



AmInvestment Bank

HARTALEGA HOLDINGS

(HART MK EQUITY, HTHB.KL)

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Company Report

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Rationale for report: Company Result

SELL

(Downgraded)

Price RM1.37
Fair Value RM1.00
52-week High/Low RM4.00/RM1.31

Key Changes

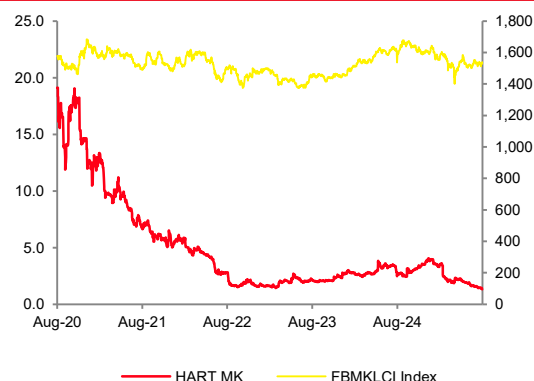
Fair value
EPS

YE to Mar	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	2,585.6	2,451.4	2,725.8	2,836.5
Core net profit (RM mil)	74.6	82.3	144.4	148.2
FD Core EPS (sen)	2.2	2.4	4.2	4.3
FD Core EPS growth (%)	79.6	10.2	75.6	2.6
Consensus Net Profit (RM mil)	-	137.5	205.7	250.1
DPS (sen)	11.8	1.0	3.0	3.0
PE (x)	60.4	54.8	31.2	30.4
EV/EBITDA (x)	14.7	58.2	27.2	16.9
Div yield (%)	8.9	0.8	2.3	2.3
ROE (%)	1.7	1.9	3.3	3.3
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,415.6
Market Cap (RMmil)	4,508.6
Book Value (RM/Share)	1.26
P/BV (x)	1.0
ROE (%)	1.7
Net Gearing (%)	-
Major Shareholders	Hartalega Industries S/B (34.4%) Budi Tenggara S/B (8.6%) KWAP (6.4%)
Free Float	0.4
Avg Daily Value (RMmil)	11.6

Price performance	3mth	6mth	12mth
Absolute (%)	(39.7)	(62.5)	(45.3)
Relative (%)	(39.7)	(61.6)	(45.4)



Investment Highlights

Downgrade to SELL with a lower TP of RM1.00 (from RM2.30 previously) based on a 0.8x CY26F P/B ratio following a sharp earnings reduction due to earnings miss. Hartalega reported core net losses of RM0.2mil, which was a significant miss. The underperformance was mainly attributed to weak ASP and sales volume, impacted by frontloaded orders in the US market. The outlook remains bleak, as structural glove oversupply continues to limit manufacturers' ability to raise ASP meaningfully in the near term, despite a potential recovery in the sales volume in the upcoming quarters. Additionally, Hartalega is facing a rising cost environment, particularly from the hike in minimum wage. In response to the challenging operating landscape, Hartalega is actively seeking to optimise its cost structure which includes rightsizing its workforce to weather the storm. Furthermore, Hartalega received a Notice of Additional Assessments from IRB totalling RM101.3mil, equivalent to RM0.03/share or c.10% of its net cash position.

- **Downgrade to SELL with lower TP of RM1.00** (from RM2.30 previously) based on 0.8x CY26F P/B ratio post earnings cut. We changed our valuation method as it better reflects the company's underlying fundamentals. The 0.8x P/B target is justified by its low ROE of 3.3%. Following weaker-than-expected 1QFY26 results, we have cut our earnings forecast for FY26F/FY27F by 76%/72% respectively and have introduced our FY28F forecast (refer to Exhibit 2).
- **Earnings miss due to weak ASP and sales volume.** Hartalega 1QFY26 core net losses came in below expectations. Frontloaded volumes negatively impacted ASP and sale during the quarter. ASP in MYR term declined by 6.7% QoQ and 5.0% YoY while sales volume fell 3.1% QoQ and 0.2% YoY.
- **Volume to rise, but ASP to remain flattish.** Sales volume is expected to recover as stock depletion from frontloading activities (which occurred at end-CY2024) normalises. However, ASP is likely to remain flat due to the ongoing structural oversupply, which continues to erode pricing power for glove manufacturers. We only expect market equilibrium by 2027, based on our estimates.
- **Additional tax assessments.** Hartalega received a Notice of Additional Assessments from Inland Revenue Board (IRB) amounting to RM101.3mil for the years from 2017 to 2022, equivalent to RM0.03/share or c.10% of its net cash position. The company is currently seeking legal advice and evaluating legal option which include initiating a formal appeal to the IRB.

