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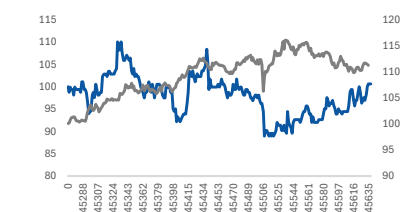
Recommendation:	BUY
Current Price:	RM 2.61
Previous Target Price:	RM 3.64
Target Price:	RM 3.56
Capital Upside/Downside:	36.4%
Dividend Yield (%):	0.0%
Total Upside/Downside:	36.4%

Stock information

Board	MAIN
Sector	Healthcare
Bursa / Bloomberg Code	5168 / HART MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	3,413.3
Market Cap (RM' m)	8,908.6
52-Week Price Range (RM)	4-2.316
Beta (x)	1.1
Free float (%)	44.2
3M Average Volume (m)	6.9
3M Average Value (RM' m)	24.2

Top 3 Shareholders

	(%)
Hartalega Industries Sdn Bhd	34.4
Budi Tenggara Sdn Bhd	8.6
Kumpulan Wang Persaraan Diperbadan	6.5

Share Price Performance

	1M	3M	12M
Absolute (%)	-26.5	-22.7	3.1
Relative (%)	-27.3	-21.9	0.1

Hartalega Holdings Berhad

Unexpected miss and gloomy outlook

Executive Summary

- HARTA's 3QFY25 core net profit jumped 76.8% yoy and 13.0% qoq to RM29.3m, bringing 9MFY25 core net profit at RM88.9m, which came below expectations, accounted to 56.5% and 45.4% of ours and consensus expectations respectively.
- Factoring the higher-than-expected operating expenses and softening order volume and ASP, we adjust our FY25F/FY26F CNP forecast lower by -55.4%/-17.3% to RM100.7m/RM161.3m.
- Following weakness in share price, we upgrade to BUY recommendation with a lower target price of RM3.56 (from RM3.64), based on 2.2x P/B multiple pegged to FY27F BVPS of 1.62.

Results below expectations. Hartalega's (HARTA) 9MFY25 core net profit of RM88.9m, turnaround from core net loss of RM5.3m in 9MFY24 came in below expectations. This compares to our full-year forecast of RM156.5m core net profit and the street's expectations of RM183.7m, representing 56.5% and 45.4% of our and street projections, respectively.

YoY. Excluding several extraordinary items (including RM30.3m unrealised forex gain, an RM40m derivative loss, and RM4.6m reversal allowance for inventories), HARTA reported a 13% qoq improvement in core net profit, totalling RM29.3m in 3QFY25, core net profit expanded 76.8% yoy to RM29.3m, driven by higher orders from US customers, who placed orders upfront in anticipation of a price hike following the announcement of the US tariff on Chinese glovemakers in Sep 2024. Revenue for the quarter 77.6% yoy to RM738.2m, primarily on the stock replenishment activity and higher purchases in anticipation of higher tariffs.

QoQ. HARTA reported a 13% qoq improvement in core net profit at RM29.3m, due to higher revenue (+13.2% qoq) from a 12% qoq increase in sales volume due to frontloading purchases going on in US customers, despite a 300m pieces gloves shipment delay due to port congestion issues. However, this delayed shipment was carried over to the March quarter (4QFY25) and successfully shipped out. Although Blended ASP(USD) increased by 3% qoq to USD 22/1,000 pcs in 3QFY25, but took a deep cut when translated back lower in (MYR) due to unfavourable forex.

