

Hartalega (HART MK)

Tides Turning But Headwinds Persist

Highlights

- 2QFY27 earnings to come in weaker qoq, mainly due to cost pressures and temporary decline in volume sales resulting from the ongoing Iran war.
- We forecast 4-15% FY27-29 earnings growth, but various challenges such as higher input costs and lingering China competition remain.
- Risk-reward appears balanced. Maintain HOLD and target price of RM1.06.

Analysis

- Sequentially weaker 2Q-3QFY27 expected.** Following the de-escalation of the Iran war, ASP moderated swiftly from peak of US\$26-27/'000 pcs in 1QFY27 to US\$19-20/'000 pcs for Aug-Sept shipments. Meanwhile, Hartalega (Harta) is guiding for potential margin compression in 2QFY27, as the group needs to lock in and deplete its raw material inventories which are purchased at higher costs due to the Iran war. Furthermore, the natural gas tariff's upward revision in 3QFY27 will also lift energy cost and further pressure operating margins. Overall, we opine that softer ASP and higher input costs will result in weaker earnings through 2Q-3QFY27 for Harta.
- Volume sales to see temporary decline in upcoming 2Q, but likely to recover in 3Q on better restocking cycle.** To recall, Harta reported sales volume of around 5.9b pieces in last quarter (1QFY27). For 2QFY27, we estimate that volume sales will decline to around 5.4b-5.6b pieces (down 3-7% qoq), as some customers are facing vessel availability issues which delayed shipments, and much higher logistic costs due to the ongoing Iran war. Nevertheless, management alluded that 3QFY27 volume sales will recover to around 6b pieces as customers' restocking activities pick up.
- Operational efficiency and capacity expansion.** Harta set aside RM285m for 2026-27 to further automate its production lines to optimise overall efficiency. Hence, margins could marginally recover in FY27 off FY25's low base, coupled with an improvement in utilisation rate on better demand beginning 1QFY27 (Apr-Jun 26). The full commission of production lines in its Plant 9 which leverages automation and vision systems will also drive higher yields and lower labour costs. In FY27, management intends to restart and upgrade its Plant 3, lifting running capacity from current 27b pieces annually (after hibernating Plant 3 and 4) to 30b pieces by end-26.

Key Financials

Year to 31 Mar (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	2,585.6	2,135.4	3,134.2	3,232.8	3,383.5
EBITDA	200.7	281.0	364.7	375.0	410.6
Operating profit	50.0	117.3	193.2	202.2	234.6
Net profit (rep./act.)	25.8	84.3	147.0	152.5	175.5
Net profit (adj.)	36.9	72.0	147.0	152.5	175.5
EPS	1.1	2.1	4.3	4.5	5.2
PE (x)	97.4	49.8	24.4	23.5	20.4
P/B (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	13.3	8.7	6.8	6.0	5.2
Dividend yield (%)	11.0	1.7	2.2	2.3	2.7
Net margin (%)	1.0	4.0	4.7	4.7	5.2
Net debt/(cash) to equity (%)	(21.3)	(25.7)	(25.1)	(29.3)	(31.3)
Interest cover (x)	97.2	946.1	626.3	388.7	304.8
ROE (%)	0.8	2.5	4.4	4.5	5.1
Consensus net profit	n.a	n.a	133.6	166.6	148.0
UOBKH/Consensus (x)	n.a	n.a	1.1	0.9	1.2

Source: Hartalega, Bloomberg, UOB Kay Hian

Analyst(s)

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HOLD (Maintained)

Share Price	RM1.10
Target Price	RM1.06
Upside	-3.6%

Stock Data

Sector	Health Care
Bloomberg ticker	HART MK
Shares issued (m)	3,407.5
Market cap (RMm)	3,748.2
Market cap (US\$m)	917.9
3-mth avg daily t'over (US\$m)	2.6

Price Performance (%)

52-week high/low				RM1.38/RM0.8
1mth	3mth	6mth	1yr	YTD
(6.0)	7.8	(2.7)	(9.8)	11.1

