December 16, 2024

Maybank Investment Bank

Industrials

Malaysia

Malaysia Gloves Sector

2025: A high stakes year

NEUTRAL [Downgrade]

Recovery partially priced in; downgrade to NEUTRAL

Malaysia's glove sector is recovering, driven by inventory replenishment since early-2024 and is set to benefit from a higher 50% US tariff on China-made gloves from 2025 and 100% from 2026. This will boost utilisation rates and ASPs. However, risks persist from China rivals in non-US markets, their overseas expansion and potential higher US tariff extending beyond China-made gloves. We D/G the sector to NEUTRAL (from tactical POSITIVE) after the recent share price rally. We maintain a BUY on HART but downgrade KRI to HOLD (from BUY) and TOPG to SELL (from HOLD). New contagious diseases outbreaks may offer trading opportunities.

Higher US tariff on China gloves, a game changer

The US-imposed 50% and 100% tariffs on China-made gloves starting in 2025 and 2026 is a major industry game-changer, making Malaysian gloves more price-competitive in the key US market. ASPs are expected to improve to USD21-23/k pcs in 4Q24-2025 based on our estimates (but still below US' cost of imports from China post higher tariffs), from <USD21/k pcs prior to 4Q24, leading to improved margins and a larger market share in the US. Higher ASPs for the Malaysia glove makers will also help offset rising costs from the MYR1,700 monthly minimum wage hike (from MYR1,500) effective Feb 2025. Due to cautious and just gradual capacity expansion, we expect plant utilization rates to remain high at 65-85% in 4Q24-2025 (vs. 30%-50% in 2023).

… but there are still risks

China glove makers are responding to US' higher tariffs with strategies to expand sales to the non-US markets and establishing production facilities outside of China (i.e. Southeast Asia). This could come onboard as soon as 2H 2026 or 2027. Additionally, potentially higher tariff under the Trump administration on Malaysia gloves could pose risk, as any import restrictions by the US or additional tariffs could undermine the growth trajectory of Malaysia's glove sector and erode its competitiveness in the US market.

Downgrade to NEUTRAL; HART is our top BUY pick

To stay ahead, Malaysia glove makers are now focusing on technology automation and cost efficiency to prepare themselves for the external risks that are beyond their control. In our view, glove makers should build up their war chest over the next 2 years before their China counterparts' overseas expansion start production. We downgrade TOPG to SELL, KRI to HOLD while maintaining BUY on HART with unchanged TPs after their recent share price rally. We see HART as a prime beneficiary of higher US tariffs on China glove makers due to its relatively larger exposure in the US market.

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Figure 1: Production capacity (effective)

Glove makers	Per annum pieces (b)
TOPG	64
KRI	25
HART	37

Source: Companies

Figure 2: Balance sheet strength

Glove makers	Net cash/net gearing (x)
TOPG	0.1x net gearing
KRI	71sen/sh net cash
HART	38sen/sh net cash

Source: Companies

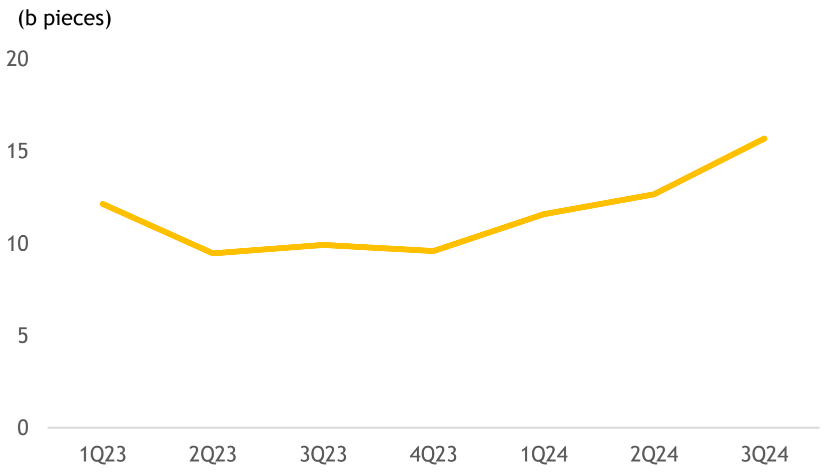
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 24E	P/E (x) 25E	P/B (x) 24E	P/B (x) 25E	Div yld (%) 24E	Div yld (%) 25E
Hartalega	HART MK	2,989	Buy	3.88	4.31	12	187.8	82.8	2.0	2.8	0.1	0.7
Top Glove	TOPG MK	2,602	Sell	1.41	1.08	(22)	nm	91.0	1.6	2.4	0.0	0.5
Kossan Rubber	KRI MK	1,523	Hold	2.65	2.49	(4)	63.6	60.0	1.8	1.8	3.0	1.5

