

**Chelsea Chew**

(603) 7890 8888 (ext 2070)

[chelsea.chew@apexsecurities.com.my](mailto:chelsea.chew@apexsecurities.com.my)

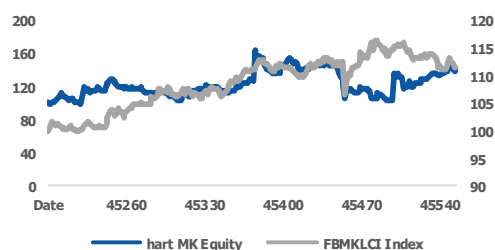
<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 3.32</b>
<b>Previous Target Price:</b>	<b>RM 2.92</b>
<b>Target Price:</b>	<b>RM 3.64</b>
<b>Upside/Downside:</b>	<b>9.6%</b>

**Stock information**

Board	MAIN
Sector	Healthcare
Bursa / Bloomberg Code	5168 / HART MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	3,413.3
Market Cap (RM' m)	11,332.0
52-Week Price Range (RM)	3.83-2.27
Beta (x)	1.1
Free float (%)	44.2
3M Average Volume (m)	7.8
3M Average Value (RM' m)	22.9

<b>Top 3 Shareholders</b>	<b>(%)</b>
Hartalega Industries Sdn Bhd	34.4
BUDI TENGGARA SDN BHD	8.6
Kumpulan Wang Persaraan Diperbadan	3.2

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	11.0	23.0	41.9
Relative (%)	12.8	23.0	27.5

# Hartalega Holdings Berhad

## Initial signs of gloves demand recovery

### Summary

- **2QFY25 core net profit to RM43.4m (+99.4% yoy, +8.9% qoq), bringing 1HFY25 core net profit at RM83.2m (+207.0% yoy), which is deemed in line with ours and consensus expectations of RM156.3m and RM164.5m respectively.**
- **Earnings recovery will be supported by expectations of gradual improvement in demand as several key consumption regions began to engage in restocking activities.**
- **Downgrade to HOLD recommendation on HARTA, but with a higher target price of RM3.64 based on 2.5x pegged to FY26F BV of RM1.46.**

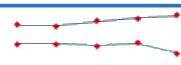
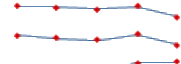
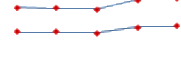



### Results Review

- **Results review.** 2QFY25 core net profit surged 99.4% yoy and 8.9% qoq, reaching RM43.4m, driven by a 16% qoq increase in sales volume and higher USD-denominated ASP, which offset a c.3% lower in MYR-denominated ASP. Revenue for the quarter rose by 44.2% yoy to RM652.1m, credited to robust sales volume and a marginal increase in ASP (USD).
- **Dividend declaration.** In this quarter HARTA has declared a first interim single-tier dividend of 0.56sen per share, payable on 11 December 2024. The entitlement date has been set for 27 November 2024.
- **Results deemed within expectations.** 6MFY25 core net profit of RM83.2m (+207.0% yoy) remained in positive territory, is deemed within both our/consensus expectations of RM156.3m/ RM164.5m respectively. We gather that earnings recovery was largely supported by reinvestment allowance on capital investment domestic expansion project, which offset higher operating cost and forex losses.
- **Operations Highlights.** In 2QFY25, HARTA's utilisation rate improved from 75% to 90%, driven by production line consolidation in more advanced NGC plants. Monthly production of 2.3bn pcs exceeded HARTA's target of 2.1-2.2bn pcs during the quarter. Looking ahead, utilisation rate is expected to remain at c.75%-85% upon NGC 1.5 coming online. This could further increase HARTA's capacity to 2.3bn-2.4bn pcs/month, which is deemed timely to leverage onto better market dynamics.
- Meanwhile, global shipping constraints have led to a delay in c.450m pcs of shipments end-Sep 24. However, these delayed goods are expected to be shipped out soon.
- **Industry Highlights.** We gather that, nitrile raw material costs increased by c.5-6% qoq. We foresee raw material prices to remain elevated in the next quarter, due to rising material shipping costs and heavy rainfall elevating NR Latex prices. In contrast, natural gas and feedstock prices should stabilise amid lower demand.
- Malaysia's glove export volume increased from RM11.8bn in CY23 to RM13.7bn in 11M24, implying that the demand for gloves is on a recovery trend, which provide some alleviation towards the oversupply condition. Despite near-term obstacles,

long-term prospects are bright, driven by the customers who prioritise gloves of a higher quality level, seeing that the market's ASP have now normalised.

