

## Hartalega (HART MK)

# 2024, a year of risks and opportunities

### Key highlights from recent concall

We recently hosted a concall with HART's management, and gleaned three key takeaways: i) sales volume remains volatile with a shorter order lead time, ii) margins may come under pressure if additional costs due to higher raw material and natural gas prices cannot be passed on, iii) restocking activities are expected to resume by 2H 2024. We maintain our earnings forecasts and MYR2.12 TP (on 1.6x CY24E PBV; -1SD). Reiterate HOLD.

### Sales volume remains volatile, but price gap reduces

There has been no notable increase in sales, and sales volume remains volatile, with a shorter order lead time as buyers are in no rush to lock in a contract due to excess supply in the glove market. HART's utilization rate remains low at 40-45%. Due to lower raw material and natural gas prices since 2QFY23, the price gap between Malaysian and Chinese glove makers has narrowed to USD2-3/kpcs (from USD3-4). We understand that Malaysian glove makers' ASP is around USD17-18/kpcs (China's USD14-15/kpcs, excluding tariff). Elsewhere, stock clearance activities could end soon and restocking activities are expected to resume in 2H 2024.

### Aims at EBITDA neutral (breakeven), at least...

Margins may come under pressure again if additional costs, especially from the expected increase in natural gas prices by 2024, cannot be passed on. Natural gas is the primary energy source for Malaysian glove makers (c.19% of production cost), whereas Chinese and Thailand glove makers use coal or biomass. To achieve +ve EBITDA or at least breakeven, management will continue to improve on production efficiency and competitiveness following the decommissioning of the Bestari Jaya facilities (BJF).

### Decommissioning of BJF is on track

The decommissioning of BJF is slated by Dec 2023/Jan 2024. Management is currently transferring/shifting manpower and production to its NGC plant. Elsewhere, potential M&A will remain on the medical consumable space, if there is any. Management also has intention to grow its own brand products and distribution businesses in Australia.

FYE Mar (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	7,888	2,408	1,896	2,280	2,499
EBITDA	4,733	(20)	87	210	260
Core net profit	3,235	129	(7)	93	130
Core FDEPS (sen)	94.2	3.7	(0.2)	2.7	3.8
Core FDEPS growth(%)	8.7	(96.0)	nm	nm	39.3
Net DPS (sen)	56.8	0.0	0.0	1.6	2.3
Core FD P/E (x)	5.2	50.8	nm	76.9	55.2
P/BV (x)	3.2	1.4	1.6	1.5	1.5
Net dividend yield (%)	11.7	0.0	0.0	0.8	1.1
ROAE (%)	64.1	(4.5)	(1.7)	2.0	2.8
ROAA (%)	49.0	2.2	(0.1)	1.8	2.5
EV/EBITDA (x)	3.1	nm	63.5	26.0	20.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(24)	159	244
MIBG vs. Consensus (%)	-	-	(215.2)	(41.3)	(46.7)

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# HOLD

Share Price	MYR 2.08
12m Price Target	MYR 2.12 (+4%)
Previous Price Target	MYR 2.12

### Company Description

Hartalega is the world's largest nitrile medical gloves producer.

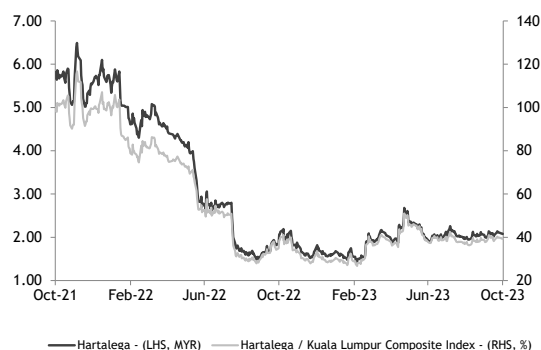
### Statistics

52w high/low (MYR)	2.68/1.43
3m avg turnover (USDm)	2.4
Free float (%)	39.2
Issued shares (m)	3,428
Market capitalisation	MYR7.1B USD1.5B

### Major shareholders:

Hartalega Industries Sdn. Bhd.	34.3%
Employees Provident Fund	8.6%
BNP Paribas Wealth Management	5.0%

