Shariah Compliant

19 February 2025

Consumer Cyclical | Rubber Products

Hartalega (HART MK)

Buy (from Neutral)

Turning The Tide; Upgrade To BUY

Target Price (Return):	MYR3.30 (26.3%)
Price (Market Cap):	MYR2.61 (USD2,004m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (MYR/USD)	22.2m/4.97m

- **U/G to BUY (from Neutral), lower MYR3.30 DCF TP (from MYR3.70), 26% upside.** Hartalega's 3QFY25 core profit of MYR23m brought its 9MFY25 numbers to 33% and 23% of our and Street's estimates. Share price has corrected 28% since our sector downgrade last month. Following yesterday's share price correction, we think valuations are undemanding, at 0.1SD above the mean. We think HART deserves a valuation of at least +1SD for its relatively large exposure in the US, as it should benefit from trade diversion.
- **Results overview.** 3QFY25 saw core profit of MYR23m on the back of higher sales volumes (+12% QoQ). 9MFY25 results were below expectations, dragged by US customers front-loading orders from China producers ahead of the tariff implementation. Consequently, plant utilisation rates edged down slightly to 86.4% (2QFY25: 89.5%) as HART commissioned c.4.8bn new capacity during the quarter. ASP picked up sequentially (+2.6% QoQ) to USD22/1,000 pieces as HART ramped up its ASP hikes during the quarter.
- **Outlook.** Our sector downgrade early this year has largely played out. HART is currently trading at 1.9x P/BV, which is 0.1SD above its 3-year historical mean of 1.8x. While we think the upcoming 4QFY25 results (Mar) will be weaker QoQ on the potential slowdown in sales volumes (management guided a 9-15% decline QoQ, with a 70-75% plant utilisation rate), we advocate investors to look beyond April/May, when the US channel inventory will be depleted, leading to sales volume growth. Following yesterday's share price correction, we think valuation is undemanding, as such levels were last traded prior to the second round of tariff announcements in Sep 2024.
- **Forecasts.** We lower FY25-26 earnings estimates by 55% and 26% as we cut our blended ASP assumptions (FY25-26: USD21 and USD22.10 from USD23 and USD23.20) as we think glovemakers' pricing power could be affected by US customers front-loading orders in 4Q24. We maintain our sales volume assumptions as we previously accounted for lower plant utilisation of 78% in FY25 (management's guidance: 80-82%). Post adjustment, we derived a lower MYR3.30 TP (includes a 2% ESG discount). Our DCF TP implies CY25 P/BV of 2.4x, at 1SD above its 3-year historical mean. We advocate investors to look beyond April/May, when US channel inventory is depleted, leading to sales volume growth. Key re-rating catalyst is still Malaysian glovemakers' ability to arbitrage against higher import tariffs (preferably USD25 and above). Otherwise, the higher import tariff would be meaningless.
- **Risks:** Glovemakers' inability to arbitrage against higher import tariffs (likely due to fierce internal competition), decrease in glove ASPs, slower-than-expected capacity expansion, and slower-than-expected utilisation rates.

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (MYRm)	2,410	1,838	2,561	2,879	3,102
Recurring net profit (MYRm)	118	31	49	126	169
Recurring net profit growth (%)	(96.3)	(73.9)	60.5	155.7	33.9
Recurring P/E (x)	75.95	291.15	181.39	70.93	52.95
P/B (x)	1.9	1.9	1.9	1.9	1.8
P/CF (x)	na	na	80.90	35.88	28.44
Dividend Yield (%)	1.3	na	0.1	na	na
EV/EBITDA (x)	na	40.08	34.76	20.32	16.55
Return on average equity (%)	(4.8)	0.3	1.1	2.7	3.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Analyst

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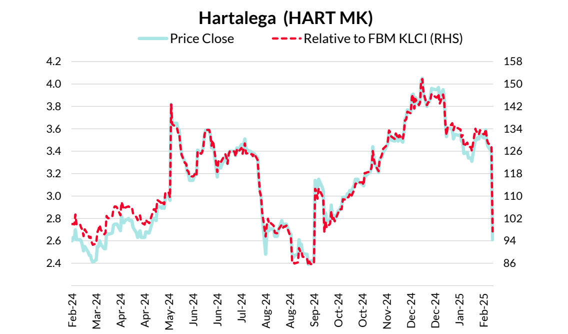
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(33.9)	(26.5)	(24.1)	(3.0)	1.2
Relative	(30.4)	(27.7)	(22.9)	(0.6)	(2.1)
52-wk Price low/high (MYR)					2.39 –4.05