EXHIBIT 1: 1QFY26 EARNINGS SUMMARY

FYE Mar (RM mil)	1QFY25	4QFY25	1QFY26	QoQ (%)	YoY (%)
Turnover	583.8	611.5	553.1	-9.6	-5.3
Operating costs	-519.8	-560.9	-545.4	-2.8	4.9
EBITDA	64.1	50.7	48.0	-5.3	-25.1
Depreciation	-34.2	-40.8	-40.5	-0.8	18.6
EBIT	29.9	9.8	7.5	-23.8	-74.9
Net interest	11.2	7.8	6.8	-12.4	-39.0
-Interest expense	-1.0	-0.1	-0.1	-43.0	-91.8
-Interest income	12.2	8.0	6.9	-13.0	-43.5
PBT	41.1	17.6	14.3	-18.8	-65.2
Tax	-9.2	-3.0	-2.0	-34.4	-78.4
MI	0.0	-0.1	0.3	nm	nm
Net Profit	31.9	14.5	12.6	-12.9	-60.5
Exceptional item	4.8	-2.5	-12.8	nm	nm
Core Net Profit	36.7	12.0	-0.2	nm	nm
EPS (sen)	1.1	0.4	0.0	nm	nm
DPS (sen)	0.4	0.0	0.0	nm	nm
BV/share (RM)	1.4	1.3	1.3	0.8	-6.7
Cash	1,388.0	923.1	995.8	7.9	-28.3
Borrowings	45.5	4.1	6.5	61.5	-85.6
Equity ex MI	4,679.1	4,322.3	4,336.8	0.3	-7.3
Net cash/(debt)	1,342.5	919.1	989.2	7.6	-26.3
EBITDA margin (%)	11.0	8.3	8.7	0.4ppt	-2.3ppt
Pretax margin (%)	7.0	2.9	2.6	-0.3ppt	-4.5ppt
Effective tax rate (%)	22.4	17.2	13.9	-3.3ppt	-8.6ppt
Net profit margin (%)	6.3	2.0	0.0	-2.0ppt	-6.3ppt
Estimated ASP (RM/000)	98.6	100.4	93.7	-6.7	-5.0
Sales volume (mil)	5,919.0	6,093.0	5,906.0	-3.1	-0.2
Utilisation rate (%)	77.5	69.0	66.9	-2.1ppt	-10.6ppt

Source: Company, AmInvestment Bank Bhd

Company profile

Hartalega Holdings Berhad's business mainly comprises the manufacturing and sale of nitrile gloves with a total capacity of 37 billion pieces per annum. Its manufacturing factories are solely in Malaysia. Its key markets are North America, Europe and Asia which contributed to 48%, 22% and 19% to FY24 revenue. The company offers its products for healthcare, dental, food, industrial, veterinary, spa and beauty salon markets. Hartalega Holdings Berhad was founded in 1988 and is based in Kuala Lumpur, Malaysia.

Investment thesis and catalysts

We have a SELL recommendation on the stock as structural gloves oversupply situation will limit gloves players' pricing power, notwithstanding Chinese gloves manufacturers' expansion outside of China which will exacerbate the current oversupply situation. Apart from that, rising operating costs on the back of additional EPF contribution for foreign workers will further affect the company's profitability.

Valuation methodology

The stock is valued based on target CY26F PB of 0.8x, which is justified by its low ROE of 3.3%.

Risk factors

Upside risks to our estimates include higher than expected glove demand, Chinese players begin scaling back their production, the imposition of tariffs is based on country of incorporation instead of country of origin.

