

SECTOR UPDATE

Gloves – Malaysia

Seasons Of Fall

In the last two months, the Malaysian gloves sector faced an unprecedented sell-down due to a slower-than-expected recovery outlook on intensifying competition in non-US markets and US distributors' frontloaded inventories. This was also accelerated by US' volatile trade policies, causing investors to turn risk-off. Nevertheless, the sector is still on track for sequential earnings growth, with bargain valuations offering attractive risk-reward balance. Upgrade to OVERWEIGHT.

WHAT'S NEW

- 4Q24 results round-up.** Sector earnings came below expectations as Harta's, Kossan's and Top Glove's recoveries were slower than anticipated. Sector top-line surged 7.4% qoq, mainly reflecting higher volume growth of 11% qoq as all gloves companies under our coverage saw sequential demand growth. Meanwhile, ASPs were rather flattish due to unfavourable RM/US\$ movement (-2.1% qoq) and lower raw material cost. Despite coming in below expectations, sector EBITDA and net margins expanded 4.9ppt qoq and 3.5ppt qoq respectively, reflecting improvement across key operating matrixes.

4Q24 SECTOR RESULTS SNAPSHOT

(RMm)	4Q23	3Q24	4Q24	qoq % chg	yoy % chg
Revenue	1309.2	1994.8	2142.0	7.4	63.6
EBITDA	144.0	99.6	217.3	118.2	50.9
PAT	-26.5	-50.0	24.7	-149.4	-193.2
				qoq ppt chg	yoy ppt chg
EBITDA margin (%)	11.6	5.6	10.5	4.9	-1.1
Hartalega	16.4	13.3	12.5	-0.9	-4.0
Kossan	15.8	-1.7	10.4	12.1	-5.4
Top Glove	2.6	5.1	8.6	3.4	6.0
Net margin	-1.3	-1.8	1.7	3.5	3.0

Source: Respective companies, UOB Kay Hian

- Shifting sands between US and Europe markets.** With the US' higher tariffs on China medical gloves (70% tariffs) currently, we assess meaningful nitrile gloves demand flowing back to Malaysian manufacturers beginning 2Q25. For 1Q25, we assess that there are still 2-3 months of inventories to be digested by the US customers that had frontloaded purchases ahead of the higher tariffs. Meanwhile, shortfall from non-US sales are anticipated as competition is likely to intensify after China manufacturers re-channel their sales in regions such as Europe and Asia with more competitive pricing strategies following the higher US tariffs imposed. That said, on a net basis, Malaysian glove makers should see improved profitability and margins from this shift.
- Core fundamentals remain intact, but valuations deteriorated on overall risk-off market conditions.** With the market going risk-off following the accelerated foreign equity sell-down in Malaysia (about RM5.5b ytd), and valuations rightsizing from a less optimistic sector outlook, domestic glove makers' share prices have fallen by 36-51% ytd. The steep share price action reflects pessimistic sentiment despite the sector's turnaround narrative, with valuations now trading close to -1SD below historical mean valuations on 2026F's earnings. Such valuations are at a steep bargain and present an appealing mid-term risk-reward balance.

ACTION

- Upgrade the Malaysian glove sector to OVERWEIGHT,** as risk-reward appears neutral at this juncture. Nevertheless, we have lowered our sector's valuations yardstick from +0.5SD above mean to mean levels based on 2026F earnings to better capture the sector's softened sentiment and imminent earnings recovery.
- Upgrade Top Glove to BUY, maintain BUY on Harta and Kossan following depressing share price correction.** Our target prices for Harta, Kossan and Topglove are RM3.14, RM2.35 and RM1.22 respectively.

OVERWEIGHT

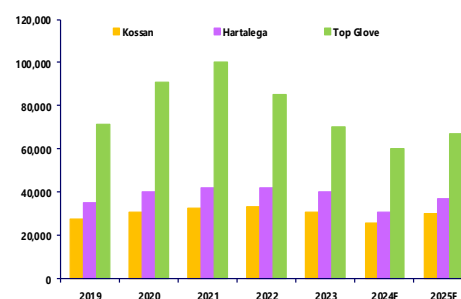
(Upgraded)

LATEST INCREASED TARIFF ON CHINA MEDICAL GLOVES

Medical Gloves			
HTSUS Subheading	Product Description	Rate	Timing
4015.12.10	Medical or surgical gloves of vulcanized rubber other than hard rubber	50%	2025
		100%	2026

Source: US Trade Representative Office

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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### PEER COMPARISON

Company	Ticker	Rec	Share Price 11 Mar (lcy)	Target Price (lcy)	Mkt Cap (US\$m)	PE (x) FY25F	EV/EBITDA (x) FY25F	Div Yield (%) FY26F
<b>MALAYSIA</b>								
Top Glove	TOPG MK	BUY	0.84	1.20	1,516.0	31.4	17.0	13.4
Hartalega	HART MK	BUY	1.96	3.14	1,514.8	200.2	20.8	23.3
Kossan Rubber	KRI MK	BUY	1.65	2.35	956.2	22.9	19.3	16.7

