



INDUSTRY FOCUS:

# RUBBER PRODUCTS



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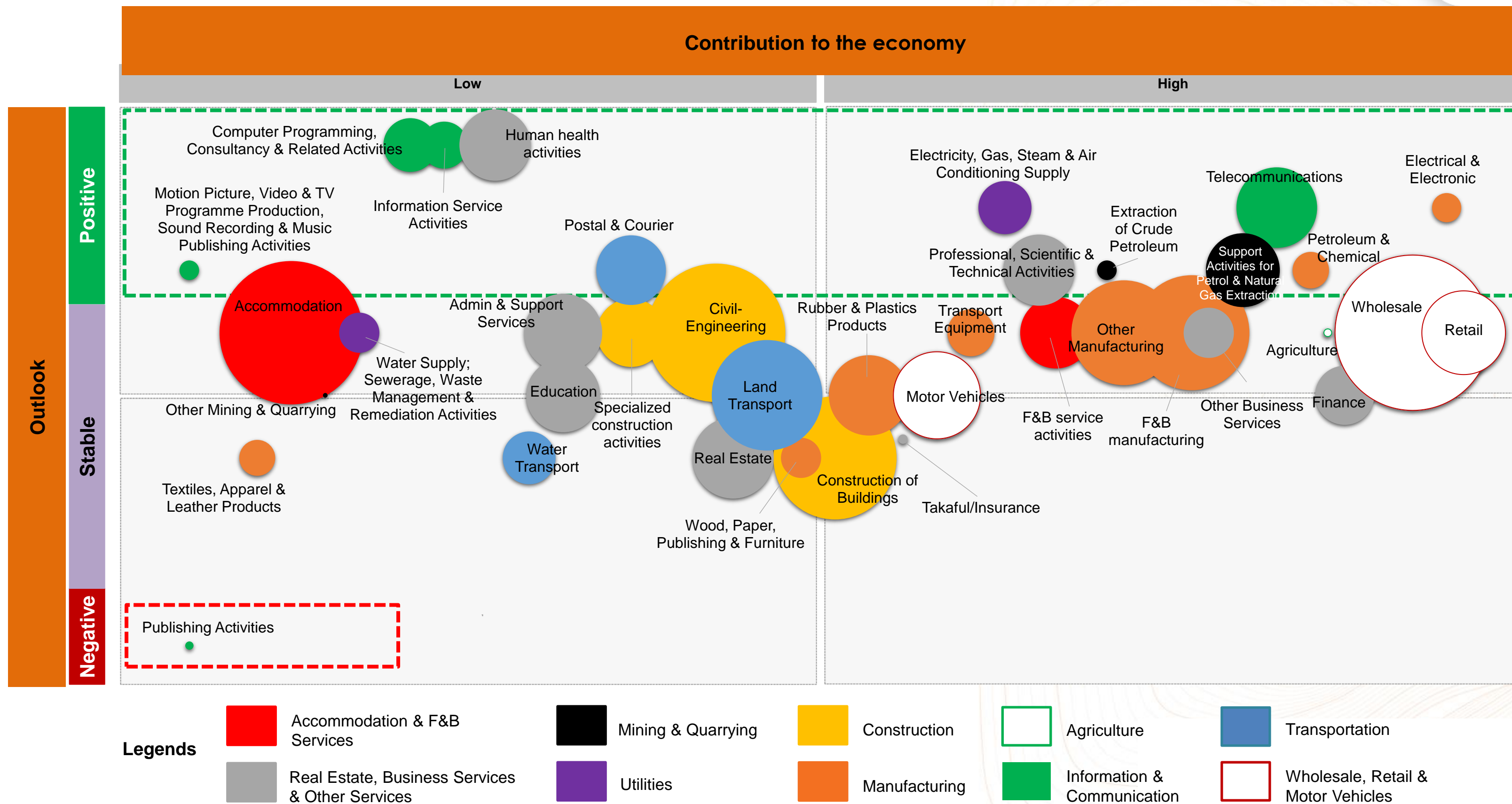




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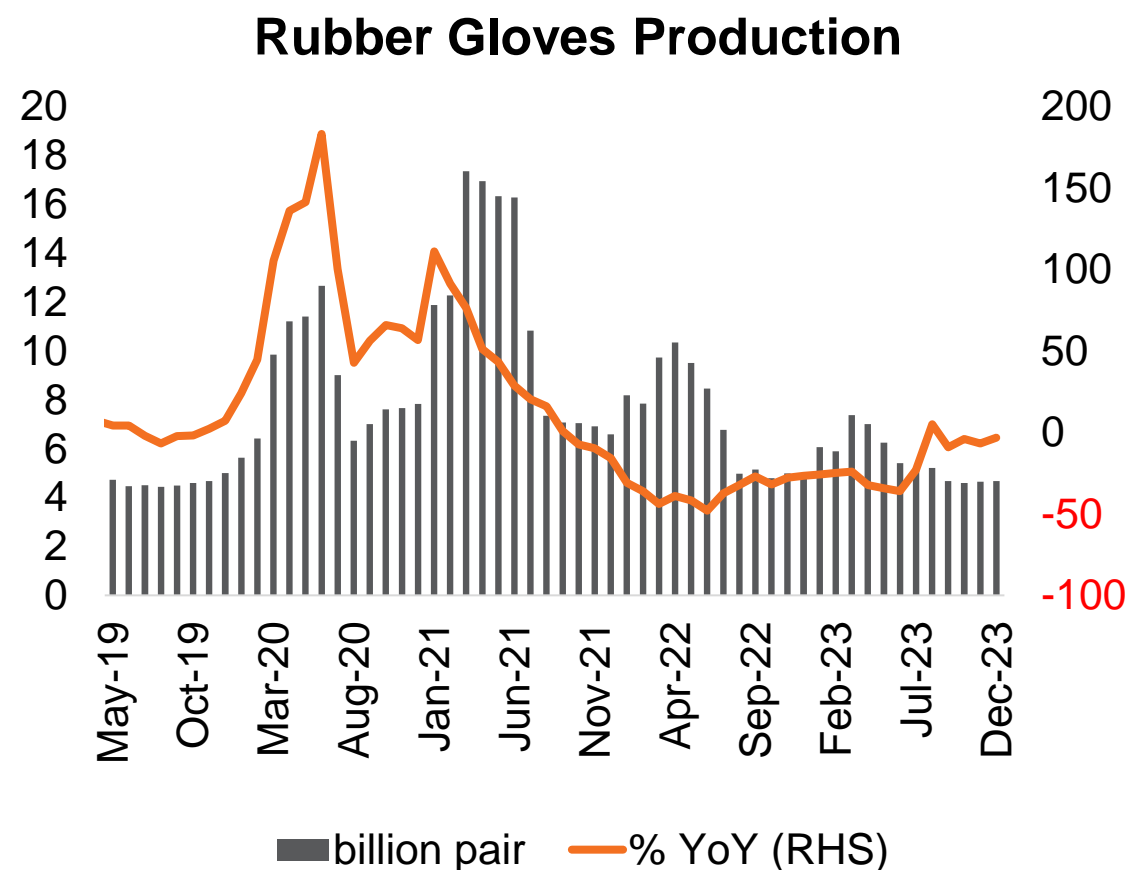
## Industry Focus: Rubber Products



Despite normalisation in ASP and improvement in demand as well as production, **glove industry is still facing challenges** as **exports remain below pre-pandemic level (2019)** coupled up with still **high excess capacity of big glovemakers** and **stiff competition from China and Thailand**. **Global rubber glove demand is expected to rebound** by 6.9% in 2024 (2023e: -7.0%), but it is forecasted to expand moderately at a compound annual growth rate (CAGR) of 3.9% up until 2030.