Outlook. The glove industry is currently experiencing an oversupply situation. The outlook for the upcoming quarter is bleak due to several factors: (a) Upfront purchases from US customers currently taking place may reduce the order volume in the next two quarters. (b) China is selling at a lower ASP in non-US markets to fully utilise its production capacity, with a price point of USD15 compared to USD16-20 for manufacturers in Malaysia. (c) Limitations on foreign worker quotas are pushing glove manufacturers to hire pricier local employees. The latest government cap on foreign workers is set at 2.5m, leaving ~90k available positions as of Nov 2024. (d) Higher-than-expected costs are anticipated, including increased personnel expenses and ramp-up in costs for the NGC1.5 Plant 8. (e) The EPF contribution for foreign workers is still under discussion, with the current 2% contribution still having negligible impact. (f) Lastly, the 10% global tariff imposed by Trump is not a significant concern for HARTA, as HARTA can pass this cost onto its customers.

Risk from Chinese players. Should demand for gloves increases, China could potentially flood 30bn production capacity plant in ASEAN countries, mainly in Indonesia and Cambodia, to cater to the US market. However, plans are far from concrete.

Earnings Revision. We factor in the higher-than-expected operating expenses and softer ASP amid the challenging operating landscape. Following these changes, we adjust our FY25F/FY26F earnings forecast lower by -55.4%/-17.3% to RM100.7m/RM161.3m to align the ASP with management guidance for 4QFY25. Additionally, we are introducing FY27F earnings of RM179.6m. Assuming no further capacity additions in the market and with economic recovery in

key markets (US, Europe, and Southeast Asia), the glove sector is expected to reach market equilibrium by 2026 or beyond.

Valuation. Despite reducing our earnings expectations, we are upgrading our recommendation on HARTA to **BUY** with a revised target price of **RM3.56** (down from RM3.64) following a recent pullback in share prices. This is based on a 2.2x price-to-book multiple applied to the FY27F BVPS of 1.62, with no ESG premium or discount factored in, given its three-star ESG rating. The P/B ratio is applied fairly as before the pandemic, HARTA's Book Value per share was at RM 1.11 with a 6.0x P/B ratio; the current P/B ratio is undervalued; we command 37% discount from 2018's P/B ratio as the Chinese glovemakers enter the market during a pandemic.

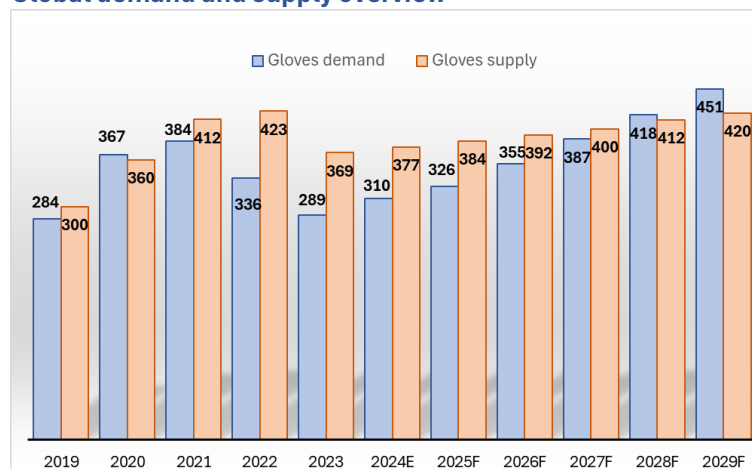
Risk. Volatility in raw material prices and currency exchange rates will impact ASPs and margins.

Earnings Summary

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	2409.6	1838.1	2073.9	2519.7	2645.7
EBITDA	-43.8	178.2	245.5	375.8	409.5
Pre-tax profit	-214.4	38.5	93.9	213.9	238.2
Net profit	-235.1	12.5	71.8	161.3	179.6
Core net profit	-582.1	-6.6	100.7	161.3	179.6
Core EPS (sen)	-29.1	-0.3	5.0	8.1	9.0
P/E (x)	N/A	N/A	88.5	55.2	49.6
P/B (x)	1.7	1.9	1.9	1.9	1.9
EV/EBITDA (x)	-73.3	19.4	14.2	9.5	8.8
Dividend Yield (%)	1.3%	0.0%	0.2%	0.9%	1.2%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Apex Securities

