Hartalega (HART MK)

2QFY27: Mounting Cost Pressures Earnings Outlook

Highlights

- 2QFY27 earnings declined significantly as higher volume sales (+1% qoq) and ASPs (+4% qoq) are largely offset by higher raw material costs.
- Upcoming 2HFY27-FY28 results may see further margin compression as ASPs largely normalised, while minimum wage impacts and elevated raw material and energy costs will start to kick in.
- Structurally, competition from China and oversupply dynamics continue to impact earnings. Maintain HOLD with a lower target price of RM0.93.

2QFY27 Results

Year to 31 Mar (RMm)	2QFY27	qoq % chg	yoy % chg	Comments
Revenue	644.7	6.4	19.5	Surged qoq on higher volume sales (+1%) and ASP (+4%)
Operating exp.	-604.3	14.9	14.9	Higher raw material prices lift production cost
EBITDA	86.2	-34.9	34.0	Declined qoq vs RM132m in 1QFY27
EBIT	43.5	-52.0	84.6	
Finance costs	-0.3	486.4	355.3	
PBT	43.1	-52.3	83.8	
Taxation	-10.4	-49.1	85.2	
Core net profit	28.0	-61.1	74.7	Weaker earnings, within expectations
		qoq ppt chg	yoy ppt chg	
EBITDA margin (%)	13.4	-8.5	1.5	
Eff. tax rate (%)	-24.0	-1.5	-0.2	
Core Net Margin (%)	4.3	-7.5	1.4	Margin declined qoq on higher input costs

Source: Hartalega Holdings, UOB Kay Hian

Analysis

- **Within expectations.** Hartalega Holdings (Harta) registered a 2QFY27 core net profit of RM28m (1QFY27: RM72m), after stripping out exceptional items. 1HFY27 earnings accounted for 68% and 60% of our and consensus' full-year estimates respectively, but are deemed within expectations as we foresee weaker earnings in 2HFY27.

Key Financials

Year to 31 Mar (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	2,585.6	2,135.4	3,134.2	3,130.4	3,153.9
EBITDA	200.7	281.0	364.7	342.4	356.5
Operating profit	50.0	117.3	193	170	181
Net profit (rep./act.)	25.8	84.3	147	128	135
Net profit (adj.)	36.9	72.0	147	128	135
EPS	1.1	2.1	4.3	3.8	4.0
PE (x)	97.4	55.4	24.4	28.0	26.6
P/B (x)	0.8	0.9	0.8	0.8	0.8
EV/EBITDA (x)	13.3	10.2	6.8	7.3	7.0
Dividend yield (%)	11.0	1.5	2.2	2.0	2.1
Net margin (%)	1.0	4.0	4.7	4.1	4.3
Net debt/(cash) to equity (%)	(21.3)	(25.7)	(25.1)	(29.5)	(31.7)
Interest cover (x)	97.2	946.1	626.3	355.0	264.7
ROE (%)	0.8	2.5	3.3	2.8	3.0
Consensus net profit	n.a	n.a	166.8	170.4	190.9
UOBKH/Consensus (x)	n.a	n.a	0.88	0.75	0.71

Source: Hartalega, Bloomberg, UOB Kay Hian

Analyst(s)

Jack Goh
jackgoh@uobkh.com
(603) 2147 1943

HOLD (Maintained)

Share Price	RM1.06
Target Price	RM0.93
Upside	-12.3%
Previous TP	RM1.06

Stock Data

Sector	Health Care
Bloomberg ticker	HART MK
Shares issued (m)	3,407.5
Market cap (RMm)	3,611.9
Market cap (US$m)	885.6
3-mth avg daily t'over (US$m)	2.8

Price Performance (%)

52-week high/low				RM1.38/RM0.8
1mth	**3mth**	**6mth**	**1yr**	**YTD**
2.9	3.9	(21.5)	(10.9)	7.1

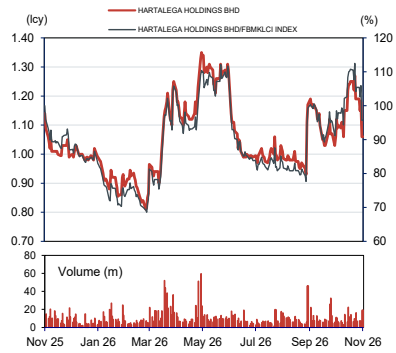
Major Shareholders (%)

Hartalega Industries Sdn Bhd	34.49
Budi Tenggara Sdn Bhd	8.66
KWAP	6.07

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.

