

Gloves Sector Update

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Favourable outlook for Malaysian glovemakers

Summary

- **Intensified trade dispute led to US plans to raise the tariff on Chinese-made rubber gloves from 7.5% to 25% by 2026.**
- **While the news may be favourable for Malaysian rubber glove manufacturers, we anticipate that the effect will only materialise by 2026.**
- **We are upgrading our recommendation to HOLD for HARTA with a target price of RM3.90 by pegging 2.8x to FY25F BV while we re-iterate our HOLD call for TOPGLOV with a target price of RM1.24 by pegging 43.0x P/E multiple to FY25F EPS of RM0.03.**

Sector Update

- The Malaysian rubber glove industry finds itself in a cut-throat situation, leading to lower ASP in recent years. Following the intensified trade dispute between the two world largest economy, US has recently announced plan to hike tariff on several Chinese products, including rubber medical and surgical gloves which will escalate export costs for Chinese gloves to the US. This move will erode the competitive edge of Chinese manufacturers, prompting US to shift their focus back towards market players such as Thailand, Malaysia, and among others. Consequently, we expect Malaysia, being a renowned globally for its glove production, may see a recovery in orders and market share in 2026.
- According to World Integrated Trade Solution (WITS), Malaysia leads glove exports with a trade value of USD 1.86bn. These gloves have reached 190 countries, with the US accounting for 19% of exports. Meanwhile, China remains in second place with a trade value of USD1.13bn. Malaysia's success is attributed to its production of quality and sustainable products for the market. Concerns over the quality of gloves particularly in 2023 have led to restrictions on some Chinese glove makers, with several being listed in the FDA import alert list.
- While there was a large difference between ASP in both countries, we reckon that price gap may subsequently narrows following the move of tariff rate hike. The overcapacity of gloves industry may also subsequently normalise in 2025 as inventory level of purchasers depletes. This bodes well for purchasers whom are looking towards re-stocking activities in 2025 or even 2026.
- Lifting of import bans on Top Glove Corp Bhd and Supermax Corp Bhd in 2021 and 2023 respectively by the US FDA after addressing forced labour concerns bodes well in ensuring sustainable practice in ESG space. Looking ahead, gloves players will continue to focus onto cost optimisation such as the on-going de-commissioning of inefficient plants, eliminating wastage and reducing massive planned expenditures.
- We favour Hartalega and Top Glove as we anticipate that Malaysian glove makers will raise their ASP due to industry-wide increases in raw material costs, leading to higher margins. Furthermore, Hartalega's significant exposure in the US market reinforces our preference. Still, we reckon that the positive impact may only materialise in 2026.
- We upgrade our recommendation to **HOLD** (previously SELL) on HARTA, with a fair value of RM3.90, reflecting a higher BV multiple of 2.8x. In addition, we tweaked a higher margin for FY25F to 21% (previously 19%) and anticipate that ASP will gradually recovery as a result of increased in raw material costs. Meanwhile, we re-iterate our **HOLD** call for TOPGLOV, with a fair value of RM1.24 by pegging a higher PE multiple from 40.0x to 43.0x.

Company	Price (RM)	FYE	Market Cap RM'm	EPS (sen)		P/E (x)		Target Price (RM)	Dividend Yield (%)		Upside/Downside
	as at 15May24			2024F	2025F	2024F	2025F		2024F	2025F	
Top Glove Corporation Bhd	1.26	Aug	10,090.4	-2.0	2.0	30.0	43.0	1.24	0.0%	0.8%	-1.6%
Supermax Corporation Bhd	1.08	Jun	2,770.9	0.0	2.0	33.3	44.4	0.89	0.9%	0.9%	N/A
Hartalega Holdings Berhad	3.82	Mar	13,038.7	1.0	6.0	39.2	37.9	3.90	0.3%	0.8%	2.4%
Kossan Rubber Industries Berhad	2.74	Dec	6,991.4	6.0	8.0	34.7	28.1	2.25	0.7%	1.1%	N/A

Source: Bloomberg, Apex Securities

Countries	Year	Trade Value (USD'000)	Quantity (kg)	ASP (USD)
Malaysia	2023	1,886,110.8	67,000,000.0	28.15
China	2023	1,130,863.1	273,151,000.0	4.14
Germany	2023	149,923.0	19,545,500.0	7.67

Source: World Integrated Trade Solution (WITS), Statista

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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