

18 June 2024

Consumer Cyclical | Rubber Products

## Rubber Products

## Overweight (Maintained)

### Growth Set To Accelerate; Still OVERWEIGHT

Stocks Covered 5  
Rating (Buy/Neutral/Sell): 5 / 0 / 0  
Last 12m Earnings Revision Trend: Negative

- **Maintain OVERWEIGHT; Top Picks: Riverstone, Hartalega, and Kossan Rubber.** Operating dynamics remain in favour of the glove manufacturers on the back of better demand visibility, supply rationalisation, and stabilisation of ASP. We learnt that the current production run rate has improved tremendously as order volumes in 2Q24 are expected to be higher vs 1Q24. Moving forward, we expect a meaningful demand recovery trend by 2H24 as well as pick up in ASP to propel glove makers' profitability in 2024.

- **ASP.** Industry-blended ASPs are currently hovering at USD20-21/1,000 pieces from USD20 in 1Q24. According to our channel checks, Chinese glove makers' ASPs are now ranging between USD17-18 from USD15-16 in 1Q24. We think the continued narrowing of the ASP gap would mean the prolonged price war is approaching its tail-end, which ultimately allows Malaysian manufacturers to compete via product quality rather than price.

- **Demand.** Malaysia's glove exports volume spiked 3.6% MoM and 46% YoY (its steepest ever YoY gain post-pandemic) in April. Still, exports value contracted by 3.8% MoM (+39% YoY) at MYR1,094.6m. Meanwhile, China glove exports contracted by 12% MoM in April, following a 21% MoM growth in March. All in, we maintain our 2024 global glove demand growth at 22% (Figure 3) premised on the recovery of glove restocking activities in 2H24. That said, Malaysian Rubber Glove Manufacturers Association or Margma expects global glove demand to chart a CAGR growth of 10% to 450bn pieces from 2023-2027.

- **Supply.** Current industry plant utilisation rate has seen encouraging improvement post production plant rationalisation undertaken in 2023. We learnt that local manufacturers are running within the range of 60-80% (vs 40-70% in the previous quarter). That said, we expect a marginal change in global industry supply of 4.3bn pieces in 2024, on the back of planned capacity replenishment by Hartalega (4bn pieces as a result of relocating production lines to NGC1.5 by end-2024) as well as 0.3bn planned capacity by Sri Trang Gloves (STGT TB, NR).

- **Stay OVERWEIGHT.** Moving forward, sequentially higher sales volume from more balanced demand-supply dynamics should lead to an improvement in glove makers' profitability in 2024. As the industry's excess capacity is phasing out, we should see the industry achieve its demand-supply equilibrium by the end of 2024. We also expect the risk of price competition from Chinese peers to gradually subside, premised on: i) Arising quality concerns resulting in higher rejection rates from the US Food & Drug Administration (US FDA), and ii) Chinese players' pivoting stance towards sustainability. The recent announcement of a 25% tariff on Chinese-made medical grade gloves is expected to result in a trade diversion towards the Malaysian-made products. With that, Hartalega is expected to be the prime beneficiary owing to its largest business exposure to North America (50% of its revenue), follow by Kossan Rubber, Supermax, and Top Glove Corp.

- **Key risks to the sector.** Decrease in gloves ASPs, slower-than-expected demand recovery, lower-than-expected utilisation rate, and higher-than-expected raw material prices.

#### Top Picks

Riverstone (RSTON SP) - BUY  
Hartalega (HART MK) - BUY  
Kossan Rubber (KRI MK) - BUY

#### Target Price

SGD1.05  
MYR4.10  
MYR2.73

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#### ESG scores of companies under our coverage

Company	ESG scores
Top Glove	3.1
Hartalega	2.9
Kossan Rubber	2.8
Supermax	2.3
Riverstone	3.1