2024, a year of surprises

▪ A year of recovery

2024 was a year of mixed surprises for Malaysia's glove sector, marking its recovery after a three-year downturn that began in 2H 2021. Sales volume surged by +26% to +28% YoY in 9MCY24 for the glove stocks under our coverage - driven by restocking activities and a narrower price gap between Malaysia and China glove makers (from USD3-4/k pcs in 2023 to USD1-2/k pcs in 2Q 2024). This led to higher plant utilization rates (UR), with HART and KRI improving to 75-90% in 3QCY24 (from 40-50% in 2023) and TOPG to 59% in 4QFY24 (from 34% in 1QFY24; FYE Aug). The improved URs boosted margins, driving a sector-wide earnings turnaround in FY24E, except for TOPG, which remained in the red in FY24 due to the sharp appreciation of the MYR in July-Sep 2024.

Figure 3: Total sales volume (bn pieces) has increased by +64% since 4Q 2023



Source: HART, TOPG

Restocking activities, coupled with tight supply from limited capacity expansion over the past three years, supported pricing. Malaysia glove makers also managed to pass on most or all raw material cost increases to their customers since April 2024, with ASPs rebounding to USD19-21/k pcs in 4QCY24 from as low as USD16-17/k pcs in 2HCY23 for lightweight nitrile gloves thanks to the strong demand.

▪ 2024E results could have been better

Despite these positive developments, the impact on earnings was not fully realized due to a number of factors.

- Firstly, glove makers' earnings were impacted by global shipping constraints and surging shipping rates, driven by the ongoing Red Sea crisis that began in October 2023. These issues caused shipment delays, leading to revenues from delayed shipments being recognized a few months later.

- Compounding this is the MYR which appreciated sharply vs. the USD from end-July to Sep 2024, negatively affecting exporters' proceeds, including the glove makers. This led to significant realized and unrealized forex losses in the July-Sep quarter. The MYRUSD rate, which peaked in late Sep 2024, has since retreated to c.4.50 by Dec 2024, providing some relief to exporters. With this, we expect FX gains (realised and unrealised) for the glove makers in the Oct-Dec 2024 period, leading to stronger quarterly earnings.

Figure 4: Glove markets were hit by forex losses in July-Sep 2024

Gloves	Realised forex loss (MYRm)	Unrealised forex losses (MYRm)
HART	-17.4	-34.5
KRI	-3.3	-27.8
TOPG	-6.9	-21.7

Source: Companies

▪ US hikes tariffs on China-made gloves, twice

The US raised tariffs on a wide range of China imports in May 2024, covering semiconductors, batteries, solar cells, critical minerals, and medical products including rubber medical and surgical gloves. Tariffs on rubber medical and surgical gloves were initially set to increase to 25% in 2026, from 7.5% (currently). In Sep 2024, the US unexpectedly accelerated and raised these tariffs to 50% effective 2025 and 100% effective 2026. To illustrate the impact, the cost of imports of China-made gloves by the US currently is at USD18-19/k pcs (plus 7.5% tariff); this would rise to USD25.5-28.5/k pcs in 2025 (after 50% tariff) and USD34-38/k pcs in 2026 (after 100% tariff). Positively, we believe this should significantly improve the relative competitiveness of Malaysia glove makers in the US market.