- **Stronger qoq revenue, but profitability dipped on weaker margins.** Harta's revenue increased 20% yoy and 6% qoq in 2QFY27, reflecting: a) higher volume sales (+1% qoq); b) higher ASPs in US dollar terms (+4% qoq) to US$26.80/'000 pieces; and c) marginal strengthening of the US dollar against the ringgit (+1.5% qoq). Nevertheless, profitability fell due to higher raw material and operating costs which lowered net margin (-7.5ppt qoq).
- **Operating matrixes mixed, with margins declining on higher input cost.** In 2QFY27, Harta charted a higher utilisation rate of 65% (1QFY27: 64%) based on an adjusted capacity of around 36b. This mainly reflects stronger demand and customers' inventory replenishment, besides rising ASP (+4% qoq) to US$26.80/'000 pieces. Nevertheless, ETBIDA margin fell to 13.4ppt (-8.5ppt qoq), dragged by higher raw material prices during the onset of Iran war in March-April.

2QFY27 Operating Metrics

	2QFY27	qoq % chg	yoy % chg	Comments
Gloves (b pcs.)	5,939	1.0	-0.7	Increased qoq on stronger demand
Utilisation rate (%)	65%	1.6	-4.0	Stronger demand lifting utilisation rate.
Blended ASP (US$)	26.8	4.3	25.6	ASPs increased 4% qoq in US dollar terms
Exchange rate	4.06	1.4	-3.8	US dollar strengthened 1.5% qoq against ringgit
COG/ '000 gloves (RM)	102.0	14.1	16.0	Cost per unit surged on higher input cost

Source: Hartalega Holdings, UOB Kay Hian

- **Sequentially weaker 2HFY27 expected.** Following the de-escalation of the Iran war, ASP moderated swiftly from a peak of US$26-27/'000 pcs in 1HFY27 to US$22/'000 pcs for October-November shipments. Meanwhile, Harta is guiding for potential margin compression in 2HFY27-FY28, as various input costs such as raw material prices, natural gas tariffs and minimum wages have seen steep upward revisions. Overall, management guided for additional costs of US$2.50-3.00/'000 pcs of gloves arising from these higher costs, which may not be fully passed through to customers given current oversupply industry dynamics. We opine that softer ASP and higher input costs will result in weaker earnings through the rest of FY27 for Harta.
- **Stiff competition from China glovemakers remains as 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 would likely continue to exert competitive pressures, indirectly capping ASP trends and profitability for Malaysian glovemakers. This also results in a structural de-rating on valuations.
- **Operational efficiency and capacity expansion.** Harta set aside RM250m 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 the current 27b pieces annually (after hibernating Plant 3 and 4) to 30b pieces by end-26.

Valuation/Recommendation

- **Maintain HOLD with a lower target price of RM0.93 (from RM1.06).** Our target price is ascribed to 24.0x 2027F PE (five-year mean).

Earnings Revision/Risk

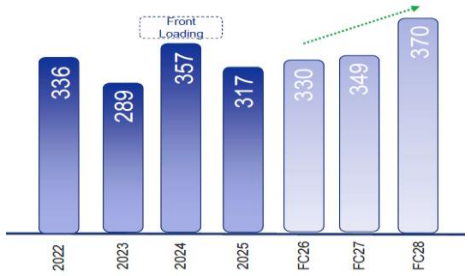
- **Reduced our FY27-28 earnings forecasts by 16-20%** as we adjust our natural gas tariffs and labour costs assumptions higher following recent developments.