- **Outlook.** We expect a gradual recovery in the upcoming quarters, driven by the impact of c.50% tariff hikes on Chinese manufacturers impact effective late-Oct 24. Several HARTA's customers have inquired about a consistent supply, which is likely to support demand. Furthermore, we believe ASP is expected to stabilise c.USD22/1,000pcs (vs Chinese players, which may vary by +/- USD1-1.5). The NGC 1.5 expansion product should help HARTA achieve its aim of increasing current capacity to c.37bn pcs gloves/pa by end-FY25. Moving forward, we expect higher personnel costs due to minimum wages in Malaysia and levies on foreign workers, of which HARTA will adopt the cost-pass-through mechanism to customers. We foresee HARTA transferring WIP to assets and generating more sales to offset operational costs, positioning itself well for market recovery.
- **Valuation.** Keeping our core net profit forecast for FY25F at RM156.5m, but raised our FY26F core net profit by 4.1% to RM189.2m, to adjust for slight bump in EBITDA margin and higher utilisation rate of 75%. Upward revision is further supported by the stock replenishment in key consumption regions and the tariffs imposed on China manufacturers, which will lead consumers to consider alternative (Malaysia) suppliers. Following the share price appreciation, we downgrade HARTA to **HOLD** recommendation, but with a higher target price of RM3.64. This is based on revised 2.5x BV multiple, with a 4% premium on current BV (2.4x).
- **Risk.** Volatility in feedstock cost and swifter-than-expected recovery in ASP, along with exposure to foreign exchange risk and volatile purchasing patterns.

**Figure 1: Results Comparison**

	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	6MFY24	6MFY25	YoY (%)	5 Quarters Trend	Comments
Revenue	652.1	452.1	44.2	583.8	11.7	892.1	1,235.9	38.5		Improvements in sales volume
EBITDA	(23.6)	54.9	(142.9)	64.1	(136.8)	29.2	40.5	(38.9)		
Pre-tax profit	(47.5)	35.5	(233.5)	41.1	(215.3)	(9.2)	(6.3)	31.3		Higher revenue and production efficiencies
Net profit	8.6	28.9	(70.2)	31.9	(73.0)	(22.3)	40.5	281.7		
Core net profit	43.4	21.8	99.4	39.8	8.9	(77.7)	83.2	207.0		
Core EPS (sen)	1.3	0.6	99.4	1.2	8.9	(2.3)	2.4	207.0		
EBITDA margin (%)	(3.6)	12.1		11.0		3.3	3.3			
PBT margin (%)	(7.3)	7.9		7.0		(1.0)	(0.5)			
Core PATMI margin (%)	6.7	4.8		6.8		(8.7)	6.7			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Mar (RM m)	FY22	FY23	FY24	FY25F	FY26F
<b>Revenue</b>	<b>7888.3</b>	<b>2409.6</b>	<b>1837.6</b>	<b>2281.3</b>	<b>2566.4</b>
<b>Gross Profit</b>	<b>4795.1</b>	<b>318.9</b>	<b>155.2</b>	<b>570.3</b>	<b>641.6</b>
<b>EBITDA</b>	<b>4767.9</b>	<b>-38.3</b>	<b>177.7</b>	<b>296.6</b>	<b>359.3</b>
Depreciation & Amortisation	-151.9	-163.0	-132.0	-119.1	-133.3
<b>EBIT</b>	<b>4616.1</b>	<b>-201.3</b>	<b>45.7</b>	<b>177.5</b>	<b>226.0</b>
Net Finance Income/ (Cost)	-0.9	5.7	2.9	-6.9	7.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>4636.9</b>	<b>-214.4</b>	<b>38.7</b>	<b>184.6</b>	<b>232.1</b>
Tax	-1394.6	-24.4	-18.7	-20.4	-34.8
<b>Profit After Tax</b>	<b>3242.3</b>	<b>-238.8</b>	<b>20.1</b>	<b>164.2</b>	<b>197.3</b>
Minority Interest	7.8	-3.7	7.3	7.7	8.1
<b>Net Profit</b>	<b>3234.5</b>	<b>-235.1</b>	<b>12.7</b>	<b>156.5</b>	<b>189.2</b>
Exceptionals	0.0	347.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>3234.5</b>	<b>-582.1</b>	<b>12.7</b>	<b>156.5</b>	<b>189.2</b>

**Key Ratios**

FYE Mar (RM m)	FY22	FY23	FY24	FY25F	FY26F
P/E (x)	3.5	N/A	886.4	72.1	59.6
EBITDA margin	60.4%	-1.6%	9.7%	13.0%	14.0%
EBIT margin	58.5%	-8.4%	2.5%	7.8%	8.8%
PBT margin	58.8%	-8.9%	2.1%	8.1%	9.0%
PAT margin	41.1%	-9.9%	1.1%	7.2%	7.7%
NP margin	41.0%	-9.8%	0.7%	6.9%	7.4%
Core NP margin	41.0%	-9.8%	0.7%	6.9%	7.4%
ROE	62.9%	-5.0%	0.3%	3.3%	3.8%
ROA	102.7%	-8.0%	0.4%	5.1%	5.8%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