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E Score: 2.7 (GOOD)
S Score: 2.7 (GOOD)
G Score: 3.7 (EXCELLENT)
Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

Lower Scope 1 and 2 emissions in FY23 due to lower natural gas and purchased electricity consumption

Emissions (tCO2e)	Mar-22	Mar-23	Mar-24	Mar-25
Scope 1	521,681	378,118	na	na
Scope 2	136,705	114,517	na	na
Scope 3	-	5,383	na	na
Total emissions	658,386	498,018	na	na

Source: Company data, RHB

Latest ESG-Related Developments

Invested over MYR90m to strengthen wastewater systems at its manufacturing plants

ESG Unbundled

Overall ESG Score: 2.9 (out of 4)

Last Updated: 18 February 2025

E Score: 2.7 (GOOD)

Hartalega has pledged to reduce its carbon emissions intensity by 45% by 2030 through the installation of various production-related equipment and advanced technologies to optimise equipment efficiency and further reduce the group's energy consumption and carbon emissions. More than 90% of product packaging are made from recyclable materials.

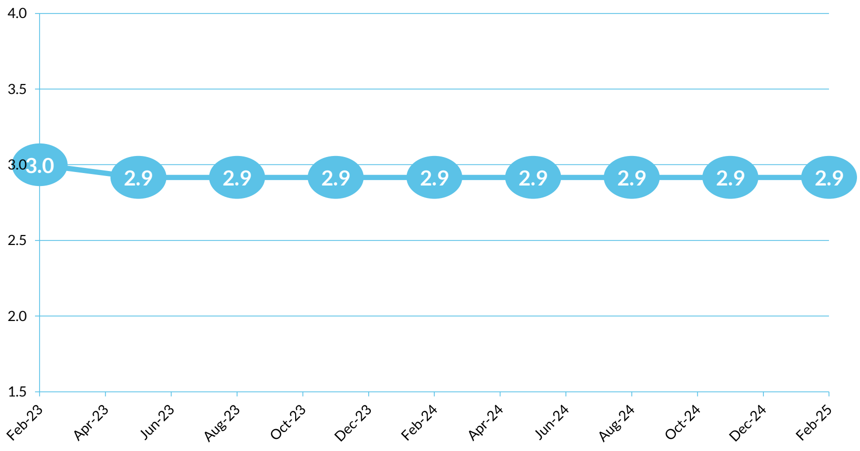
S Score: 2.7 (GOOD)

The group has invested over RM98m to provide first-rate workers' accommodation, which complies with requirements of the ILO's 11 Indicators of Forced Labour and exceeds requirements of the Workers' Minimum Standards of Housing and Amenities (Amendment) Act 2019 (Act 446) under Malaysian law.

G Score: 3.7 (EXCELLENT)

56% of its board members are independent, and 33% are women, exceeding the Malaysian Code on Corporate Governance's requirement of 30%. Additionally, Hartalega provides full disclosure on its directors' remuneration, including salaries and bonuses. The company holds investor briefings regularly, embodying good transparency and disclosure practices.

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
Hartalega
HART MK
Buy

Valuation basis

We adopt the DCF valuation methodology

Key drivers

i. Sales volume growth;
ii. Appreciation of the USD against the MYR;
iii. Lower-than-expected raw material prices.

Key risks

i. Decrease in glove ASPs;
ii. Slower-than-expected capacity expansion;
iii. Lower-than-expected utilisation rates;
iv. Higher-than-expected raw material prices.

Company Profile

Hartalega is the world's second-largest glove producer by market cap

Financial summary (MYR)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Recurring EPS	0.03	0.01	0.01	0.04	0.05
DPS	0.03	-	0.00	-	-
BVPS	1.36	1.36	1.37	1.41	1.46
Return on average equity (%)	(4.8)	0.3	1.1	2.7	3.4

Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Recurring P/E (x)	75.95	291.15	181.39	70.93	52.95
P/B (x)	1.9	1.9	1.9	1.9	1.8
FCF Yield (%)	(3.9)	(2.5)	(0.2)	1.4	2.2
Dividend Yield (%)	1.3	-	0.1	-	-
EV/EBITDA (x)	na	40.08	34.76	20.32	16.55
EV/EBIT (x)	na	164.16	113.54	34.90	25.56

