

27 December 2021

# Rubber Gloves

**NEUTRAL**



## Sliding to Pre-COVID ASP and Margin Levels

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Downgrade from Overweight to Neutral. Taking the cue from Top Glove's latest results briefing and in tandem with industry-wide ASP and margin slide, we are cutting our CY22E margin and ASP assumptions for gloves stocks under our coverage. The recent round of reporting season for glove makers suggest that the ASP and margin trends have softened faster-than-expected and will likely continue to remain weak over the next two quarters. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment signaling an acceleration in overall market ASP normalization. While falling further, glove manufacturers are of the view that ASP is unlikely to go below pre-COVID pricing considering that the cost structure has risen amongst others including social compliance costs and the still stubbornly high nitrile feedstock cost. Our ratings are as follows: HART (OP; TP: RM7.50) and TOPGLOV (MP; TP: RM2.05). KOSSAN (MP; TP: RM1.80) and SUPERMX (MP; TP: RM1.45).



**Faster-than-expected normalisation of margin.** The recent round of results reported by glove makers suggests that glove ASP are expected to trend lower by 3-5% M-o-M due to buyers waiting for ASP to stabilize to avoid getting caught with higher price inventory, and concerns over new capacity coming on stream. We are unable to quantify as to how low ASP will fall to; however, glove manufacturers are of the view that ASP is unlikely to go below pre-COVID pricing considering that the cost structure has risen amongst others including social compliance costs and the high nitrile feedstock cost compared to pre-COVID era. The latest Top Glove's 1QFY22 results could suggest that glove makers margins, ASPs and hence earnings will normalize to pre-COVID levels faster than expected which will continue to impact 1H 2022. To recap, in Top Glove's

1QFY22 results, the group expects: (i) ASP to normalise in 1HFY22 with nitrile margin presently at pre-COVID level but latex is still above pre-COVID; (ii) capacity utilisation to move up to above 55% from 1QFY22 on the back of restocking and higher usage from economy reopening and 10% increase in volume sales in 2QFY22; (iii) input nitrile raw material to trend down by an estimated 40% in Jan 2022 which should lend support to margins; and (iv) 10%-15% gloves demand growth per annum compared to pre-COVID of 8% due to the increased awareness of hygiene standard. Due to over-ordering in the past 15 months since the pandemic started, the market has undergone a phase of inventory adjustment which is expected to see gradual restocking as ASP normalize close to pre-COVID. Post COVID-19, inventory restocking cycle is expected to spur demand coupled with increased usage arising from new users and enhanced hygiene awareness. Recap, plans for a dual primary listing in which it will issue up to 793m new shares via a global offering on the Main Board of The Stock Exchange of Hong Kong Limited (HKEX) is expected to enlarge share base by 9%. The listing is expected to be completed in end 1Q 2022 and dilute EPS by an estimated 9%.

**Downgrade from Overweight to Neutral.** We have cut our earnings for both TOPGLOV and SUPERMAX in our recent reports. We make revisions to our ASP and margin assumptions for KOSSAN and HARTA due to earnings normalising faster than expected. **HARTA (OP; TP: RM7.50): Our FY23E net profit is downgraded by 38% as we changed our assumptions as follows:** ASP cut to USD27 from USD28 per 1,000 pieces; EBITDA margin cut to 23% from 31%. Correspondingly, we downgrade our TP from RM8.70 to RM7.50 based on 17x CY22E EPS (at discount to 5-year pre-COVID forward historical mean of 26-28x). **KOSSAN (MP; TP: RM1.80) : Our FY22E net profit is downgraded by 32%** as we cut our ASP assumption to USD27 from USD28/1,000 pieces and EBITDA margin assumption to 20% from 25%. Correspondingly, we downgrade our TP from RM2.45 to RM1.80 based on 13x FY22E EPS (at -0.5 SD below 5-year pre-COVID forward historical mean). **TOPGLOV (MP; TP: RM2.05).** TP is RM2.05 based on 18x CY22E EPS (at pre-COVID 5-year forward historical mean). The HKEX listing is expected to be completed in end 1Q 2022 and dilute EPS by an estimated 9%; hence this could further lower our TP. **SUPERMX (MP; TP: RM1.45):** Recall that CBP issued a Withhold Release Order (WRO) against Supermax which has identified 10 of the International Labour Organization's indicators of forced labour in manufacturing operations during its investigation. The group claimed that it had taken measures to meet the International Labour Organisation (ILO) standards on migrant workers since 2019. The group highlighted that it had on 11 October 2021 commissioned an independent international consulting firm to conduct an audit into the status of foreign workers in the Supermax Group's manufacturing facilities. Note that the US accounts for approximately 20% of sales. The impact severity on earnings depends on: (i) how fast Supermax can replace the loss of sales in the US, and (ii) how long it takes for the group to resolve the issue. Note that it took almost a year for TOPGLOV to be cleared of the ban.