Sub-Sector	Outlook
Rubber products	<b>Stable</b>

Production is likely to improve however high excess capacity might limit expansion



## OPPORTUNITIES

- Normalising** ASP. However, it may not be sustainable due higher excess capacity (influx supply).
- Increase findings on **lack quality control from China glovemakers** - could work towards Malaysia's advantage because US is Malaysia's top glove export market.
- Increase demand** for the overall **healthcare services**
  - ☐ Rising contagious disease
  - ☐ Aging population
- SMEs** may have more prospect as an **Original Equipment Manufacturer (OEM)** or tap along the **supply chain** (e.g. supplier, vendor)

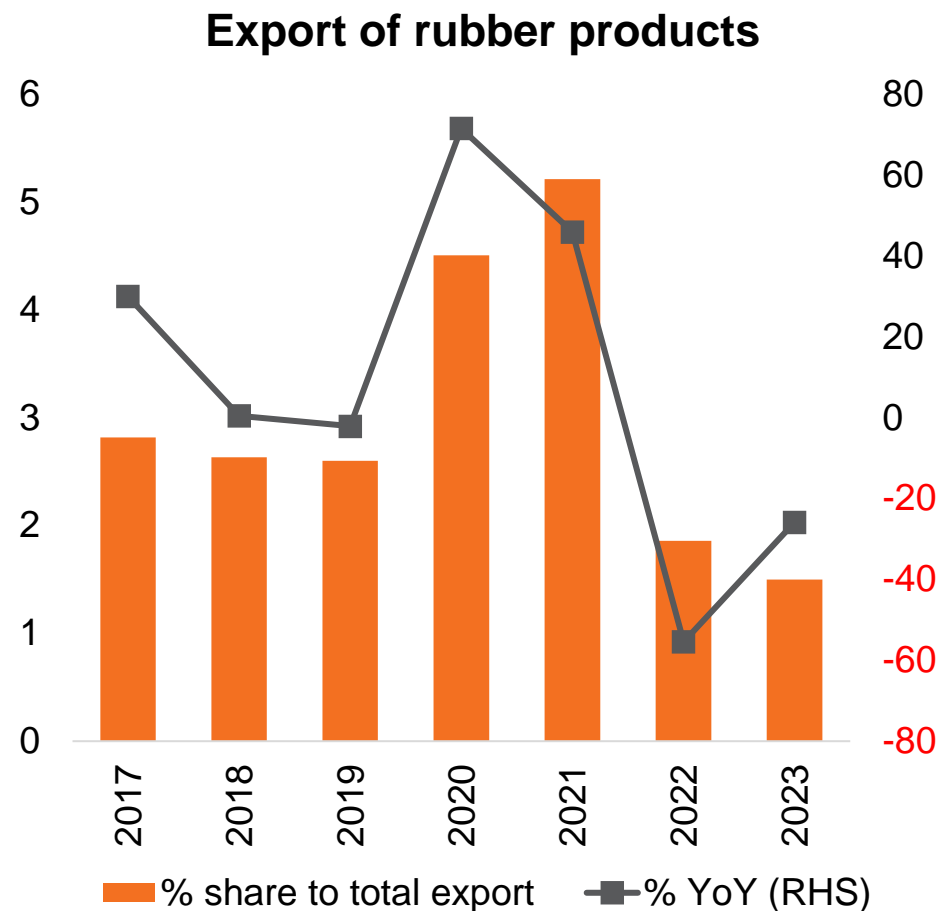
## CHALLENGES

- Stiff competition
  - ☐ Malaysia is **losing market share** to China & Thailand
  - ☐ China has low price advantage
  - ☐ Oligopoly of top 4 producers in domestic market
- Still high **excess capacity** – 89% above pre-pandemic level
- Increasing cost
  - ☐ **Higher price** of raw material (Butadiene, Latex)
  - ☐ ESG related expenditure/ investment – biodegradable gloves, International labour standard, minimum wage

