Hartalega Holdings

A Weak Start to FY26, Optimistic of Better Quarters Ahead

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OUTPERFORM ↔

Price: RM1.32

Target Price: RM3.10 ↓

HARTA's 1QFY26 missed expectations due to lower-than-expected sales volume as buyers hold off making purchases, waiting for better tariff clarity. We expect the group's dynamic and visionary leadership to steer the company out of the current tough operating environment. Specifically, its efforts to focus on cost optimisation and further automate its plants will continue to drive down cost in subsequent quarters. It is seeing a return of orders. Looking into 2HFY26, it expects strong orders recovery due to inventory replenishment. We cut our FY26F net profit by 29% on lower-than-expected sales volume. However, we remain optimistic of a stronger recovery in FY27 driven by higher sales and full benefits from its cost optimisation. We lower our TP to RM3.10 (previously RM3.20) on unchanged 2.5x FY26F BVPS. Reiterate OUTPERFORM.

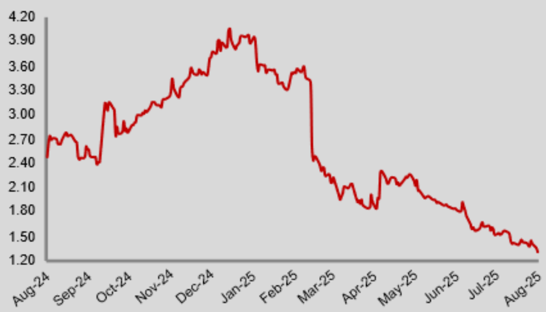
HARTA's 1QFY26 reported a net profit RM12.6m, down 13% QoQ. Excluding a RM11.3m gain from disposal of assets at the Bestari Jaya facility, its core net profit fell to RM1.3m compared to our and consensus FY26 net profit of RM155m and RM138m, respectively. We consider the results below expectations. The variance was due to lower-than-expected volume sales.

QoQ, its 1QFY26 revenue shrank 10% due to lower sales volume (-3%) and ASP (-4%). EBITDA dropped by 26% to RM44m, due to weaker revenue leading to lower-than-expected economies of scale. This brings 1QFY26 core profit to RM1.2m (-26%). **YoY,** its 1QFY26 revenue slipped 5% due to lower sales volume (-2%) and ASP (-3%). No dividend was declared in the quarter which is within our expectation.

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

1. The group is optimistic of orders returning. As US glove inventory drops to low levels with frontloaded gloves depleting, it foresees order replenishment will be needed soon that could translate to a sudden orders uptick. It specifically highlighted a solid recovery in 2QFY26 and expect an uptick in demand from 3QFY26 onwards. It has seen monthly orders hitting 2.1b pieces vs 1.9b pieces in 1QFY26 and is targeting to hit 2.3b in 2HFY26. The group is of the opinion that tariffs will regulate the glove industry and cushion any unfair price dumping which is positive to Malaysian glovemakers. HARTA believes that given the current geopolitical tensions between the US and China, and implications for trade restrictions and tariffs, buyers are less likely to source supplies, including gloves, purely from China in order to diversify buying sources as a risk management strategy, opting to purchase from other countries, including Malaysia.
2. It has guided ASP in 2QFY26 to be flat QoQ or in the range of USD20−21/1,000 pieces (vs. our FY26F assumption of USD21) compared to USD22 in 4QFY25 due to the current intense competition. To maintain its ASPs, it is planning to streamline SKUs to improve production efficiency and reduce downtime from frequent changeovers in production. Typically, the higher the SKUs, the more product variations, some of which may have less demand and hence cost more to maintain. While this offers customers more choices, it can also lead to some variations having lower demand, which results in higher maintenance costs due to the need to manage and store a larger inventory with some slow-moving items.

Share Price Performance



KLCI	1,538.64
YTD KLCI chg	-6.3%
YTD stock price chg	-66.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HART MK
Market Cap (RM m)	4,505.5
Shares Outstanding	3,413.3
52-week range (H)	4.00
52-week range (L)	1.31
3-mth avg. daily vol.	9,423,000
Free Float	44%
Beta	0.9

Major Shareholders

Hartalega Industries	34.4%
Budi Tenggara Sdn Bhd	8.6%
KWAP	6.4%

Summary Earnings Table

FY Mar (RM m)	2025A	2026F	2027F
Turnover	2585.6	2491.1	3414.8
PBT/ (LBT)	47.9	121.2	283.7
Net Profit /(Loss)	74.5	93.0	217.1
Consensus (NP)	-	138	206
Earnings Revision	-	-29%	-
EPS (sen)	2.2	2.7	6.4
EPS Growth (%)	485.6	24.8	133.5
PER (x)	60.2	48.3	20.7
NDPS (sen)	11.8	1.6	3.8
BVPS (RM)	1.26	1.27	1.30
PBV (x)	1.0	1.0	1.0
Net Gearing (%)	Net Cash	Net Cash	Net Cash
Dividend Yield (%)	8.9	1.2	2.9