**Key Assumptions**

FYE Mar (RM m)	FY22	FY23	FY24	FY25F	FY26F
Production lines	118.0	120.0	111.0	84.0	120.0
Utilisation rate (%)	70.4%	53.6%	45.3%	70.0%	75.0%
Production ('000)	29553.0	22509.0	19022.8	23566.7	26512.5
Blended ASP (RM/'000 pcs)	266.9	107.1	96.6	96.8	96.8

**Valuations**

	FY26F
Book Value/share (RM)	146
Multiple (x)	2.5
<b>Fair Value (RM)</b>	<b>3.64</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Mar (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	2378.1	1724.5	1427.4	1904.8	1988.8
Receivables	338.7	200.4	289.9	218.8	246.1
Inventories	396.9	232.4	385.6	234.4	290.0
Other current assets	83.5	203.1	177.4	166.7	188.4
<b>Total Current Assets</b>	<b>3197.3</b>	<b>2360.4</b>	<b>2280.3</b>	<b>2524.6</b>	<b>2713.4</b>
Fixed Assets	2372.0	1947.8	1905.6	1761.0	1684.1
Intangibles	30.8	42.6	45.2	45.2	45.2
Other non-current assets	747.3	954.1	1026.6	1257.9	1509.2
<b>Total Non-current assets</b>	<b>3150.1</b>	<b>2944.5</b>	<b>2977.4</b>	<b>3064.1</b>	<b>3238.4</b>
Short-term Debt	103.9	90.1	64.6	33.2	-91.7
Payables	117.9	88.6	64.2	93.8	105.5
Other Current Liabilities	595.0	175.4	256.4	188.2	211.7
<b>Total Current Liabilities</b>	<b>816.8</b>	<b>354.1</b>	<b>385.1</b>	<b>315.2</b>	<b>225.5</b>
Long-term Debt	139.8	64.3	6.8	-84.3	-49.4
Other non-current liabilities	245.8	228.2	221.5	557.5	779.4
<b>Total Non-current Liabilities</b>	<b>385.7</b>	<b>292.4</b>	<b>228.3</b>	<b>473.2</b>	<b>730.0</b>
Shareholder's equity	5121.3	4640.1	4647.7	4804.2	4993.4
Minority interest	23.6	18.3	-3.5	-3.9	-3.9
<b>Equity</b>	<b>5144.9</b>	<b>4658.4</b>	<b>4644.2</b>	<b>4800.4</b>	<b>4989.6</b>

**Cash Flow**

FYE Mar (RM m)	FY22	FY23	FY24	FY25F	FY26F
<b>Pre-tax profit</b>	<b>4636.9</b>	<b>-214.4</b>	<b>38.7</b>	<b>184.6</b>	<b>232.1</b>
Depreciation & amortisation	151.9	163.0	132.1	119.1	133.3
Changes in working capital	182.7	118.6	-149.0	99.8	-61.3
Others	-1883.3	3649.2	-58.6	-461.5	112.2
<b>Operating cash flow</b>	<b>3088.2</b>	<b>3716.4</b>	<b>-36.8</b>	<b>-58.0</b>	<b>416.3</b>
Net capex	-846.2	-306.0	-113.3	-159.5	-188.1
Others	36.2	11.0	1.1	10.0	10.4
<b>Investing cash flow</b>	<b>-810.0</b>	<b>-295.0</b>	<b>-112.2</b>	<b>-149.5</b>	<b>-177.7</b>
Dividends paid	-2997.2	-239.2	0.0	0.0	0.0
Others	2612.5	-2971.1	-351.5	-92.5	-87.6
<b>Financing cash flow</b>	<b>-384.7</b>	<b>-3210.3</b>	<b>-351.5</b>	<b>-92.5</b>	<b>-87.6</b>
<b>Net cash flow</b>	<b>1893.5</b>	<b>211.1</b>	<b>-500.4</b>	<b>-300.0</b>	<b>151.1</b>
Forex	-1.9	-3.5	-3.5	-3.5	-3.5
Others	-2182.2	-861.3	237.8	481.4	-63.5
Beginning cash	2668.7	2378.1	1693.5	1727.0	1904.8
<b>Ending cash</b>	<b>2378.1</b>	<b>1724.5</b>	<b>1427.4</b>	<b>1904.8</b>	<b>1988.8</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
<p><b>Head Office:</b> 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>	<p><b>Head Office:</b> Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p><b>Institutional Dealing Team:</b> Low Jin Wu (ext 2109)</p> <p><b>PJ Office:</b> General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095) Ong Tze Hern (ext 2113) Samuel Woo (ext 2121) Muhammad Subaiyil Amir (ext 2112)</p>
<p><b>Petaling Jaya Office:</b> 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>		

**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

**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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