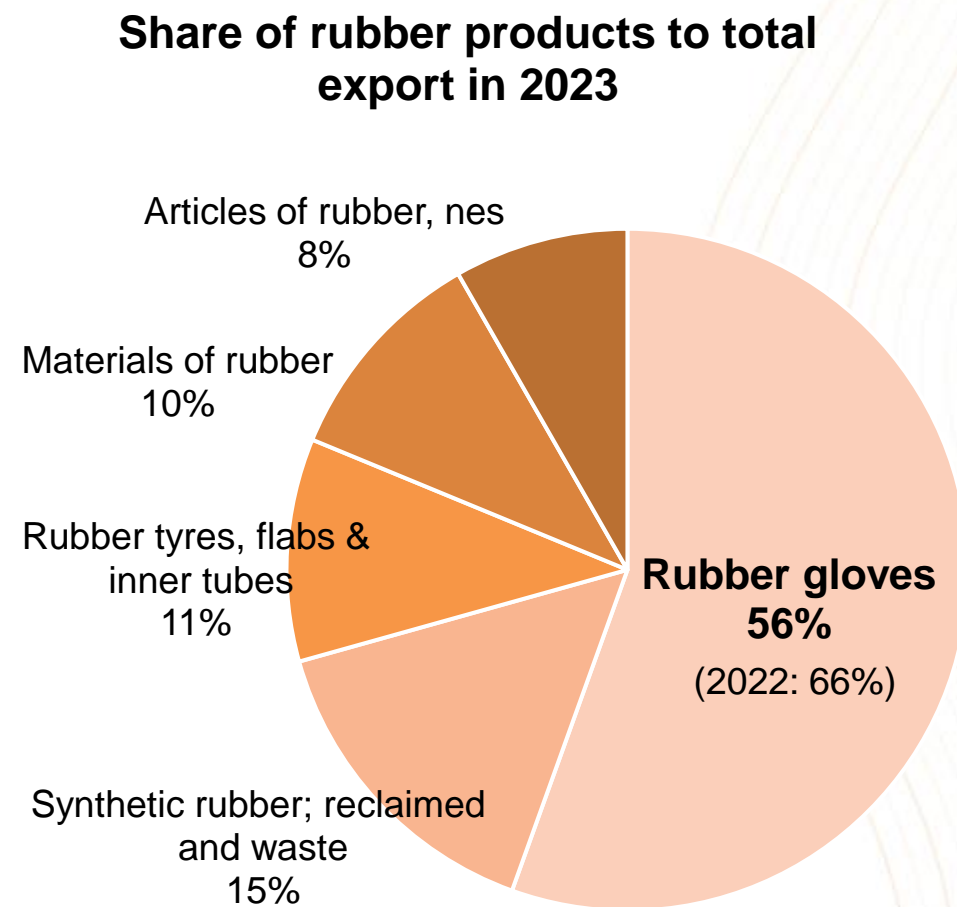




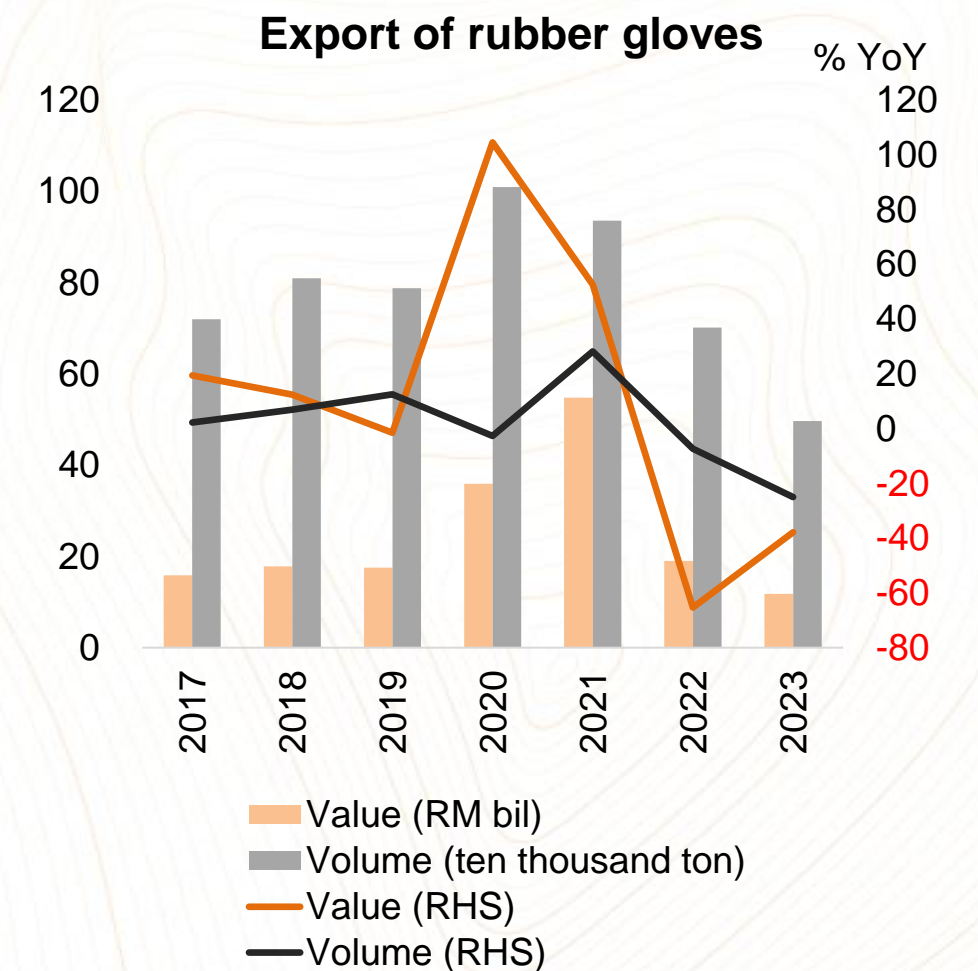
## Share of rubber products to total exports remain below norm



## Gloves account for >50% of rubber product exports



## Exports of rubber glove weakened further in 2023



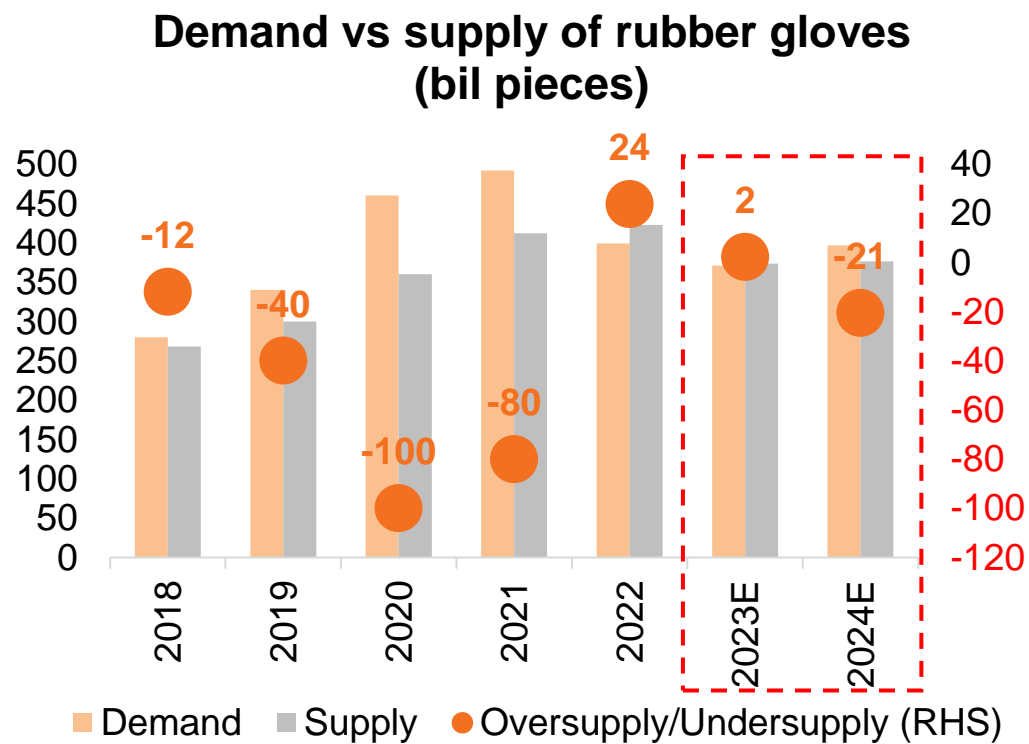
- Malaysia's rubber product exports **contracted at a softer pace** of 26% YoY to RM21.3 bil in 2023 (2022: -55%).
- Similarly, **share of rubber products to total export narrowed further** to 1.5% (2022: 1.9%) and **remained below pre-pandemic** (2017-19) average of 2.7%.