Source: Bloomberg, UOB Kay Hian

### ESSENTIALS

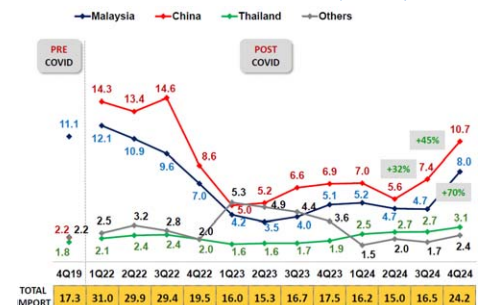
- Weathered the worst, with progressive recovery heading into 2025.** Based on our conversations with various glove makers and historical slumps in the rubber glove sector, we think the worst is over. The sharp deterioration in EBITDA per glove over the last two years, underlined by competitive pressure, has gradually dissipated during the past 3-4 quarters. Essentially, an 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.
- The US further revised higher tariffs on China medical-grade gloves, but demand surge for local glove makers may only be seen from 2Q25 onwards.** Recall that in Sep 24, the Office of the United States Trade Representative (USTR) locked in higher tariffs of 50% in 2025 and 100% in 2026 (from the current 7.5%; initially proposed 25% in 2026) on China's rubber medical and surgical gloves exports into the US. In 2025, the US has further revised tariffs on Chinese imports by 20%, lifting current tariffs on China medical gloves to 70%. While this pushed US distributors to frontload their purchase in 4Q24, we assess that current inventories are at 2-3 months' level. As such, at the beginning of 2Q25, we expect to see a meaningful surge in US orders flowing into Malaysia, which will allow domestic glove makers' 2025-26 ASP to stabilise around US\$23-24/000 pieces and enhance profitability.
- Concerns on Trump's proposed universal tariffs policy may have limited impact on Malaysian glove makers.** While there are uncertainties that US president Trump may introduce global tariffs of 10-20% across all imports to the US, we deem the bottom-line impact to Malaysian glovemakers to be limited. Factoring in the 70-120% tariffs imposed on China medical gloves in 2025-26, the pricing gap between Malaysia and China producers for US exports is still wide. Hence, there should be no changes to the current industry landscape for US markets.
- Steep competition in non-US markets, but shortfall likely bridged by higher US sales.** Outside of the US, we anticipate more aggressive competition in the form of ASP from China manufacturers in the other regions. Note that some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand. With the loss of US sales, we reckon that intense competition from China manufacturers will cap ASP upside in the non-US markets for Malaysian producers. That said, we assess China glove manufacturers' breakeven ASP to be around US\$16/000 pieces, and hence, they are unlikely to excessively dump their inventories with lower ASP. We also estimate that China glove makers' regional expansion will also take time (1.0-1.5 years) with smaller capacity (3b-5b pieces annually), with higher production costs out of China.
- Sector valuations offer commendable upside as selldown has 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	28x PE (mean)	11.2	3.14	61.0
Top Glove	24x PE (mean)	5.0	1.20	45.5
Kossan	20x ex-cash PE (mean)	8.5	2.35	40.7

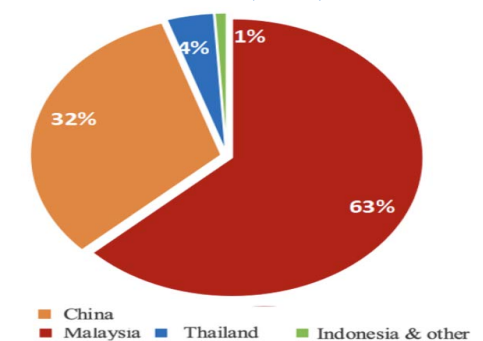
Source: UOB Kay Hian

### US' QUARTERLY GLOVES IMPORT (B' PCS)



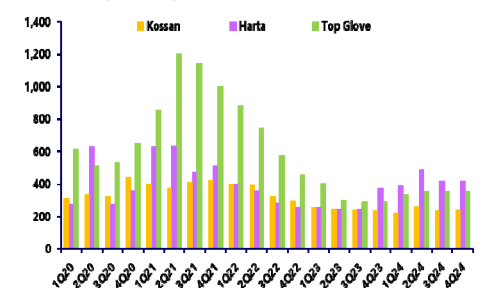
Source: TOPG, TENDATA

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



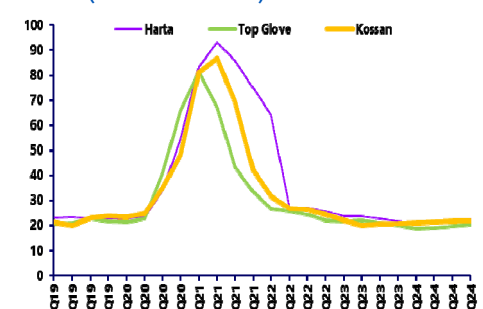
Source: OILCHEM

### 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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