

### COMPANY RESULTS

## Hartalega Holdings (HART MK)

4QFY22: Within Expectations As Volume Sales Recover

Losses for the quarter were attributed to a backloaded prosperity tax expense. While ASPs continued to slide, Hartalega's volume sales recovered and are expected to be stable for the rest of the year. 2QFY23 will likely see higher ASPs in tandem with higher input costs but the inability to fully pass through costs will likely see margins remain under pressure. As sector downside persists amid decent valuations, we maintain our HOLD recommendation with an unchanged target price of RM4.60.

### 4QFY22 RESULTS

Year to 31 Mar (RMm)	4QFY22	qoq % chg	yoy % chg	FY22	yoy % chg
Revenue	968.7	-3.7	-57.9	7888.3	17.8
Operating exp.	-762.0	13.0	4.3	-3317.8	14.7
EBITDA	258.9	-33.9	-83.3	4793.9	21.1
EBIT	219.4	-37.9	-85.5	4642.0	21.5
Finance costs	-1.0	-9.6	-32.2	-4.8	-26.9
PBT	218.4	-38.0	-85.6	4637.2	21.6
Taxation	-408.1	323.6	5.5	-1394.6	53.3
Core net profit	-197.9	-176.4	-117.7	3234.7	12.1
		qoq ppt chg	yoy ppt chg		yoy ppt chg
EBITDA margin (%)	26.7	-12.2	-40.6	60.8	1.7
Eff. tax rate (%)	-186.9	-159.5	-161.3	-30.1	-6.2
Core Net Margin (%)	-20.4	-46.2	-69.1	41.0	-2.1

Source: Hartalega, UOB Kay Hian

### RESULTS

- **Within expectations.** Hartalega Holdings' (Hartalega) 4QFY22 core net profit was -RM198m (-176% qoq, -118% yoy). It brought FY22 net profit to RM3,235m (+12.1% yoy). This was within our and consensus expectations, accounting for 105% and 98% of ours and consensus' full-year estimates respectively. Losses for the quarter are attributed to a one-off provision of additional tax expense attributed to the prosperity tax. Had it not been for the prosperity tax, Hartalega would have registered a profit in the region of RM170m. Hartalega declared an interim DPS of 3.5 sen, bringing cumulative DPS to 73.3 sen (2021: 33.3 sen).
- **ASPs to decline in subsequent quarter as well but appears to have found a bottom.** Revenue declined marginally by 3.7% qoq (-58% yoy) in 4QFY22. Recovery in volume sales (+33% qoq) was offset by lower blended ASPs (-28% qoq). Robust volume sales are attributed to the clearance of backlog sales from the previous quarter and nascent recovery in demand following the easing of inventory. ASPs are expected to be lower in 1QFY23 but June ASPs have been raised following higher input cost.

### KEY FINANCIALS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	6,696	7,888	3,196	3,556	4,134
EBITDA	3,942	4,722	898	944	1,119
Operating profit	3,804	4,570	739	777	945
Net profit (rep./act.)	2,885	3,235	560	587	711
Net profit (adj.)	2,885	3,235	560	587	711
EPS (sen)	85.2	95.6	16.6	17.3	21.0
PE (x)	5.0	4.5	25.9	24.7	20.4
P/B (x)	2.9	2.8	2.7	2.6	2.4
EV/EBITDA (x)	3.2	2.6	13.9	13.3	11.2
Dividend yield (%)	11.0	12.3	2.2	2.3	2.7
Net margin (%)	43.1	41.0	17.5	16.5	17.2
Net debt/(cash) to equity (%)	(46.7)	(41.8)	(42.2)	(44.2)	(46.0)
Interest cover (x)	603.5	989.2	219.8	231.0	273.8
ROE (%)	76.8	64.1	10.7	10.7	12.3
Consensus net profit	-	-	717	726	792
UOBKH/Consensus (x)	-	-	0.78	0.81	0.90

Source: Hartalega Holdings, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM4.34
Target Price	RM4.60
Upside	+5.7%

### COMPANY DESCRIPTION

Hartalega is the world's leading nitrile glove manufacturer.

### STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	HART MK
Shares issued (m):	3,417.5
Market cap (RMm):	15,720.3
Market cap (US\$m):	3,634.8
3-mth avg daily t'over (US\$m):	6.2

### Price Performance (%)

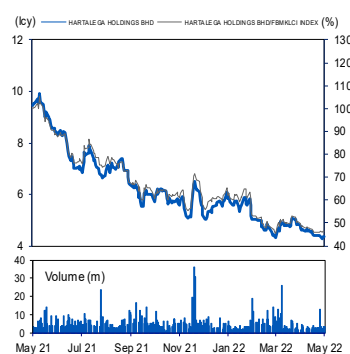
52-week high/low RM11.18/RM4.30

1mth	3mth	6mth	1yr	YTD
(3.8)	(20.0)	(25.2)	(56.4)	(19.7)

### Major Shareholders

	%
Hartalega Industries Sdn Bhd	50.2
Budi Tenggara Sdn Bhd	5.0
FY23 NAV/Share (RM)	1.95
FY23 Net Cash/Share (RM)	1.14

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### 4QFY22 OPERATING METRICS

	4QFY22	qoq % chg	yoy % chg	FY22	yoy % chg
Gloves (b pcs.)	7,323	32.9	9.3	29,553	-15.1
Utilisation rate (%)	70%	32.9	8.3	70%	-20.7
Blended ASP (US\$)	31.5	-27.6	-61.9	64.1	38.8
Exchange rate	4.19	0.1	1.1	4.16	-0.1
COG/ '000 gloves (RM)	104.1	-14.9	-4.6	112.3	35.1

Source: Hartalega

- **Margin decline should ease.** The EBITDA margin declined to 26.7% (or 12.2 ppt qoq). This was primarily off lower ASPs (average of US\$31.5/'000 pieces), outstripping the contraction in input cost (-14.9%). Going forward into 1QFY23, ASPs are expected to see a marginal decline following the step down in ASPs over the previous quarters. That said, margins are expected to deteriorate following an uptick in input cost, minimum wage and energy cost. June ASPs are raised in lockstep with higher input cost but Hartalega cautioned that it is not at a full cost pass-through as the industry dynamics remain delicate.

### STOCK IMPACT

- **Demand-supply dynamics still appear subdued.** New entrants into the industry that we observed, on average registered a -7.4% profit margin in 4Q21, that should further deteriorate alongside industry dynamics. Following industry normalisation, we expect exits and scaled-back expansions to help ease demand-supply dynamics. Competition arising from China is said to remain stiff. Given the fragility to equilibrium and utilisation rates remaining below optimal levels, there could be downside to Malaysia Rubber Glove Manufacturer's Association's (MARGMA) growth expectation of 12-15% yoy growth for 2022. Against this backdrop, we envisage that margins may find a bottom towards the tail-end of the year.

### EARNINGS REVISION/RISK

- No changes to earnings. Key downside risks include: a) softer-than-expected ASP revisions, and b) stiff competition persisting.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM4.60.** Our target price is pegged to a PE of 28x to FY23's earnings or close to -0.5SD to its five-year PE mean. Hartalega's outlook is largely weighed by headwinds clouding visibility of the sector that otherwise offers structural growth. The possible risks to earnings downside or disappointing consensus forward earnings expectation is reflected in our peg close to its -0.5SD of its five-year PE mean.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

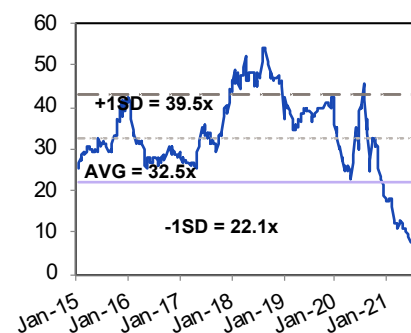
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Emissions management.</b> Hartalega is progressively working to reduce its carbon footprint, aiming to achieve a 22% reduction in greenhouse gas (GHG) emission intensity by 2024.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Social compliance.</b> Hartalega's social compliance policy is in accordance with local and international standards including the International Labour Organisation's (ILO) 11 indicators of Forced Labour.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Board balance and composition.</b> Five board members are independent directors, amounting to 63% of the board members.</li> </ul> </li> </ul>

