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Gloves Sector

Neutral (↔)

Navigating the 5% SST Expansion on Latex

- Effective 1 Jul 2025, Malaysia's P.U.(A) 170/2025 order will impose a 5% Sales and Service Tax (SST) on imported natural rubber latex and nitrile butadiene rubber latex. However, Malaysian glovemakers are currently negotiating with the government over this, and the Royal Malaysian Customs Department has granted a grace period until 31 Dec 2025.
- Amid on-going uncertainties and a weakening USD against the MYR, US clients remain cautious. As a result, we expect both HART and TOPG to deliver weaker performance in the upcoming quarterly result. The 5% SST on latex, if fully implemented, is also likely to further squeeze margins and could result in TOPG slipping into a loss-making situation.
- Maintain a Neutral stance on the sector given that the glove market remains highly volatile.
- We have reduced our P/BV multiple for TOPG from 1.3x to 1.1x, hence lowering our TP to RM0.78 (from RM0.98). For HART, we have lowered our P/BV multiple from 1.5x to 1.37x, reducing our TP to RM1.76 (from RM1.93). Maintain Hold on both TOPG and HART.

5% SST on Latex. Based on recent announcements and gazetted orders, the imported natural rubber latex and nitrile butadiene rubber latex raw materials are affected by a 5% sales and service tax (SST) under the latest P.U.(A) 170/2025 order in Malaysia, effective 1 Jul 2025. However, based on our channel check the glovemakers are currently in negotiations with the government. In the interim the Royal Malaysian Customs Department has introduced a grace period through 31 Dec 2025 allowing temporary relief from tax enforcement.

Margma's Stance on the SST Expansion. The Malaysian Rubber Glove Manufacturers Association (Margma) has urged the government to delay the 5% SST on raw materials. The association argues that the additional cost cannot be passed on to overseas buyers due to intense global competition, and will instead erode profit margins, ultimately undermining the international competitiveness of Malaysian glovemakers. Margma is therefore advocating for a postponement to allow for comprehensive impact assessments and is calling for exemptions on critical raw materials.

Our view. The proposed 5% Sales and Service Tax (SST) on latex will likely squeeze profit margins and further undermine the global competitiveness of Malaysian glovemakers. This comes at a time when the industry is already grappling with a challenging operating landscape, including persistent pressure from US tariffs. Despite a recent tariff pause, exports to the US market have yet to pick up due to earlier front-loaded purchases. The market is also oversupplied, made worse by Chinese manufacturers expanding into Vietnam and Indonesia as a move to retain their market share in the US by late-2025.

Earnings Impact. Hartalega's (HART) FY25 report indicates that raw materials constitute 30% of their total costs. The Group also noted that their synthetic rubber materials are sourced in a balanced manner from both domestic and overseas suppliers. Based on our projections, the implementation of the 5% SST on imported latex is expected to raise total cost by c.1.5%, resulting in estimated GP margin compression of 0.2%-pts and CNP margin compression of 0.2-0.3%-pts. Consequently, this will lower our FY26F/FY27F/FY28F earnings forecasts by 1.5%/4.0%/3.7% respectively.

On the other hand, the SST implementation could increase the total production cost of Top Glove (TOPG) by up to 2%. This cost pressure may drag the Group into a core net loss of RM6.1m/RM52.1m/RM51.9m for FY25F/FY26F/FY27F, respectively, reversing from previous core profit forecasts of RM13.1m/RM27.5m/RM30.2m for the same period.

Figure 1: HART P&L Impact Analysis

HART MK Equity FYE Mar (RM'm)		original forecast			1.5% impact		
		FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Revenue		2,653.69	2,727.11	3,052.02	2653.688	2,727.11	3,052.02
COGS	-	2,290.13	-2,345.31	-2,624.74	-2,295.86	-2,351.18	-2,631.30
GP		363.56	381.79	427.28	357.83	375.93	420.72
GP margin %		13.7%	14.0%	14.0%	13.5%	13.8%	13.8%
Operating expenses	-	202.30	-186.08	-192.98	-202.30	-186.08	-192.98
Finance cost	-	2.11	-2.15	-2.19	-2.11	-2.15	-2.19
PBT		159.15	193.57	232.11	153.43	187.71	225.55
Tax expenses	-	30.24	-46.46	-55.71	-30.24	-46.46	-55.71
PAT		128.92	147.11	176.40	123.19	141.25	169.84
MI		0.95	1.16	1.39	0.95	1.16	1.39
PATMI		127.96	145.95	175.01	122.23	140.09	168.45
EI		0	0	0	0	0	0
CNP		127.96	145.95	175.01	122.23	140.09	168.45
CNP margin		4.8%	5.4%	5.7%	4.6%	5.1%	5.5%

