

Glove

OVERWEIGHT

Prefer Players with Strong Management



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We remain **OVERWEIGHT** on the sector. Looking into CY26, Malaysian glove manufacturers are expected to continue showing positive signs of improvement in its cost structure leading to higher margins and hence bottom line. Despite lack of catalysts, the glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average, structural demand while supply rationalisation offers long-term upside. In the meantime, moving into 1QCY26, Malaysian glove makers could benefit from short-term temporary relief amid regional supply disruptions and operational challenges faced by their competitors. Our Top Picks are **KOSSAN** (OP↔; TP: RM2.70↔) and we now prefer **TOPLGOV** (OP↔; TP: RM0.75↔) over **HARTA** (OP; TP: RM1.90) after a closer assessment of competitive dynamics in the US market.

Trading at deep value, narrative is slowing changing, regional disruption could provide some near-term stability.

Malaysian glove manufacturers are gradually showing improvement in their cost structure leading to higher margins and towards pre-COVID normalization. As an indication, in **TOPGLOV**'s past two quarterly results (4QFY25 & 1Q2FY26), EBITDA margins have expanded from 10% in 4QFY25 to 14% in 1QFY26. **KOSSAN**'s past quarters EBITDA margin was between 11%-14% (4QFY24 to 3QFY25). We believe the gradual margins and volume sales improvement are expected to dispel earlier concerns of Malaysian glove makers' less-than-robust cost structure leading to margins being crimped which stymied overall profitability. Top Glove margins improvement and reactivating four plants are indicating positive signs of higher demand. Due to higher plant utilisation and improved economies of scale, margins have improved. Specifically, production costs have been reduced by about 20% over the past two years narrowing its cost gap with Chinese glove manufacturers and allowing it to compete on pricing strategy while maintaining profit margins. It reiterated cost savings were achieved across multiple areas, including labour, chemicals, energy, electricity, water, packaging materials and operational efficiency. It is hopeful of achieving further cost savings by an additional 5% over the next few quarters.

In the meantime, Malaysian glove makers could in the short-term benefit amid regional supply disruptions and operational challenges. Based on channel checks, we understand that a certain Chinese player's Indonesian plant is presently facing production hiccups with commercial production delayed to end-1QCY26. Separately, Sri Trang's gloves manufacturing facilities in flood-affected areas in Thailand's southern trading hub Hat Yai have temporarily suspended production since 23 Nov CY25. The flooding in the Hat Yai district of the Songkhla province has caused water to overflow into some operation areas as well as preventing employees from commuting to work. However, other facilities located outside the flood-hit areas have continued to operate as normal. Specifically, the Sri Trang Gloves Hatyai plant had an estimated 100 production lines.

Malaysian glove stocks are trading at deep value levels, pricing them close to the worst of the down-cycle (see Exhibit 1). The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings are showing nascent signs of a gradual recovery, structural demand and supply rationalisation offer long-term upside. In terms of PER valuation, only **KOSSAN** is trading at 20x historical average 1-year forward PER. While margins are improving for **TOPGLOV**, it is still trading at 38x FY27F PER compared to its historical average of 27x (charts in page 2).

We believe **KOSSAN** would be the least affected as it focuses on specialty gloves which fetch better margins. Moreover, with its disciplined cost structure and continuous efforts to streamline operations, the group's profitability is expected to be less impacted by any potential orders slowdown. We like **KOSSAN** for: (i) trading at 12x PER-ex cash (RM1.6b net cash or RM0.62/share net cash per share), (ii) trading below book value despite being the most profitable listed medical grade glove in Bursa Malaysia, (iii) its solid management, and (iv) focusing on specialty gloves which fetch better margins. We like **TOPGLOV** for: (i) it is gaining market share in the US accounting for 33% of total sale volume and is targeting US to account for 40% of group volume sales over the next two years; and (ii) cost savings initiatives saw a reduction of 20% over the past two years which are bearing fruit which saw EBITDA margin rising to 14% in 1QFY26 from 10% in 1QFY25.