### ASSUMPTIONS

	2023F	2024F	2025F
Revenue (RMm)	3196	3556	4134
Growth yoy (%)	-59%	11%	16%
ASP growth yoy (%)	-56%	0%	0%
Volume growth (%)	2%	13%	16%
Profit (RMm)	560	587	711
Growth yoy (%)	-82%	5%	21%
Profit margin (%)	18%	17%	17%

Source: UOB Kay Hian

### FIVE-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Net turnover	7,888	3,196	3,556	4,134
EBITDA	4,722	898	944	1,119
Deprec. & amort.	152	159	167	174
EBIT	4,570	739	777	945
Total other non-operating income	72	3	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(5)	(4)	(4)	(4)
<b>Pre-tax profit</b>	<b>4,637</b>	<b>738</b>	<b>773</b>	<b>940</b>
Tax	(1,395)	(170)	(178)	(221)
Minorities	(8)	(8)	(8)	(8)
<b>Net profit</b>	<b>3,235</b>	<b>560</b>	<b>587</b>	<b>711</b>
Net profit (adj.)	3,235	560	587	711

### BALANCE SHEET

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,367	2,228	2,209	2,192
Other LT assets	783	778	778	778
Cash/ST investment	2,378	2,456	2,682	2,925
Other current assets	819	881	978	1,120
<b>Total assets</b>	<b>6,348</b>	<b>6,343</b>	<b>6,646</b>	<b>7,015</b>
ST debt	102	54	54	54
Other current liabilities	715	516	568	631
LT debt	137	140	140	140
Other LT liabilities	249	249	249	249
Shareholders' equity	5,122	5,369	5,628	5,943
Minority interest	24	16	8	0
<b>Total liabilities &amp; equity</b>	<b>6,348</b>	<b>6,343</b>	<b>6,646</b>	<b>7,015</b>

### CASH FLOW

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>3,721</b>	<b>556</b>	<b>706</b>	<b>801</b>
Pre-tax profit	4,637	738	773	940
Tax	(1,169)	(170)	(178)	(221)
Deprec. & amort.	152	159	167	174
Associates	0	0	0	0
Working capital changes	182	(176)	(60)	(96)
Non-cash items	(86)	0	0	0
Other operating cashflows	5	4	4	4
<b>Investing</b>	<b>(810)</b>	<b>(161)</b>	<b>(148)</b>	<b>(158)</b>
Capex (growth)	(57)	(161)	(148)	(158)
Proceeds from sale of assets	(790)	0	0	0
Others	37	0	0	0
<b>Financing</b>	<b>(3,202)</b>	<b>(317)</b>	<b>(332)</b>	<b>(401)</b>
Dividend payments	(2,989)	(313)	(328)	(397)
Proceeds from borrowings	0	0	0	0
Loan repayment	(109)	0	0	0
Others/interest paid	(104)	(4)	(4)	(4)
<b>Net cash inflow (outflow)</b>	<b>(291)</b>	<b>78</b>	<b>226</b>	<b>243</b>
Beginning cash & cash equivalent	2,669	2,378	2,456	2,682
Changes due to forex impact	1	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,378</b>	<b>2,456</b>	<b>2,682</b>	<b>2,925</b>

### KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	59.9	28.1	26.5	27.1
Pre-tax margin	58.8	23.1	21.7	22.7
Net margin	41.0	17.5	16.5	17.2
ROA	49.1	8.8	9.0	10.4
ROE	64.1	10.7	10.7	12.3
<b>Growth</b>				
Turnover	17.8	(59.5)	11.3	16.2
EBITDA	19.8	(81.0)	5.1	18.5
Pre-tax profit	21.6	(84.1)	4.7	21.7
Net profit	12.1	(82.7)	4.8	21.2
Net profit (adj.)	12.1	(82.7)	4.8	21.2
EPS	12.1	(82.7)	4.8	21.2
<b>Leverage</b>				
Debt to total capital	4.4	3.5	3.3	3.1
Debt to equity	4.7	3.6	3.4	3.2
Net debt/(cash) to equity	(41.8)	(42.2)	(44.2)	(46.0)
Interest cover (x)	989.2	219.8	231.0	273.8

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