

06 September 2018 | Sector Update

Gloves sector

Maintain NEUTRAL

Negligible impact from minimum wage increase

INVESTMENT HIGHLIGHTS

- **Minimum wage increased to RM1,050 from RM1,000/RM920**
- **Negligible impact on rubber gloves manufacturers**
- **Maintain NEUTRAL on the Gloves sector**

Minimum wage raised to RM1,050 from RM1,000/RM920. The Government announced on 5th September 2018, that it is raising the minimum wage to RM1,050 from RM1,000 effective 1st January 2019 nationwide. This includes East Malaysia where the current minimum wage is at RM920. Recall that, one of the manifesto of the new Pakatan Harapan government is to raise the minimum wage from the current RM1,000/RM920 to RM1,500 with half of the increase to be borne by the government. However, the government announced recently that minimum wage will not be raised to RM1,500 immediately but it will be raised in stages in the next two years. It was also mentioned in the announcement yesterday that the government will not bear the additional RM50 increase in minimum wage next year.

Generally negative on the sector however... While the increase in minimum wage in general is negative news for the overall sector, however, the impact on earnings of the gloves manufacturer will be minimal as we note that most of the employees in the gloves manufacturing sectors are already earning more than RM1,050. For employees that falls below the minimum wage requirements which we estimate to be less than 10% of the total employees; our calculation shows that the impact on earnings of gloves manufacturers will be less than 1%.

Negligible impact on gloves manufacturers. Aside from a minimal impact of less than 1% on the earnings of the gloves manufacturers, the impact of the new minimum wage on the gloves manufacturers is also negligible as the manufacturers will be transferring the increase in production costs to their customers, which has been the industry-wide practice all this while. In general, the labour cost constitutes of 12% from the total gloves production cost for the manufacturers.

Maintain NEUTRAL. All in, we are maintaining our **NEUTRAL** stance on the sector in view of the capacity constraint due to most manufacturers already operating at a sold out capacity position at this juncture. Furthermore, potential earnings growth of these producers might be capped due to closure of some production lines for upgrades and revamps. Additionally, the sector remains unexciting due to lack of strong re-rating catalyst. 

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative news flow.

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.