2025E – A high stakes year

▪ Higher US tariffs on China-made gloves is a game changer

New US tariff on China-made gloves starts from 2025

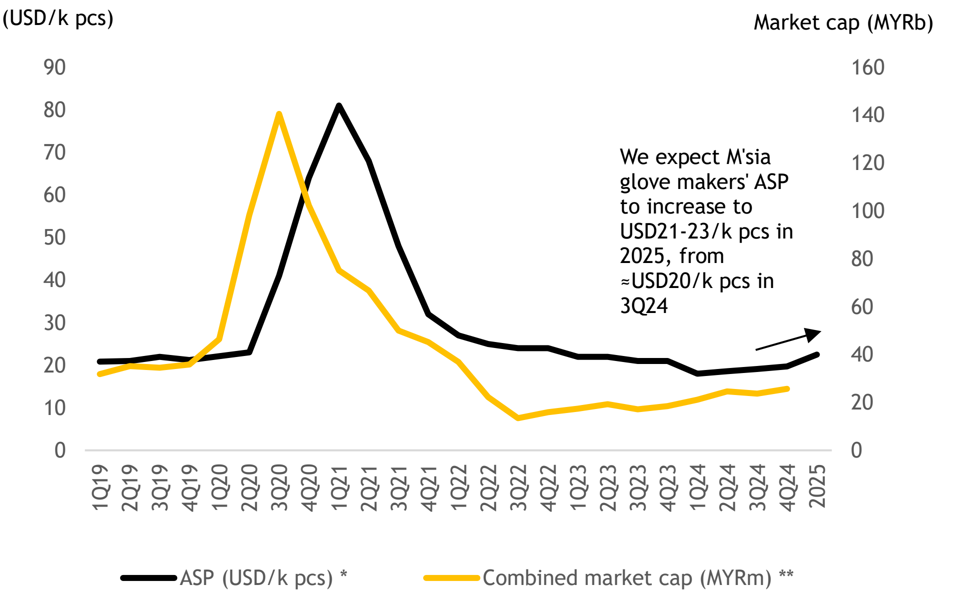
The implementation of 50% and 100% tariffs by the US on China-made gloves, set to take effect in 2025 and 2026 respectively, marks a major game-changer for the glove industry. These higher tariffs would significantly improve the price competitiveness of Malaysian-made gloves in the US - one of the industry's key export markets (sales to the US made up 17% of TOPG's revenue in FY24, 56.7% of HART in 2QFY25). As the cost of imports from China jumps post higher tariffs, Malaysia glove makers stand to regain their market share in the US that was previously lost to the Chinese producers due to their lower production costs.

With a more favorable pricing position, Malaysia glove makers could see increased demand from their US buyers, which could, in turn, support higher ASPs. Based on our conversations with the glove makers, we understand that demand for Malaysian-made gloves has started to pick up from Oct 2024, driven by concerns among the US buyers regarding product quality, longer production lead time in China, and shipping delays which could expose them to the higher tariffs from Jan 2025.

Higher ASP provides buffer for rising labour costs

We expect ASPs of Malaysia glove makers to rise to USD21-23/k pcs in 2025 (below the cost of US' imports of China gloves plus the 50% tariff - of around USD22.5-25.5/k pcs) and to USD30-32/kpcs in 4Q25 just before the 100% US tariff on China-made gloves kicks in. This compares to Malaysia glove makers' ASPs of ≈USD20/k pcs in 3Q24. We expect this increase in ASPs to boost profit margins for Malaysia glove producers, providing a much-needed earnings uplift after years of margin compression due to overcapacity and intense price competition.

Figure 5: Average selling price vs. Gloves stocks' market cap



Source: TOPG (for ASP), Bloomberg (for market cap)

Moreover, higher ASPs will help cushion the impact of rising production costs, particularly from the upcoming higher minimum wage to MYR1,700 per month (from MYR1,500), effective 1 Feb 2025. We estimate the upcoming minimum salary hike to increase production cost by a range of USD0.30/k pcs to USD0.50/k pcs. Labour cost is a significant component of total production costs for the glove makers (11%-20% of total production costs for the glove stocks under our coverage), and the ability to pass on these higher costs through ASP adjustments will support profitability.

