

Hartalega (HART MK)

Turning cautious

Profit below expectations

HART's 3QFY25 core net profit of MYR27.6m (+35% YoY, -11% QoQ) missed expectations due to higher tax charges and operating costs from new production lines. Management turned cautious on the sector outlook amid rapid capacity expansion by China glove makers in Southeast Asia, prioritising efficiency over volume with a focus on automation and technology. We cut FY25-27E earnings forecasts by -35% to -69% and lower TP to MYR2.70 (-37%), on a lower 2x CY26E P/B (-0.5SD, from 3x mean) to reflect supply risks from 2HCY26 onwards. D/G to HOLD (from BUY).

Dragged by higher operating costs and tax charges

Excluding a MYR30m unrealised forex gain, MYR40m fair value loss and MYR1.7m disposal gains, 3QFY25 core net profit was MYR27.6m (+35% YoY, -11% QoQ), bringing 9MFY25 core net profit to MYR91.3m (+86% YoY), at 57%/59% of our/consensus' FY25E. Earnings were weaker than expected due to higher-than-expected operating costs from new production line ramp-up and tax charges. This was despite QoQ improvement in sales volume (+12%) and ASP (+3%). Utilisation rate (UR) declined to 86%, from 89% in 2QFY25 on a larger capacity of 35b pcs in 3QFY25.

Key highlights from results concall:

i) 4QFY25 sales will be weaker due to front-loaded orders by US customers in 4QCY24 ahead of the tariff hikes on China gloves effective 1 Jan, 2025. UR is expected to decline to 70-75% but should improve once US inventory levels normalise by Apr-May 25. ii) the oversupply situation continues to suppress ASP, especially in non-US markets. China glove makers are aggressively expanding in Southeast Asia, with new plants in Indonesia, Cambodia, Vietnam, and Thailand. iii) management remains focused on cost efficiency, technology adoption, and selective capacity expansion to stay competitive in the evolving market.

Earnings adjustments

We lower our FY25/26/27 earnings by -35%/-47%/-69% to factor in: i) lower ASP of USD21/21/20/k pcs (from USD21/22/22) and ii) lower UR of 77%/75%/75% (from 80%/80%/85%). HART's balance sheet remains strong with MYR0.8b in net cash (MYR0.24/sh) as at end-Dec 2024. In 3QFY25, 60-62% of HART's revenue was derived from US (57% in 2QFY25).

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	2,410	1,838	2,561	2,787	2,851
EBITDA	(20)	178	225	296	209
Core net profit	162	50	105	154	84
Core FDEPS (sen)	4.7	1.5	3.0	4.5	2.4
Core FDEPS growth(%)	(95.0)	(69.2)	108.6	47.2	(45.5)
Net DPS (sen)	0.0	0.4	0.6	0.0	0.0
Core FD P/E (x)	40.2	nm	85.9	58.3	nm
P/BV (x)	1.4	2.0	1.9	1.8	1.8
Net dividend yield (%)	0.0	0.1	0.2	0.0	0.0
ROAE (%)	(4.8)	0.3	2.2	3.2	1.7
ROAA (%)	2.8	0.9	2.0	2.8	1.5
EV/EBITDA (x)	nm	45.2	33.7	25.3	35.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	148	290	390
MIBG vs. Consensus (%)	-	-	(29.2)	(46.8)	(78.4)

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HOLD

[Prior:BUY]

Share Price MYR 2.61
12m Price Target MYR 2.70 (+5%)
Previous Price Target MYR 4.31

Company Description

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

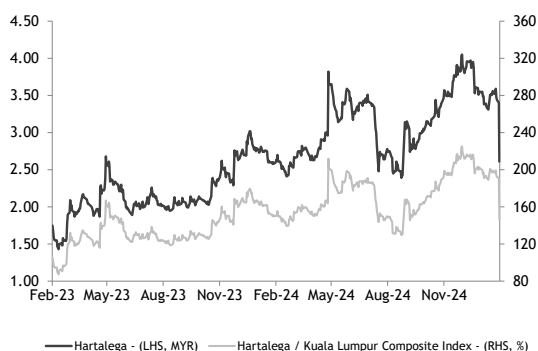
Statistics

52w high/low (MYR) 4.05/2.39
3m avg turnover (USDm) 4.5
Free float (%) 39.5
Issued shares (m) 3,428
Market capitalisation MYR8.9B
USD2.0B