A mixed bag of fortunes in the United States, reduce HARTA's FY27F net profit by 30% due to competition in the US market. Tell-tale signs indicate certain Malaysian players are experiencing a mixed bag of fortunes in the US market place. Specifically, **TOPGLOV**'s market share in the United States is gaining momentum. Case in point, US sales account for 33% of total group volume sales from 18% three quarters ago, above the 15% mix in FY24, and higher than the pre-pandemic average of 20%-30%. On the contrary, based on past three quarters analysis, **HARTA**'s revenue in North America (90% largely from United States) saw a decline of 17%, 11% and 25% in 2QFY26, 1QFY26 and 4QFY25,

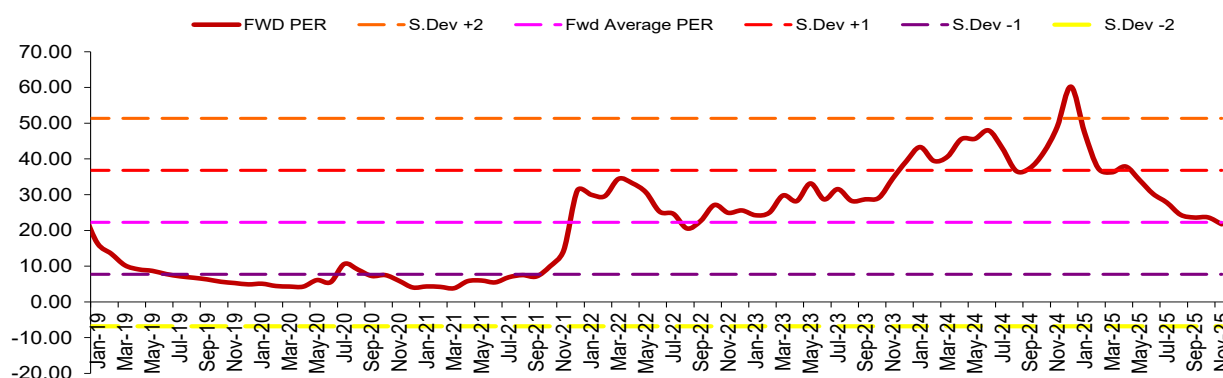
respectively, due to intense competition there. Consequently, due to competitive pressure amongst the Malaysian glove makers in the US market, we cut **HARTA**'s FY27F net profit by 30%. We also reduce our target P/BV multiple from 1.8x to 1.5x and the stock's TP is also cut from RM2.30 to RM1.90 based on 1.5x FY26F BVPS.

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Over the medium term, players will focus on operational efficiencies via enhanced automation and innovated product differentiation to mitigate intense competition and higher operating costs. Overall, more disciplined and efficient players are embarking to further automating their plants and reduced reliance on foreign workers. Case in point, **HARTA (OP; TP: RM1.90)** has undertaken operational efficiencies and continue advancing automation and digitalisation initiatives across its operations. It expects the efforts to bear fruits i.e. improving production yield in CY26. Specifically, it is undergoing further automation which incorporates artificial intelligence (AIs) in all its lines capable of detecting glove defects via digital imaging with a 0.3% reject rate and a stripping machine which is 5x faster. Thereafter, the initiative will result in further reduction in manual manpower from an estimated 7,500 presently to 7,000 workers.

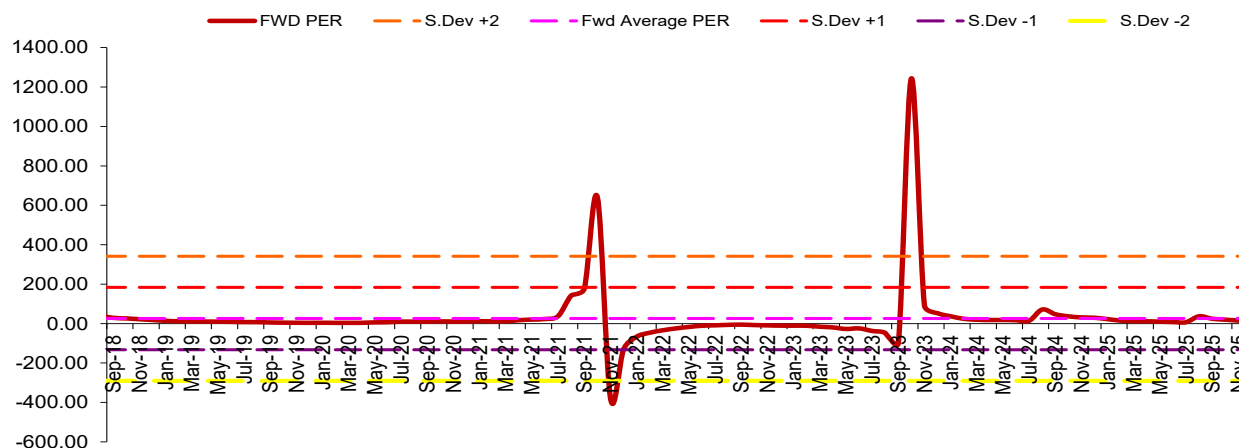
Key risks to our recommendation include: (i) certain Chinese glove giants ramping up predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), (ii) weaker-than-expected growth in demand for gloves due to slower-than-anticipated hygiene standards implementation and health awareness globally, and (iii) unfavourable changes in tariffs to Malaysian glove makers.