On cautious expansion mode

On the capacity front, Malaysia glove makers are adopting a more cautious and measured approach to expansion. Rather than aggressively adding capacity, as seen during the COVID-19 demand boom, glove makers are taking a more disciplined approach to avoid oversupply and aim to maintain higher utilization rates at their existing plants, thus ensuring operational efficiency. Malaysia glove makers have either i) restarted their idle factories (TOPG) or are ii) cautiously resuming their previously halted expansion plans (TOPG, HART). They are also iii) expanding their non-healthcare gloves capacity to diversify their product and income streams (KRI).

As a result, we expect plant utilization rates to remain healthy at 75-85% for Hartalega (HART) and Kossan (KRI) (from 48% in FY24 [HART]) and 65-70% for Top Glove (TOPG) (from 45% in FY24). These higher utilization rates is a significant improvement compared to during the sector downturn in 2023, when many production lines operated at sub-optimal levels (KRI and HART's utilisaiton rate was 40-50%, TOPG's 30-35%).

To note that TOPG's factory utilisation rate of 59% in 4QFY24 was relatively lower than its peers, as about 40% of its effective capacity is dedicated to natural rubber gloves production, which was operating at just 50% utilisation rate. This dragged down the high utilisation rate of 85% for its nitrile gloves production. To uplift its overall factory utilisation rate, most of TOPG's newer production lines are designed to be interchangeable between nitrile and natural rubber gloves production, allowing for flexibility based on market conditions. The switch between production lines is expected to take just 2 weeks to a month, based on our understanding.

Figure 6: Malaysia glove makers' effective capacity and capacity expansion plans

Glove makers	Capacity - per annum pieces (b)	Utilisation rate	Remarks
TOPG	64	59% (4QFY24) 64% (1QFY25E)*	Capacity to add by +6b pcs p.a. (by restarting existing idle lines gradually), depending on market conditions.
KRI	25	75-85% (3QCY24)	-
HART	37	90% (2QFY25) on effective capacity of 31b pcs p.a.	Capacity expanded by +5b pcs to 37b in Nov 2025 and will +5b to 42b by Dec 2025, at its NGC1.5 plant.

**TOPG*

Source: Companies

▪ The hidden risks

Potential China glove makers' response

Shifting sales strategy to non-US markets. China glove makers are actively strategising the impact of higher US tariffs aimed at maintaining their competitive edge. A key strategy involves expanding their sales in the non-US markets such as Europe and Asia, where tariff pressures are less significant. By offering more competitive pricing in these regions (similar to what they offered in the US), we believe that China glove makers aims to capture the demand that are now served by glove makers in Malaysia and Thailand.

Entering the natural rubber gloves segment. Natural rubber glove purchasers typically are the developing countries. Potential shift by China glove makers into natural rubber glove production is plausible as the ASPs for natural rubber gloves especially latex powdered [LP] at USD16-17/k pcs presently (vs. latex powder-free [LPF] at USD21-23/k pcs) is not significantly different from their nitrile glove ASPs of USD17-19/k pcs. Historically, developing nations have preferred natural rubber gloves due to their relatively lower cost compared to nitrile gloves. As such, China glove makers could emerge as new competitors to the key producers in the natural rubber glove segment, such as Sri Trang Gloves Thailand (STGT TB, CP THB10.40, Not Rated) and TOPG. In FY24, LP and LPF gloves accounted for 21% and 13% of TOPG's sales volume.

Capacity expansion outside of China. In addition, we understand that China glove manufacturers are already working to reduce their reliance on domestic production by establishing production facilities outside of China. This move aims to bypass higher US tariffs by leveraging on new production bases in US tariff-exempt or lower-tariff regions.

During our previous plant visit to China glove makers back in July 2024, we understand that some of them were already exploring to expand their capacity or constructing factories in Southeast Asia countries such as Indonesia, Thailand and Vietnam. While their initial overseas expansion is likely to be on a small scale (to manage risks in the new overseas production base) and capacity increases for their existing overseas production base will likely be gradual, depending on market demand, these developments pose longer-term competition for Malaysia glove makers. These new overseas facilities are expected to come online as early as 2H 2026 or 2027, based on our findings.