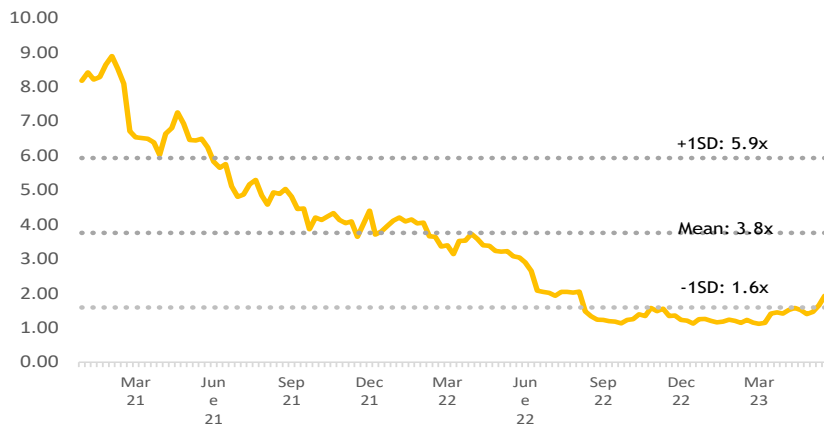
### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	2	0
Relative to index (%)	2	2	1

Source: FactSet

**Fig 1: Hartalega's 1-year forward PBV (2021-2023)**



Source: Bloomberg, Company data, Maybank IBG Research

**Upside/downside risks**

Risk factors for our earnings estimates, target price and rating for HART are: (i) raw material prices declining faster than ASPs, (ii) higher demand/consumption for gloves from non-healthcare industries post pandemic, (iii) new capacity expansion from its China counterparts, and (iv) prolonged price war and oversupply issue.

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	7.1	nm	nm	76.5	54.9
Core P/E (x)	5.1	50.5	nm	76.5	54.9
Core FD P/E (x)	5.2	50.8	nm	76.9	55.2
P/BV (x)	3.2	1.4	1.6	1.5	1.5
P/NTA (x)	3.3	1.4	1.6	1.6	1.5
Net dividend yield (%)	11.7	0.0	0.0	0.8	1.1
FCF yield (%)	22.1	nm	0.6	1.4	2.2
EV/EBITDA (x)	3.1	nm	63.5	26.0	20.7
EV/EBIT (x)	3.2	nm	nm	65.2	40.7

**INCOME STATEMENT (MYR m)**

Revenue	7,888.3	2,407.8	1,896.4	2,280.2	2,498.6
EBITDA	4,733.4	(20.0)	86.7	210.1	260.3
Depreciation	(151.9)	(163.2)	(124.7)	(126.2)	(127.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4,581.5	(183.1)	(37.9)	83.9	132.6
Net interest income / (exp)	5.7	35.2	40.1	40.1	40.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	4,637.2	(190.7)	(67.8)	124.1	172.8
Income tax	(1,394.6)	(29.8)	(10.2)	(29.8)	(41.5)
Minorities	(7.9)	2.4	0.9	(1.0)	(1.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,234.7	(218.0)	(77.1)	93.3	129.9
Core net profit	3,234.7	128.9	(7.1)	93.3	129.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,378.1	1,724.5	1,768.0	1,807.5	1,887.0
Accounts receivable	418.6	324.1	255.3	306.9	336.3
Inventory	397.0	253.5	199.7	240.1	263.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,367.0	1,942.8	1,848.2	1,752.0	1,654.3
Intangible assets	30.8	42.6	42.6	42.6	42.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	756.0	1,039.4	1,039.4	1,039.4	1,039.4
<b>Total assets</b>	<b>6,347.6</b>	<b>5,326.9</b>	<b>5,153.0</b>	<b>5,188.4</b>	<b>5,222.7</b>
ST interest bearing debt	102.1	87.3	87.3	87.3	87.3
Accounts payable	378.1	250.2	197.0	236.9	259.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	136.7	62.3	39.9	39.9	40.9
Other liabilities	586.0	250.0	230.0	187.0	144.0
<b>Total Liabilities</b>	<b>1,202.4</b>	<b>650.2</b>	<b>554.3</b>	<b>551.3</b>	<b>532.2</b>
Shareholders Equity	5,121.6	4,657.1	4,580.0	4,617.3	4,669.3
Minority Interest	23.7	19.6	18.7	19.7	21.2
<b>Total shareholder equity</b>	<b>5,145.2</b>	<b>4,676.7</b>	<b>4,598.8</b>	<b>4,637.1</b>	<b>4,690.5</b>
<b>Total liabilities and equity</b>	<b>6,347.6</b>	<b>5,326.9</b>	<b>5,153.0</b>	<b>5,188.4</b>	<b>5,222.7</b>