Source: Company, Apex Securities

Figure 2: TOPG P&L Impact Analysis

TOPG MK Equity FYE Aug (RM'm)		original forecast			2% impact		
		FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Revenue		3,831.65	3,978.53	4,103.70	3,831.65	3,978.53	4,103.70
COGS	-	3,448.48	-3,580.68	-3,693.33	-3,467.64	-3,660.25	-3,775.40
GP		383.16	397.85	410.37	364.01	318.28	328.30
GP margin %		10.0%	10.0%	10.0%	9.5%	8.0%	8.0%
Operating expenses	-	308.76	-314.94	-321.24	-308.76	-314.94	-321.24
Net finance income		5.31	6.84	8.56	5.31	6.84	8.56
PBT		79.71	89.76	97.70	60.55	10.19	15.62
Tax expenses	-	22.32	-16.16	-19.54	-22.32	-16.16	-19.54
PAT		57.39	73.60	78.16	38.23	5.97	3.92
MI		44.33	46.12	47.99	44.33	46.12	47.99
PATMI		13.06	27.48	30.17	-6.10	52.09	51.91
EI		0	0	0	0	0	0
CNP/ (CLP)		13.06	27.48	30.17	-6.10	52.09	51.91
CNP/(CLP) margin		0.3%	0.7%	0.7%	-0.2%	-1.3%	-1.3%

Source: Company, Apex Securities

Earning Revision. No changes for now pending finalisation of the negotiations with the government.

Keeping Neutral stance. Given the ongoing trade and policy uncertainties affecting Malaysian glovemakers, we maintain our **NEUTRAL** stance for the sector. In light of the increasingly volatile operating environment, we are revising downward our price-to-book Value (P/BV) multiple for both HART and TOPG. The reduced valuation reflects the heightened policy risk and reduced earnings visibility, warranting a more conservative approach. We have reduced our P/BV multiple for **TOPG**

from 1.3x to 1.1x, hence lowering our TP to **RM0.78** (from RM0.98). Maintain **Hold on both coverages**. The assigned valuation is based on a 1.1x P/BV multiple applied to its FY26F Book Value Per Share (BVPS) of RM0.71, representing a 10% discount to its 3-year average forward P/BV multiple of 1.22x, in-line with the uncertain sales outlook.

For **HART**, we have lowered our P/BV multiple from 1.5x to 1.37x, reducing our TP to **RM1.76** (from RM1.93). Maintain **Hold**. This revised multiple P/BV multiple of 1.25x justified by its stronger US market share and a comparatively lower impact from the SST expansion due to its more diversified raw material sourcing.

Peers Comparison

Company	FYE	Market Cap (RM m)	Rec.	Price (RM) ^	TP (RM)	Potential Upside	P/E (x)		P/B (x)		EPS Growth (%)		ROE (%)		Div Yield (%)		ESG Rating
							CY25	CY26	CY25	CY26	CY25	CY26	CY25	CY26	CY25	CY26	
Hartalega Holdings Berhad	Mar	5,666	HOLD	1.66	1.76	6.0%	56.8	46.4	1.4	1.4	71.0	21.2	2.3%	2.7%	1.45	2.1	★★★
Top Glove Corporation Bhd	Aug	6,053	HOLD	0.76	0.79	4.6%	417.6	233.4	1.2	81.0	NIL	NIL	0.3%	0.5%	0.0	0.0	★★★
Kossan Rubber Industries Berhad	Dec	3,789	N/A	1.49	2.08	39.5%	25.7	19.1	1.0	1.0	23.4	34.5	4.1	5.3	1.9	2.6	N/A
Supermax Corporation Bhd	Dec	3,789	N/A	1.49	0.74	-50.4%	NIL	74.1	0.4	0.4	81.0	221.4	-0.8	0.4	1.4	2.1	N/A

* Based on Bloomberg consensus

* As at 16 Jun 25

Source: Apex Securities Berhad

Recommendation Framework:

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.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