Potential US tariff hikes to extend beyond China glove makers

On the global trade front, Malaysia glove makers may face headwinds from possible tariff hikes under the Trump administration. While the 50/100% tariffs on China gloves create an opportunity for Malaysia glove makers to capture greater US market share, there is a risk that the US may impose higher tariffs on Malaysia-made gloves too, as part of US' broader protectionist measures.

On a separate note, the U.S. Centers for Medicare and Medicaid Services (CMS) has proposed a payment adjustment, effective Jan 2026, to incentivize the procurement of domestically manufactured nitrile gloves. This initiative aims to strengthen the U.S. manufacturing base for personal protective equipment (PPE) by compensating healthcare providers for the additional costs associated with purchasing U.S.-made gloves (*source: AMMA website*). In our view, this is further evidence of U.S. protectionist measures aimed at reducing reliance on imports.

Any increase in import restrictions or additional tariffs on Malaysia gloves would undermine the sector's growth trajectory, erode its competitiveness in the US market, and diminish the pricing advantage over China gloves, in our view. This potential shift adds uncertainty for Malaysia glove exporters.

Valuations and recommendations

▪ Downgrade to NEUTRAL, from tactical POSITIVE

To stay ahead, we gather that Malaysian glove makers are now focusing on technology automation and cost efficiency to prepare themselves for the external risks that are beyond their control. Based on our conversations with glove machine suppliers during our visit to the 11th International Rubber Glove Conference & Exhibition in early-Sep 2024, we understand that Malaysia and Thailand glove makers have been actively automating and upgrading the technology of their production lines. In our view, Malaysia glove makers should seize the opportunity to strengthen and build up their war chest over the next 2 years before the overseas expansion of their China counterparts becomes fully operational. Maintaining a strong balance sheet is crucial for Malaysia glove makers to sustain operations over the longer term, particularly in the event of a price war.

We downgrade the glove sector to NEUTRAL (from tactical POSITIVE). Based on current valuations, we believe most of the positives (esp. potentially higher market share in the US due to higher US tariffs on China gloves) have been priced in and the risk-reward is now balanced. We maintain our earnings forecasts and TPs for the glove stocks under our coverage. We reiterate a BUY on HART, but downgrade KRI to HOLD and TOPG to SELL as their share prices have approached or exceeded our TPs. TOPG’s 1QFY25 results are scheduled for release on 20 Dec.

Figure 7: Our valuation basis and stock ratings

Glove makers	TP basis - on CY26E PBV (x)	TP (MYR/sh)	Stock rating	
			Old	New
TOPG	1.8	1.08	HOLD	SELL
HART	3.0	4.31	BUY	BUY
KRI	1.7	2.49	BUY	HOLD

Source: Maybank IBG Research

▪ Sector pick

HART MK. We like HART for its hands-on management, proven track record in technology advancement and product quality, and strong balance sheet (MYR0.38/sh net cash as at end-Sep 2024). We see HART as a prime beneficiary of higher tariffs imposed by the US on China glove makers due to its relatively larger exposure in the US market, with 56.7% of HART’s revenue in 2QFY25 being derived from US (50% in 1QFY25).

KRI MK. We like KRI for its diversified income stream (gloves and technical rubber products) and strong balance sheet (71 sen/sh net cash as at end-3Q24). KRI is expanding the capacity for its cleanroom gloves to diversify its income stream. That said, we believe the current share price already reflects much of the positives.

TOPG MK. As for TOPG, we are cautious on its high exposure to non-US markets (84% of sales volume in FY24), which are expected to face heightened competition from its China counterparts starting Jan 2025. Additionally, its balance sheet is relatively weaker (0.1x net gearing) compared to its Malaysian peers.

Risks to our calls & ratings

(i) Capacity expansion from Chinese glove makers outside of China, allowing them to avoid higher tariff imposed by the US government; (ii) a more aggressive pricing strategy by Chinese glove makers in non-US markets, potentially resulting in lower market share for Malaysia glove makers; (iii) aggressive capacity expansion by existing glove players; (iv) import restrictions or additional tariffs imposed by the US on Malaysia glove makers; (v) hikes in raw material prices that cannot be fully passed on; (vi) prolonged price wars and oversupply issues and (vii) volatile forex (MYR/USD) movement.

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