3. Over the next 18 to 24 months, the group has earmarked RM200−300m capex (we have factored this into our earnings model) to enhance operational efficiencies and reduce cost, including revamping its auto stripping machine, installed AI-vision system to detect defects and digitalisation initiatives across its operations. As an indication, Plant 9 is expected to be equipped with automation capable of detecting glove defects with a 0.3% reject rate, and a stripping machine which is 5x faster. Separately, it is modifying its lines to use less energy and chemicals. Typically, energy and chemical account for 19% and 8% of total costs, respectively. The ongoing efforts in automation has seen workers rightsized from an estimated 8,300 presently to 6,300 workers. As a result, manufacturing cost has reduced by 7%. The group expects cost optimisation efforts will continue drive down cost in subsequent quarters. Case in point – it is looking to mobilise workers who have idle time, and redesign the workflow in order to ensure higher productivity. Based on our back-of-envelope calculation, the reduction in workers is expected to see a savings of RM30−40m or 15%−18% of FY27F's bottom line.

Separately, in an announcement to Bursa Malaysia, HARTA said it has received a notice of additional assessments from the Inland Revenue Board of Malaysia (IRB) for the assessment years of 2017 (RM13.9m), 2018 (RM36.3m), 2019 (RM10,695), 2020 (RM32.9m), 2021 (RM18.1m) and 2022 (RM90,624.60) or an aggregate RM102m. It is s currently seeking legal advice and evaluating its legal options, which may include initiating a formal appeal to the IRB. For illustration purposes, assuming the worst case of RM102m, HARTA's net cash will reduce from RM990m to RM888m.

Valuations. We cut our FY26F net profit by 29% as we lower our utilisation rate to 75% from 90% due to the lower-than-expected volume sales. Our TP is reduced from RM3.20 to RM3.10 based on unchanged 2.5x FY26F BVPS. HARTA, which has a high US sales volume that accounts for 50%−60% of sales, would have had the most to gain. Even so, we believe that in terms of PBV valuation, its share price is trading at a level commensurate with pre-tariff imposition. For illustration purposes, before the US tariffs imposition on China glovemakers in Sep CY24, HARTA was trading at between 1.8x and 2.0x PBV. Assuming 2x FY26F BVSP, the stock should trade at RM2.50. It is currently trading at 20x FY27 EPS. Assuming +2.0SD or 32x PER, the stock could trade at RM2.05. There is no adjustment to our TP based on ESG, given a 3-star rating as appraised by us (see Page 3). Reiterate OUTPERFORM.

HARTA has demonstrated foresight by pioneering lightweight nitrile gloves, antimicrobial gloves, and automation, positioning it as a leader in the sector. Its commitment to these areas, along with strong governance and community engagement, has contributed to the group's growth and reputation. We believe HARTA's dynamic and visionary leadership should help steer it out of the current tough operating environment while introducing cutting-edge manufacturing process.

Key risks to our recommendation include: (i) certain Chinese glove giants ramping up predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), (ii) weaker-than-expected growth in demand for gloves due to slower-than-anticipated hygiene standards implementation and health awareness globally, and (iii) unfavourable changes in tariffs to Malaysian glovemakers.

Results Highlight

FY Mar (RM m)	4Q FY25	1Q FY25	1Q FY26	Chg % YoY	Chg % QoQ
Turnover	611.5	583.8	553.1	(5.3)	(9.6)
EBITDA	58.6	76.3	43.6	(42.8)	(25.6)
Depreciation	(40.8)	(34.2)	(40.5)	18.6	(0.8)
EBIT	17.8	42.2	3.1	(92.6)	(82.5)
Interest expense	(0.1)	(1.0)	(0.1)	(91.8)	(43.0)
EI*	0.0	0.0	11.3	NM	NM
PBT	17.6	41.1	14.3	(65.2)	(18.8)
Taxation	(3.0)	(9.2)	(2.0)	(78.4)	(34.4)
Minoritites	(0.1)	(0.0)	0.3	NM	(315.2)
Net Profit/PATAMI (NP)	14.5	31.9	12.6	(60.4)	(12.9)
Core PATAMI	14.5	31.9	1.3	(95.9)	(91.0)
EPS (sen)	0.4	0.9	0.4	(60.6)	(11.9)
EBITDA margin (%)	9.6	13.1	7.9		
PBT margin (%)	2.9	7.0	2.6		
NP margin (%)	2.4	5.5	2.3		
Effective tax rate (%)	17.2	22.4	13.9		

Source: Bursa Malaysia, Kenanga Research

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	OP	1.32	3.10	134.8%	4,505.5	Y	03/2026	2.7	6.4	24.8%	133.4%	48.3	20.7	1.0	2.1%	2.0	1.5%
KOSSAN RUBBER INDUSTRIES	OP	1.27	2.70	112.6%	3,213.6	Y	12/2025	6.4	6.4	36.1%	0.8%	19.9	19.7	0.9	4.4%	4.0	3.1%
SUPERMAX CORP BHD	MP	0.535	0.700	30.8%	1,635.6	N	06/2025	(3.0)	1.0	-156.7%	-65.8%	N.A.	51.4	0.4	-2.2%	0.0	0.0%
TOP GLOVE CORP BHD	OP	0.635	0.930	46.5%	5,091.3	Y	08/2025	0.9	1.6	-52.9%	80.0%	69.8	38.8	1.1	1.6%	0.5	0.7%

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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