- Despite maintaining as the **single largest contributor (>50%)** to the total rubber product exports, a **significant decline in share** was observed from 66% in 2022 to 56% in 2023 (average 2018-19: 68%).
- In contrast, contribution of synthetic rubber; reclaimed & waste as well as rubber tyres, flabs & inner tubes widened to 15% and 11% (2022: 13% & 7%) respectively.

- Export volume of rubber gloves **shrank at a faster pace** of 29% (2022: -25%) to 497k ton.
- However, exports by value **dropped at a softer rate** of 38% YoY to RM11.8 bil in 2023 (2022: -65%) suggesting some **improvement in price**.
- Regardless, exports value of RM11.8 bil in 2023 **remained below pre-pandemic average** (2017-19) of RM17.1 bil.



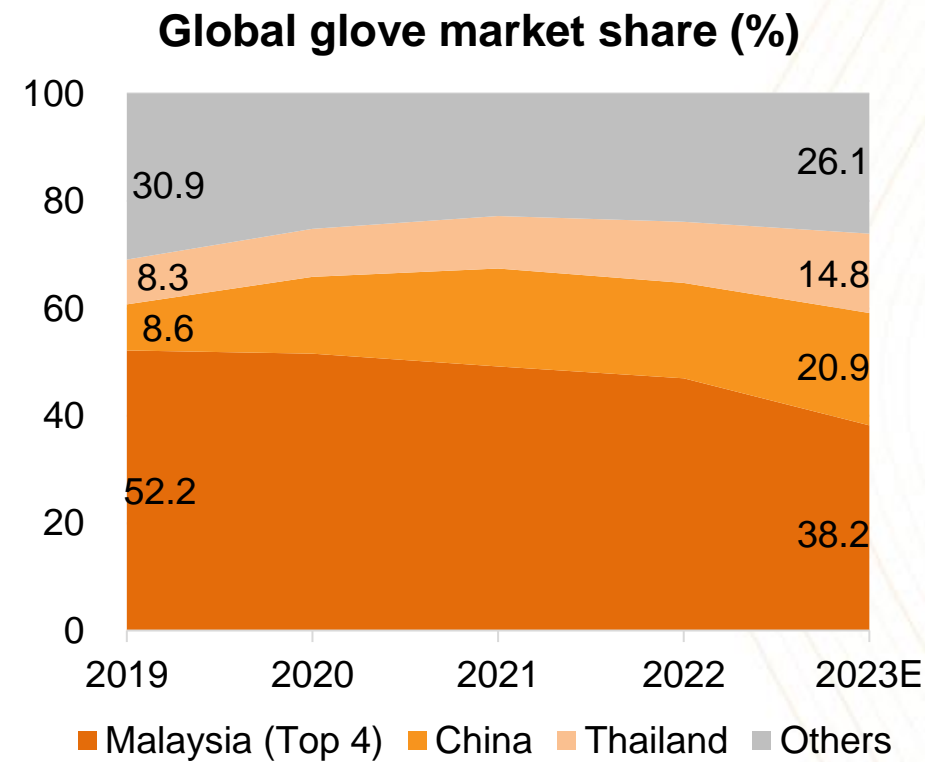
## Demand to improve while supply glut ends



- According to RHB Equity Research, for 2024:
  - Global gloves **demand is expected to rebound** by 6.9%, reversing 2 straight years of contraction.
  - Gloves producers have also **engaged in supply cut** (↓56 bil pieces in 2023 or 12% of global supply) – narrowing the disequilibrium of supply and demand.
  - There will be **undersupply/shortage of 20.5 bil pieces**.
- **Inventory replenishment** to facilitate recovery as gloves bought during pandemic are **due to expire** (3-5 years).
- However, **stiff competition** and high **excess capacity of big glovemakers** could curb near term expansion.



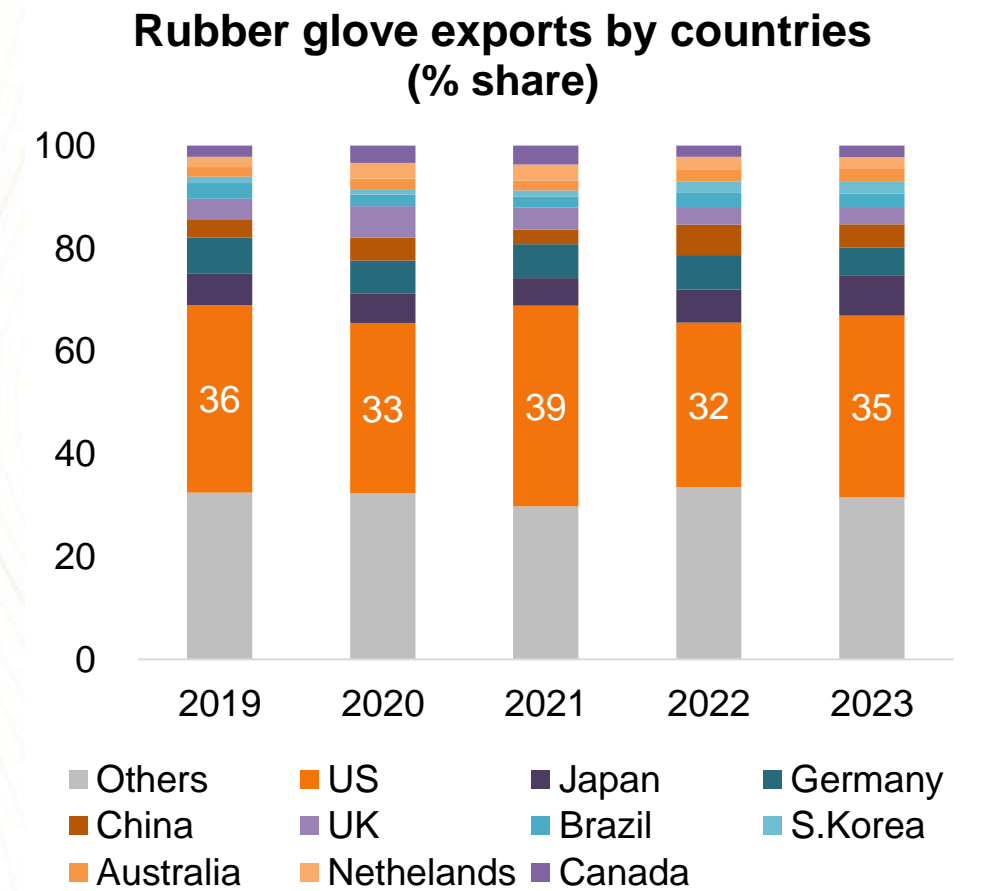
## Stiff competition, Malaysia begin to lose market share



