

SECTOR UPDATE

Gloves – Malaysia

US Raises China Gloves Tariffs In Protectionism, Trade Rivalries

A further precipitous tariff hike and earlier implementation timeline announced by the US authority on China’s medical-grade gloves are poised to revitalise investors’ sentiment on the Malaysian glove sector. With the sector’s post-pandemic recovery eclipsing earnings amid demand moderation, domestic glovemakers should progressively reclaim market share from China, sustaining concrete ASP trajectories and margin upticks. Maintain OVERWEIGHT.

WHAT’S NEW

- **US imposed higher tariff and earlier timeline on China medical-grade gloves in modifications of statutory review.** Last Friday, the Office of the United States Trade Representative (USTR) locked in steep tariff increases on an array of Chinese imports under Section 301 of the Trade Act of 1974. This is a further modification on the earlier tariff hike introduced in May 24 after taking into consideration public comments and the advice of the Section 301 committee. The modified tariff action includes higher tariff of 50% in 2025 and 100% in 2026 (from current 7.5%; initially proposed 25% in 2026) on China’s rubber medical and surgical gloves’ exports into the US beginning next year.
- **Structural change likely altering nitrile gloves’ demand landscapes.** 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 had significantly raised its global market share from around 11% in 2019 to >30% in 2023. While China players predominantly produce PVC vinyl and nitrile gloves (>85% of total sales in 2023), we assess meaningful nitrile gloves demand flowing back to Malaysian manufacturers after the tariff hike is imposed.
- **Who is potentially the biggest winner in Malaysia? Capacity matters.** While rising tides lift all boats, we view Top Glove and Hartalega (Harta) which have overall larger production capacity and better presence in the US market as the major domestic beneficiaries of this potential structural change in demand. **In terms of production capacity:** a) Top Glove remains as the largest local glove manufacturer at around 60b; b) Harta’s current capacity is at 32b (43b if including NGC 1.5 plant); c) Kossan’s capacity is about 24b; and d) Supermax’s capacity is about 21b. **In terms of US market exposure:** a) Harta leads with >50% of total sales, b) Kossan at about 40%, c) Top Glove at about 20%, and d) Supermax at about 29%.

ACTION

- **Maintain OVERWEIGHT on the Malaysian glove sector.** While an earnings impact may occur only in 2H25-2026, we opine that there will be valuations re-rating on the sector as investors’ sentiment increasingly price in these detrimental policies on China gloves exports over a mid- to long-term horizon. 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-2015 on MYR/USD weakness and late-2017 on a demand shift from vinyl to nitrile gloves.
- **Maintain BUY on Harta, Top Glove and Kossan** with target prices of RM3.66, RM1.45 and RM2.42 respectively.

PEER COMPARISON

Company	Ticker	Rec	Share Price 13 SEP 24 (lcy)	Target Price (lcy)	Mkt Cap (US\$m)	PE (x)	EV/EBITDA (x)	Div Yield (%)		
						2024F	2025F	FY24F	FY25F	FY24F
MALAYSIA										
Top Glove	TOPG MK	BUY	0.915	1.45	1,704.2	n.a.	17.0	73.7	9.1	0.0
Hartalega	HART MK	BUY	2.42	3.66	1,920.4	25.2	20.1	18.6	10.7	1.6
Kossan Rubber	KRI MK	BUY	1.83	2.42	1,085.6	33.3	20.8	19.4	12.8	1.2

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

LIST OF INCREASED TARIFFS ON CHINA PRODUCTS FROM EARLIER MAY 24 REVIEW (US)

Battery parts (non-lithium-ion batteries)	Increase rate to 25% in 2024
Electric vehicles	Increase rate to 100% in 2024
Facemasks	Increase rate to 25% in 2024
Lithium-ion electrical vehicle batteries	Increase rate to 25% in 2024
Lithium-ion non-electrical vehicle batteries	Increase rate to 25% in 2026
Medical gloves	Increase rate to 25% in 2026
Natural graphite	Increase rate to 25% in 2026
Other critical minerals	Increase rate to 25% in 2024
Permanent magnets	Increase rate to 25% in 2026
Semiconductors	Increase rate to 50% in 2025
Ship to shore cranes	Increase rate to 25% in 2024
Solar cells (whether or not assembled into modules)	Increase rate to 50% in 2024
Steel and aluminum products	Increase rate to 25% in 2024
Syringes and needles	Increase rate to 50% in 2024

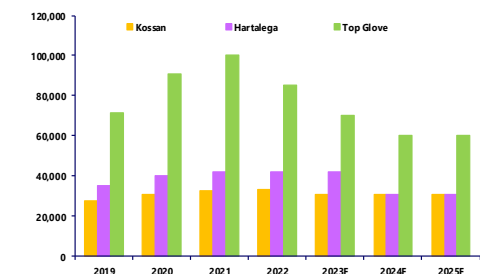
Source: US Trade Representative Office

LATEST INCREASED TARIFF ON CHINA 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

MALYSIAN GLOVE PLAYERS EFFECTIVE CAPACITY (M' PCS)



Source: Respective companies, UOB Kay Hian

SECTOR GLOVE VALUATIONS (PRE-COVID-19)



