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**Hartalega Holdings Berhad**

**Sprouting Green Shoots Of Recovery**

**Summary**

* **While 2QFY24 core net profit fell 2.3% yoy to RM27.7m, HARTA has returned to the black for the first time in past three quarters, driven improved operational landscape, coupled with lower raw material prices.**
* **Expect sequential and gradual recovery to stay pat in subsequent quarters on signs of improved demand.**
* **Re-iterate our SELL recommendation on HARTA with a higher target price of RM2.09** **based on 1.5x to FY25F BV.**

**Results Review**

* **Results review**. While 2QFY24 core net profit fell 2.3% yoy to RM27.7m, HARTA has returned to the black for the first time in past three quarters, driven improved operational landscape, coupled with lower raw material prices. Revenue for the quarter, however, declined 22.7% yoy to RM452.1m on weaker ASP.
* **Results below expectations**. 6MFY24 core net loss at -RM24.8m remains a distance against our expectations of core net profit at RM70.1m as well as consensus forecasted net profit of RM33.9m. The variance was due to higher effective tax rate. Looking ahead, we expect sequential and gradual recovery on the back of cost rationalisation initiatives and lower raw material prices.
* **Operations Highlights**. During 2QFY24, HARTA recorded slight uptick in utilisation rate at 43.9% against 40.6% in the preceding quarter, on improved demand from North America, Asia and Oceania region. Raw material cost has also soften, allowing the group to return to the black. Looking ahead, we reckon that HARTA’s utilisation rate may bump towards 50.0% by end-FY24.
* **Industry Highlights**. We expect raw material prices to be turn slightly higher, due to signs of increase in feedstock price. Meanwhile, natural gas prices may continue to taper from the peak in October 2022. The overall gloves market remains challenging and may only see demand-supply equilibrium to take place in 2H24, at soonest.
* **Outlook**. We expect sequential and gradual recovery to stay pat in subsequent quarters ahead, as quantum of ASP normalisation turns fairly stable (currently at c.USD21/1,000pcs) given that global inventory level is closing towards the end of de-stocking phase. HARTA remains committed to improve operational efficiency by leveraging onto automation and new technologies. Meanwhile, decommissioning of Bestari Jaya plant is expected to be completed in mid-January 2024.
* **Valuation**.Trimmed our earnings forecast by 27.5% and 16.3% for FY24F and FY25F respectively to adjust for the higher effective tax rate. Re-iterate our **SELL** recommendation on HARTA, but with a higher target price of RM2.09 based on 1.5x of BV as we roll over our valuation metrics to FY25F.
* **Risk**.Stronger-than-expected demand and swifter-than-expected recovery in ASP. Exposure to foreign exchange risk and volatile purchase pattern.





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| **RESEARCH RECOMMENDATION FRAMEWORK** |
| **STOCK RECOMMENDATIONS****BUY**: Total returns\* are expected to exceed 10% within the next 12 months.**HOLD**: Total returns\* are expected to be within +10% to – 10% within the next 12 months.**SELL**: Total returns\* are expected to be below -10% within the next 12 months.**TRADING BUY**: Total returns\* are expected to exceed 10% within the next 3 months.**TRADING SELL**: Total returns\* are expected to be below -10% within the next 3 months.\*Capital gain + dividend yield**SECTOR RECOMMENDATIONS****OVERWEIGHT**: The industry defined by the analyst is expected to exceed 10% within the next 12 months.**NEUTRAL**: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.**UNDERWEIGHT**: The industry defined by the analyst, is expected to be below -10% within the next 12 months. |
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