- RHB Equity Research: **Malaysia's global market share** by production capacity is estimated to **decline to 38.2%** in 2023 (2022: 47%).
- The **share has been shrinking** from 52.2% recorded in 2019, owing to **stiff competition with China & Thailand**.
- **China's market share** is projected to **increase >2x** to 20.9% in 2023 (2019: 8.6%).
- **Thailand's market share** is also forecasted to **almost double up to 15%** (2019: 8.3%)



## Rising US's import alerts for China producers could benefit Malaysia

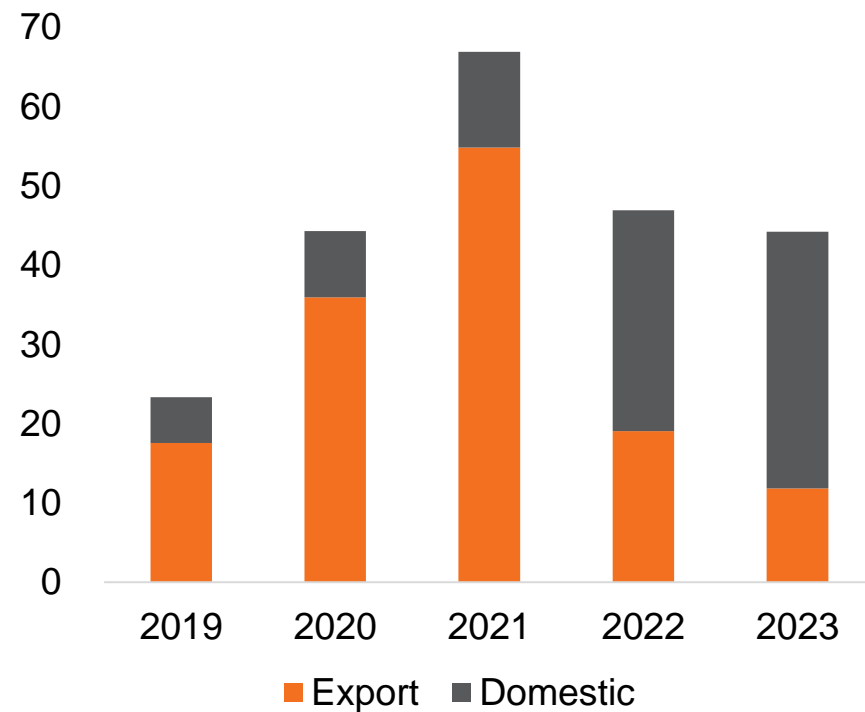


- **Around 1/3** of Malaysia's exports of rubber gloves were **shipped to the US** in 2023, followed distantly by Japan (7.9%).
- Ongoing **US-China trade skirmishes** may continue to **benefit Malaysia's players** – a spike in US's import alerts for China's glove makers (2023: 16; 2022: 2)
- However, strict international labour standard and of the US's may pose some risks to exporting countries including Malaysia.



## Increase competition in domestic market

Malaysia gloves sales (RM bil)

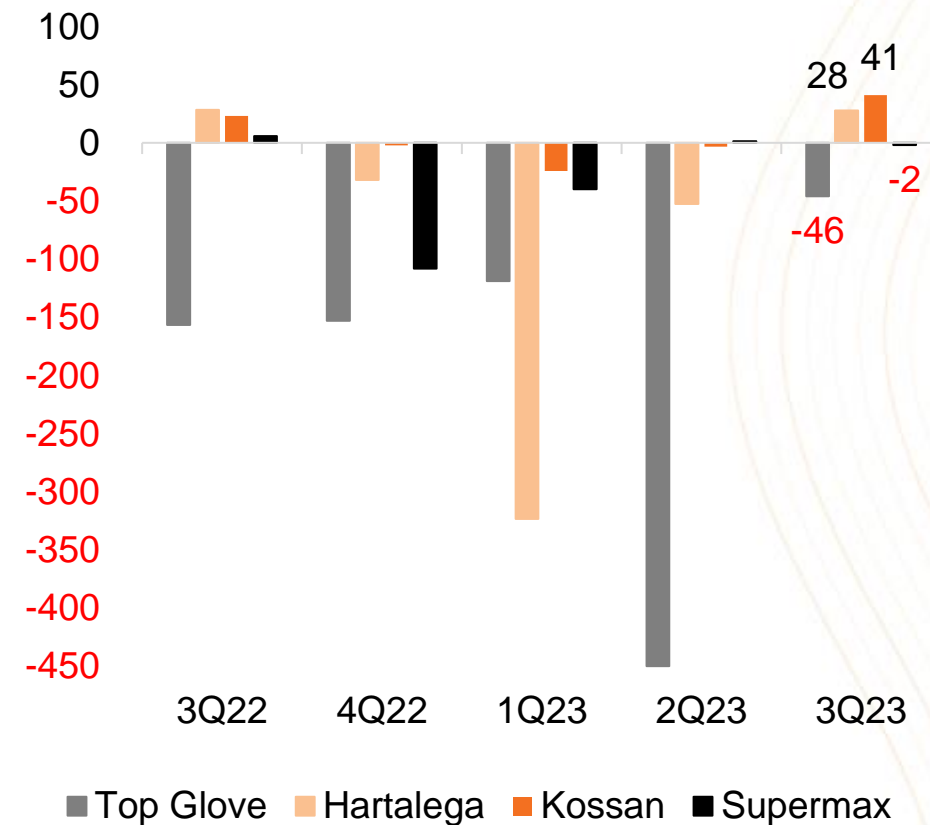


- While Malaysia glove sales continue to decline from the peak in 2021, there has been a **shift in the market focus** as well.
- Malaysia's glove sales over the last 2 years have been channelled to the domestic market (average 2022-23: 66% of total sales) - increased >2x from 2019 (25%).
- It suggests that the big 4 companies (being an **oligopoly**) have been penetrating the domestic market – **increasing pressure for the smaller players.**



## Signs of recovery in top producers' earning

Net income (RM mil)