Source: Bloomberg

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ESSENTIALS

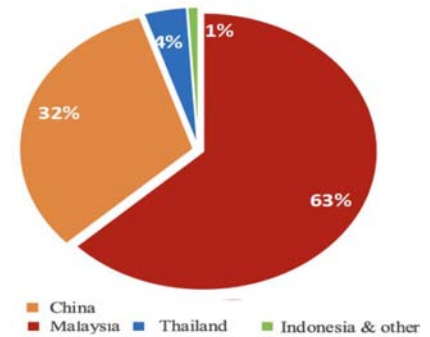
- US tariff hike a cherry on the cake.** In a broader picture, the 50-100% tariff hike scenario on China gloves is set to solidify the Malaysian glove industry's market leader position and allay earlier concerns on market share losses to China producers due to stiff competition. More crucially, we do 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.
- Putting numbers into picture.** As of 2023, China's top three nitrile glove companies - Intco, Blue Sail, and Zhonghong Pulin have a combined nitrile gloves production capacity of about 85b pieces annually (from around 20b in 2019) which make up 30-32% global market share (from 7% in 2019). We understand that US market makes up 30-35% of its medical nitrile gloves exports, which translates into 25-30b pieces annually. With a 50-100% tariff imposed on estimated China gloves ASP of US\$16-17/'000 pcs by 2025-26 (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.
- China players potentially shifting production overseas as counter measures...** With the much higher tariffs imposed by the US, China glove manufacturers will likely shift some of their production capacity to other Southeast Asian countries. For instance, our channel checks revealed that China glove companies such as Intco plans to set up a new manufacturing plant in Vietnam with an annual capacity of 8.8b pieces of gloves.
- ...but this takes time and entails higher cost.** That said, we reckon that the process may not be immediate (1-1.5 years to set up a new plant) and takes time for capacity to progressively ramp up. Upon commencing operations, the medical-grade glove products also require some time to adhere to stringent medical qualifications and standards before being widely adopted by the US or European markets (largest importers of medical gloves). More importantly, production cost will be less competitive (removing lower labour and coal energy costs in China) and at similar levels vs Malaysian glove manufacturers, lifting overall ASPs. The US authority may also impose tariffs on China manufacturers despite their glove products having a separate country of origin.
- European countries may adopt similar protectionism principle on China gloves exports.** With the US locking in higher tariffs on China medical gloves, we do not rule out a possibility of dumping of China gloves to other regions including Europe. That said, we think that European countries may potentially follow suit to impose similar trade duties to prevent a flooding of gloves products into their healthcare system. Such scenario is not unprecedented under the current protectionism and geopolitical manoeuvring circumstances, as witnessed from the tariffs imposed by both the US and Europe on China electrical vehicles. This will further benefit Malaysian glovemakers, if materialised.
- Potential valuations re-rating provides palatable upside opportunities for domestic glovemakers.** Glove companies under our coverage still potentially offer palatable capital upside opportunities based on +0.5SD above mean PE of 2025F's normalised earnings, which we think reasonable in view of significant tailwinds from higher US tariffs on China medical gloves beginning 2025. Our assessment reveals that Harta, Top Glove and Kossan still offer 32-59% upside from current share price.

2025 VALUATIONS AND IMPLIED TARGET PRICES

Companies	Valuations	2025F		
		EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	32x PE (+0.5SD above mean)	11.4	3.66	51.2
Top Glove	27x PE (+0.5SD above mean)	5.4	1.45	58.5
Kossan	24x PE (+0.5SD above mean)	10.0	2.42	32.2

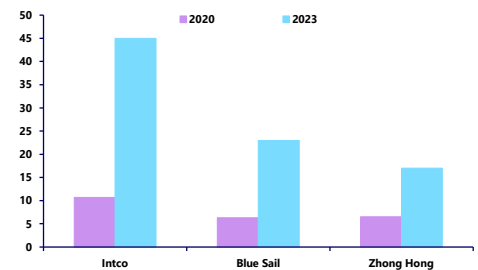
Source: UOB Kay Hian

GLOBAL NITRILE AND LATEX GLOVES PRODUCTION CAPACITY (M PCS)



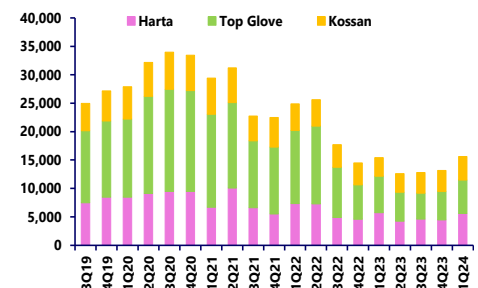
Source: OILCHEM

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



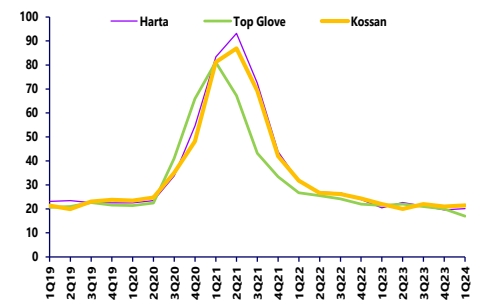
Source: Respective companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS VOLUME SALES (M PIECES)



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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