUATION/RECOMMENDATION

• **Maintain BUY with higher target price of RM3.92** (from RM3.61) as we recalibrate our earnings forecasts. Our target price implies 32.0x FY25F PE (+0.5SD above historical five-year PE mean).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

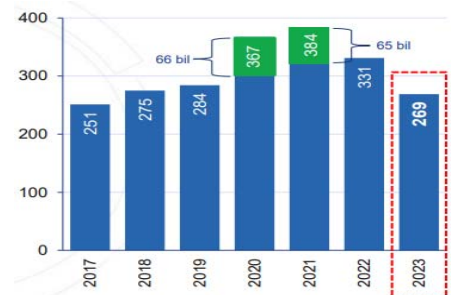
<p>• <b>Environmental</b></p> <ul style="list-style-type: none"> <li>- <b>Emissions management.</b> Hartalega is progressively working to reduce its carbon footprint, aiming to achieve a 22% reduction in greenhouse gas (GHG) emission intensity by 2024.</li> </ul>
<p>• <b>Social</b></p> <ul style="list-style-type: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

### ASSUMPTIONS

	2024	2025F	2026F
Revenue (RMm)	1838	3120	4007
Growth yoy (%)	-24%	70%	28%
ASP growth yoy (%)	-12%	8%	7%
Volume growth (%)	-14%	62%	20%
Profit (RMm)	25	216	487
Growth yoy (%)	-74%	583%	122%
Profit margin (%)	1%	7%	12%

Source: UOB Kay Hian

### GLOBAL GLOVES DEMAND (b' pieces)



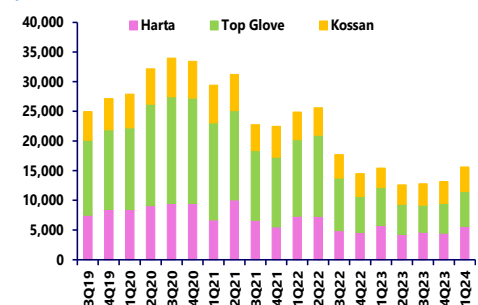
Source: Hartalega, International Trade Center (ITC)

### FIVE-YEAR FORWARD PE BAND



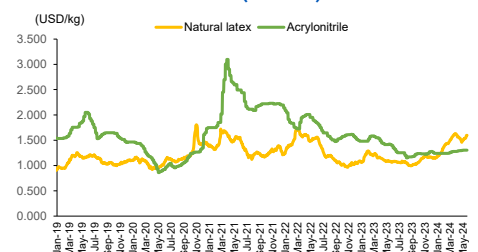
Source: Bloomberg, UOB Kay Hian

### MALYSIAN GLOVE PLAYERS VOLUME SALES (m' pieces)



Source: Companies, UOB Kay Hian

### RAW MATERIAL PRICES (US\$/KG)



Source: Bloomberg, UOB Kay Hian

amounting to 63% of the board members.

### PROFIT & LOSS

Year to 31 Mar (RMm)	2024	2025F	2026F	2027F
<b>Net turnover</b>	<b>1,838</b>	<b>3,120</b>	<b>4,007</b>	<b>4,172</b>
EBITDA	(23)	467	825	861
Deprec. & amort.	132	169	170	171
EBIT	(155)	298	655	689
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(8)	(4)	(4)	(4)
<b>Pre-tax profit</b>	<b>(163)</b>	<b>294</b>	<b>651</b>	<b>685</b>
Tax	(19)	(70)	(156)	(164)
Minorities	(7)	(7)	(7)	(7)
<b>Net profit</b>	<b>(189)</b>	<b>216</b>	<b>487</b>	<b>513</b>
Net profit (adj.)	(151)	216	487	513

### CASH FLOW

Year to 31 Mar (RMm)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>(55)</b>	<b>234</b>	<b>521</b>	<b>669</b>
Pre-tax profit	41	294	651	685
Tax	(33)	(70)	(156)	(164)
Deprec. & amort.	132	169	170	171
Associates	0	0	0	0
Working capital changes	(147)	(163)	(148)	(28)
Non-cash items	(56)	0	0	0
Other operating cashflows	8	4	4	4
<b>Investing</b>	<b>(107)</b>	<b>0</b>	<b>(26)</b>	<b>(35)</b>
Capex (growth)	(47)	0	(26)	(35)
Proceeds from sale of assets	(119)	0	0	0
Others	59	0	0	0
<b>Financing</b>	<b>(142)</b>	<b>(127)</b>	<b>(277)</b>	<b>(291)</b>
Dividend payments	0	(123)	(273)	(287)
Proceeds from borrowings	0	0	0	0
Loan repayment	(92)	0	0	0
Others/interest paid	(50)	(4)	(4)	(4)
<b>Net cash inflow (outflow)</b>	<b>(303)</b>	<b>107</b>	<b>218</b>	<b>343</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,724</b>	<b>1,427</b>	<b>1,534</b>	<b>1,752</b>
Changes due to forex impact	6	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,427</b>	<b>1,534</b>	<b>1,752</b>	<b>2,095</b>

### BALANCE SHEET

Year to 31 Mar (RMm)	2024	2025F	2026F	2027F
<b>Fixed assets</b>	<b>1,901</b>	<b>2,014</b>	<b>1,870</b>	<b>1,734</b>
Other LT assets	1,076	1,075	1,075	1,074
Cash/ST investment	1,427	1,534	1,752	2,095
Other current assets	853	1,004	1,213	1,255
<b>Total assets</b>	<b>5,257</b>	<b>5,627</b>	<b>5,910</b>	<b>6,158</b>
ST debt	62	54	54	54
Other current liabilities	322	480	555	584
LT debt	4	140	140	140
Other LT liabilities	224	224	224	224
Shareholders' equity	4,648	4,741	4,956	5,182
Minority interest	(3)	(11)	(18)	(25)
<b>Total liabilities &amp; equity</b>	<b>5,257</b>	<b>5,627</b>	<b>5,910</b>	<b>6,158</b>

### KEY METRICS

Year to 31 Mar (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	(1.3)	15.0	20.6	20.6
Pre-tax margin	(8.9)	9.4	16.2	16.4
Net margin	(10.3)	6.9	12.2	12.3
ROA	n.a.	4.0	8.5	8.5
ROE	n.a.	4.6	10.1	10.1
<b>Growth</b>				
Turnover	(23.7)	69.8	28.4	4.1
EBITDA	(113.0)	n.a.	76.6	4.3
Pre-tax profit	(1,714.9)	n.a.	121.7	5.3
Net profit	n.a.	n.a.	125.7	5.3
Net profit (adj.)	(145.8)	n.a.	125.7	5.3
EPS	(145.8)	n.a.	125.7	5.3
<b>Leverage</b>				
Debt to total capital	1.4	3.9	3.8	3.6
Debt to equity	1.4	4.1	3.9	3.7
Net debt/(cash) to equity	(29.3)	(28.3)	(31.5)	(36.7)
Interest cover (x)	(3.1)	114.3	201.9	210.6

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