

**HLIB** Research  
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## OVERWEIGHT

(Maintain)

### Stock Rating

Stock	Rating	Price	Target
Top Glove	BUY	8.80	13.00
Harta	BUY	16.90	24.10
Kossan	BUY	14.68	18.30

# Gloves Sector

## Rising cases to sustain demand trajectory

The escalation in Covid-19 cases worldwide is not show any signs of abating. Furthermore without concrete vaccine timeline, demand for gloves should sustain. We envisage greater earnings to follow into CY21 for glove makers paired with strong fundamentals. We maintain **OVERWEIGHT** on the sector with **Top Glove (TP: RM13.00)** as our top pick.

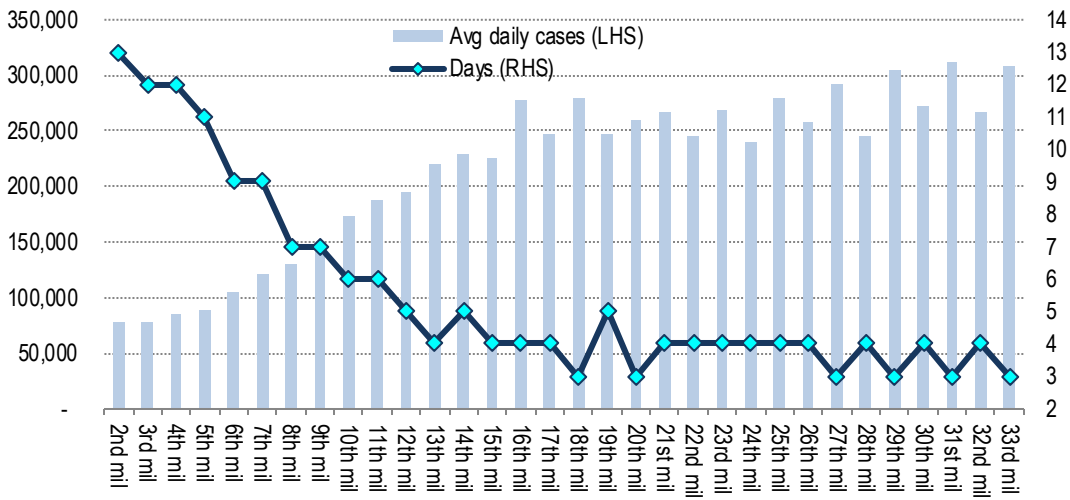
**No signs of slowing down.** As at 7 Oct, the reported number of Covid-19 cases worldwide was 36.1m with 7.9m active cases and a death rate of 3.7%. The spread rate per subsequent 1m cases currently hovers between 3-4 days, more rapid than the initial 2 weeks when the pandemic first broke out (Figure #1). Highest active cases thus far would be from the US with 7.7m cases to date, with a death rate of 4.2%; moreover US being the largest glove consumer (c. 150 pieces per capita), we can use this as an indicator for demand of gloves to rise. In US, while Covid-19 cases declined in Jul, it started to pick up again in the early-Sep. This coincides with the beginning/transitioning of season to autumn in the Northern Hemisphere (Figure #2), which also usually marks the beginning of flu season (especially come winter, more cases are expected). Risk of rising Covid count amid the colder weather, alongside the "flu season" should sustain the upward demand trajectory for gloves.

**Vaccine development.** Researches are currently testing 44 vaccines in trials on humans with at least 91 preclinical vaccines are under active testing on animals. While work on vaccine started back in Jan 2020, and more intensely in Apr, there are still none that have yet to receive full use approval (Figure #3). Even big pharmaceutical giants like AstraZeneca faced hiccups and had to halt vaccine trials due to an unexplained illness in their voluntary study. While optimists expect a vaccine discovery by year end, we reckon that this seems like a longshot. Looking back in history, the fastest vaccine to be developed and approved was for mumps, which took 4 years. Past experience has shown that even with vaccine discovery, demand for gloves did not fall immediately, as rollout for mass immunisation would take time. In addition, gloves will still be needed for testing and administering the vaccine.

**Key drivers.** With Covid-19 cases showing no signs of slowing down paired with no concrete vaccine timeline, we expect CY21 earnings to be fuelled by (i) the continuous **surge in demand** for gloves, (ii) spill over to an expected **higher ASP** on increased orders, and (iii) **elevated utilisation rates** of above 95% (vs. 80%-85% pre Covid-19); and we see it to maintained till at least 1HCY21. Some channel checks showed that the lead time of glove manufacturers are now at a minimum 8 months while there are manufacturers that are looking at >1 year. It is noted that blended ASPs of nitrile gloves are high between USD90-160 per 1000 pieces. Furthermore, we reiterate the catalyst for rubber gloves growth to be: (i) more stringent regulatory requirements, (ii) higher healthcare awareness, (iii) growing population and (iv) wider gloves users beyond medical (i.e. F&B, travel, janitorial, mechanical). With the Covid-19 impact, projected global demand for 2020 is 330bn gloves (+20% YoY, vs. the usual 8%-10%) (Figure #4). Post Covid-19, we opine the normalised global glove demand growth would be at circa 13%-15%; higher than the usual 8%-10%.