Global demand and supply overview



Source: Company, Apex Securities

Results Note

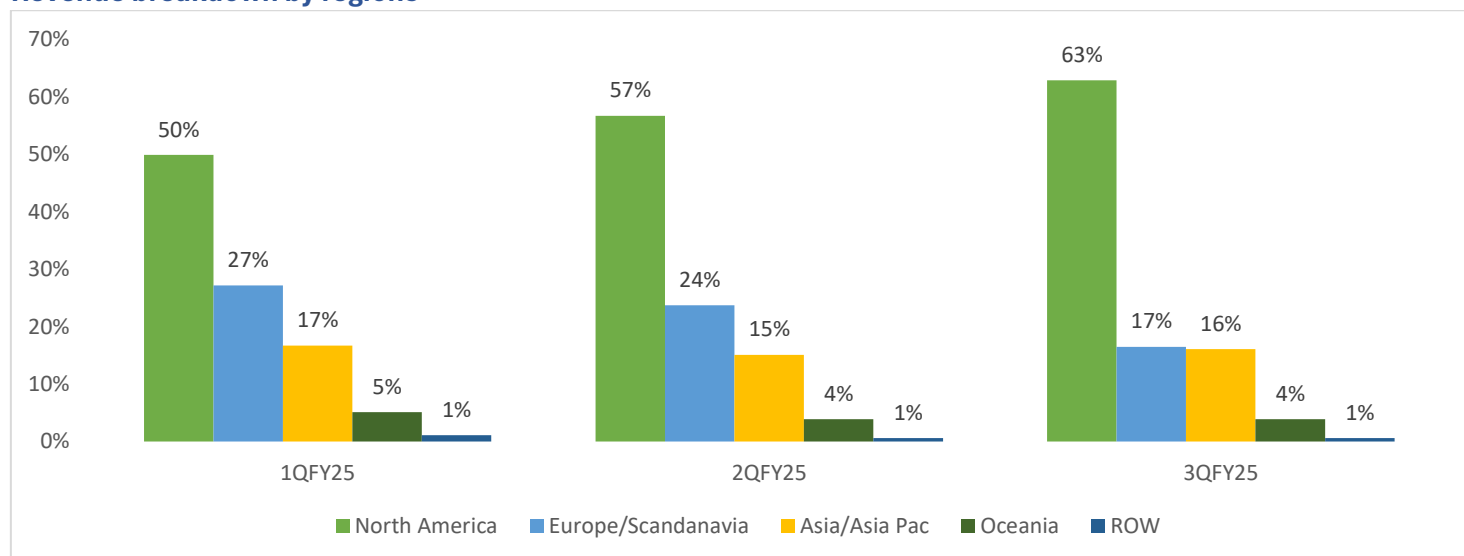
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Results Comparison

FYE Mar (RM m)	3QFY25	3QFY24	yoy (%)	2QFY25	qoq (%)	9MFY25	9MFY24	YTD (%)	Comments
Revenue	738.2	415.6	77.6	652.1	13.2	1,974.1	1,307.8	51.0	Upfront buying due to concerns over price
EBITDA	66.4	49.9	33.1	(23.6)	nm	106.9	79.1	35.2	hikes environment
Pre-tax profit	36.6	29.0	26.1	(47.5)	nm	30.3	19.9	52.7	
Net profit	19.3	22.8	(15.2)	8.6	124.4	59.8	0.5	12,333.1	
Core net profit	29.3	16.6	76.8	25.9	13.0	88.9	(5.3)	nm	Higher sales order and improved production
Core EPS (sen)	0.4	0.2	76.8	0.3	13.0	1.1	(0.1)	nm	efficiencies
EBITDA margin (%)	9.0	12.0		(3.6)		5.4	6.0		
PBT margin (%)	5.0	7.0		(7.3)		1.5	1.5		
Core PATMI margin (%)	4.0	4.0		4.0		4.5	(0.4)		

