

SECTOR UPDATE

Gloves – Malaysia

Blooming In Spring

The Malaysian glove sector is officially out of the woods with anticipation of sequential earnings growth coming into fruition throughout 2024. We have also observed a feasible trend of improving operating statistics from the past few quarters. With this and the US' precipitous tariff hike on China's medical-grade gloves beginning 2026, we re-affirm our optimism that potential valuation re-rating may continue to catalyse the sector's positive share price trajectories. Maintain OVERWEIGHT.

WHAT'S NEW

- **A glimpse of 1Q24 results.** Malaysian glove stocks under our coverage delivered mixed set of results in 1Q24. Kossan's results were within expectations, while Hartalega and Top Glove's missed our expectations. This was mainly due to delayed cost past through and ASP-cost mismatch in the quarter, as higher input costs are not timely reflected in ASP revisions. Positively, the sector's top-line revenue in 1Q24 surged 12-28% qoq on higher volume sales and better demand as customers ramped up inventory replenishment.
- **Operating matrixes turning over a new leaf.** We anticipate the domestic glove companies under our coverage to deliver sequentially better results in the upcoming quarters throughout 2024. Examining Top Glove, Hartalega and Kossan's recent operating statistics, we observed that earlier ASP declines have come to a halt and are gradually trending up, while volume sales have seen a steep qoq improvement. Moreover, input cost moderation should lift overall operating margin as COGS falls on lower natural gas tariff and raw material costs.
- **Tailwind from US-China escalating trade tension is catalysing sector's valuation re-rating.** Earlier in May, the US unveiled steep tariff increases on an array of Chinese imports under Section 301 of the Trade Act of 1974. This includes a higher tariff of 25% (from current 7.5%) on China's rubber medical and surgical glove exports to the US beginning 2026. This precipitous tariff hike is poised to revitalise investors' sentiment as we assess meaningful nitrile gloves demand flowing back to Malaysian manufacturers after the tariff hike is imposed.

ACTION

- **Maintain OVERWEIGHT on the Malaysian glove sector.** We opine that risk-reward remains favourable at this juncture as we factor in potential valuations re-rating as investors' sentiment increasingly price in the detrimental policies on China gloves exports over a medium- to long-term horizon.
- **Maintain BUY on Harta and Kossan with target prices of RM3.92 and RM2.73 respectively.** Maintain BUY on Top Glove with a higher target price of RM1.28 as we recalibrated FY25 earnings to adjust for higher sales volume and utilisation rates.
- **Our target prices imply +0.5SD above historical mean, based on 2025 earnings.** Historically, we have seen sector PE multiples spiking to +2SD above the mean as a result of an improved earnings outlook which occurred in late-15 on MYR/USD weakness and late-17 on a demand shift from vinyl to nitrile gloves.

PEER COMPARISON

Company	Ticker	Rec	Price 13 June 24 (lcy)	Target Price (lcy)	Mkt Cap (US\$m)	----- PE ----- FY24F (x)	FY25F (x)	---- EV/EBITDA ---- FY24F (x)	FY25F (x)	Div Yield FY25F (%)
MALAYSIA										
Top Glove	TOPG MK	BUY	1.16	1.28	1,973.0	n.a.	22.2	52.8	11.4	2.3
Hartalega	HART MK	BUY	3.55	3.92	2,573.2	55.7	24.7	23.0	13.0	2.3
Kossan Rubber	KRI MK	BUY	2.50	2.73	1,354.7	33.8	29.2	17.6	15.8	1.2

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

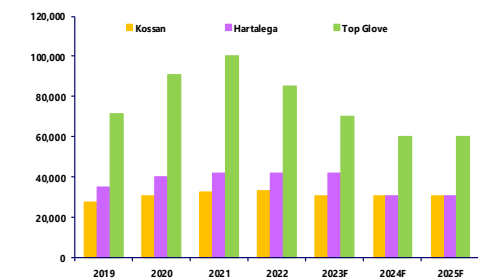
(Maintained)

SECTOR GLOVE VALUATIONS (PRE-COVID-19)



Source: Bloomberg

MALYSIAN GLOVE PLAYERS EFFECTIVE CAPACITY (M' PCS)



