Hartalega Holdings

Barely Profitable in FY24

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HARTA's FY24 results disappointed. It returned to the black with a small profit in FY24 on a lower cost base following the decommissioning of certain inefficient production capacity, while its sales volume and ASP fell. Massive overcapacity will continue to weigh on the sector's outlook. We maintain our forecasts, TP of RM2.33 and UNDERPERFORM call.

HARTA FY24 net profit disappointed, coming in at only 31% and 27% of our forecast and the consensus estimate, respectively. The variance against our forecast came largely from a lower-than-expected sales volume and higher-than-expected cost of input nitrile butadiene rubber. No dividend was declared in FY24 which is within our expectation.

YoY, its FY24 revenue dropped 24% due to lower ASP (-9%) and volume sales (-16%). However, it returned to the black with a net profit of RM13m (vs. a net loss of RM235m a year ago) on a lower cost base following the retirement of certain inefficient production capacity. Recall, during FY23, it decommissioned its Bestari Jaya plant that effectively cut its production capacity by 30% to 31b pieces per annum.

QoQ, its 4QFY24 revenue rose 28% due to a higher sales volume (partly due to the delivery of delayed shipment from the previous quarter due to the Red Sea crisis) (+25%) and ASP (+2%). However, its core net profit fell 33% largely due to higher cost of input nitrile butadiene rubber (+8%).

The key takeaways from its analysts' briefing yesterday are as follows:

1. HARTA highlighted that the shipment delays in 3QFY24 estimated at 600m pieces has been booked in 4QFY24. All in, the group expect minimal order backlog by shipment delays due to heightened geo-political tensions in the Red Sea.

2. The group expect a gradual uptick in orders and expect 1QFY25 sales volume to be higher than in 4QFY24, underpinned by inventory rebuilding from distributors indicating early signs of potential recovery in demand. It expects to hit sales volume of 2.2b pieces/month. Already, HARTA has seen 4QFY24 orders inching closer towards 2b pieces per month compared to 1.5b pieces/ per month in 3QFY24. However, we believe the recovery in its quarterly sales will remain bumpy as buyers see little need and urgency to place sizeable orders or hold substantial stocks as supply is plentiful and readily available in the market.

3. HARTA is cautious about raising prices (to fully pass on the higher input cost) given the still competitive landscape in the industry. However, in tandem with higher input nitrile butadiene cost, it expects to pass on some cost increase via higher ASP which can be felt in 1QFY25. With a low industry utilisation of about 40%-50%, we believe the prospect of rising ASP in the immediate term will be challenging.

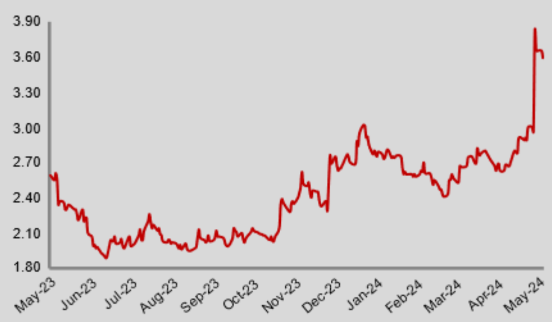
4. The group is of the view that it is too early to assess the impact from the recent announced tariff hike by US on Chinese medical grade gloves. Typically, the US accounts for 40%-50% of US sales volume in HARTA. To recap, last week, US President Joe Biden unveiled steep tariff increases on an array of Chinese imports which includes a higher tariff of 25% (from current 7.5%) on China's rubber medical and surgical gloves' exports into the US beginning 2026.

UNDERPERFORM ↔

Price: RM3.59

Target Price: RM2.33 ↔

Share Price Performance



KLCI	1,622.09
YTD KLCI chg	11.5%
YTD stock price chg	33.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK
Market Cap (RM m)	12,253.6
Shares Outstanding	3,413.3
52-week range (H)	3.83
52-week range (L)	1.88
3-mth avg. daily vol.	5,977,749
Free Float	41%
Beta	1.0

Major Shareholders

Hartalega Industries	34.4%
Budi Tenggara Sdn Bhd	8.6%
Employees Provident	3.2%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	1837.6	1885.5	1992.9
PBT/ (LBT)	38.7	75.3	78.4
Net Profit /(Loss)	12.7	50.4	52.3
Consensus (NP)	-	192	321
Earnings Revision	-	-	-
EPS (sen)	0.4	1.5	1.5
EPS Growth (%)	-105.8	296.0	3.9
PER (x)	959.4	242.3	233.2
NDPS (sen)	0.0	0.9	0.9
BVPS (RM)	1.35	1.36	1.37
PBV (x)	2.7	2.6	2.6
Net Gearing (%)	Net Cash	Net Cash	Net Cash
Dividend Yield (%)	0.0	0.2	0.3

Outlook. We expect the operating environment to remain challenging in subsequent quarters, plagued by massive oversupply. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in CY26 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness. MARGMA projects 12%−15% growth in the global demand for rubber gloves annually from CY23, following an estimated 25% contraction to 300b pieces in CY23. We project the demand for gloves to rise by 30% in CY24 to 390b pieces (due to a low base effect in CY23) and resume its organic growth of 15% thereafter. This will result in an excess capacity of 212b pieces in CY24. The overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in CY24.

Forecasts. We maintain our FY25F forecasts and introduce our FY26F numbers.