Income statement (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover	2,410	1,838	2,561	2,879	3,102
Gross profit	319	156	238	426	514
EBITDA	(55)	189	218	368	442
Depreciation and amortisation	(152)	(143)	(151)	(154)	(156)
Operating profit	(207)	46	67	214	286
Net interest	(8)	(8)	(2)	(2)	(2)
Pre-tax profit	(214)	38	65	212	284
Taxation	(24)	(19)	(15)	(49)	(65)
Reported net profit	(235)	13	49	126	169
Recurring net profit	118	31	49	126	169

Cash flow (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Change in working capital	119	(149)	(79)	(54)	(45)
Cash flow from operations	(37)	(58)	110	249	314
Capex	(307)	(167)	(130)	(120)	(120)
Cash flow from investing activities	(266)	(133)	(116)	(104)	(102)
Cash flow from financing activities	(352)	(111)	(74)	(2)	(2)
Cash at beginning of period	2,378	1,724	1,427	1,348	1,491
Net change in cash	(655)	(303)	(80)	143	210
Ending balance cash	1,724	1,427	1,353	1,497	1,707

Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total cash and equivalents	1,724	1,427	1,348	1,491	1,701
Tangible fixed assets	1,943	1,901	1,785	1,665	1,545
Total assets	5,305	5,258	5,277	5,431	5,650
Short-term debt	87	62	2	2	2
Total long-term debt	64	7	0	0	0
Total liabilities	647	613	595	586	586
Total equity	4,658	4,644	4,682	4,845	5,064
Total liabilities & equity	5,305	5,258	5,277	5,431	5,650

Key metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Revenue growth (%)	(69.5)	(23.7)	39.4	12.4	7.8
Recurrent EPS growth (%)	(96.3)	(73.9)	60.5	155.7	33.9
Gross margin (%)	13.2	8.5	9.3	14.8	16.6
Operating EBITDA margin (%)	(2.3)	10.3	8.5	12.8	14.3
Net profit margin (%)	(9.8)	0.7	1.9	4.4	5.4
Dividend payout ratio (%)	(50.9)	0.0	25.0	0.0	0.0
Capex/sales (%)	12.8	9.1	5.1	4.2	3.9
Interest cover (x)	(27.3)	6.0	35.8	114.7	153.3

Source: Company data, RHB

Figure 1: 9MFY25 results snapshot

FYE 31 Mar (MYR m)	3QFY24	2QFY25	3QFY25	QoQ (%)	YoY (%)	9MFY24	9MFY25	YoY (%)	Comments
Revenue	**415.6**	**652.1**	**738.2**	**13.2**	**77.6**	**1,307.8**	**1,974.1**	**51.0**	3QFY25 revenue grew 13% QoQ thanks to 3% QoQ ASP growth and 12% volume growth
EBITDA	**65.6**	**(11.1)**	**76.8**	**(793.8)**	**17.0**	**126.1**	**142.1**	**12.6**	
EBITDA Margin (%)	*15.8*	*(1.7)*	*10.4*			*9.6*	*7.2*		
Depreciation	34.6	35.8	39.9	11.5	15.4	99.9	109.8	10.0	
EBIT	**31.0**	**(46.8)**	**36.9**	**(178.8)**	**18.9**	**26.3**	**32.2**	**22.7**	
EBIT Margin (%)	*7.5*	*(7.2)*	*5.0*			*2.0*	*1.6*		
Interest expense	(2.0)	(0.6)	(0.3)	(55.5)	(86.4)	(6.4)	(1.9)	(70.1)	
PBT	**29.0**	**(47.5)**	**36.6**	**(177.2)**	**26.1**	**19.9**	**30.3**	**52.7**	
Pretax Margin (%)	*7.0*	*(7.3)*	*5.0*			*1.5*	*1.5*		
Tax	(6.3)	56.1	(17.3)	(130.9)	176.3	(19.4)	29.5	(252.3)	
Effective tax rate (%)	*(21.6)*	*(118.1)*	*(47.3)*			*(97.6)*	*97.3*		
Minority Interest	(0.4)	0.0	0.2	740.0	(154.1)	(2.9)	0.3	(108.9)	
Net Profit	**22.4**	**8.6**	**19.5**	**126.2**	**(12.8)**	**(2.4)**	**60.1**	**(2,608.8)**	9MFY25 earnings were below expectations, at 33% and 23% of our and consensus' expectations.
Net Margin (%)	*5.4*	*1.3*	*2.6*			*(0.2)*	*3.0*		
Core NP	**0.4**	**(29.5)**	**23.2**	**(178.8)**	**5,229.6**	**29.1**	**36.4**	**25.0**	
Core NP Margin (%)	*0.1*	*-4.5*	*3.1*			*2.2*	*1.8*		