Major shareholders:

Hartalega Industries Sdn. Bhd. 34.3%
Employees Provident Fund 8.6%
BNP Paribas Wealth Management 6.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(26)	(24)	1
Relative to index (%)	(27)	(23)	(2)

Source: FactSet

Fig 1: Hartalega - Results summary table

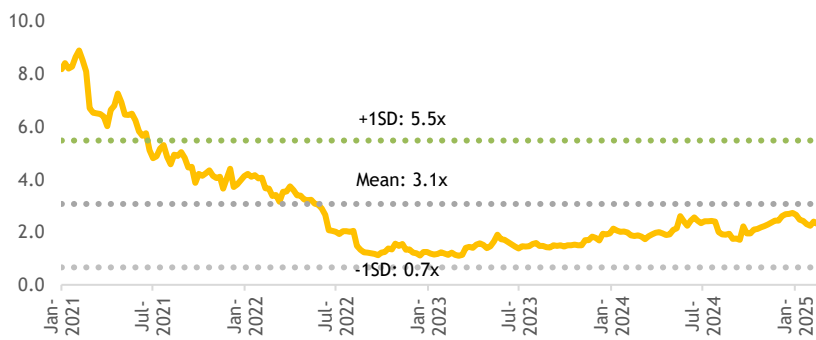
FY Mar (MYR m)	3QFY25	3QFY24	% YoY	2QFY25	% QoQ	9MFY25	9MFY24	% YoY
Turnover	738.2	415.6	77.6	652.1	13.2	1,974.1	1,307.8	51.0
EBITDA	76.8	65.6	17.0	(10.7)	>+100	142.4	126.1	12.9
Depreciation and Amortisation	(39.9)	(34.6)	(15.4)	(35.8)	(11.5)	(109.8)	(99.9)	(10.0)
EBIT	36.9	31.0	18.9	(46.5)	>+100	32.6	26.3	24.1
Net interest exp	10.1	13.9	(27.4)	11.9	(15.1)	33.2	40.9	(18.7)
Unrealised forex gain/(loss)	30.4	(3.8)	>+100	(34.5)	>+100	(3.0)	(10.1)	70.2
Fair value change on derivatives	(40.2)	2.0	>-100	17.2	>+100	(24.6)	4.0	>-100
One-off items	1.7	3.7	(54.1)	(4.9)	>+100	(3.7)	(45.4)	91.9
Pre-tax profit	36.6	29.0	26.1	(47.5)	>+100	30.3	19.9	52.7
Tax	(17.3)	(6.3)	>-100	56.1	>-100	29.5	(19.4)	>+100
Minority Interest	0.2	(0.4)	>+100	0.0	>+100	0.3	(2.9)	>+100
Net profit	19.5	22.4	(12.8)	8.6	>+100	60.1	(2.4)	>+100
Core net profit	27.6	20.4	35.1	30.8	(10.5)	91.3	49.1	85.9
Margins and tax rate			+/- ppt	+/- ppt			+/- ppt	
EBITDA margin (%)	10.4	15.8	(5.4)	(1.6)	12.0	7.2	9.6	(2.4)
EBIT margin (%)	5.0	7.5	(2.5)	(7.1)	12.1	1.7	2.0	(0.4)
Pretax margin (%)	5.0	7.0	(2.0)	(7.3)	12.2	1.5	1.5	0.0
Tax rate (%)	47.3	21.6	25.7	118.1	(70.8)	(97.3)	97.6	(194.9)
Operating metrics			% YoY	% QoQ			% YoY	
Effective capacity (b pieces)	8.8	10.5	(15.9)	7.6	15.6	24.1	31.5	(23.5)
Plant utilisation rate (%)	86.0	43.0	100.0	89.0	(3.4)	84.6	42.4	99.7
Sales volume (b pieces)	7.6	4.5	70.3	6.8	11.7	20.4	13.4	52.8

Source: Company, Maybank IBG Research

Fig 2: Change in assumptions

		FY25	FY26	FY27
Revenue (MYRm)	- Old	2,657	3,119	3,317
	- New	2,561	2,787	2,851
		-4%	-11%	-14%
Net profit (MYRm)	- Old	160	293	270
	- New	105	154	84
		-35%	-47%	-69%
Utilisation rate (%)	- Old	80	80	85
	- New	77	75	75