Source: Company, Apex Securities

Revenue breakdown by regions



Source: Company, Apex Securities

Results Note

Wednesday, 19 Feb, 2025

Financial Highlights

Income Statement

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	2409.6	1838.1	2073.9	2519.7	2645.7
Gross Profit	318.9	155.7	313.2	453.6	476.2
EBITDA	-43.8	178.2	245.5	375.8	409.5
Depreciation & Amortisation	-163.0	-132.1	-143.9	-154.1	-163.4
EBIT	-206.8	46.1	101.6	221.7	246.1
Net Finance Income/ (Cost)	-7.6	-7.6	-7.7	-7.8	-7.9
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	-214.4	38.5	93.9	213.9	238.2
Tax	-24.4	-18.7	-22.5	-51.3	-57.2
Profit After Tax	-238.8	19.8	71.4	162.6	181.0
Minority Interest	-3.7	7.3	-0.5	1.3	1.4
Net Profit	-235.1	12.5	71.8	161.3	179.6
Exceptionals	347.0	19.1	-28.8	0.0	0.0
Core Net Profit	-582.1	-6.6	100.7	161.3	179.6

Key Ratios

FYE Mar	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	-16.98	-0.19	2.94	4.71	5.24
P/E (x)	N/A	N/A	88.52	55.25	49.63
P/B (x)	1.73	1.91	1.92	1.90	1.86
EV/EBITDA (x)	-73.26	19.36	14.25	9.49	8.84
DPS (sen)	3.50	0.00	0.62	2.36	3.14
Dividend Yield (%)	1.3%	0.0%	0.2%	0.9%	1.2%
EBITDA margin (%)	-1.8%	9.7%	11.8%	14.9%	15.5%
EBIT margin (%)	-8.6%	2.5%	4.9%	8.8%	9.3%
PBT margin (%)	-8.9%	2.1%	4.5%	8.5%	9.0%
PAT margin (%)	-9.9%	1.1%	3.4%	6.5%	6.8%
NP margin (%)	-9.8%	0.7%	3.5%	6.4%	6.8%
Core NP margin (%)	-24.2%	-0.4%	4.9%	6.4%	6.8%
ROE (%)	-10.0%	-0.1%	1.9%	3.0%	3.3%
ROA (%)	-4.4%	0.2%	1.4%	3.0%	3.2%
Net gearing (%)		Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Mar	FY23	FY24	FY25F	FY26F	FY27F
Production (lines)	120.0	60.0	84.0	120.0	120.0
Utilisation rate (%)	53.6%	90.0%	70.0%	72.0%	72.0%
Production (m pcs)	42000.0	42000.0	33666.7	35350.0	37117.5
Blended ASP (RM/pcs)	266.92	107.05	97.05	88.00	99.00

Valuations

Valuations	FY27F
BVPS (RM)	1.615
P/BV multiple (x)	2.2
Fair Value (RM)	3.56

Source: Company, Apex Securities

Balance Sheet

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	1724.5	1427.4	1435.0	1452.2	1480.3
Receivables	323.5	386.7	389.0	415.0	413.4
Inventories	232.4	385.6	393.3	401.2	409.2
Other current assets	80.1	80.5	80.5	80.5	80.5
Total Current Assets	2360.4	2280.3	2297.9	2348.9	2383.5
Fixed Assets	2942.3	2975.9	3003.5	3076.2	3150.9
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	2.3	1.4	1.4	1.4	1.4
Total Non-current assets	2944.5	2977.4	3005.0	3077.7	3152.3
Short-term Debt	90.1	64.6	38.0	56.9	76.7
Payables	252.7	316.8	328.1	345.5	354.9
Other Current Liabilities	11.3	3.7	3.7	3.7	3.7
Total Current Liabilities	354.1	385.1	369.8	406.1	435.3
Long-term Debt	64.3	6.8	12.7	19.0	25.6
Other non-current liabilities	228.2	221.5	221.5	221.5	221.5
Total Non-current Liabilities	292.4	228.3	234.2	240.5	247.1
Shareholder's equity	4640.1	4647.7	4698.3	4778.9	4851.2
Minority interest	18.3	-3.5	0.5	1.1	2.3
Equity	4658.4	4644.2	4698.8	4780.0	4853.5