Source: RHB

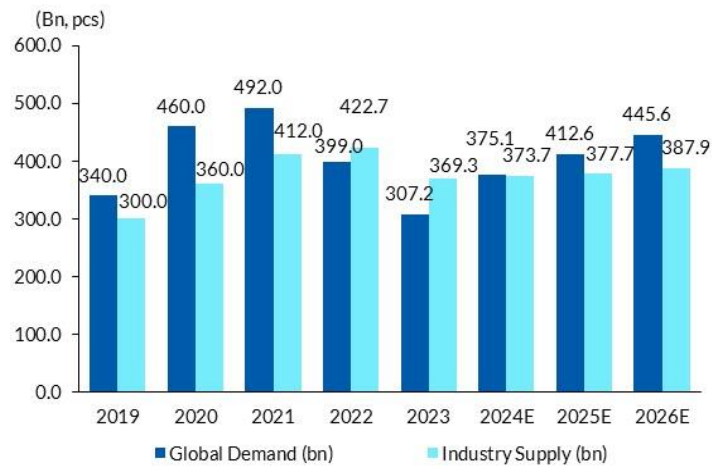
Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Hartalega	Buy	MYR4.10	14.2	68.1	2.5	3.8	-
Kossan Rubber	Buy	MYR2.73	9.4	36.4	1.6	4.4	0.8
Riverstone	Buy	SGD1.05	11.3	15.9	2.8	17.9	5.0
Supermax Corp	Buy	MYR1.01	6.6	548.8	0.5	0.1	0.1
Top Glove Corp	Buy	MYR1.32	12.9	na	2.1	(2.2)	-

Source: Company data, RHB

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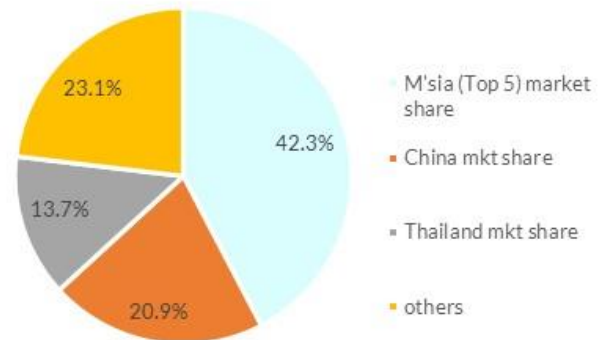
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Figure 1: Global demand and supply overview



Source: Malaysian Rubber Glove Manufacturers Association (MARGMA), RHB

Figure 2: 2024 market share by installed capacity



Source: MARGMA, Company data, RHB

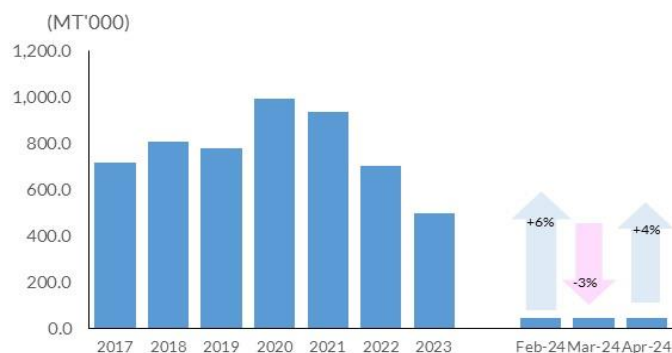
Figure 3: Overview of global glove demand and supply (by countries)

	2019	2020	2021	2022	2023	2024F	2025F	2026F
Global Demand (bn pcs)	340.0	460.0	492.0	399.0	307.2	375.1	412.6	445.6
YoY		35.3%	7.0%	-18.9%	-23.0%	22.1%	10.0%	8.0%
Industry Supply (bn pcs)	300.0	360.0	412.0	422.7	369.3	373.7	377.7	387.9
YoY		20.0%	14.4%	2.6%	-12.6%	1.2%	1.1%	2.7%
Surplus/(Deficit)	-40.0	-100.0	-80.0	23.7	62.1	-1.4	-34.9	-57.7
Malaysia Top 5 Supply (bn pcs)	165.5	195.2	213.2	209.2	154.2	158.2	162.2	172.4
YoY	9.4%	18.0%	9.2%	-1.9%	-26.3%	2.6%	2.5%	6.3%
Malaysia (Top 5) market share	55.2%	54.2%	51.7%	49.5%	41.7%	42.3%	42.9%	44.4%
China	25.8	51.6	75.0	75.0	78.0	78.0	78.0	78.0
YoY		100.0%	45.3%	0.0%	4.0%	0.0%	0.0%	0.0%
China mkt share	8.6%	14.3%	18.2%	17.7%	21.1%	20.9%	20.7%	20.1%
Thailand	25.0	32.0	40.3	46.2	50.8	51.1	51.1	51.1
YoY		27.8%	26.2%	14.6%	9.9%	0.6%	0.0%	0.0%
Thailand mkt share	8.3%	8.9%	9.8%	10.9%	13.8%	13.7%	13.5%	13.2%
others	83.7	81.3	83.5	92.3	86.4	86.4	86.4	86.4
YoY		-2.9%	2.8%	10.6%	-6.4%	0.0%	0.0%	0.0%