Source: Maybank IBG Research

Fig 3: Hartalega's 1-year forward PBV (2021-2025)


Source: Bloomberg, Company data, Maybank IBG Research

Risk factors

Risk factors for our earnings estimates, target price and rating for HART are: (i) aggressive capacity expansion from the China glove makers; (ii) an aggressive pricing strategy from Chinese producers due to their relatively lower production costs supported by lower energy costs; (iii) spikes in raw material prices that are unable to be fully passed on; and (iv) prolonged price wars and oversupply issues.

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	nm	617.6	85.4	58.0	106.4
Core P/E (x)	40.0	187.8	85.4	58.0	106.4
Core FD P/E (x)	40.2	nm	85.9	58.3	nm
P/BV (x)	1.4	2.0	1.9	1.8	1.8
P/NTA (x)	1.4	2.0	1.9	1.8	1.8
Net dividend yield (%)	0.0	0.1	0.2	0.0	0.0
FCF yield (%)	nm	nm	nm	1.3	0.8
EV/EBITDA (x)	nm	45.2	33.7	25.3	35.4
EV/EBIT (x)	nm	nm	86.2	48.6	nm

INCOME STATEMENT (MYR m)

Revenue	2,409.6	1,837.6	2,561.3	2,787.3	2,850.8
EBITDA	(20.0)	177.7	225.0	295.7	209.1
Depreciation	(163.0)	(132.0)	(137.0)	(142.0)	(147.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(183.0)	45.7	87.9	153.6	62.1
Net interest income /(exp)	35.2	53.0	59.5	58.8	58.2
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	(214.4)	38.7	147.4	212.5	120.3
Income tax	(24.4)	(18.7)	(35.4)	(51.0)	(28.9)
Minorities	3.7	(7.3)	(7.3)	(7.3)	(7.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(235.1)	12.7	104.7	154.1	84.1
Core net profit	162.4	50.0	104.7	154.1	84.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,724.5	1,427.4	1,435.6	1,580.2	1,681.0
Accounts receivable	323.5	386.3	343.8	374.2	382.7
Inventory	232.4	385.7	247.0	268.8	274.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,943.1	1,901.0	1,864.0	1,822.0	1,774.9
Intangible assets	42.6	45.2	45.2	45.2	45.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,038.9	1,111.7	1,368.8	1,429.4	1,488.9
Total assets	5,304.9	5,257.3	5,304.5	5,519.7	5,647.7
ST interest bearing debt	87.3	62.3	62.3	62.3	62.3
Accounts payable	252.7	316.1	268.7	292.4	299.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	62.3	4.3	6.1	36.1	66.1
Other liabilities	244.0	230.0	230.0	230.0	230.0
Total Liabilities	646.6	612.8	567.1	620.8	657.4
Shareholders Equity	4,640.1	4,648.0	4,733.5	4,887.6	4,971.7
Minority Interest	18.3	(3.4)	3.9	11.2	18.6
Total shareholder equity	4,658.4	4,644.6	4,737.4	4,898.9	4,990.3
Total liabilities and equity	5,304.9	5,257.3	5,304.5	5,519.7	5,647.7

CASH FLOW (MYR m)

Pretax profit	(214.4)	38.7	147.4	212.5	120.3
Depreciation & amortisation	163.0	132.0	137.0	142.0	147.0
Adj net interest (income)/exp	(35.7)	(53.1)	(59.5)	(58.8)	(58.2)
Change in working capital	118.6	(146.9)	(91.0)	(28.4)	(8.0)
Cash taxes paid	(442.3)	(32.7)	(35.4)	(51.0)	(28.9)
Other operating cash flow	374.1	6.7	0.0	0.0	0.0
Cash flow from operations	(36.8)	(55.2)	98.6	216.3	172.2
Capex	(18.5)	(46.7)	(100.0)	(100.0)	(100.0)
Free cash flow	(55.3)	(101.9)	(1.4)	116.3	72.2
Dividends paid	(239.2)	0.0	(19.2)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(102.1)	(91.6)	30.0	30.0	30.0
Other invest/financing cash flow	(257.5)	(108.4)	(1.1)	(1.7)	(1.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(654.1)	(301.9)	8.3	144.5	100.9