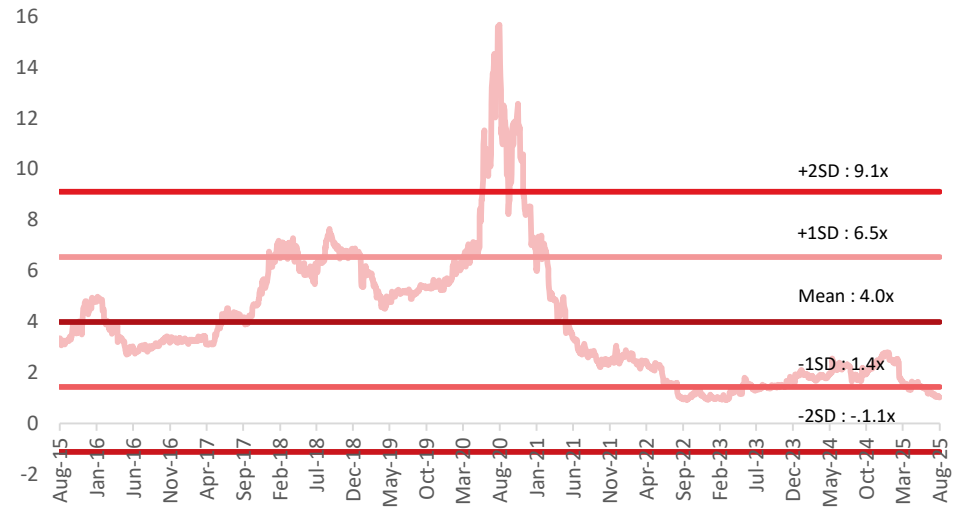
EXHIBIT 2: CHANGE IN EARNINGS

RMmil	FY26F			FY27F			FY28F		
	Old	New	%	New	Old	%	Old	New	%
Revenue	3,004.0	2,451.4	-18%	3,649.8	2,725.8	-25%	-	2,836.5	New
Earnings	344.1	82.3	-76%	520.6	144.4	-72%	-	148.2	New
ASP (USD/carton)	24.5	21.7	-11%	26.5	22.0	-17%	-	22.0	New
Volume (bil volume)	27.2	26.3	-3%	30.6	28.8	-6%	-	30.0	New

EXHIBIT 3: VALUATIONS

Target PB (x)	0.8x
CY26 BVPS	1.30
ESG premium	0%
12-month target price	1.00

EXHIBIT 4: PB BAND CHART



Source: Bloomberg

EXHIBIT 5: ESG RATING

ESG		Parameters	Weightage	Rating					Rationale
Environmental assessment									
1	Carbon emissions reduction	CO2 target reduction	15%	*	*	*			0.022 tonnes CO ₂ per 1,000 pieces of gloves in 2025, slight reduction since FY23.
2	Scope 1 GHG Emissions	tCo2e reduction	15%	*	*	*			28% increase from 2024
3	Scope 2 GHG Emissions	tCo2e reduction	15%	*	*	*	*		5.4% increase YoY, which is good considering sales increased 41%
4	Scope 3 GHG Emissions	tCo2e reduction	15%	*	*	*	*		Started tracking since 2023, down 7.4%
5	Environmental management	Awards/certifications	20%	*	*	*	*		Maintained ISO 14001:2015 certification for our environmental management system, providing a robust framework to monitor energy use, emissions, water consumption and waste management.
6	Waste generation	Minimise waste generation	20%	*	*	*	*		74% of waste generated was diverted from landfills for recycling. Non-hazardous waste generation also decreased 7% despite higher production volume.
Weighted score for environmental assessment			100%	*	*	*	*		
Social assessment									
1	Health, safety & well-being	Certifications and initiatives	25%	*	*	*	*		All facilities in NGC remained ISO 45001:2018 – Occupational Health and Safety Management Systems (OHSMS) certified. Recorded a 17% decrease in work-related injuries. Reached an eight-year low in Lost Time Injury. Frequency Rate, at 0.21.
2	Employee turnover	No. of workforce changes	25%	*	*	*			30.5% in FY25
3	Women in workforce	% of total workforce	25%	*	*	*			16% of workforce.
4	CSR programmes	CSR initiatives	25%	*	*	*	*		39,294 individuals benefited from their social impact efforts, including 12,547 through Yayasan Hartalega and 26,747 via their other dedicated CSR programmes
Weighted score for social assessment			100%	*	*	*	*		
Governance assessment									
1	Board age diversity	% under 60 years old	20%	*	*	*			38%
2	Board women representation	% of total board directors	20%	*	*	*			30% representation
3	Independent board directors	% of total board directors	20%	*	*	*			50% - independent non-exec
4	Directors remuneration	% of staff cost	20%	*	*	*	*		2%
5	Corruption investigations	Confirmed incidents	20%	*	*	*			3 Confirmed incidents of corruption and action taken in FY25
Weighted score for governance assessment			100%	*	*	*			
	Environmental score		35%	*	*	*	*		
	Social score		35%	*	*	*	*		
	Governance score		30%	*	*	*			
	Overall ESG Score		100%	*	*	*			