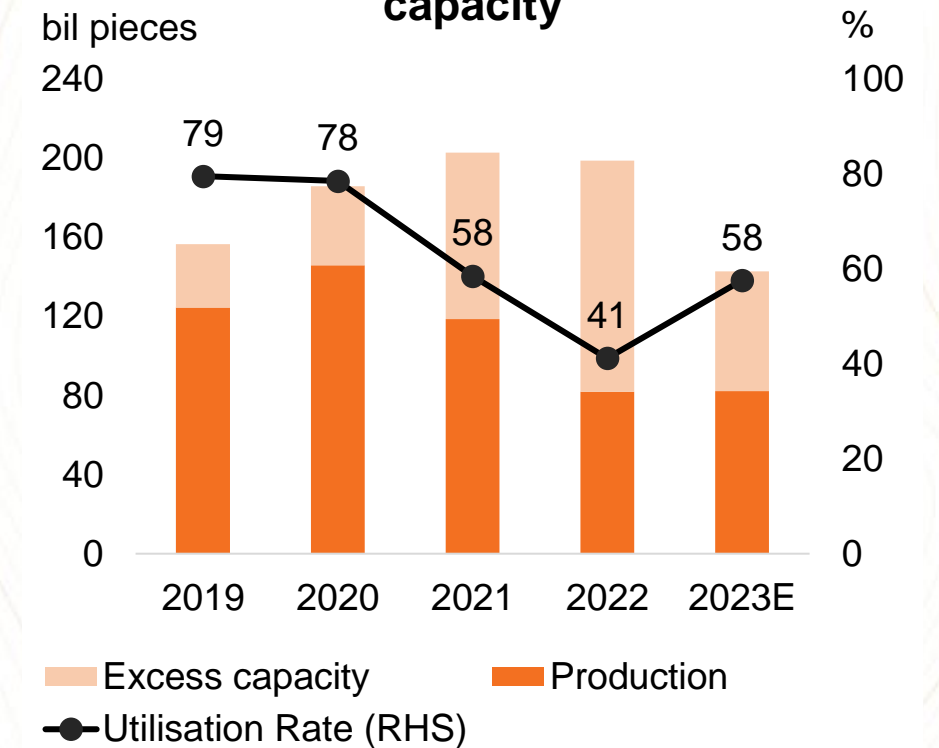


- **Big 4 glove producers in Malaysia** consist of Top Glove, Hartalega, Kossan & Supermax which conquered **38.2% of global market share** have recorded **significant recovery in net income** for 3Q 2023.
- Kossan and Hartalega posted net profit of RM41 mil and RM 28 mil respectively in 3Q23 (2Q23: -RM3.3 mil & -RM52.5 mil) likely due to replenishment activities following the expiry of pandemic inventory.



## Still high excess capacity despite production cut

Big 4 producers' excess capacity



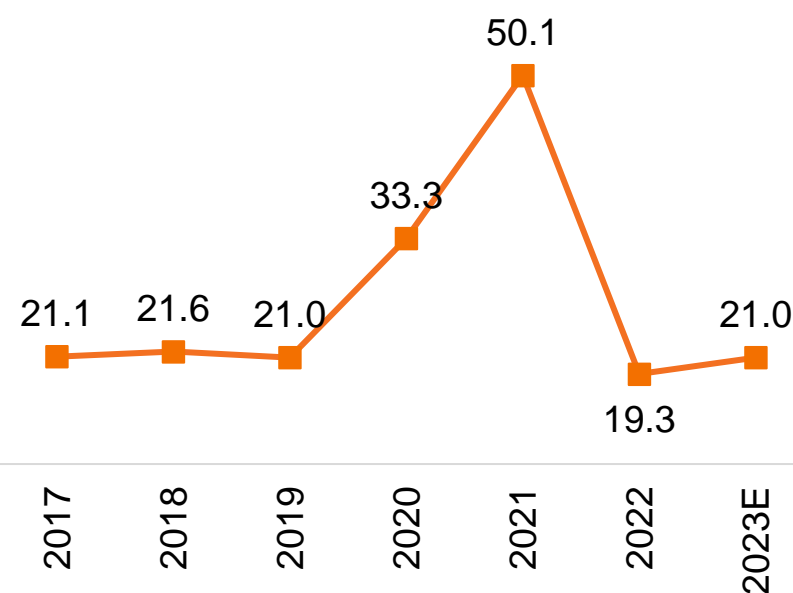
- Big 4 Malaysia glovemakers have reduced their production capacity by 28.2% YoY in 2023, which led to improvement in utilisation rates.
- Despite that, **excess capacity is still large** (60.5 bil pieces), **89% above pre-pandemic level** (2019) of 32 bil pieces.
- Hence, in the event of demand surge, these big players can easily utilise their spare capacity, providing **less room for SMEs to expand or enter the market.**





## ASP improved likely due to supply cut

Average selling price (USD/'000 pieces)

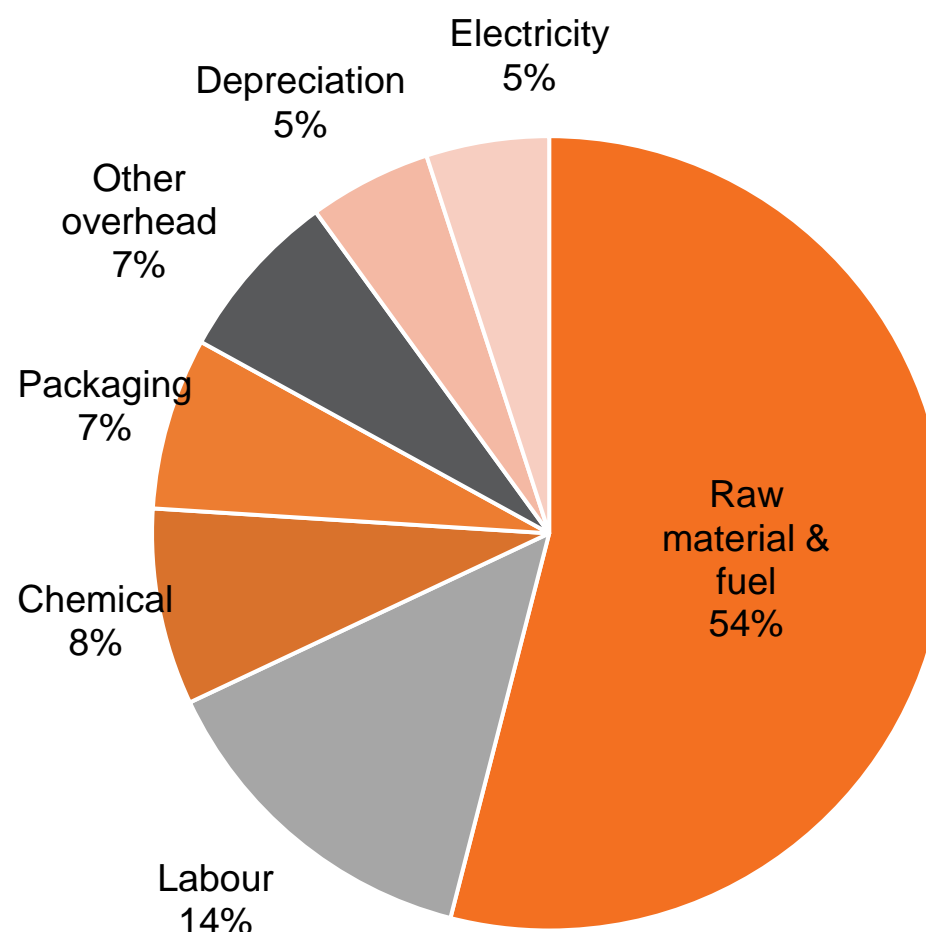


- ASP is estimated to **return to its pre-pandemic level of USD21** per '000 pieces in 2023 (avg. 2017-2019: USD21.2), up by 8.8% YoY likely due to **reduced oversupply amid drop in excess capacity** by big glovemakers.
- The **ASP may not be sustainable at this level** and may fall back with the influx of supply, particularly due to the current higher excess capacity of big glovemakers compared to pre-pandemic levels.
- The **price gap** between Malaysia and China players **has narrowed** to USD3.5 in 2023 (2022: USD4.3). Nonetheless, **China still has low price advantage.**