Source: MARGMA, Company data, RHB

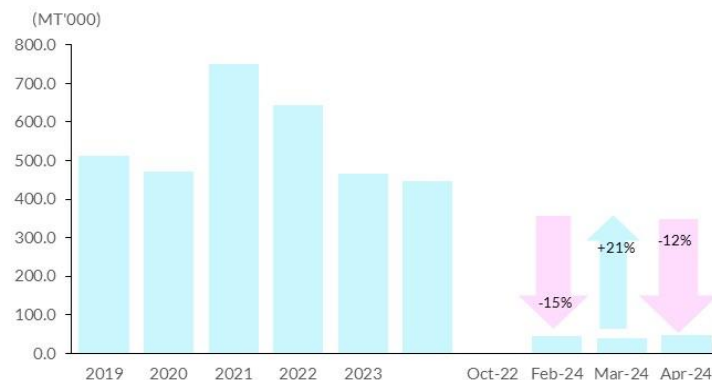
**An overview of April export data.** Malaysia's glove exports volume spiked 3.6% MoM and 46% YoY (its steepest ever YoY gain post-pandemic) in April. Still, exports value contracted by 3.8% MoM (+39% YoY) at MYR1,094.6m. Taking cue from April exports data, we believe the lower MoM exports value could be attributed to the difference in product mix shift (higher proportion of high-value goods sold and light-weighted products). Meanwhile, China glove exports contracted by 12% MoM in April, following a 21% MoM growth in March.

Figure 4: Malaysia's glove exports (in tonnes)



Source: Department of Statistics Malaysia (DOSM), RHB

Figure 5: China's glove exports (in tonnes)



Source: General Administration of Customs of PRC, RHB

**Limited impact from the recent port congestion.** Spot rates for full-size shipping containers to the US and Europe from Asia rose again in the most recent data, with all three key routes topping USD6,000 for a 40-ft equivalent unit, according to the Drewry World Container Index, released on Thursday (13 Jun). The rising freight rates come ahead of the peak technology cycle (typically 3Q), as exporters try to front-load shipments for the holiday season battered by worries of US tariff increases and prolonged [Red Sea disruptions](#). According to our channel checks, order lead time has been dragged to two months (vs one month previously), causing order volume to be delayed. While we think sales volume will likely be impacted in the coming quarters, orders could roll over to the subsequent months. As such, we think the overall impact could be minimal.

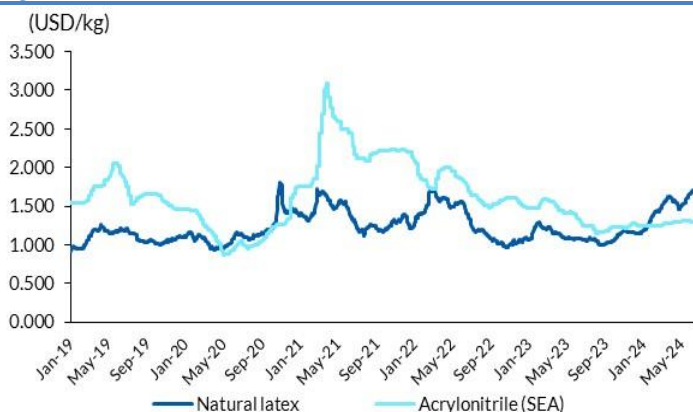
**Competition with Chinese players.** We expect the risk of competition from Chinese makers to subside gradually owing to: i) The narrowing ASP gap (USD2-3 from USD4-5); ii) Chinese players pivoting towards improving product quality (as oppose to price competition) as a result of rising quality concerns. That said, as at 6 Jun, the US FDA has issued 13 import alerts on companies importing gloves to the US on a YTD basis – Chinese companies dominate the list (constituting 12 out of 13 companies), with one originating from Malaysia.

**Raw material prices.** Natural latex prices were higher by 12% QoQ in 2Q24 (average at MYR1.60 per kg), due to severe weather conditions causing a delay in the rubber tapping process. [Thailand's](#) meteorological agency issued warnings predicting heavy rain in the southern region (Thai's prime location for rubber tree plantation). We think natural latex prices could remain elevated in June (no thanks to unfavourable weather conditions) before coming off its peak in the coming months.