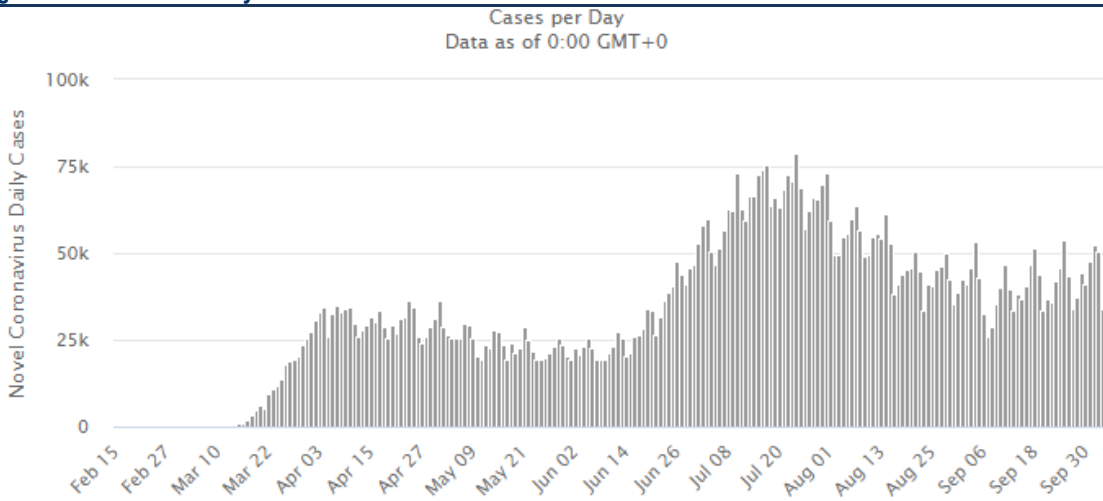
**Maintain OVERWEIGHT.** We reiterate **OVERWEIGHT** on rubber gloves enhanced by the pandemic fuelled demand. Market leader Top Glove (TP: RM13.00) is our top pick for the sector, being the largest glove manufacturer globally with vast clientele, readily supporting the increasing demand.

**Figure #1** Days to hit each subsequent Covid-19 cases globally and average daily cases



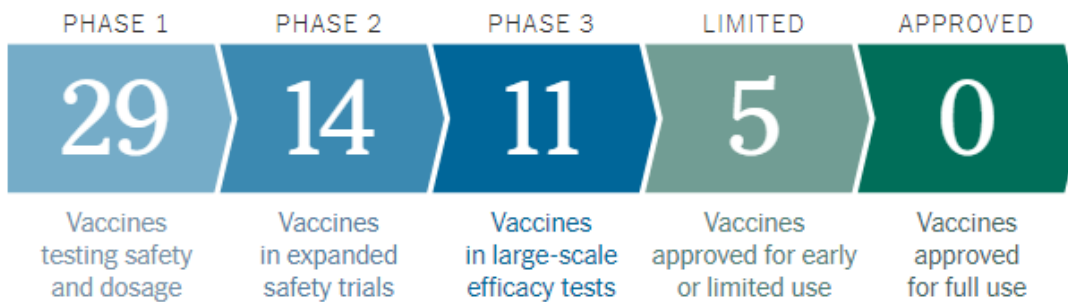
Worldometers, HLIB Research

**Figure #2** US daily Covid-19 cases



Worldometers

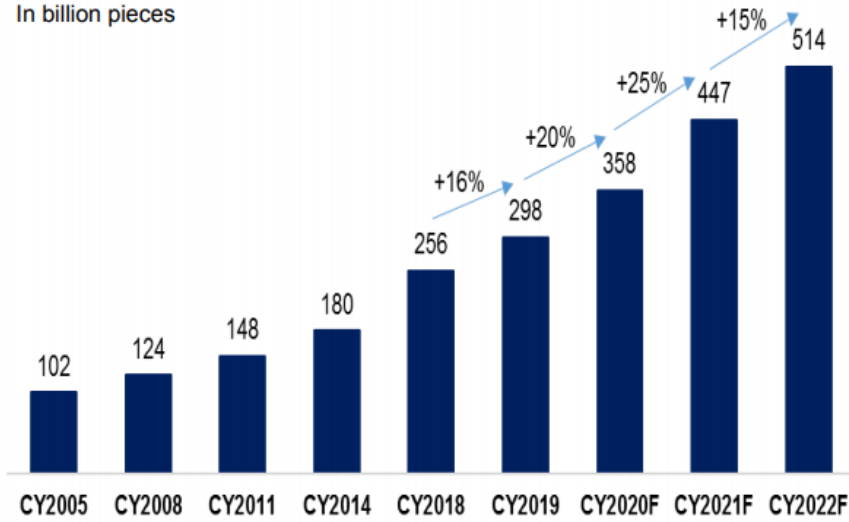
**Figure #3** Covid-19 vaccine development (as at 3 Oct 2020)



The New York Times

**Figure #4 Covid-19 vaccine development****Steady growth in global demand for rubber gloves**

In billion pieces



Top Glove, MARGMA

**Figure #5 Top 4 Capacity Expansion**

Capacity (bn)	CY19	CY20	CY21	CY22
Top Glove	70.50	89.10	104.50	120.60
Hartalega	38.10	40.50	48.50	55.50
Kossan	29.00	32.00	35.50	42.50
Supermax	21.75	26.17	36.42	48.42
<b>Total</b>	<b>159.35</b>	<b>187.77</b>	<b>224.92</b>	<b>267.02</b>
YoY Increase	13.8%	17.8%	19.8%	18.7%

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**Figure #6 Peers comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
						FY20	FY21	FY20	FY21	FY20	FY21
Top Glove	72,026	8.80	13.00	BUY	Aug	10.8	21.3	10.5	8.4	4.5	2.3
Hartalega	57,927	16.90	24.10	BUY	Mar	28.8	31.4	17.1	14.0	0.4	2.1
Kossan	18,775	14.68	18.30	BUY	Dec	25.2	20.0	10.4	8.2	1.6	2.0

Note: FY for Top Glove and Hartalega refers to FY21 and FY22.

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12-months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12-months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12-months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating definitions

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next -12 months.
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