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**Hartalega****Summary Earnings Table**

<b>FY Mar (RM m)</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>
Turnover	6695.9	9735.0	4912.7
PBT	3813.4	5020.9	984.4
<b>Net Profit (NP)</b>	<b>2885.4</b>	<b>3724.1</b>	<b>760.2</b>
Consensus (NP)	-	3554	944
Earnings Revision	-	-	-38%
EPS (sen)	84.9	109.5	22.4
EPS growth (%)	519.5	29.1	-79.6
PER (x)	6.3	4.9	23.8
NDPS (sen)	50.9	65.7	13.4
BVPS (RM)	1.45	1.89	1.98
PBV (x)	3.7	2.8	2.7
Net Gearing (%)	Net Cash	Net Cash	Net Cash
Dividend Yield (%)	9.6	12.4	2.5

Source: Kenanga Research

**Kossan****Summary Earnings Table**

<b>FY Dec (RM m)</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
Turnover	3653.5	6976.4	3033.2
PBT	1444.6	3972.8	519.6
<b>Net Profit (NP)</b>	<b>1087.1</b>	<b>3104.9</b>	<b>359.1</b>
Consensus (NP)	-	3047	527
Earnings Revision	-	-	-32%
Core EPS (sen)	40.5	121.4	14.0
Core EPS growth (%)	361.2	199.5	(88.4)
NDPS (sen)	14.0	40.0	6.0
BVPS (RM)	0.93	1.75	1.83
Core PER (x)	4.3	1.4	12.5
Price/BV (x)	1.9	1.0	1.0
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	8.0	22.7	3.4

Source: Kenanga Research

**Top Glove****Summary Earnings Table**

<b>FY Aug (RM m)</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>
Turnover	16403	8866	8947
PBT	10143	1450	1311
Net Profit (NP)	7871	925	923
<b>Core NP (CNP)</b>	<b>7871</b>	<b>925</b>	<b>923</b>
Consensus NP	-	1112	965
Earnings Revision	-	-	-
EPS (sen)	97.9	11.3	11.3
EPS growth (%)	328.4	(88.5)	(0.2)
NDPS (sen)	65.1	5.6	5.6
BVPS (RM)	0.74	0.73	0.79
PER (X)	2.2	19.2	19.2
PBV (X)	2.9	3.0	2.7
Net Gearing (%)	Net Cash	Net Cash	Net Cash
Net dividend yield (%)	30.1	2.6	2.6