Assumptions

	FY26	FY27F	FY28F
Revenue (RMm)	**2135**	**3134**	**3130**
Growth yoy (%)	-17%	47%	0%
ASP growth yoy (%)	3%	16%	-9%
Volume growth (%)	4%	9%	7%
Profit (RMm)	**84**	**147**	**128**
Growth yoy (%)	226%	75%	-13%
Profit margin (%)	4%	5%	4%

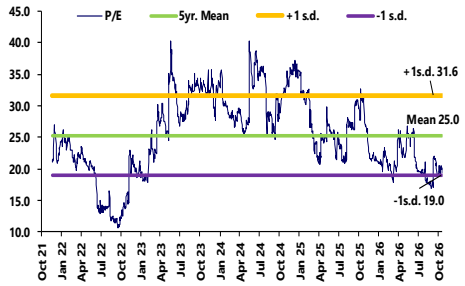
Source: UOB Kay Hian

Global Gloves Demand (b' pieces)



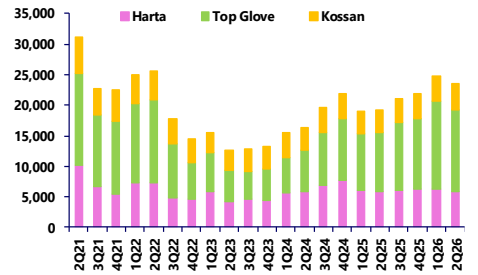
Source: Hartalega, International Trade Center (ITC)

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**	**3,130**	**3,154**
EBITDA	281	365	342	356
Deprec. & amort.	164	171	173	176
EBIT	117	193	170	181
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**	**169**	**179**
Tax	(21)	(46)	(41)	(45)
Minorities	1	1	1	1
Net profit	**84**	**147**	**128**	**135**
Net profit (adj.)	72	147	128	135

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	1,362	1,488
Other current assets	768	1,009	1,010	1,015
Total assets	**4,897**	**5,002**	**5,199**	**5,304**
ST debt	0	0	0	0
Other current liabilities	288	318	450	485
LT debt	8	15	23	31
Other LT liabilities	184	184	184	184
Shareholders' equity	4,417	4,484	4,542	4,603
Minority interest	(1)	0	1	1
Total liabilities & equity	**4,897**	**5,002**	**5,199**	**5,304**

Cash Flow

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Operating	**322**	**113**	**302**	**308**
Pre-tax profit	105	193	169	179
Tax	(21)	(46)	(41)	(45)
Deprec. & amort.	164	171	173	176
Associates	0	0	0	0
Working capital changes	97	(206)	1	(4)
Non-cash items	(43)	0	0	0
Other operating cashflows	21	1	1	1
Investing	**(86)**	**(35)**	**(18)**	**(114)**
Capex (growth)	(3)	(35)	(18)	(114)
Proceeds from sale of assets	369	369	369	369
Others	(329)	(369)	(369)	(369)
Financing	**(10)**	**(81)**	**(63)**	**(68)**
Dividend payments	0	(80)	(70)	(74)
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)	221	126
Beginning cash & cash equivalent	923	1,144	**1,141**	**1,362**
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	**1,144**	**1,141**	**1,362**	**1,488**

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	13.2	11.6	10.9	11.3
Pre-tax margin	4.9	6.1	5.4	5.7
Net margin	4.0	4.7	4.1	4.3
ROA	2.1	3.0	2.5	2.6
ROE	2.5	3.3	2.8	3.0
Growth				
Turnover	(17.4)	46.8	(0.1)	0.8
EBITDA	40.0	29.8	(6.1)	4.1
Pre-tax profit	144.0	83.9	(12.4)	6.2
Net profit	226.4	104.0	(13.0)	5.5
Net profit (adj.)	226.4	104.0	(13.0)	5.5
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)	(29.5)	(31.7)
Net debt/(cash) to equity	946.1	626.3	355.0	264.7
Interest cover	13.2	11.6	10.9	11.3

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