Cash Flow

FYE Mar (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	-214.4	38.5	93.9	213.9	238.2
Depreciation & amortisation	163.0	132.1	143.9	154.1	163.4
Changes in working capital	118.6	-149.0	1.4	-16.5	2.9
Others	-104.0	-79.5	-77.1	-106.1	-112.1
Operating cash flow	-36.8	-58.0	162.0	245.4	292.4
Net capex	-307.2	-167.0	-165.9	-226.8	-238.1
Others	40.8	33.6	61.3	61.9	62.5
Investing cash flow	-266.4	-133.4	-104.6	-164.9	-175.6
Dividends paid	-239.2	0.0	-21.3	-80.7	-107.3
Others	-112.6	-111.4	-28.5	17.4	18.6
Financing cash flow	-351.8	-111.4	-49.7	-63.3	-88.7
Net cash flow	-655.0	-302.8	7.6	17.2	28.2
Forex	-3.2	5.5	0.0	0.0	0.0
Others	4.5	0.2	0.0	0.0	0.0
Beginning cash	2378.1	1724.5	1427.4	1435.0	1452.2
Ending cash	1724.5	1427.4	1435.0	1452.2	1480.3

Nitrile gloves:

Metrics	Oct 2024 – Dec 2024	Jan 2024 – Mar 2024	qoq (%)	Future expectations
ASP (USD)	US: USD 22 Non-US: USD 20	HARTA US: USD 20-21 Non-US: 18-19 <u>Chinese glovemakers</u> US: USD 26-27 (after tariff) Non-US: USD 15	+3%	- ASP in US: USD 21 in Dec. - ASP in Non-US (Europe): USD 18 in Dec.
Sales Volume (bn pcs)	7.6bn pcs	3.0-4.0 bn pcs (our forecast)	+12%	- Softer volume orders due to US customers have upfront all the orders in Sept-Dec 2024. - Stock replenishment activity is expected to begin at least in May 2025 onwards.

Note: If the gap is less than USD 2 between Malaysia and China glovemakers, customers will consider Malaysia's gloves as they are concerned about the ESG problem. (China uses coal as the source of energy, while Malaysia uses Natural Gas and Biomass)

ESG Matrix Framework:**Environment**

Parameters	Rating	Comments
Climate	★★★	Reduce carbon emission intensity by 10% to 0.0183 tonnes/'000 pcs gloves in FY24
Waste & Effluent	★★★	Reduced solid waste by 64.7% to 3,575 tonnes, target to achieve in FY25
Energy	★★★	Energy consumption reduced by 14% to 7.41 kWh.'000 pcs gloves
Water	★★★	Water consumption reduced by 29% to 0.164 m3 /'000 pcs gloves in FY24
Compliance	★★★	Scored among the top 3% out of 274 companies assessed in the Health Care Equipment & Supplies Industry in the S&P Global Corporate Sustainability Assessment

Social

Diversity	★★★	55% female leadership in managerial positions (manager and above) in FY24
Human Rights	★★★	Conduct Human Rights Due Diligence, HRDD for 100% TG own operation
Occupational Safety and Health	★★	Reduced occupational accident rate to 2.45/'000 employees and 100% contractors passed safety evaluation in FY24
Labour Practices	★	2 factories audited achieved 'C' rating

Governance

CSR Strategy	★★★	Donation to Dinas Kehutanan team, Kelompok Tani Hutan (KTH), and Kesatuan Hutan Produksi (KPHP) in FY24.
Management	★★	8/9 board members age over 50, 33% female director, 5/9 Independent Directors
Stakeholders	★★★	4x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★**Recommendation Framework:****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.**ESG Rating Framework:**

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.