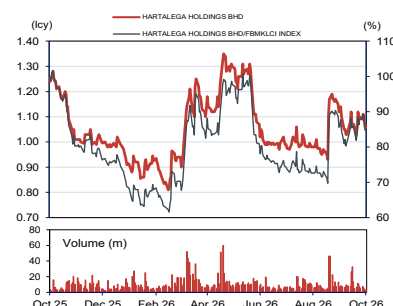
Major Shareholders (%)

Hartalega Industries Sdn Bhd	34.49
Budi Tenggara Sdn Bhd	8.66
KWAP	6.36

Balance Sheet Metrics

FY27 NAV/Share (RM)	1.32
FY27 Net Debt/Share (RM)	(0.3)

Price Chart



Source: Bloomberg

Company Description

Hartalega is the world's leading nitrile glove manufacturer.

- **ASP hike on the horizon, but more of cost-push.** We gathered that several major China producers have raised ASP to about US\$17-17.50/'000 pieces (additional US\$1-1.50) since September, and domestic producers are following suit. Following the natural gas tariff hike of 30-35% beginning October, Harta and other Malaysian glovemakers are also raising their nitrile glove ASPs to around US\$22-23/'000 pcs. Nevertheless, these ASP revisions are mainly cost-push initiatives to pass through cost pressures (higher fuel and raw material prices) that are exerting margins. While we expect a gradual cost pass-through, we opine that 2Q-3QFY27 earnings will likely moderate from 1QFY27's high base.
- **Industry course altered towards greener pastures...** After years of industry consolidation and persisting price wars, the current supply dynamic has returned to a more balanced state. Harta's automation efforts have also resulted in more optimal efficiency and cost levels. Overall, we anticipate that Harta will chart better profitability in FY27, with a net profit of RM147m (FY26: RM72m). For FY28-29, we modeled in a commendable 4-15% earnings growth, mainly led by demand recovery, improving margins amid cost efficiency and better capacity utilisation.
- **...but valuations appear fair at this juncture.** Following commendable share price action (+11% ytd), Harta is now trading at mean valuations based on our 2027 earnings forecasts. We opine that despite improving profitability and efficiency, the sector's valuations are undergoing a structural de-rating, dragged by permanent disruption from China players' capacity influx and aggressive stance on grabbing market share which will continue to weigh on investors' sentiment.
- **Stiff competition from China glovemakers remains a structural threat.** Given the severity of the current US tariffs on China-made medical gloves (147% in 2026), China glovemakers have largely reduced their exposure to the US market and re-channelled their sales to regions like Europe and Asia with more competitive price-cutting strategies. This has resulted in more challenging dynamics and declining profitability (lower ASPs and margins) for non-US sales. Over a mid- to long-term horizon, China glovemakers' further expansion in Indonesia and Vietnam is likely to continue to exert competitive pressures, indirectly capping ASP trends and profitability for Malaysian glovemakers. This also results in a structural de-rating on valuations.
- **Healthy balance sheet with RM1.1b net cash.** As of 1QFY27, Harta is in a net cash position of RM1.1b (~31% of market cap). Alongside improving earnings outlook and restoration of dividends payout, Harta is well positioned to navigate through current challenges and further enhance its efficiency.

Valuation/Recommendation

- **Maintain HOLD and target price of RM1.06.** Our target price is ascribed to 24.0x 2027F PE (five-year mean).

Earnings Revision/Risk

- None.

Assumptions

	FY26	FY27F	FY28F
Revenue (RMm)	2135	3134	3233
Growth yoy (%)	-17%	47%	3%
ASP growth yoy (%)	3%	16%	-7%
Volume growth (%)	4%	9%	11%
Profit (RMm)	84	147	152
Growth yoy (%)	226%	75%	4%
Profit margin (%)	4%	5%	5%

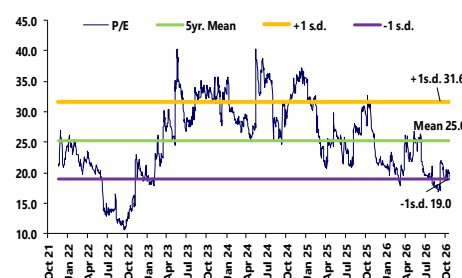
Source: UOB Kay Hian

Global Gloves Demand (b' pieces)



