

10 June 2024

Glove

UNDERWEIGHT

1QCY24 Report Card: Weak Earnings Undertone



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We reiterate our UNDERWEIGHT rating on the sector. Players either were in the red or reported tepid profits in 1QCY24, with only one meeting our expectation. The weak earnings undertone in 1QCY24 suggests the operating environment remains challenging, plagued by overcapacity, predatory pricing by certain overseas players, weak demand and the high cost of inputs. On a slightly brighter note, further decommissioning of older production facilities locally should help to ease supply pressure, at least bringing about more rational competition amongst local players. Following a premature run-up in their share prices, we avoid all names under our coverage, namely HARTA (UP; TP: RM2.33), KOSSAN (UP; TP: RM1.48), SUPERMX (UP; TP: RM0.83) and TOPGLOV (UP; TP: RM0.75).

A weak 1QCY24 earning season. There was a slight sequential weakening in earnings delivery (against our expectations) by the sector in the recently concluded 1QCY24 reporting season with 25%/75% of results coming within/below compared to 25%/50%/25% above/within/below in 4QCY23. Out of the four companies under our coverage, only one came in within our forecasts (**KOSSAN**), while three came in below (**HARTA**, **SUPERMX** and **TOPGLOV**). Overall, players are benefiting from a lower cost base following the decommissioning of inefficient production capacity in the industry.

The weak earnings undertone in 1QCY24 suggests the operating environment remains challenging, plagued by overcapacity, predatory pricing by certain overseas players, weak demand, and the high cost of inputs. Despite registering a third consecutive quarterly profit, **KOSSAN** and **HARTA**'s tepid 1QCY24 profitability was lower QoQ, dragged down by subdued sales volume and sustained high input nitrile butadiene rubber price. On the other hand, **SUPERMX** and **TOPGLOV** suffered their 6th and 7th consecutive quarterly losses, respectively. However, **SUPERMX** and **TOPGLOV**'s losses narrowed, thanks to: (i) depleting high-cost inventory, and (ii) lower cost base following the decommissioning of inefficient production capacity.

Oversupply to persist. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in CY26 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum, underpinned by rising hygiene awareness. MARGMA projects 12%–15% global demand growth for rubber gloves annually from CY23, following an estimated 25% contraction to 300b pieces in CY23. We project the demand for gloves to rise by 30% in CY24 to 390b pieces (due to a low base effect in CY23) and resume its organic growth of 15% thereafter. This will result in an excess capacity of 212b pieces in CY24. The overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in CY24.

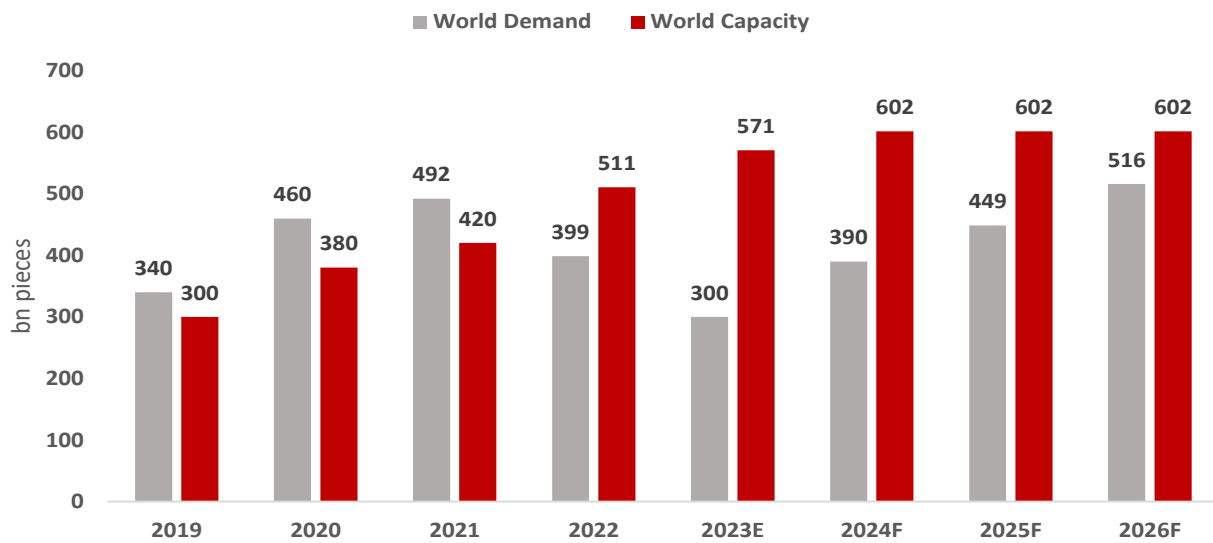
Assumptions. Our CY24 forecasts assume: (i) an ASP per 1,000 pieces of USD20 similar to CY23, and (ii) an average plant utilisation of 45% vs. an estimated 40% in CY23. In the meantime, we do not have any top pick for the sector.

Exhibit 1: Quarterly Results Performance

	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
HARTA			1			1			1			1
SUPERMX			1			1			1			1
KOSSAN		1			1			1			1	
TOPGLOV^			1			1		1		1		
Total	0	1	3	0	1	3	1	2	1	1	2	1
Total (%)	0	25	75	0	25	75	25	50	25	25	50	25

Source: Kenanga Research, Companies' quarterly results, ^FYE Aug – 2QFY24 vs 1QFY24

Exhibit 2: Estimated Global Demand/Supply - Excess Supply over CY22-CY25



Source: Kenanga Research

10 June 2024

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	UP	3.41	2.33	-32%	11,688.0	Y	03/2024	1.5	1.5	297%	4%	230	222	2.5	1.1%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	2.47	1.48	-40%	6,318.0	Y	12/2024	4.7	4.9	140%	5%	53	50	1.6	3.1%	2.0	0.8%
SUPERMAX CORP BHD	UP	0.955	0.830	-13%	2,598.0	N	06/2024	(1.9)	0.7	-134%	-62%	N.A.	137	0.6	-1.1%	0.0	0.0%
TOP GLOVE CORP BHD	UP	1.12	0.750	-33%	9,194.0	Y	08/2024	(1.6)	0.8	-114%	-49%	N.A.	140	2.0	-2.7%	0.0	0.0%

Source: Kenanga Research

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10 June 2024

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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