Hartalega

Hartalega Holdings Berhad
MSWG Q&A
2021

Grounded in Values

MSWG Q&A - Strategic & Financial Matters

Growing Global
Innovation & Quality

Question:

The Company achieved stellar financial performance for FYE 2021 where Profit After Tax rose by 569% to RM2.9 billion compared to the previous year. The Covid 19 pandemic has resulted in incessant demand for gloves. The Company has benefited from strong sales and demand for gloves does not seem to be waning as the pandemic continues to spread globally. (Page 28 of AR 2021)

One of the main reasons for the Company's strong performance for FYE 2021 was due to higher Average Selling Prices (ASPs) for gloves. However, since late of last year, the ASPs began falling.

What are the Company's strategies to mitigate the falling ASPs for FYE 2022?

Response:

The ASPs for gloves are expected to normalize from recent peak as panic buying has dissipated from the market. In addition, increasing supply has created further pricing pressure in the market.

Hartalega will continue to focus on cost discipline and implementing efficiency improvement and automation projects to mitigate impact to margins as a result of falling ASPs.

MSWG Q&A - Strategic & Financial Matters

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Question:

The Company has committed an investment of RM7 billion for the acquisition and development of 250 acres of land in Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah. This will enable it to build 16 new manufacturing facilities over the next 20 years. (Page 32 of AR 2021)

Apart from this earmarked expansion, what are the other expansion plans for the Company in the coming years?

Response:

In the immediate term, the Company will be commissioning production lines at NGC 1.5 which is located adjacent to the existing NGC production facility in Sepang. NGC 1.5 will have 4 production plants and will have an annual installed capacity of 19 billion pieces once completed. First line is expected to be commissioned in first quarter of CY 2022.

MSWG Q&A - Strategic & Financial Matters

Question:

The Company's NGC Plant 7 is expected to be completed in 2021. (Page 34 of AR 2021)

a) What is the completion status of this plant to-date?

b) What is the expected production capacity of this plant?

Response:

Plant 7 is scheduled to have 10 production lines in total once completed (6 examination gloves lines & 4 surgical gloves lines) and will have an annual installed capacity of 2.7 billion pieces once completed. 8 production lines have been commissioned to-date with the remaining 2 surgical lines to be commissioned in coming months .

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Question:

The spread of the Covid – 19 pandemic had seen a few of the larger glove companies being virus hotspots especially in their foreign worker's dormitories.

What are the steps taken by the Company to quell the spread of the pandemic especially in the foreign workers dormitories?

Response:

The company continues to implement the necessary preventive measures to protect our employees by enforcing social distancing measures, implementing awareness programs, entry screening procedure, staggered shift hours and frequent sanitizing at common areas. In addition, we have also reshuffled workers according to their hostel and working areas as well as implemented "Green Barrier Strategy" to further improve segregation between Hartanians living in hostel and Hartanians living in their own home.

We have also recently completed the immunisation program for our Hartanians through PIKAS with over 90% completed their second dose recently.

MSWG Q&A - Strategic & Financial Matters

Growing Global
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Question:

The Company has a huge reliance on foreign workers. The Malaysian Government has made it more stringent to employ foreign workers recently.

a) What is the ratio of foreign workers compared to local workers in the Company currently?

b) What are the steps taken by the Company to address the Government's stricter policy in hiring foreign workers? A shortage of foreign workers would adversely affect the Company's production capabilities.

Response:

Currently, the percentage of foreign workers is 60% of total employees. *(FY19:75%)*

With the Malaysian borders closed due to the pandemic, the Company is focusing recruitment efforts towards local employees. To reduce reliance on manual labour moving forward, Hartalega will place stronger emphasis on digitalization and automation related initiatives.

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MSWG Q&A - Strategic & Financial Matters

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Question:

The Company's cash balances for the Group and of the Company stood at RM792,722,147 (2020:RM123,883,574) and RM3,827,174 (2020: RM833,171) respectively which earn interest at effective interest rates ranging from 0.25% to 2.20% (2020: 0.05% to 2.20%) per annum. (Page 150 of AR 2021)

Does the Company plan to review its cash management policies as the interest of 0.25% is on the lower side?

Response:

The Company's cash balances that are denominated in Ringgit Malaysia earns interest at effective interest rates ranging from 1.35% to 2.20% per annum.

USD denominated cash at bank on the other hand earns interest at effective interest rates ranging from 0.25% to 0.40% per annum. These funds are meant to be converted into RM as well as payment reserve for USD denominated trade invoices.