Meanwhile, acrylonitrile prices inched up 3.6% QoQ (average at USD1.30 per kg) driven by soaring container freight rates. Moving forward, we expect acrylonitrile prices to stabilise in 2H24 on the back of easing raw material prices (ie polypropylene).

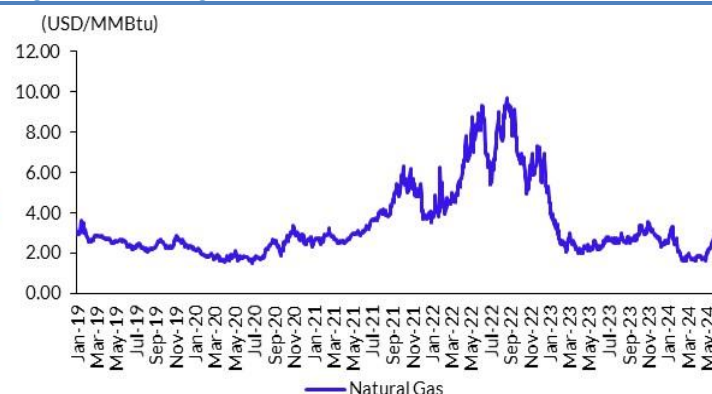
Lastly, natural gas tariff is set to stabilise in the upcoming tariff review (3Q24) following the recent 5-6% increase in 2Q24. The tariff increase in 2Q24 was mainly due to higher natural gas tariff during the period due to maintenance at Chevron's Australian Wheatstone regassification plant as well as production disruption from Gorgon LNG (the combined capacity constitutes [6% of global supply](#)).

Figure 6: Natural latex and acrylonitrile prices



Source: Bloomberg, RHB

Figure 7: Natural gas prices



Source: Bloomberg, RHB

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**Valuation and strategy.** The sector is currently trading at a compelling 1.7x P/BV, against the pre-COVID-19's 5-year mean of 3.8x in view of potential sectoral earnings recovery in 2024-2025. Our sector OVERWEIGHT call is warranted based on the improving cost pass-through model, restocking activities that are likely to materialise by 2H24 (as demand-supply dynamics are expected to achieve equilibrium) and the easing of price competition from China.

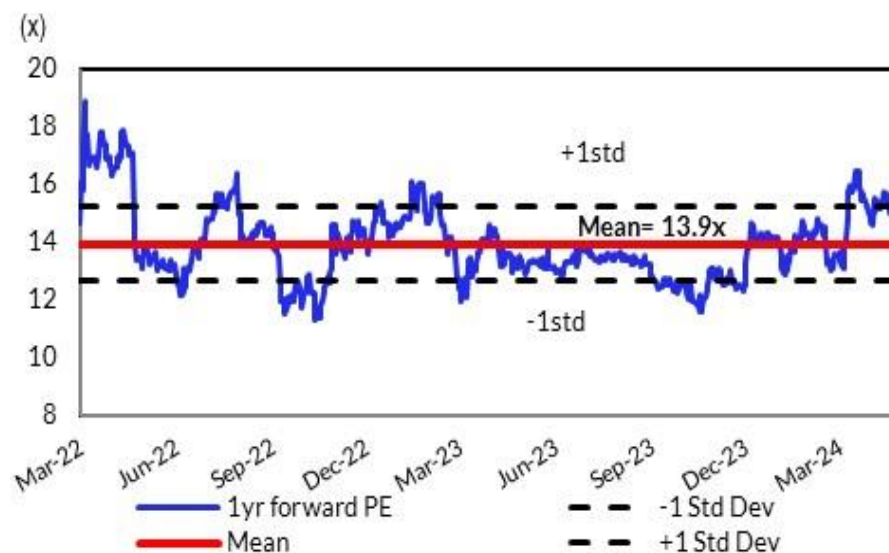
Our Top Picks are: i) Riverstone – thanks to its above peer margin performance, exposure to cleanroom gloves (which should benefit from the recovery of semiconductor sales), as well as consistent dividend payout; ii) Hartalega – owing to its better operating efficiency among the local glove makers (resulting in better margin and operating efficiency); and iii) Kossan Rubber – for its highest net cash among peers, above peer average margin profile as well as consistent dividend payout.

Figure 8: Gloves sector's (ex-Riverstone) forward P/BV band



Source: Bloomberg, RHB

Figure 9: Riverstone's forward P/E band



Source: Bloomberg, RHB



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