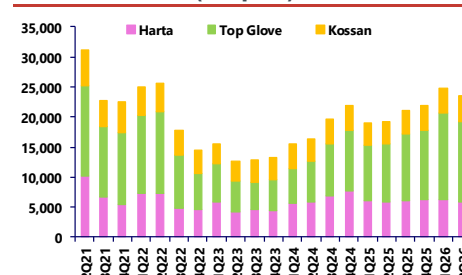
Source: Hartalega, International Trade Center (ITC)

Five-Year Forward PE Band



Source: Bloomberg, UOB Kay Hian

Malaysian Glove Players' Quarterly Sales Volume (m' pcs)



Source: Bloomberg, UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental
- Commits to reduce its carbon footprint with reduction in greenhouse gas (GHG) emission intensity by 2026.
Social
- Social compliance policy is in accordance with local and international standards including the International Labour Organisation's (ILO) 11 indicators of Forced Labour.
Governance
- Five board members are independent directors, amounting to 63% of the board members.

Source: Hartalega, UOB Kay Hian

Profit & Loss

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Net turnover	2,135	3,134	3,233	3,383
EBITDA	281	365	375	411
Deprec. & amort.	164	171	173	176
EBIT	117	193	202	235
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	0	(1)	(1)	(1)
Pre-tax profit	105	193	201	233
Tax	(21)	(46)	(49)	(58)
Minorities	1	1	1	1
Net profit	84	147	152	176
Net profit (adj.)	72	147	152	176

Cash Flow

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Operating	322	113	309	327
Pre-tax profit	117	193	201	233
Tax	(13)	(46)	(49)	(58)
Deprec. & amort.	164	171	173	176
Associates	0	0	0	0
Working capital changes	97	(206)	(16)	(25)
Non-cash items	(43)	0	0	0
Other operating cashflows	0	1	1	1
Investing	(86)	(35)	(18)	(114)
Capex (growth)	(3)	(35)	(18)	(114)
Proceeds from sale of assets	(122)	0	0	0
Others	40	0	0	0
Financing	(10)	(81)	(77)	(90)
Dividend payments	0	(80)	(84)	(96)
Proceeds from borrowings	4	0	8	8
Loan repayment	(3)	0	0	0
Others/interest paid	(11)	(1)	(1)	(1)
Net cash inflow (outflow)	226	(3)	215	123
Beginning cash & cash equivalent	923	1,144	1,141	1,356
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	1,144	1,141	1,356	1,479

Balance Sheet

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Fixed assets	2,610	2,443	2,444	2,433
Other LT assets	374	409	383	368
Cash/ST investment	1,144	1,141	1,356	1,479
Other current assets	768	1,009	1,036	1,074
Total assets	4,897	5,002	5,218	5,354
ST debt	0	0	0	0
Other current liabilities	288	318	458	505
LT debt	8	15	23	31
Other LT liabilities	184	184	184	184
Shareholders' equity	4,417	4,484	4,553	4,632
Minority interest	(1)	0	1	1
Total liabilities & equity	4,897	5,002	5,218	5,354

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	13.2	11.6	11.6	12.1
Pre-tax margin	4.9	6.1	6.2	6.9
Net margin	4.0	4.7	4.7	5.2
ROA	2.1	3.0	3.0	3.3
ROE	2.5	3.3	3.4	3.8
Growth				
Turnover	(17.4)	46.8	3.1	4.7
EBITDA	40.0	29.8	2.8	9.5
Pre-tax profit	144.0	83.9	4.5	15.9
Net profit	226.4	104.0	3.8	15.1
Net profit (adj.)	226.4	104.0	3.8	15.1
EPS				
Leverage	0.2	0.3	0.5	0.7
Debt to total capital	0.2	0.3	0.5	0.7
Debt to equity	(25.7)	(25.1)	(29.3)	(31.3)
Net debt/(cash) to equity	946.1	626.3	388.7	304.8
Interest cover	13.2	11.6	11.6	12.1

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