Source: AmlInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1,838.1	2,585.6	2,451.4	2,725.8	2,836.5
EBITDA	155.7	244.3	61.9	137.0	229.1
Depreciation/Amortisation	(132.0)	(142.0)	(160.9)	(152.2)	(144.2)
Operating income (EBIT)	23.6	102.2	(99.1)	(15.2)	84.9
Other income & associates	-	-	-	-	-
Net interest	53.0	40.0	40.0	40.0	40.0
Exceptional items	28.8	0.1	-	-	-
Pretax profit	38.7	47.9	107.1	184.3	193.0
Taxation	(18.7)	26.5	(23.0)	(39.6)	(41.5)
Minorities/pref dividends	(7.3)	0.1	(1.8)	(0.3)	(3.3)
Net profit	12.7	74.5	82.3	144.4	148.2
Core net profit	41.6	74.6	82.3	144.4	148.2
Balance Sheet (RMmil, YE 31 Mar)	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	1,901.0	2,573.1	2,433.5	2,305.9	2,187.0
Intangible assets	45.2	38.3	38.3	38.3	38.3
Other long-term assets	1,031.2	404.4	644.7	892.4	1,164.1
Total non-current assets	2,977.4	3,015.9	3,116.5	3,236.6	3,389.5
Cash & equivalent	1,427.4	923.1	933.5	817.6	727.7
Stock	385.7	338.4	320.8	356.7	371.2
Trade debtors	386.3	385.6	365.6	406.5	423.0
Other current assets	80.5	77.1	79.6	79.6	79.6
Total current assets	2,279.9	1,724.2	1,699.5	1,660.4	1,601.5
Trade creditors	63.1	229.6	234.3	253.8	255.6
Short-term borrowings	62.3	4.1	13.7	25.3	51.1
Other current liabilities	259.1	8.6	8.6	8.6	8.6
Total current liabilities	384.5	242.2	256.6	287.7	315.3
Long-term borrowings	4.3	-	9.1	16.8	34.0
Other long-term liabilities	224.0	181.4	181.4	181.4	181.4
Total long-term liabilities	228.3	181.4	190.5	198.2	215.5
Shareholders' funds	4,648.0	4,322.3	4,370.4	4,412.3	4,458.1
Minority interests	(3.4)	(3.3)	(1.5)	(1.2)	2.1
BV/share (RM)	1.36	1.26	1.28	1.29	1.31
Cash Flow (RMmil, YE 31 Mar)	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	38.7	47.9	107.1	184.3	193.0
Depreciation/Amortisation	132.0	142.0	160.9	152.2	144.2
Net change in working capital	(405.8)	(50.8)	42.3	(57.3)	(29.2)
Others	177.1	(26.5)	(23.0)	(39.6)	(41.5)
Cash flow from operations	(58.0)	112.6	287.3	239.6	266.6
Capital expenditure	(158.3)	(192.8)	(261.6)	(272.3)	(297.1)
Net investments & sale of fixed assets	-	-	-	-	-
Others	24.8	14.3	-	-	-
Cash flow from investing	(133.4)	(178.5)	(261.6)	(272.3)	(297.1)
Debt raised/(repaid)	(102.4)	(65.8)	18.8	19.3	43.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(401.4)	(34.2)	(102.5)	(102.5)
Others	(9.0)	-	-	-	-
Cash flow from financing	(111.4)	(467.2)	(15.4)	(83.2)	(59.4)
Net cash flow	(302.8)	(533.0)	10.4	(115.9)	(90.0)
Net cash/(debt) b/f	1,724.5	1,427.4	923.1	933.5	817.6
Net cash/(debt) c/f	1,427.4	885.9	933.5	817.6	727.7
Key Ratios (YE 31 Mar)	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(23.7)	40.7	(5.2)	11.2	4.1
EBITDA growth (%)	(51.2)	56.9	(74.7)	121.5	67.2
Pretax margin (%)	2.1	1.9	4.4	6.8	6.8
Net profit margin (%)	0.7	2.9	3.4	5.3	5.2
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	48.2	55.2	21.5	21.5	21.5
Dividend payout (%)	-	538.9	41.5	71.0	69.1
Debtors turnover (days)	70	54	56	52	53
Stock turnover (days)	61	51	49	45	47
Creditors turnover (days)	31	21	35	33	33

Source: Company, AmlInvestment Bank Bhd estimates

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