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(69.5)	(23.7)	39.4	8.8	2.3
EBITDA growth	nm	nm	26.6	31.4	(29.3)
EBIT growth	nm	nm	92.5	74.7	(59.6)
Pretax growth	nm	nm	280.5	44.2	(43.4)
Reported net profit growth	nm	nm	722.8	47.3	(45.5)
Core net profit growth	(95.0)	(69.2)	109.3	47.3	(45.5)
Profitability ratios (%)					
EBITDA margin	nm	9.7	8.8	10.6	7.3
EBIT margin	nm	2.5	3.4	5.5	2.2
Pretax profit margin	nm	2.1	5.8	7.6	4.2
Payout ratio	0.0	94.0	18.3	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	0.7	4.1	5.5	2.9
Revenue/Assets (x)	0.5	0.3	0.5	0.5	0.5
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	(4.8)	0.3	2.2	3.2	1.7
ROAA (%)	2.8	0.9	2.0	2.8	1.5
Liquidity & Efficiency					
Cash conversion cycle	55.3	74.6	55.2	42.9	44.3
Days receivable outstanding	55.4	69.5	51.3	46.4	47.8
Days inventory outstanding	52.5	63.9	51.3	39.8	39.9
Days payables outstanding	52.6	58.8	47.4	43.2	43.4
Dividend cover (x)	nm	1.1	5.5	nm	nm
Current ratio (x)	6.7	5.9	6.2	6.4	6.6
Leverage & Expense Analysis					
Asset/Liability (x)	8.2	8.6	9.4	8.9	8.6
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)	5.2	na	na	na	na
Debt/EBITDA (x)	nm	0.4	0.3	0.3	0.6
Capex/revenue (%)	0.8	2.5	3.9	3.6	3.5
Net debt/ (net cash)	(1,574.9)	(1,360.8)	(1,367.2)	(1,481.8)	(1,552.7)

Source: Company; Maybank IBG Research

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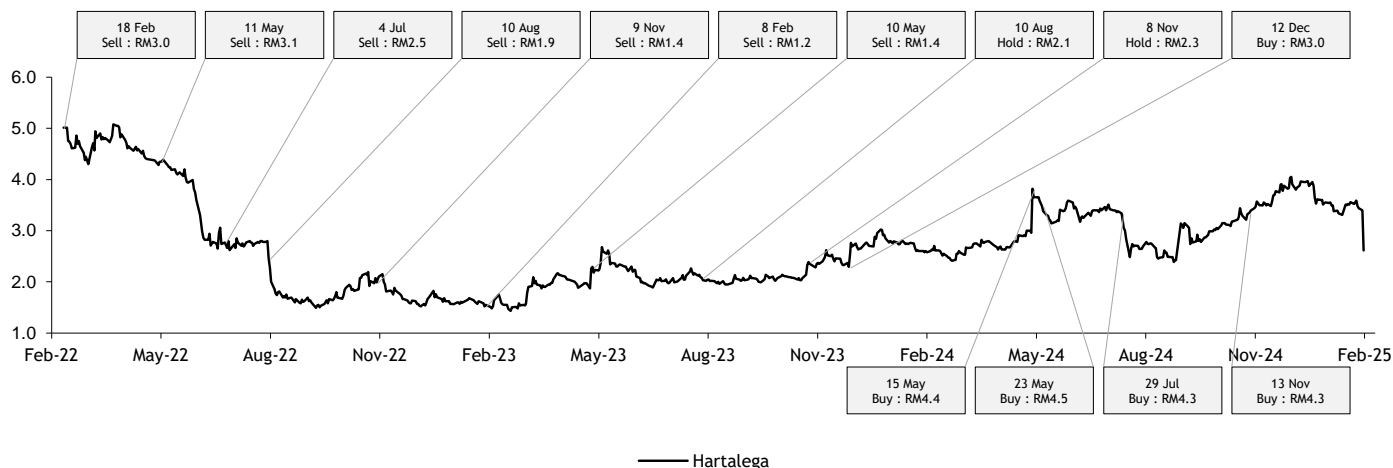
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