## Raw material and fuel consume >50% of cost for gloves

Gloves production cost

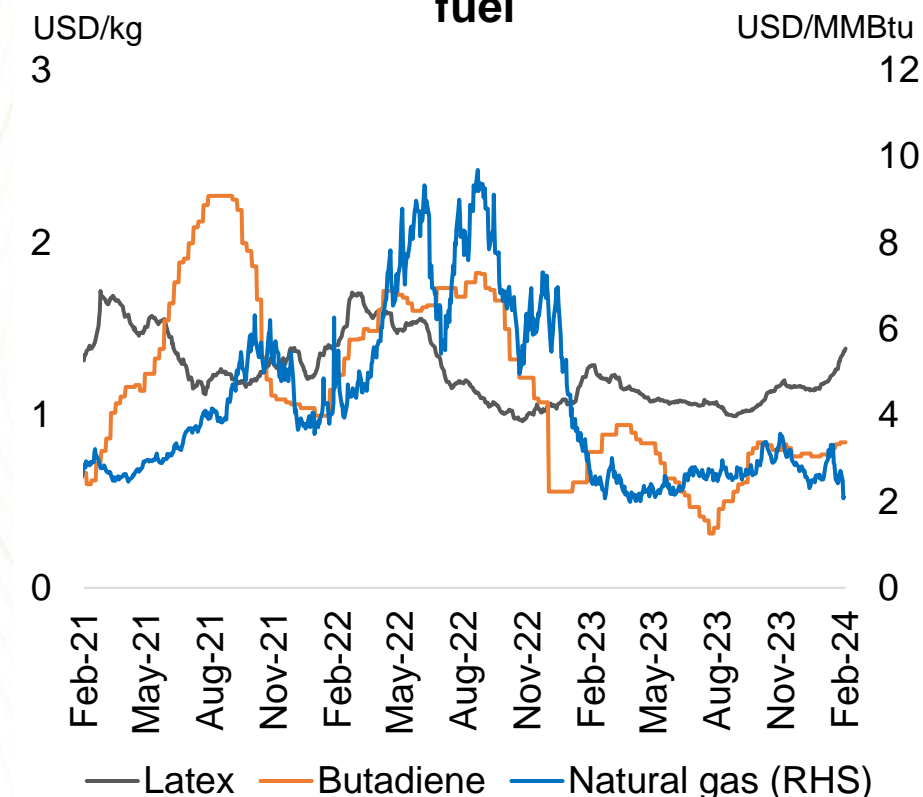


- As raw material such as latex and butadiene as well as fuel account for >50% of gloves production cost, glovemakers may be **exposed to the price volatility** of these commodities.



## Prices of raw materials are on the rise

Price of raw material & fuel



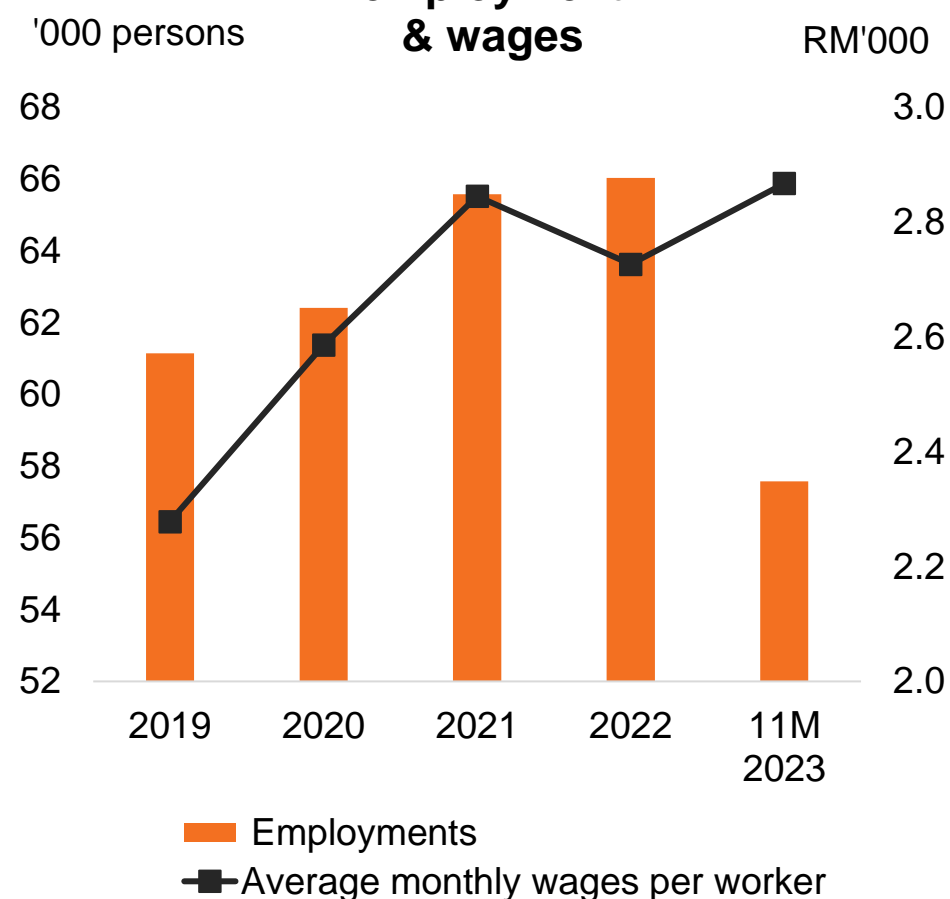
- Average monthly **price of Butadiene** – the main raw material for Nitrile gloves **soared by 24% YoY** in Jan 2024 (Dec 2023: 38%) to USD0.81/kg, **the second increase** since Nov 2022.
- Likewise, price for latex also increased by 8% YoY in Jan 2024 to USD1.25/kg (Dec 2023: 8%).
- Meanwhile, natural gas prices declined by 21% in Jan 2024 (Dec 2023: -56%; average 2027-2019: USD2.87) to USD2.72/MMBtu – outlook skewed to the upside as geopolitical tensions loom.