Source: Company data, RHB

Figure 2: Global demand & supply overview

Source: MARGMA, RHB

Figure 3: Key assumptions

	FY25F			FY26F			FY27F		
Key assumptions	Before	After	Variance	Before	After	Variance	Before	After	Variance
Blended (ASP, USD per 1,000 pieces)	23.0	21.4	-7.0%	23.2	22.1	-4.5%	23.7	22.3	-5.6%
Total production (per m pieces)	27,235.0	27,235.0	0.0%	30,415.0	30,415.0	0.0%	35,000.0	32,970.0	-5.8%
Utilisation	78.0%	78.0%	0 ppt	77.0%	77.0%	0.0 ppt	80.0%	78.5%	(1.5 ppt)
USDMYR	4.4039	4.4039	0.0%	4.2750	4.2750	0.0%	4.2125	4.2125	0.0%

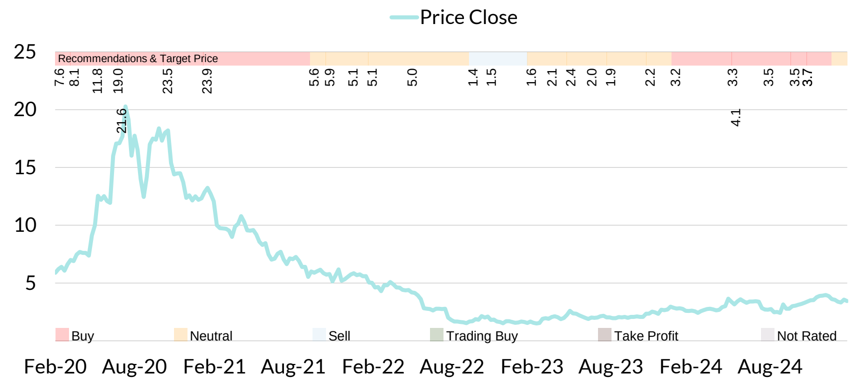
Source: RHB

Figure 4: DCF valuation

FYE 31 Mar (MYR m)	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	FY35F	Terminal
NOPAT	51	163	218	318	377	429	484	516	579	624	658	
+ D&A	151	154	156	158	160	162	164	167	169	171	174	
- Change in NWC	(79)	(54)	(45)	(38)	(34)	(35)	(36)	(16)	(14)	(14)	(15)	
- Capex	(130)	(120)	(120)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	
Free cash flow to firm (FCFF)	-6	143	209	338	403	457	513	566	634	681	717	15,246
Discount factor	0.93	0.87	0.81	0.76	0.71	0.67	0.63	0.59	0.55	0.51	0.48	0.48
PV of FCFF	(6)	124	170	257	287	305	321	331	348	350	345	7,326
Risk-free	4%											
WACC	7%											
Terminal growth	2%											
Enterprise value (MYRm)	10,156											
- Minority	(1)											
Cash	1,348											
- Debt	(2)											
Equity value (MYRm)	11,501											
No of shares (m)	3,422											
Intrinsic value (MYR)	**3.35**											
ESG discount/premium	**(0.05)**											
TP (MYR)	**3.30**											

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-01-09	Neutral	3.7	3.5
2024-11-13	Buy	3.7	3.3
2024-10-06	Buy	3.5	2.8
2024-08-07	Buy	3.5	2.7
2024-05-23	Buy	4.1	3.5
2024-05-15	Buy	3.3	3.8
2024-02-07	Buy	na	2.6
2024-01-05	Buy	3.2	3.0
2023-11-08	Neutral	2.2	2.4
2023-08-10	Neutral	1.9	2.1
2023-06-28	Neutral	2.0	1.9
2023-05-10	Neutral	2.4	2.3
2023-03-27	Neutral	2.1	1.9
2023-02-08	Neutral	1.6	1.5
2022-11-09	Sell	1.5	2.0

Source: RHB, Bloomberg

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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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