

## Gloves sector

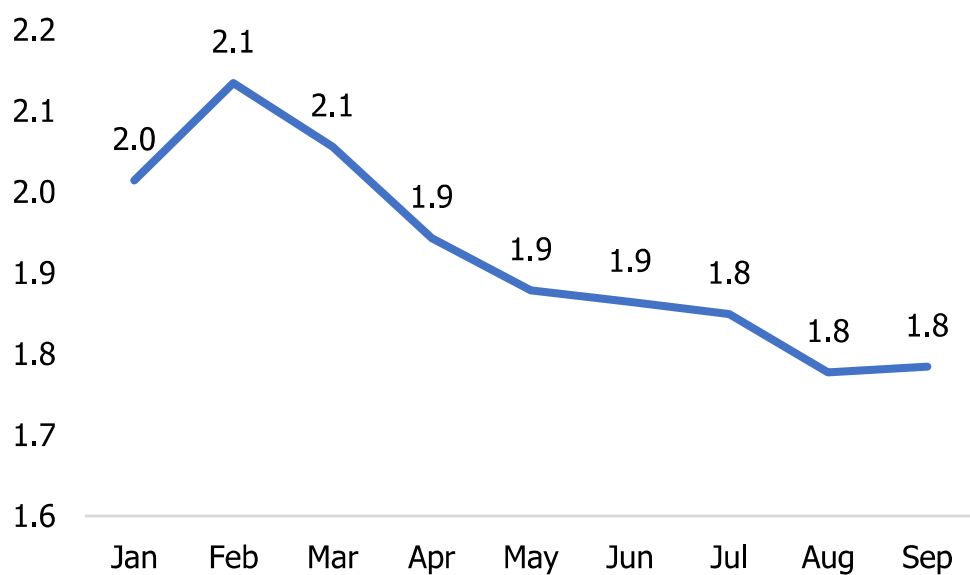
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### Still on shaky ground

- Review.** Players in the glove industry have been grappling with challenging conditions for nearly a year. Despite enduring these difficulties, companies within our coverage managed to narrow their losses in the current quarter under review. This improvement can be attributed to a slight uptick in Average Selling Prices (ASP), which now ranges from USD\$21 to USD\$24 per 1000 pieces. However, the improved trend was offset by reduction in sales volumes, as customers remain price-sensitive. On the supply side, several key players have taken steps to address cost pressures by decommissioning outdated facilities. On the demand front, the market remains subdued, with global glove imports now totalling 15bn pieces per month, compared to the pre-pandemic level of 20-25bn pieces per month. In terms of costs, there has been a notable drop of approximately 15-16% QoQ in natural gas prices, which mitigated some of the cost pressures.

#### NR Concentrated Latex price (USD/kg)



Source: Malaysia Rubber Board, Apex Securities

- Outlook.** With the normalisation of Average Selling Prices (ASP) in recent quarters, we anticipate glove industry players will continue to reduce their losses. However, it's important to note that in terms of margins, they may not reach pre-Covid levels due to market competitiveness and lower sales volume. It's worth highlighting that market dynamics are still in the process of recovery, as capacity rationalisation and inventory adjustments are now in play. Recovery is reinforced by the decommissioning of older manufacturing facilities by glove manufacturers, along with some players exiting the industry. The moves are expected to result in a reduction in production capacity, leading to improved efficiency and productivity. However, it's important to acknowledge that the current utilisation rate remains low, at below approximately 40%, due to intense market competition and lower demand. With that said, we anticipate demand to gradually improve in the near future as customer inventory levels continue to deplete. This is further supported by inventory accumulation since pandemic that are approaching their expiry dates. Costing wise, the potential for further decline in raw material and natural gas prices could lead to reduction in production costs.
- Valuation & Recommendation.** We anticipate glove companies within our coverage to experience further reduction in net losses against previous quarters. This expectation is driven by the ongoing market adjustments and the improvement in ASP. While we do not have any top picks for the sector, we hold a favourable view of **Hartalega Holdings Bhd (SELL, TP: RM1.61)** due to its substantial net cash position of RM1.70bn. The strong cash position may serve as a buffer against the prevailing sector downcycle. In comparison, **Top Glove Corporation Bhd (HOLD, TP: RM0.89)** holds a net cash position of RM390.0m.

- **Key Risk.** i) Market intensity, ii) Low utilisation rate, iii) Higher raw material/operating cost
- **Summary.** In short, we are **Underweight** on the gloves sector. While sequential improvement in fundamentals is on the cards, improvements may be measurable over the foreseeable future. We expect stronger recovery to kick in only from 2H24 or even 2025 onwards.

### Top Picks

Company	Price (RM)		P/E (x)			Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F				
Hartalega Holdings Bhd#	1.99	8.40	152.30	23.33	0.20	1.61	-19.10%	
Top Glove Corporation Bhd*	0.775	7.00	770.00	42.13	-	0.89	14.84%	

# Hartalega Holdings Bhd data based on FYE Mar

\* Top Glove Corporation Bhd data based on FYE August

Source: Apex Securities Bhd, Bloomberg