Source: Respective companies, UOB Kay Hian

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ESSENTIALS

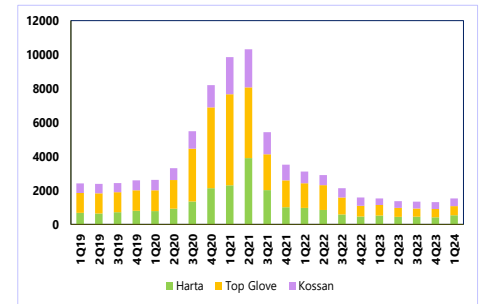
- Industry prospects charting a new beginning.** After a bleak period of eclipsing earnings and moderating demand from pandemic high in 2021-23, we re-affirm our view that the industry course is altering towards greener pasture in 2024-25. Our optimism lays on: a) intensifying demand from customers on restocking cycle, b) margin expansion on better efficiency and supply rationalisation, c) ASP upcycle across major manufacturers, and d) stabilising input costs. Against these backdrops, we anticipate that the domestic gloves companies under our coverage will deliver sequentially stronger earnings in 2024-25.
- Sustained signs of restocking cycle.** To recall, an estimated 131b pieces of gloves were overstocked during the pandemic. To add on, various new entrants made a foray into the sector during the pandemic period to capitalise on the glove boom. Some of these new entrants were then forced to clear inventory and sell their stockpiles at a steep bargain before exiting the market, dragging industry-wide ASPs lower. We think that these excess stocks have shown signs of nearing depletion, given that distributors are now replenishing inventories with a longer lead time of about two months, recovering towards pre-pandemic's 5-6 months average.
- ASP revision across regional players continues to be a trend.** Over the past three quarters, Malaysian glove producers indicated that any ASP revision done was mainly mirroring cost pass through and have faced resistances from end customers to a certain extent. That said, we gathered that several major China producers have finally raised ASPs from US\$15/'000 pieces previously to about US\$17/'000 pieces (+13%) in respective May/June 24 orders, while domestic producers have also followed suit. The beginning of this ASP hike cycle marks the eclipse of a persisted price war in the past two years as the industry progressively reverses its earlier oversupply state.
- US tariff hike remains a cherry on the cake...** The 25% tariff hike on China medical-grade gloves is set to solidify the Malaysian glove industry's market leader position and allay earlier concerns on market share losses to China producers due to stiff competition. More crucially, we do not rule out possibilities of further detrimental policies from US towards China's exports. To note, nine out of 10 US FDA import alerts on glove products ytd are on China exporters. In conclusion, we think that any deterioration of US-China geopolitical tension may lead to tremendous orderbooks flowing back to domestic glove manufacturers.
- ...converting nitrile gloves' demand landscape.** Since the COVID-19 pandemic, China glovemakers ramped up capacity at a considerably aggressive pace and leveraged on their lower production costs to seize market shares. To note, China has significantly raised its global market share from around 11% in 2019 to >30% in 2023. With a 25% tariff imposed on estimated China gloves ASP of US\$19-20/'000 pcs by 2026 (current ASP: US\$17), Malaysian glovemakers are likely able to command ASPs of US\$24-25/'000 pcs while maintaining optimal utilisation rate of >90%. This may allow profitability and margin to surpass pre-pandemic's level in 2026.
- Sector valuations offer palatable upside based on 2025 valuations.** Glove companies under our coverage still potentially offer palatable capital upside opportunities based on +0.5SD above mean PE of 2025's normalised earnings, which we think reasonable as the sector's valuation re-rates. Our assessment reveals that Harta, Top Glove and Kossan still offer 9-10% capital upside from current share price based on 2025's normalised earnings.

2025 VALUATIONS AND IMPLIED TARGET PRICES

Companies	Valuations	2025F		% Upside from current share price
		EPS forecasts (sen)	Implied TP (RM)	
Hartalega	32x PE (+0.5SD above mean)	12.2	3.92	10.4
Top Glove	24x PE (+0.5SD above mean)	5.3	1.28	10.3
Kossan	24x PE (+0.5SD above mean)	11.4	2.73	9.2

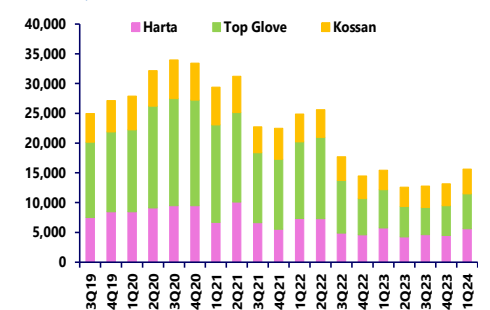
Source: UOB Kay Hian

MALAYSIAN GLOVE PLAYERS REVENUE (RMM)



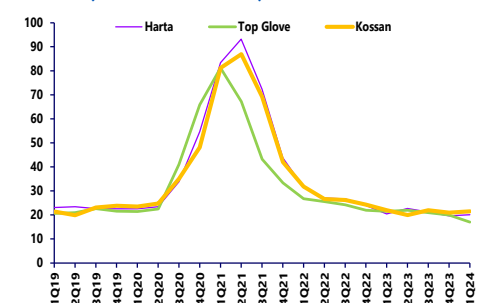
Source: Companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS VOLUME SALES (M' PIECES)



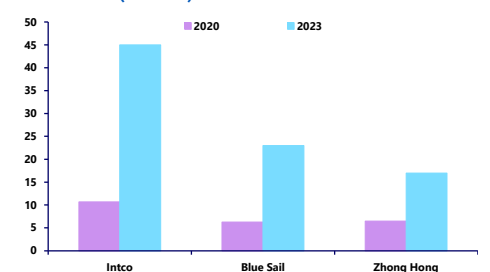
Source: Companies, UOB Kay Hian

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



Source: Companies, UOB Kay Hian

BIG 3 CHINA PLAYERS' NITRILE GLOVES CAPACITY (M' PCS)



Source: Respective companies, UOB Kay Hian

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