

Gloves Sector Update

Bane for Chinese Gloves manufacturers

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Summary

- **The USTR has finalised the tariff on Chinese-made medical gloves, which was initially set at 25% by 2026 (from current 7.5%) and now 50% in 2025 and 100% in 2026.**
- **We believe the significant hike in tariffs on Chinese gloves will undoubtedly strengthen the Malaysian glove industry's dominance in the market and address earlier concerns about potential market share losses amid intense competition.**
- **We keep our Overweight stance on the Gloves sector and upgrade our recommendation to BUY on both HARTA and TOPGLOV with unchanged target price of RM2.91 and RM1.25 by pegging 2.8x and 1.7x to their FY25F BV respectively, as their recent share price correction resulted in more attractive valuations.**

Sector Update

- The United States Trade Representative (USTR) finalised the increase in tariffs on Chinese surgical gloves on September 13, 2024. The move supersedes earlier proposed modifications announced in May 2024. Key changes in the official statement include the USTR doubling the duties on Chinese face masks, medical gloves, syringes, and needles. Earlier in May 2024, US planned to raise the tariff on China's rubber medical and surgical gloves' export at 25% (from current 7.5%) starting in early 2026. With the recent modification, tariffs on Chinese glovemakers are now set to rise to 50% in 2025 and 100% in 2026.
- We believe the significant hike in tariffs on Chinese gloves will undoubtedly strengthen the Malaysian glove industry's dominance in the market and address earlier concerns about potential market share losses amid intense competition.
- According to the Malaysia Rubber Glove Manufacturers Association (MARGMA), 35% of Malaysia's rubber glove exports are to the US, amounting to RM4.3bn in 2023. The higher tariffs imposed by USTR could benefit Malaysian glove manufacturers, as Malaysia's success is attributed to its production of high-quality and sustainable products. Additionally, concerns about glove quality since 2023 have led to restrictions on 13 out of 14 Chinese glove makers since January 2024, with several listed on the FDA import alert list.
- Also, capacity streamlining and the exit of new entrants have recently eased some of the oversupply pressure. Most Malaysian glove makers are now undertaking stock replenishment cycle from certain existing customers. This trend is attributed to the depletion of pandemic stockpiles and the normalisation of consumption patterns. We foresee that the new tariffs impose in 2025 may lead to some Chinese glove makers losing some US customers. However, we expect some Chinese manufacturers might consider establishing their manufacturing plants in ASEAN countries in a move to mitigate the tariff impose in order serve their US market clientele.
- We favour Hartalega and Top Glove as we expect Malaysian glove makers to gradually hike their ASP c.2% in response to industry-wide increases in raw material costs, which should result in better profit margins. Furthermore, Hartalega's substantial presence in the US market further supports our stands.
- **Keeping Overweight stance.** We made no changes to our earnings forecasts as the positive news have already factored into our forecast. Following the recent market price correction, we upgrade our recommendation to **BUY** (previously HOLD) on HARTA, with an unchanged Fair Value of RM2.91, pegged at BV multiple of 2.8x.

At the same time, we upgrade our recommendation to **BUY** (previously HOLD) for TOPGLOV, with an unchanged Fair Value of RM1.25, pegged at BV multiple of 1.7x to FY25F.

Company	Price (RM)	FYE	Market Cap RM'm	EPS (sen)		P/E (x)		Dividend Yield (%)		Target Price (RM)	Upside / Downside
	as at 17Sep24			2024F	2025F	2024F	2025F	2024F	2025F		
Top Glove Corporation Bhd	0.915	Aug	7330.08	-2.0	2.0	N/A	45.5	0.0%	1.1%	1.25	35.5%
Supermax Corporation Bhd*	0.79	Jun	2014.99	-7.0	1.0	N/A	71.8	1.3%	1.3%	0.72	-9.1%
Hartalega Holdings Berhad	2.42	Mar	8260.09	0.4	4.6	652.0	52.3	0.0%	1.2%	2.91	20.2%
Kossan Rubber Industries Berhad*	1.83	Dec	4669.46	5.0	7.0	44.6	35.9	1.1%	1.6%	2.51	37.2%

*Supermax & Kossan data based on Bloomberg consensus estimates

Source: Bloomberg, Apex Securities

Selected Glove Manufacturers Countries

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), Statistica

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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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