

# GLOVE

**Maintain NEUTRAL**

## Higher US Import Tariffs on Chinese Medical Gloves in 2026

### KEY INVESTMENT HIGHLIGHTS

- **U.S. import tariffs on Chinese medical gloves to increase from 7.5% to 25% in 2026**
- **Not new, but merely removal of temporary exemption and introduction of higher import tariff on Chinese medical gloves**
- **Potential cost pass-through from higher import tariffs; likely sourcing shift from Chinese glovemakers**
- **Malaysian glovemakers could be on the table, known for high-quality products**
- **Uncertainty looms over the outcome of the upcoming US Presidential election**
- **Maintain NEUTRAL on the sector**

**U.S. import tariffs on Chinese medical gloves to increase from 7.5% to 25% in 2026.** On 14 May 2024, the [White House](#) announced that import tariffs on rubber medical and surgical gloves from China will increase from 7.5% to 25% in 2026. This aims to bolster the domestic medical supply industry and enable American businesses to compete with low-priced Chinese imports.

### **Not new, but merely removal of temporary exemption and introduction of higher import tariff on Chinese medical gloves.**

Recall that the US initially imposed a 15% tariff on medical gloves made in China effective 1 September 2019, during President Trump's term. This import tariff was then reduced to 7.5% as part of the Phase 1 US-China trade agreement in February 2019. Amid the COVID-19 outbreak in 2020, a temporary tariff exemption was granted for import of Chinese medical gloves. The exemption was extended several times, with the latest extension valid until 31 May 2024 and further extensions will be subject to a statutory four-year review.

**Potential cost pass-through from higher import tariffs; likely sourcing shift from Chinese glovemakers.** The current ASP gap between Malaysian and Chinese glovemakers is USD 1-2 per 1,000 pieces, with the blended ASP for Malaysian glovemakers at USD19 per 1,000 pieces. We anticipate that the higher imposition of import tariffs on Chinese medical gloves will increase the cost per 1,000 pieces. Consequently, Chinese glovemakers are likely to pass these costs onto customers through price adjustments. This could potentially narrow the ASP gap or result in Chinese glovemakers charging higher ASPs compared to Malaysian/Thai counterparts. Given the ample production capacity among existing players, we view that US medical glove importers are likely to shift their sourcing from Chinese to other glovemakers before the tariff imposition in 2026.

### COMPANY IN FOCUS

**Kossan Rubber Holdings Berhad**Maintain **SELL** | Unchanged Target Price: RM1.35Price @ 14<sup>th</sup> May 2024: RM2.38

- Overvalued, with a valuation trading at an FY24F P/BV of 1.57x (vs. historical 2Y average P/BV of 0.93x)
- Flattish ASP outlook due to an oversupply situation and intense competition from Chinese glovemakers.

#### Share price chart


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**Malaysian glovemakers could be on the table, known for high-quality products.** Based on the Malaysian Rubber Council, rubber gloves accounted for 70.8% of rubber product exports as of 1QCY24, with the USA being the largest consumer (contributing 32% of total exports). Among these glovemakers, Hartalega boasts a strong track record of supplying gloves to the US (accounting for 50-56% of total sales). While export sales to US previously dominated Top Glove revenue with a pre-pandemic contribution of 31-42% but dropped to the 25% range in 2021 following US CBP import bans (amidst alleged exploitative labor practices). Despite the lifting of the ban, oversupply conditions have pressured Top Glove's US revenue to remain in the 25% range of total revenue. We view Malaysian glovemakers' established market presence and reputation for high-quality products in the US are well-positioned to secure sales orders if US hospitals pivot away from Chinese suppliers. However, we do not rule out the possibility that imports of medical gloves from other countries may be the next target, considering the initiatives to support the domestic medical supply industry.

**Uncertainty looms over the outcome of the upcoming US Presidential election.** We suggest a prudent 'wait and see' approach to the announcement as the US approaches its 60th Presidential election on 5 November 2024. This is given that the presumptive nominees include the incumbent US President Joe Biden (official presidential nomination of the Democratic party expected in August 2024) and ex-US President Donald Trump (official presidential nomination of the Republican party expected in July 2024). With no clear winner yet and the possibility of higher import tariffs not materializing until 2026, we approach the situation cautiously. Nevertheless, considering that the 15% import tariffs imposed during Donald Trump's presidency were negotiated down to 7.5% during the Phase 1 US-China trade agreement in February 2019, we do not rule out the possibility of changes in the rate.

**Export sales volume for rubber gloves picked up in 1Q24, but only marginal improvement in ASP.** DOSM reported that the export value of rubber gloves increased in 1QCY24 to RM15.1b (+399%yoy, +27.5%qoq). This increase was primarily due to the greater export sales volume of rubber gloves, which reached 626.2k mt (+382.4%yoy, +26%qoq), thanks to buyer replenishment activity following the expiration of pandemic inventory. The average price of rubber gloves in Malaysia remained relatively flat (+1.3%yoy, +1.1%qoq) during the quarter. This could indicate that despite the increase in demand, the ASP remained under pressure due to intense competition from Chinese glovemakers and ample production capacity from existing glovemakers. This trend aligns with our earnings forecast for both **Hartalega (NEUTRAL, TP: RM2.45)** and **Kossan Rubber (SELL, TP: RM1.35)**, which are likely to have publish higher sales volume in 1QCY24, but the ASP is expected to remain flat.

**We reiterate our NEUTRAL stance on the sector.** We make no changes to our companies' earnings forecast or recommendations, and keep our sectoral calls unchanged pending further clarification, especially since Kossan and Hartalega are scheduled to release its results this month. Looking ahead, we remain cautious as intense competition is expected to continue exerting upward pressure on pricing for all glovemakers within our coverage. On the positive side, the replenishment of inventory following the expiration of pandemic stockpiles is anticipated to bolster glove demand and improve sales. The recent permanent and temporary closures of some production facilities could enhance production efficiency and decrease production costs per unit. In short, we maintain a **NEUTRAL** on the glove sector. At present, we do not have a top pick, as all glovemakers within our coverage are predominantly rated NEUTRAL or SELL. 

**Table 2: Peers valuation matrix**

Companies	Rec.	Price	Target Price	Mkt. Cap (RM'm)	EPS (sen)		PER (x)		P/BV (x)		Net Cash/ Mkt. Cap
		@14 May			CY22	CY23F	CY22	CY23F	CY22	CY23F	
Hartalega Holdings	Neutral	RM2.96	RM2.45	10,117.0	3.0	5.7	98.1	52.0	2.16	2.11	15.5
Kossan Rubber Industries	Sell	RM2.38	RM1.38	6,072.9	4.5	6.5	52.9	36.4	1.57	1.57	20.7
Top Glove Corp	Neutral	RM0.96	RM0.87	7,688.8	1.2	2.4	82.6	39.5	1.16	1.13	7.1
<b>Simple mean</b>					<b>2.9</b>	<b>4.9</b>	<b>77.9</b>	<b>42.6</b>	<b>1.63</b>	<b>1.60</b>	<b>14.4</b>
<b>Weighted Avg. Mean</b>					<b>2.8</b>	<b>4.9</b>	<b>81.6</b>	<b>44.0</b>	<b>1.69</b>	<b>1.66</b>	<b>14.1</b>

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#### 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 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology