

SECTOR UPDATE

Gloves – Malaysia

A Kaleidoscope Of Perceptions

Underneath the facade of geopolitical reshuffling and the US' reciprocal tariffs, the Malaysian glove sector faces mixed investor sentiments as uncertainty builds up. Nevertheless, the sector's core fundamentals remain solid as we anticipate sequential earnings growth driven by a full recapturing of US market share. More importantly, ytd retracement and bargain forward valuations are offering an attractive risk-reward balance. Maintain OVERWEIGHT.

WHAT'S NEW

- US protectionism trade policies ushering in uncertain times...** On 2 Apr 25, US President Trump's administration imposed reciprocal tariffs at a baseline rate of 10% on all countries, and higher tariffs on countries with huge trade surpluses which includes Malaysia (24% tariff). US also imposed a 34% tariff on all China imports on top of the 20% already levied since Feb 25, and subsequently added another 71% tariffs following China's retaliation. In short, revised tariffs for China imports into the US now stand at 125%. Meanwhile last night, the US announced a 90-day pause and lowered the reciprocal for tariffs for other countries including Malaysia to 10%.
- ...but provide compelling thematic backdrop for Malaysia's glove sector.** With the severity of current US tariffs on China medical gloves (175% in 2025, 225% in 2026) much higher than Malaysia's (10%), local glovemakers will likely emerge as direct beneficiaries as the ASP gap further widens. This will effectively void most of China's gloves sales into US. Additionally, US also imposed a 36% tariff on Thailand (10-15% US market share) which may further allow Malaysian glovemakers to recapture most of their US market share. On a net basis, we estimate that Malaysia's market share of US medical glove imports may grow to 70-80% (from 25-30% in 2024).
- Shifting sands between US and Europe markets.** With the US' higher tariffs on China medical gloves (175% tariffs) currently, we see meaningful nitrile glove demand flowing back to the Malaysian manufacturers from 2Q25. Meanwhile, shortfall from non-US sales is anticipated as competition will likely intensify after China manufacturers re-channel their sales to regions like Europe and Asia with more competitive pricing strategies following the higher US tariffs. That said, on a net basis, Malaysian glovemakers' should see improved profitability and margin from this shift.
- Fragile sentiment induced melancholic selldown; opportunities outweigh risks.** Attributed to market risk-off following unfolding global uncertainties and valuations rightsizing from the less optimistic sector outlook, domestic glovemakers' share prices fell 34-49% ytd. The steep share price action reflects pessimistic sentiment despite the sector's turnaround narrative, with valuations now trading close to -1.5SD below historical mean valuations on 2026F's earnings. Such valuations are in steep bargain and pose appealing mid-term risk-reward balance.

ACTION

- Maintain OVERWEIGHT** but lower our valuation yardstick to -0.5SD below mean to reflect lower market risk premium at this juncture.
- Maintain BUY on Top Glove, Harta and Kossan with lower target prices.** Our target prices for Harta, Kossan and Top Glove are at RM2.69, RM2.35 and RM0.97 respectively.

PEER COMPARISON

Company	Ticker	Rec	Share Price 9 Apr 25 (lcy)	Target Price (lcy)	Mkt Cap (US\$m)	PE (x) FY25F	PE (x) FY26F	EV/EBITDA (x) FY25F	EV/EBITDA (x) FY26F	Div Yield (%) FY26F
MALAYSIA										
Top Glove	TOPG MK	BUY	0.82	0.97	1,498.7	83.4	18.9	13.2	9.4	2.7
Hartalega	HART MK	BUY	1.97	2.69	1,501.9	201.3	20.9	23.4	8.6	2.7
Kossan Rubber	KRI MK	BUY	1.80	2.35	1,024.1	24.9	21.1	16.7	14.4	3.9

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT
(Maintained)

US' RECIPROCAL TARIFFS

Source: The White House

MALAYSIAN GLOVE PLAYERS EFFECTIVE CAPACITY (M' PCS)



Source: Respective companies, UOB Kay Hian

SECTOR GLOVE VALUATIONS (PRE-COVID-19)



Source: Bloomberg

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ESSENTIALS

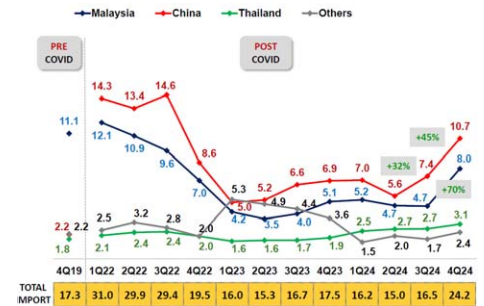
- Looking beyond the facade of near-term weaknesses.** For 1Q25, we assess that the sector's volume sales may see sequential 10-15% qoq decline. This is mainly due to 2-3 months of inventories to be digested by the US customers which have frontloaded purchases from China manufacturers in 4Q24 ahead of higher tariffs. Nevertheless, volume sales will see meaningful pickup from 2Q25 and the rest of the year, as we expect a meaningful surge in US orders flowing into Malaysia. This will allow domestic glovemakers to sustain 2025-26 US ASP at around the US\$23-24/'000 pieces range and enhance profitability margins.
- Weathered the worst, with progressive recovery heading into 2025.** Based on our conversations with various glovemakers and historical slumps in the rubber glove sector, we think the worst is over. The sharp deterioration in EBITDA per glove over the last two years (underlined by competitive pressure) has gradually dissipated over the past 3-4 quarters. Essentially, absence of overstocked inventory similar to 2023's levels (5-6 months) has allowed demand to catch up with supply. Going forward, we expect the sector's earnings to recover to 50-55% of 2019's level in 2025, and 75-80% in 2026 on the back of demand recovery and margin expansion as utilisation rates improve.
- Competition in non-US markets is steep, but shortfall likely bridged by higher US sales.** Outside of US, we anticipate more aggressive ASP competitions from the China manufacturers in the other regions. To note, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand. With the loss of US sales, we reckoned that intense competition from China manufacturers will cap ASP upside in the non-US markets for Malaysian producers. That said, we assess that China glove manufacturers' breakeven ASP is US\$16/'000 pieces, and they are unlikely to excessively dump their inventories due to lower ASP. We also estimate that China glovemakers' regional expansion will take time (1-1.5 years) with smaller capacity (3-5b pieces annually), with higher production costs out of China.
- Input cost moderation and opex savings may lift margins.** With the extensive trade tensions between the US and China, commodity and oil prices are easing. This may indirectly lower the prices of natural latex and acrylonitrile which are the main raw materials used in the production of rubber gloves. Natural latex and acrylonitrile prices have eased 2-10% in 1Q25 from 2024's high and may further ease in the coming months. We expect this to boost the gloves producers' profitability per glove, which should eventually lift EBITDA margin in subsequent quarters.
- Sector valuations offer commendable upside as sell-down more than priced in negatives.** The glove companies under our coverage possess palatable capital upside opportunities based on 2026's normalised earnings.

2025 VALUATIONS AND IMPLIED TARGET PRICES

Companies	Valuations	2026F		
		EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	24x PE (-0.5SD below mean)	11.2	2.69	36.5
Top Glove	21x PE (-0.5SD below mean)	4.6	0.97	18.3
Kossan	20x ex-cash PE (-0.5SD below mean)	8.5	2.35	30.6

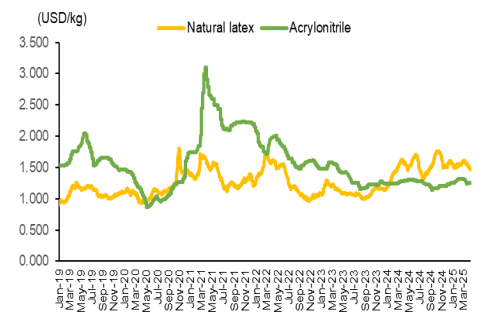
Source: UOB Kay Hian

US' QUARTERLY GLOVES IMPORT (B' PCS)



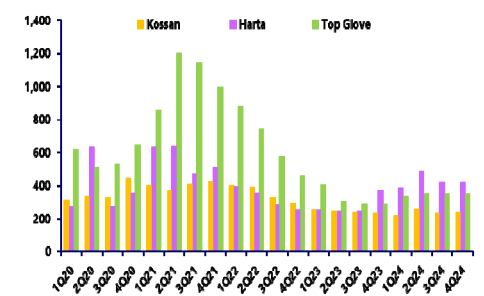
Source: TOPG, TENDATA

GLOBAL NITRILE AND LATEX GLOVES PRODUCTION CAPACITY (M' PCS)



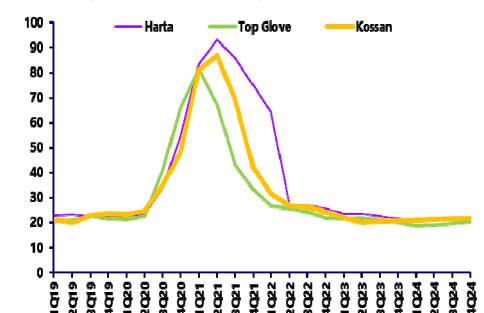
Source: OILCHEM

MALAYSIAN GLOVE PLAYERS' QUARTERLY SALES VOLUME (M' PCS)



Source: Respective companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS QUARTERLY ASP CHART (USD' 1000 PIECES)



Source: Respective companies, UOB Kay Hian

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