**CASH FLOW (MYR m)**

Pretax profit	4,637.2	(190.7)	(67.8)	124.1	172.8
Depreciation & amortisation	151.9	163.2	124.7	126.2	127.7
Adj net interest (income)/exp	(5.7)	(35.2)	(40.1)	(40.1)	(40.1)
Change in working capital	182.4	108.3	69.5	(52.2)	(29.7)
Cash taxes paid	(1,168.9)	(442.0)	(10.2)	(29.8)	(41.5)
Other operating cash flow	(76.0)	358.4	0.0	0.0	0.0
Cash flow from operations	3,720.9	(38.1)	76.1	128.1	189.1
Capex	(57.2)	(307.0)	(30.0)	(30.0)	(30.0)
Free cash flow	3,663.7	(345.1)	46.1	98.1	159.1
Dividends paid	(2,989.0)	(239.2)	0.0	(56.0)	(77.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(111.0)	(104.9)	0.0	0.0	1.0
Other invest/financing cash flow	(854.9)	36.9	(2.6)	(2.6)	(2.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(291.2)	(652.3)	43.5	39.5	79.5

FYE 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	17.7	(69.5)	(21.2)	20.2	9.6
EBITDA growth	16.4	nm	nm	142.2	23.9
EBIT growth	16.7	nm	nm	nm	58.0
Pretax growth	21.6	nm	nm	nm	39.3
Reported net profit growth	12.1	nm	nm	nm	39.3
Core net profit growth	8.7	(96.0)	nm	nm	39.3
<b>Profitability ratios (%)</b>					
EBITDA margin	60.0	nm	4.6	9.2	10.4
EBIT margin	58.1	nm	nm	3.7	5.3
Pretax profit margin	58.8	nm	nm	5.4	6.9
Payout ratio	60.0	0.0	0.0	60.0	60.0
<b>DuPont analysis</b>					
Net profit margin (%)	41.0	nm	nm	4.1	5.2
Revenue/Assets (x)	1.2	0.5	0.4	0.4	0.5
Assets/Equity (x)	1.2	1.1	1.1	1.1	1.1
ROAE (%)	64.1	(4.5)	(1.7)	2.0	2.8
ROAA (%)	49.0	2.2	(0.1)	1.8	2.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	3.9	57.4	55.6	44.9	46.9
Days receivable outstanding	34.9	55.5	55.0	44.4	46.3
Days inventory outstanding	72.8	55.1	46.3	40.3	43.7
Days payables outstanding	103.9	53.2	45.7	39.7	43.1
Dividend cover (x)	1.7	nm	nm	1.7	1.7
Current ratio (x)	3.9	6.8	7.7	7.2	7.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	5.3	8.2	9.3	9.4	9.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	5.2	0.9	na	na
Debt/EBITDA (x)	0.1	nm	1.5	0.6	0.5
Capex/revenue (%)	0.7	12.8	1.6	1.3	1.2
Net debt/ (net cash)	(2,139.4)	(1,574.9)	(1,640.8)	(1,680.3)	(1,758.9)

Source: Company; Maybank IBG Research

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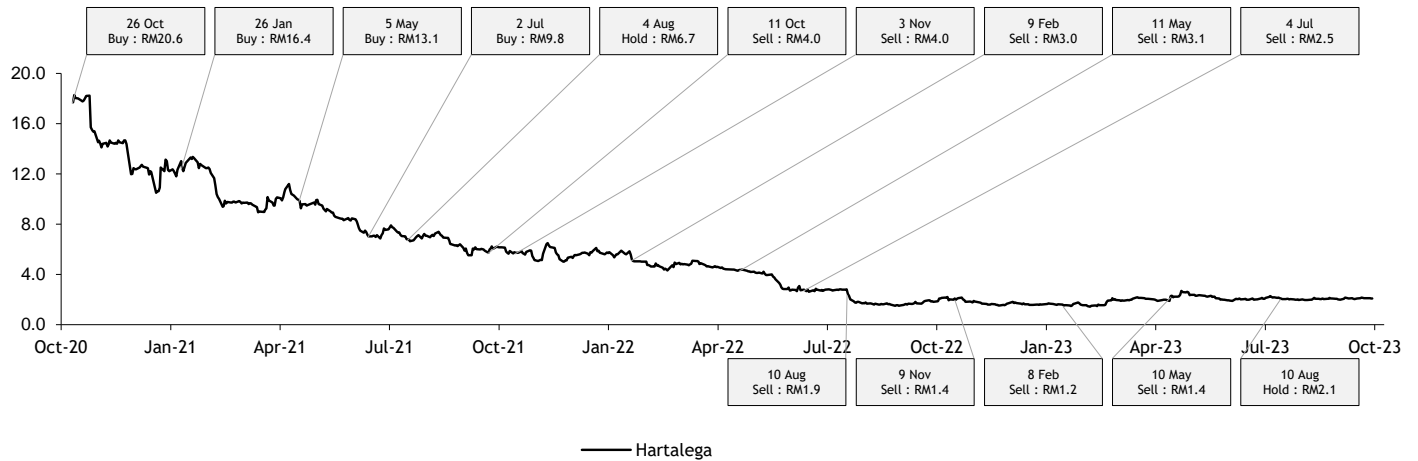
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