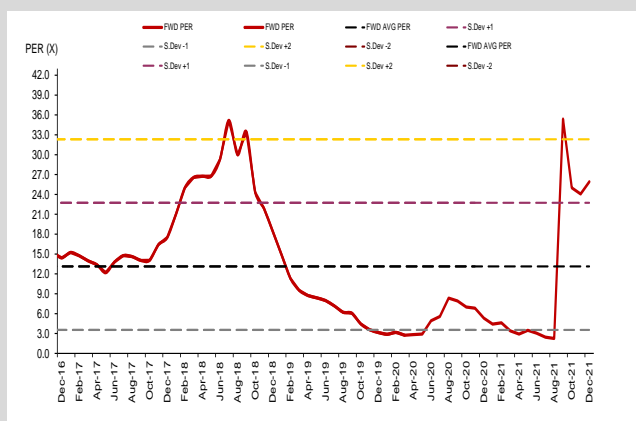
Source: Kenanga Research

**Supermax****Summary Earnings Table**

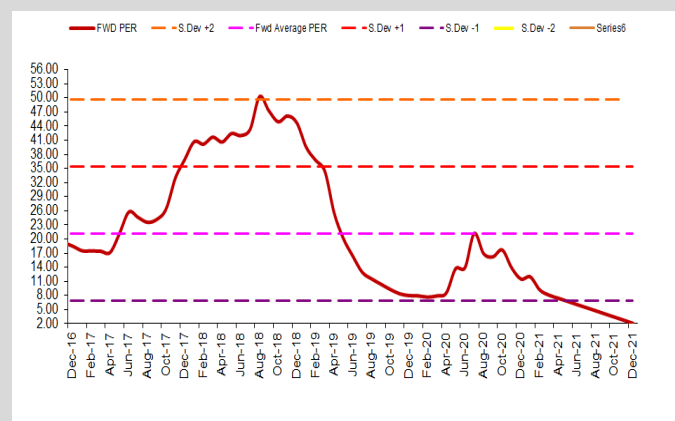
<b>FY Jun (RM m)</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>
Turnover	7164.2	4287.8	2811.6
PBT	5019.4	1635.3	485.7
Net Profit (NP)	3812.9	1184.8	329.5
Consensus NP	-	1105	390.6
Earnings Revision	-	-	-
EPS (sen)	140.2	43.6	12.1
EPS growth (%)	248.7	(68.9)	(72.2)
NDPS (sen)	31.8	14.4	3.1
BVPS (RM)	1.75	2.04	2.13
PER (X)	1.0	3.3	11.7
PBV (X)	0.8	0.7	0.7
Net Gearing (%)	Net Cash	Net Cash	Net Cash
Net dividend yield (%)	22.4	10.1	2.2

Source: Kenanga Research

Top Glove - Forward PER

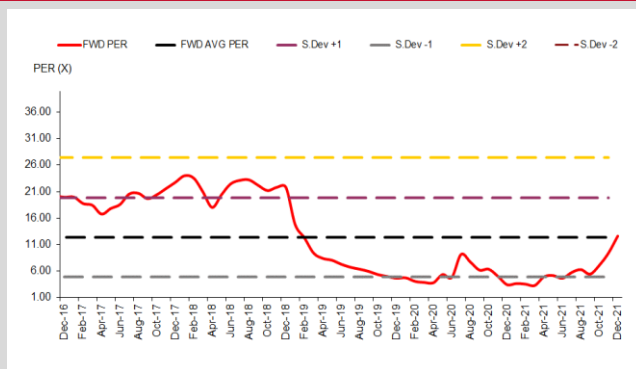


Hartalega - Forward PER

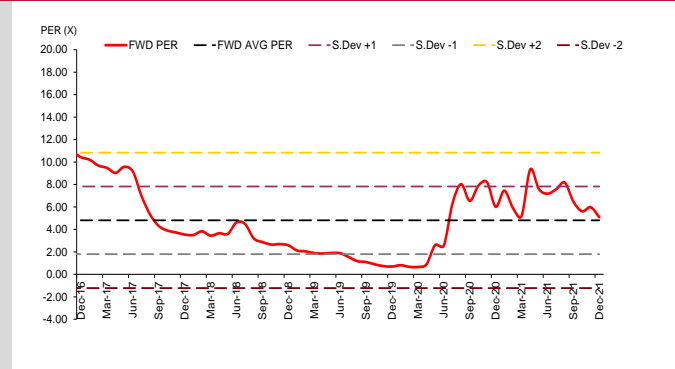


Source: Bloomberg, Kenanga Research

Kossan - Forward PER



Supermax - Forward PER



Source: Bloomberg, Kenanga Research

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### Peer Comparison

Name	Price(RM) 17/12/2021	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>RUBBER GLOVES</b>																	
HARTALEGA HOLDINGS BHD	5.32	18,181	Y	03/2022	45%	-50%	29%	-80%	6.3	4.9	23.8	3.6	2.8	65%	12%	7.50	OP
KOSSAN RUBBER INDUSTRIES	1.76	4,491	Y	12/2021	91%	-57%	186%	-88%	4.3	1.4	12.5	1.9	1.0	91%	23%	1.80	MP
SUPERMAX CORP BHD	1.42	3,841	Y	06/2022	-40%	-34%	-69%	-72%	1.0	3.3	11.7	0.8	0.7	23%	10%	1.45	MP
TOP GLOVE CORP BHD	2.15	17,295	Y	08/2022	-46%	1%	-88%	0%	2.2	19.2	19.2	2.9	2.9	15%	3%	2.05	MP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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