The management will review its cash management policies on an ongoing basis to ensure that the return on cash assets are optimised.

MSWG Q&A - Corporate Governance Matters

Growing Global
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Question:

The Company has indicated in its CG Report that it has not adopted integrated reporting for its latest financial year. Please note that Practice 11.2 encourages large companies to adopt integrated reporting which would enhance the quality of reporting. Is the Company planning to apply Practice 11.2 and if yes, by when?

Response:

The Company plans to adopt integrated reporting on an incremental approach in the coming years and target to apply Practice 11.2 by financial year 2023.

Questions from shareholders via email & Boardroom portal

Questions from shareholders

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- We have received more than 60 questions via email & BR portal from various shareholders before AGM
- Similar or repeated questions are grouped together in some of our responses

Hartalega

Questions from shareholders

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No.	Questions	Responses
1.	How much of your business will be affected when newcomers enter the market?	Our customer profile are mainly made up of major distributors in the healthcare sector which priortises supply reliability and consistent quality. We have built a good reputation among international buyers for both factors over the years. Therefore, we generally do not expect significant impact from newcomers which have just entered the market.
2.	Based on your experience, do you think that after pandemic the nitrile glove ASP will stay higher than pre-pandemic?	Post pandemic, the nitrile glove ASP is expected to be higher than it was pre-pandemic. This is mainly due to the change in cost structure (e.g. raw material costs & social compliance costs) which have increased since early days of the pandemic.
3.	How is the ASP trending from Q1 2022 to Q2 2022? As for the first 2 months of Q2 2022, what is the utilization rate of the factory ?	ASP is expected to decline by 30% QoQ in the coming quarter. The utilisation rate for the first 2 months of Q2 is expected to be around 70% due to the 60% workforce restriction in place during July & majority of August.

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Questions from shareholders

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No.	Questions	Responses
4.	Is there any update on the AMG glove, and what's the outlook for this product?	We have yet to receive the FDA approval for the product. Due to the pandemic, the company has shifted its attention to delivering mainstream examination gloves due to the surge in demand and market is indifferent towards differentiated products like AMG.
5.	What would you think of the contribution from COATS and MDG in 3-5 years?	We expect these products to take up less than 10% of our future sales volume in the next 3-5 years.
6.	Impact of current aggressive expansion of competitors especially from mainland China? Will they cause permanent decrease of profit margin and market share? If that so, what is the management strategy to counter or better prepare for this situation	Increasing supply from Chinese competitors will affect market demand and supply situation in the long run. This will in turn affect prevailing market prices and industry profit margin. The management intends to take a sustainable long term approach by placing greater emphasis on efficiency and automation related initiatives to remain a leading glove manufacturer with the lowest cost per unit of production.

Questions from shareholders

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No.	Questions	Responses
7.	Will there be new products to be introduced to the market in next 1 to 5 years time?	We will make the appropriate announcement when there is introduction of new products. Through our R&D efforts, the management is constantly looking to introduce new products or enhanced features into our product portfolio. We are placing greater emphasis on building our talent & innovation ecology in the coming years to serve this purpose as well.
8.	Why Hartalega opt for OEM instead of OBM sales channel? Will Hartalega consider OBM/Hybrid sales channel in future?	We are focused mainly on OEM as most of our major customers are brand owners/distributors in developed markets in US and EU region. We do have OBM presence in China, India and Australia where we distribute our own brand of gloves, GloveOn. We intend to grow these channels moving forward as well.
9.	If there is no covid-19 virus in the world, what is the impact to the business ? And what is your view for the plan to expand another new 16 manufacturing facilities over the next two decades without covid-19 virus ?	While ASP will normalise from its pandemic peak in the short term, we believe there is long term structural change in glove usage due to change in users' behaviour due to the pandemic. The management will take cognisant of prevailing market demand and supply and make changes to its expansion plans if necessary.

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No.	Questions	Responses
10.	With the RM3.4 billion cash on hand, can you share on how the company will utilise the amount in coming future (ie. 3-5 years)? Any plan on diversification of company's business or any acquisition in near term?	The cash will be mainly utilised for expansion as well as capital expenditure for various efficiency & automation projects. There are no plans on diversification or acquisition in the near term.
11.	Any special dividend?	There is no plans for higher dividend payout as the management believes the current 60% payout is sufficient. The total dividend to be paid out for FY21 amounts to RM1.7 billion. *(FY20:RM262 million)*
12.	Any plans for bonus issue?	There is no plans for bonus issue at the moment. We do not discount the possibility of announcing a bonus issue in the near future.

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