

05 May 2015 | Sector Update

## Glove Sector

**Maintain POSITIVE**

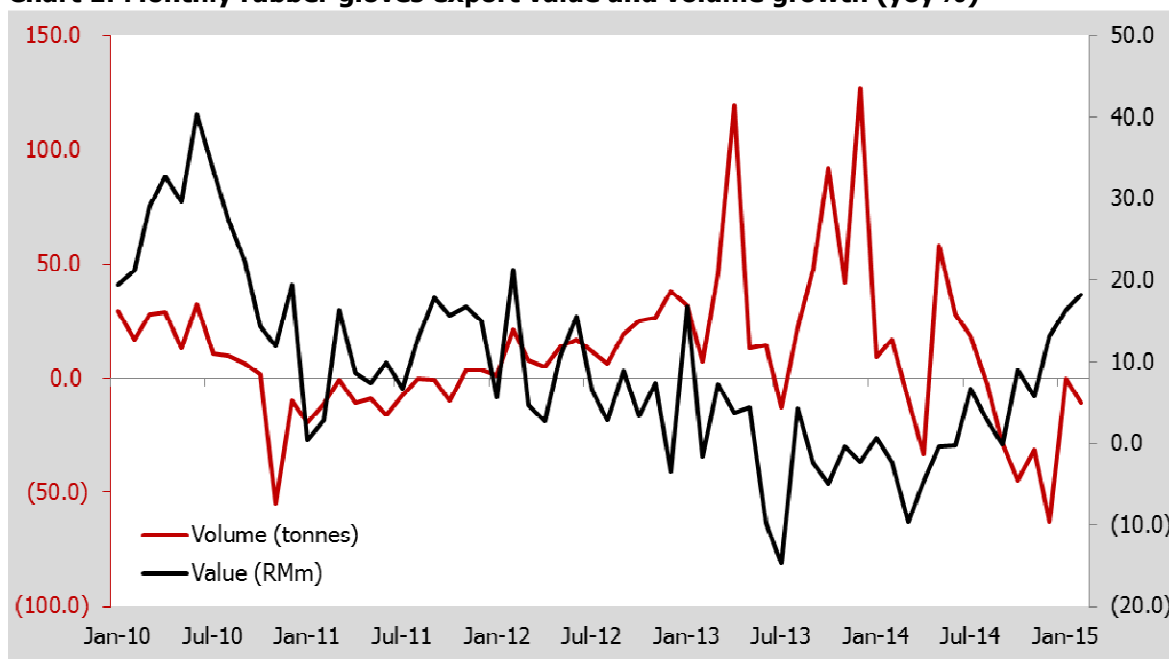
### Rubber gloves export value continues to rise

- February 2015's export value of rubber gloves posted double-digit increase of +18.2%yoy to RM916m
- Yet, export volume for rubber gloves declined by -10.9%yoy to 47,395 tonnes due to increasing demand of thinner specification gloves from overseas customers
- The improving price of rubber is supported by:
  - signals of rubber supply tightening from Thailand;
  - low raw material inventory at Chinese tyre makers; and
  - improving global crude oil prices
- **Maintain POSITIVE on the glove sector**

**Export value continued to rise...** In February 2015, the export value of rubber gloves maintained its uptrend and increased by +18.2%yoy to RM916m. Despite the low average selling prices (ASP) of gloves attributable to the low rubber price, the stronger USD against MYR in the earlier part of 2015 has increased the export value of rubber gloves. The average year-to-date (until 30 April 2015) exchange rate of MYR against USD increased by +10.3% compared to the same period of last year.

**...amid lower total export volume.** The export volume (in gross weight) for rubber gloves in February 2015 however, declined by -10.9%yoy to 47.4k tonnes. The decline in export volume is attributable to the increasing demand of thinner specification rubber gloves from overseas customers. In 2014, Malaysia's exports of rubber gloves increased by +7.1%yoy to 95.4b pieces, whereas its export volume decreased by -18.1% to 692k tonnes. Out of the 95.4b pieces, 50.4% consists of natural rubber gloves and 49.6% consists of nitrile rubber gloves.

**Chart 1: Monthly rubber gloves export value and volume growth (yoy%)**



Source: Department of Statistics, MIDFR


**Improving rubber price.** Year-to-date (as at 30 April 2015), the price of Malaysian rubber has increased by +6.8%. Generally, the improving rubber price will be able to increase the low average selling prices (ASP) of gloves, thus, increasing the revenue for the rubber glove makers. In addition to that, the price of rubber traded in regional markets such as Vietnam, Thailand and India has also shown positive improvements.

**Expect rubber price to gradually improve.** Going forward, we are expecting the price of rubber to further appreciate gradually as signals of rubber supply tightening from Thailand is being seen. Thailand is the world's largest natural rubber producer. The tightening of rubber supply is attributable to the loss incurred by the Thailand government for the past three years due to the low rubber price.

**Government of Thailand to stem losses incurred from low rubber prices.** Currently, the government of Thailand is planning to stem the losses from low rubber prices by restricting international shipments of rubber and reducing the growing areas by replacing it with oil palm plantation. Farmers will be compensated with THB21,000 for each 1,600 acres of rubber trees chopped down.

**Demand for rubber to increase as raw material inventory at Chinese tyre makers declined.** The bulk of the demand for rubber is expected to continue to come from China, the main rubber consumer. Several Chinese tyre makers have expressed concerns over low raw material inventory with expectations of higher automobile demand in 2015. As such, the low raw material inventory levels for Chinese tyre makers is a concern as about 65% of the world's rubber supply is used for tyre production. Furthermore, China has also inked a deal with Thailand to buy 200,000 tonnes of Para rubber for a term of one year (since March 2015).

**Improving crude oil prices.** Due to the fall in crude oil price last year, nitrile rubber prices have also declined as the main constituent in nitrile rubber composition is derived from petroleum. Due to this, ASP for nitrile gloves has also experienced a dip as customers request for lower glove prices. As such, with our house's expectation of the Brent crude oil price to improve up to an average level of USD60-70pb in 2015, we can also expect the price of nitrile rubber to improve, thus, increasing the ASP for nitrile rubber gloves.

**Maintain POSITIVE on glove sector.** We are reiterating our **POSITIVE** stance on the glove sector. We are expecting raw material prices to increase slightly in the near-term with the restricted supply of rubber from Thailand, increasing demand from China and rebound in crude oil prices. This presents an opportunity for glove manufacturers to increase their ASPs. The International Rubber Study Group also expects the world demand of rubber to increase by 3.5% in 2015. Moreover, the Rubber Economist expects global production to outstrip demand in 2015 by 43,000 tonnes. As such, we are still sanguine on prospects of the local glove industry. 

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## Daily Centrifuged Latex price movement



## Weekly nitrile butadiene rubber price movement



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**MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS****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.