

# Malaysia Gloves Sector

# POSITIVE

[Unchanged]

## China site visit note

### Intensifying competition; D/G to tactical POSITIVE

We are more cautious on the glove sector after our meetings and plant visits with major China glove makers last week, as we downgrade the sector to tactical POSITIVE (from POSITIVE). While the short-term outlook (12 months) remains intact with the recovery in glove demand and stabilizing ASP outlook, the longer term outlook remains uncertain with expanding capacity from the Chinese glove makers. Cost efficiency and technology are keys for M'sia glove producers. We maintain earnings forecasts but lower our TPs by 4-23%. We D/G TOPG to HOLD while maintaining BUYs on HART and Kossan.

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### Impressed by Chinese glove plants

We visited Intco Medical Technology [300677 CH, CP: CNY25.48, Not Rated] and Bluesail Group [002382 CH, CP: CNY4.25, Not Rated] glove factories in Shandong, China, last week. We were impressed by the Chinese glove makers, especially Intco, for their modernized factories, from production lines, to packaging and warehousing, while Bluesail's production floor seems similar to some of the Malaysia glove makers except for packaging and storage. Both are now running close to 100% utilization rate.

### Capacity expansion to continue

Both Intco and Bluesail are looking to expand their capacity progressively, locally and in Southeast Asia (SEA). While Intco and Bluesail will raise their capacity gradually, depending on market demand, uncertainties remain regarding their pricing/market strategy, especially when they have relatively lower production costs due to newer production lines and technology as well as having a vertically integrated supply chain. Elsewhere, Intco and Bluesail are also looking to expand their non-glove businesses such as wheel chairs (Intco) and medical devices (Bluesail).

### A persistent challenge to Malaysia glove makers

While Malaysia glove makers' earnings are expected to be strong over the next 12 months due to rising demand and stabilizing ASP, we are cautious on their long-term outlook in light of the stiff competition still from China. Cost efficiency and technology are keys for M'sia glove producers. We maintain BUYs on HART (MYR4.28 TP, 3x PBV) and KRI (MYR2.62 TP, 1.7x PBV) but downgrade TOPG to HOLD (MYR1.10 TP, 1.8x PBV).

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
Hartalega	HART MK	2,458	Buy	3.34	4.28	29	187.8	62.0	2.0	2.4	0.0	1.0
Top Glove	TOPG MK	2,045	Hold	1.16	1.10	(4)	nm	65.3	2.0	2.0	0.0	0.8
Kossan Rubber	KRI MK	1,296	Buy	2.36	2.62	14	48.0	44.8	1.6	1.5	1.7	1.7

## More aggressive than initially thought

From our channel checks, we understand that other Chinese glove makers (apart from Bluesail and Intco) are also exploring their expansion plans in SEA. We are rather surprised by the expansion of the Chinese glove makers, as we initially thought they would adopt a more cautious stance or slow down their capacity expansion following the US announcement of tariff hikes from 2026 onwards, or at least until a clearer picture emerges from the US presidential election in Nov 2024.

We believe the stakes in this competitive landscape rest on China's glove makers, who wield significant influence due to their more competitive costing and pricing strategies. Having said that, not all purchase orders will necessarily go to China as buyers also implement risk management strategy; some purchase orders should be directed to the other markets, including Malaysia. Hence, cost efficiencies are key to seizing these opportunities. Additionally, a robust strong balance sheet is important to help Malaysia glove makers sustain over the longer term, in the event of a price war.

## Lowering our PBV multiples

We are turning more cautious on the sector's longer term outlook in light of the stiff competition from China. We downgrade the sector to tactical POSITIVE (from POSITIVE). Cost efficiency and technology are keys for Malaysia glove producers. Reflecting our cautiousness over the longer term outlook, we now peg glove stocks valuation on lower PBV multiples of 1.65x-3.0x, from 1.7x-3.2x (see Figure 2).

We maintain BUY ratings on HART (MYR4.28 TP, 3.0x PBV) and KRI (MYR2.62 TP, 1.7x PBV) but downgrade TOPG to HOLD (MYR1.10 TP, 1.8x PBV). Important lookouts include: i) US presidential election in Nov 2024, which could affect the tariff imposed on China gloves, and ii) actual imposition of tariff hikes from 2026, and iii) how Malaysia glove makers would react to stiffer competition from China, such as improving technology and cost efficiency.

**Fig 1: Changes in valuation multiples, TPs and stock ratings**

Glove makers	PBV peg (x)		Target price (MYR/sh)		Stock rating	
	Old	New	Old	New	Old	New
TOPG ^	2.0	1.8	1.43	1.10	BUY	HOLD
HART	3.2	3.0	4.50	4.28	BUY	BUY
KRI	1.7	1.7	2.72	2.62	BUY	BUY

Note: We lowered KRI's PBV target from 1.7 to 1.65

Source: Maybank IBG Research

## Glove plant site visits in Shandong, China on 25 July 2024

**Fig 2: Site visit at Intco plant in Shandong**



Source: Maybank IBG Research

**Fig 3: Products by Intco**



Source: Maybank IBG Research

**Fig 4: Non-glove products by Intco**



Source: Maybank IBG Research

**Fig 5: Non-glove products by Intco**



Source: Maybank IBG Research

**Fig 6: Bluesail's glove plant in Shandong**



Source: Maybank IBG Research

**Fig 7: Bluesail's glove plant in Shandong**



Source: Maybank IBG Research

**Fig 8: Bluesail's glove plant in Shandong**

Source: Maybank IBG Research

**Fig 9: Bluesail's glove and medical equipment products**

Source: Maybank IBG Research

## Risks to our calls & ratings

i) Capacity expansion from Chinese counterparts outside of China, allowing them to avoid tariff hikes imposed by the US government; (ii) a more aggressive pricing strategy by Chinese glove makers, potentially resulting in lower market share for Malaysia glove makers; (iii) aggressive capacity expansions by existing glove players; (iv) hikes in raw material prices that cannot be fully passed on; and (v) prolonged price wars and oversupply issues.

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<b>BUY</b>	Return is expected to be above 10% in the next 12 months (including dividends)
<b>HOLD</b>	Return is expected to be between 0% to 10% in the next 12 months (including dividends)
<b>SELL</b>	Return is expected to be below 0% in the next 12 months (including dividends)

### Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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