

03 October 2014 | Sector Update

## Glove sector

**Maintain POSITIVE**

### First Ebola case in USA – additional orders may flood in

- **First Ebola case detected in the U.S.**
- **History indicates that epidemic scare causes glove stocks to react positively**
- **U.S. and European glove buyers are already preparing for large glove stock-ups**
- **Maintain POSITIVE on the glove sector**

**First Ebola case detected in the U.S.** The Ebola virus which has killed over 3,300 people in West Africa since its outbreak in March has been reported in the U.S. Recently, a man travelling from Liberia to Texas, U.S. has shown symptoms of the Ebola virus after four days of arriving in the U.S. He sought care two days later. Surprisingly, he was sent home but returned to the hospital and was admitted on 28 September 2014 after developing symptoms consistent with Ebola. This is the first case of Ebola diagnosed in the U.S. and the first strain diagnosed outside of Africa. Currently, the patient is kept isolated and anyone who has had recent contact with him is being closely watched.


**Glove stocks usually rally ahead of epidemic scares.** According to historical epidemics episodes, the surge in demand for rubber gloves usually occurs before an epidemic. This is due to the belief that health providers will be stocking up on gloves as a preventive measure when dealing with the disease. An example can be seen during the H1N1 epidemic in the U.S. in 2008. Revenues for Supermax and Hartalega which supply mostly nitrile gloves increased by over +20%qoq in 3Q08 (The H1N1 epidemic started in September 2008). From Table 1, we note that North America is the main export market for the three major local rubber gloves manufacturers. Likewise, according to the Malaysian Rubber Export Promotion Council's report on Malaysia's rubber product exports for 2012, export to North America is the highest at 30% of total glove exports, followed by Europe and ASEAN with 24% and 10% respectively.

**Table 1: Main export destinations for local rubber glove companies**

Region / Company	Hartalega	Kossan	Top Glove
North America	45%	55%	28%
Europe	29%	22%	31%
Rest of the world	26%	23%	41%

*\*Data is obtained from rubber glove companies under our coverage*

**Enquiries have been pouring in from the largest importers of rubber gloves.** Although the U.S. health officials have stated that Ebola will not become an epidemic in the U.S., there is still a slight possibility that it could spread as it has not been confirmed that anyone who had recent contact with the patient is Ebola-free. In addition, our channel checks have indicated that there have been enquiries to our local glove manufacturers regarding their ability to produce gloves if there were to be a sudden surge in demand. With the current expansions, it is undeniable that our local glove manufacturers will be able to accommodate the sudden increase in demand. There is still headroom to expand production as Hartalega, Kossan and Top Glove are currently operating at a utilization rate of 88%, 85% and 75% respectively.

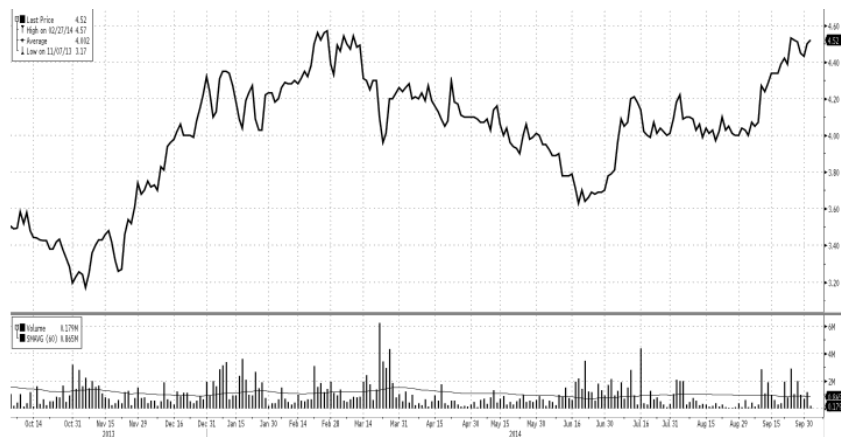
**Maintain POSITIVE.** We are reiterating our **POSITIVE** stance on the glove sector. We believe that if Ebola were to become an epidemic in the U.S. and elsewhere, our local glove manufacturers would see an increase in demand. In addition, with the current utilization rate, our glove manufacturers will be able to meet the sudden surge in glove demand. Our top **BUY** recommendations for the sector are **Top Glove (TP: RM5.70)** and **Kossan (TP: RM5.23)**. 

## Daily Price Movement for Hartalega



Source: Bloomberg, MIDFR

## Daily Price movement for Kossan



Source: Bloomberg, MIDFR

## Daily Price movement for Top Glove



Source: Bloomberg, MIDFR

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.