Valuations. We also keep our TP at RM2.33 based on 1.7x FY25F BV, in line with the sector's average PBV of 1.7x charted during previous downturns in 2008−2011 and 2014−2015. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see Page 3). At >100x forward PER and forward ROE of only 1%-2%, its valuations are lofty despite the improved outlook. Reiterate **UNDERPERFORM**.

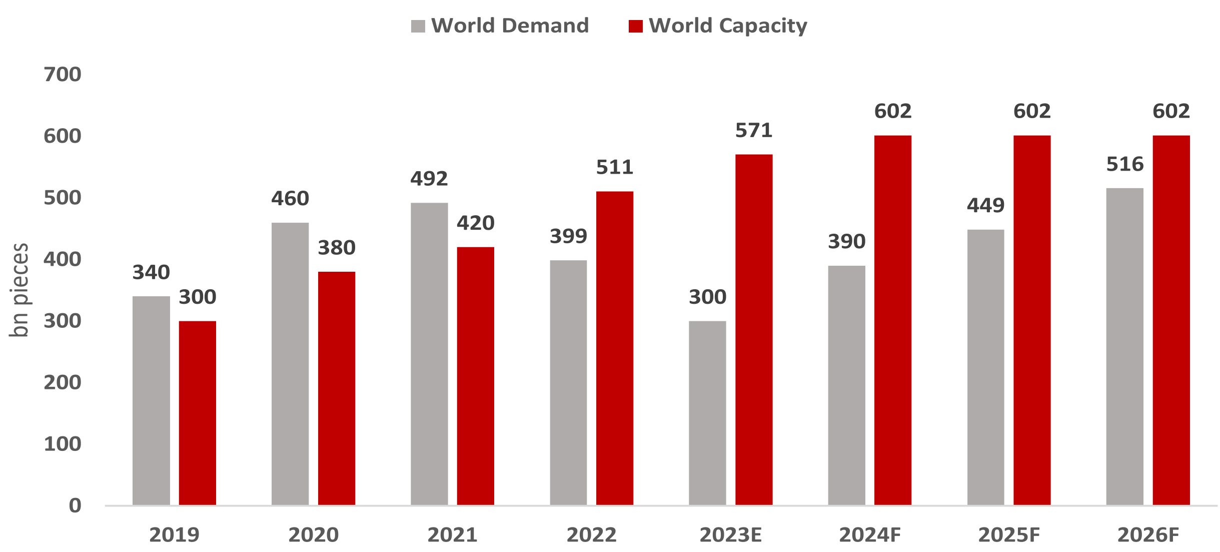
Key risks to our recommendation include: (i) the industry turning the corner sooner on stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, (ii) industry consolidation reducing competition among players, and (iii) epidemic and pandemic occurrences.

Results Highlight

FY Mar (RM m)	4Q FY24	3Q FY24	QoQ Chg %	4Q FY23	YoY Chg %	12M FY23	12M FY24	YoY Chg %
Turnover	529.8	415.6	27.5	517.5	2.4	2,409.6	1,837.6	(23.7)
EBITDA	51.6	65.5	(21.3)	(311.1)	(116.6)	(43.8)	177.6	(505.4)
Depreciation	(31.6)	(34.5)	(8.5)	(41.6)	(24.0)	(163.0)	(132.0)	(19.0)
EBIT	20.0	31.0	(35.5)	(352.7)	(105.7)	(206.8)	46.3	(122.4)
Interest expense	(1.1)	(2.0)	(43.0)	(2.5)	(53.7)	(7.6)	(7.6)	(0.4)
PBT	18.9	29.0	(35.0)	(355.1)	(105.3)	(214.4)	38.7	(118.1)
Taxation	0.7	(6.3)	(111.1)	27.1	(97.4)	(24.4)	(18.7)	(23.5)
Minoritites	(4.5)	(0.4)	1,049.7	8.2	(154.5)	3.7	(7.3)	(299.7)
Net Profit (NP)	15.1	22.4	(32.5)	(319.9)	(104.7)	(235.1)	12.7	(105.4)
EPS (sen)	0.4	0.7	(33.3)	(9.4)	(104.7)	(6.9)	0.4	(105.4)
EBITDA margin (%)	9.7	15.8		NM		(1.8)	9.7	
PBT margin (%)	3.6	7.0		NM		(8.9)	2.1	
NP margin (%)	2.9	5.4		NM		(9.8)	0.7	
Effective tax rate (%)	NM	21.6		7.6		(11.4)	48.2	

Source: Bursa Malaysia, Kenanga Research

Global Glove Demand & Supply Pointing to Sustained Excess Supply Over CY22−25



Source: Kenanga Research

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	UP	3.59	2.33	-35.1%	12,305	Y	03/2025	1.5	1.5	297%	3.8%	242	233	2.6	1.1%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	2.44	1.48	-39.3%	6,241	Y	12/2024	4.7	4.9	140%	5.1%	52	50	1.6	3.1%	2.0	0.8%
SUPERMAX CORP BHD	MP	0.965	0.840	-13.0%	2,625	N	06/2024	(0.2)	0.3	-103%	69.2%	NM	298	0.6	-0.1%	0.0	0.0%
TOP GLOVE CORP BHD	UP	1.19	0.750	-37.0%	9,768	Y	08/2024	(1.6)	0.8	-114%	-48.6%	NM	149	2.1	-2.7%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	☆	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★		
	Automation & Innovation	★	★	★	☆	
	Energy Efficiency	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Legal & Regulatory Compliance	★				
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%.
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%.
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%.

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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