## Increase in average worker salary may push cost higher

### Rubber gloves industry: employment & wages

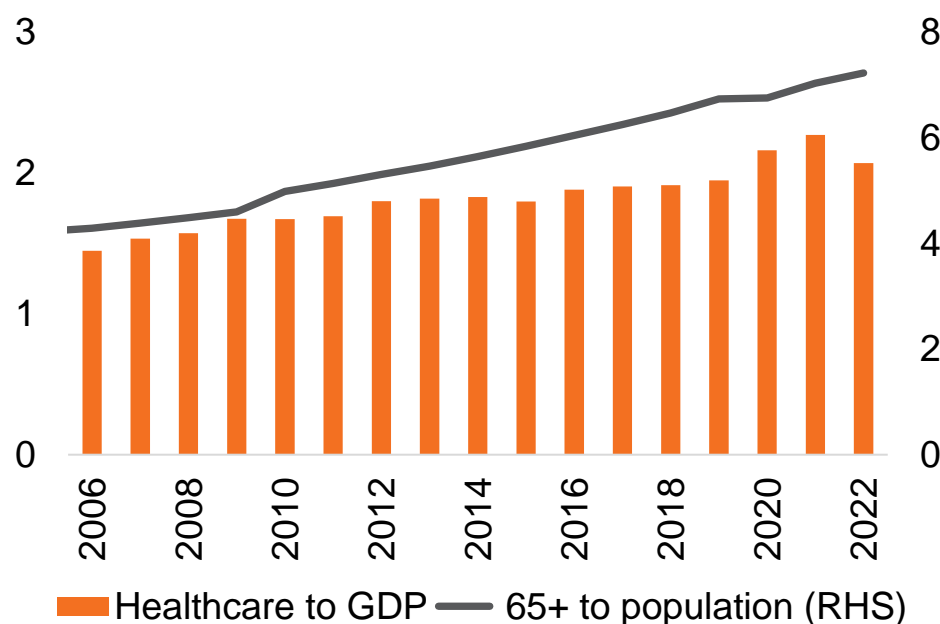


- **Employment** in the rubber gloves industry has **reduced to 57.6k persons** in the first 11M 2023 compared to 66k in 2022 – attributable to the lower export for gloves.
- Despite that, average monthly **wages per worker rose** by 5% to RM2.9k in the first 11M 2023 from RM2.7k in 2022.



## Aging population will support long-term demand

### Healthcare services to GDP vs age 65+ to population (% share)

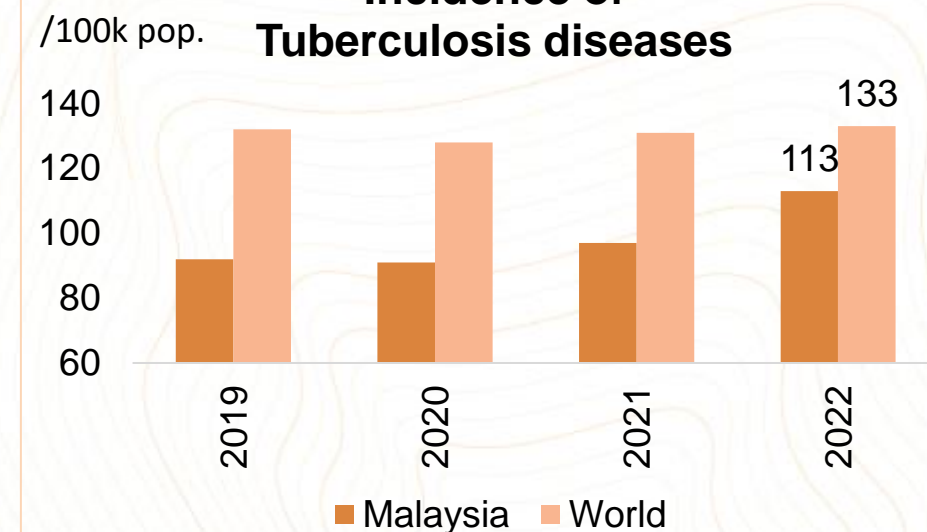


- Proportion of **older individuals (65+)** in Malaysia is **trending upwards** with the latest figure at 7.2% of total population in 2022 (2012: 5.3%). DOSM is projecting a nearly **equal share of the young** (18.6%) and older population (14.5%) in **2040**.
- Japanese aged 65+ accounted for 29.1% of population (MYS: 7.2%), while healthcare expenditure stood at 11.5% of GDP (MYS: 2.1%).
- In the US, people aged 65+ accounted for 36% of the overall health spending, the highest among age, followed by 55-54 (19%) and 45-54 (13%).

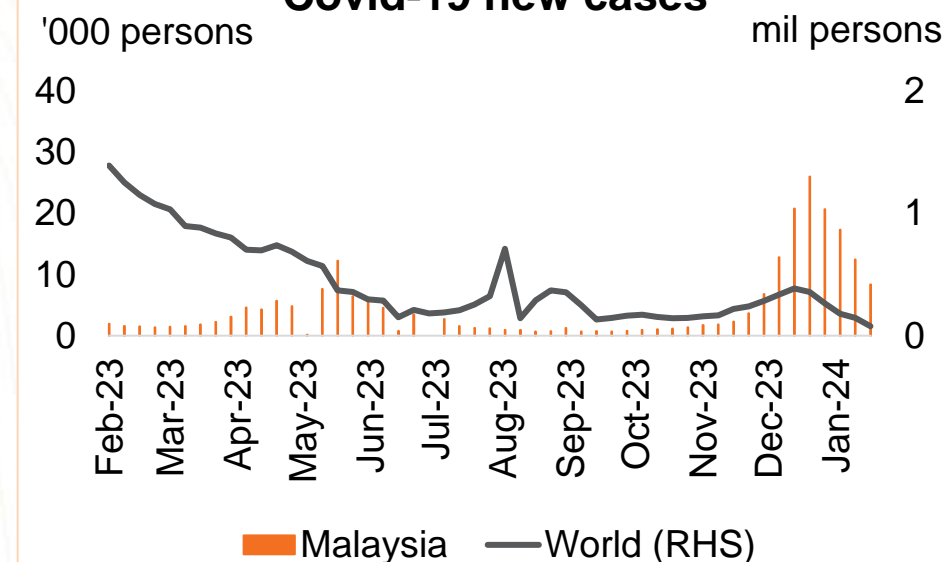


## Rising contagious disease may support demand for gloves

### Incidence of Tuberculosis diseases



### Covid-19 new cases



**Covid-19 remains in the community**, but recent spike seem to be short-lived.

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