Kossan : PER Band



Source: Bloomberg, Kenanga

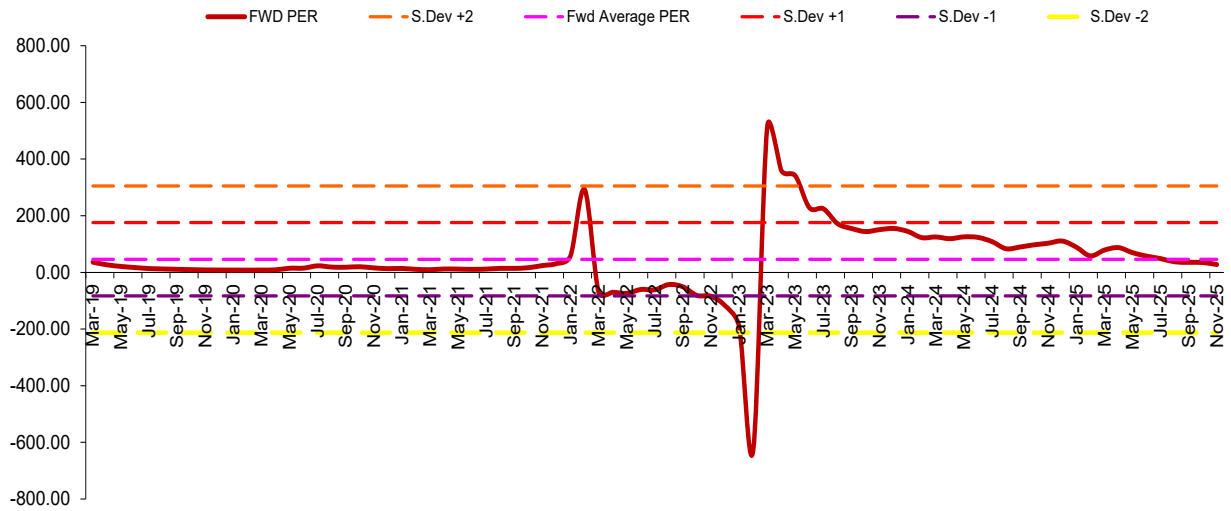
TOP GLOVE : PER Band



Source: Bloomberg, Kenanga

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HARTA : PER Band



Source: Bloomberg, Kenanga

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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	OP	0.985	1.90	93%	3,362	Y	03/2026	2.4	4.7	10%	95%	40.9	20.9	0.8	1.9%	1.0	1.0%
KOSSAN RUBBER INDUSTRIES	OP	1.07	2.70	152%	2,705	Y	12/2025	6.4	6.4	36%	1%	16.8	16.6	0.7	4.4%	4.0	3.7%
SUPERMAX CORP BHD	MP	0.330	0.370	12%	1,009	N	06/2026	(1.4)	0.6	-128%	-55%	N.A.	52.3	0.3	-1.1%	0.0	0.0%
TOP GLOVE CORP BHD	OP	0.635	0.750	18%	5,091	Y	08/2026	1.6	1.7	145%	4%	38.5	37.2	1.1	2.8%	0.8	1.3%

Source: 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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