

# Rubber Sector

**Overweight**

Natural Gas Selling Price Lower by 34.21% for 1Q21

(Maintained)

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## Natural Gas Selling Price Revealed

Yesterday, Gas Malaysia Bhd announced that the average selling price of natural gas for the distribution segment is set at RM22.14/MMBtu for 1Q21, representing a 34.21% or RM11.51/MMBtu decrease compared to the average selling price of RM33.65/MMBtu for 2020. Note that the natural gas selling price will be reset every quarter in 2021, unlike 2020 with annual review.

**Table 1 : Approved Average Natural Gas Base Tariffs**

Period	Base Tariff (RM/MMBtu)	Surcharge / (Rebate) (RM/MMBtu)	Selling Price (RM/MMBtu)	% Change	Est. % Change in ASPs Required
Jan. - Jun. 2017	26.71	(0.40)	26.31	-2.7%	-0.3%
Jul. - Dec. 2017	28.05	(1.59)	26.46	+0.6%	+0.1%
Jan. - Jun. 2018	30.90	+1.62	32.52	+22.9%	+2.3%
Jul. - Dec. 2018	31.92	+0.77	32.69	+0.5%	+0.1%
Jan. - Jun. 2019	32.69	+0.23	32.92	+0.7%	+0.1%
Jul. - Dec. 2019	32.74	+1.92	34.66	+5.3%	+0.4%
Jan. - Dec. 2020	-	-	33.65	-2.91%	-0.3%
Jan. - Mar. 2021	-	-	22.14	-34.21%	n.a.

Source: Gas Malaysia, TA Securities

## Our Take: Overall, Mildly Positive

We expect the lower natural gas selling price to have a positive impact on earnings (about 1%) of rubber glove manufacturers. Recall that natural gas accounts for roughly ~13% of glove production costs. As far as ASP is concerned, based on channel checks, ASP is expected to remain on an uptrend in 1Q21. For instance, Top Glove's ASP is expected to increase by 15% MoM in Jan-21, 10% MoM in Feb-21 and at least another 5% MoM in Mar-21. Meanwhile, Hartalega and Kossan are expected to revise its gloves ASP by at least 45% QoQ in 1Q21.

On a side note, the nitrile raw material cost has increased by about 10% MoM in Jan-21 while the increase in Feb and Mar-21 is expected to be milder. Besides, we may see a slight uptrend (about 10%) in NR latex prices in coming months due to seasonally low production in the wintering period (Feb-May). All in, we believe the increase in ASP is more than enough to offset the increase in raw materials. As such, we make no changes to our earnings estimates at this juncture for glove companies under our coverage.

## Recommendation

We maintain our **Overweight** stance on the sector. Our top picks are Hartalega (TP: RM23.60/share) and Kossan (TP: RM9.01/share).

## Peer Comparison

Company	Price (RM)	TP (RM)	Recom.	PER (x)		EPS Growth		Div Yield (%)		ROE (%)		P/BV (x)	
				CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22
<b>Rubber Gloves</b>													
Top Glove	6.68	8.84	BUY	5.5	12.9	86.2	(57.0)	11.7	4.2	114.2	35.9	5.6	4.7
Supermax	7.30	12.33	BUY	6.5	10.9	41.1	(40.5)	4.9	2.9	83.8	35.6	4.3	3.5
Hartalega	13.14	23.60	BUY	10.8	16.1	50.3	(33.2)	5.6	3.7	93.9	47.7	8.5	7.0
Kossan	4.56	9.01	BUY	3.0	7.1	232.3	(57.3)	13.1	5.6	114.0	32.2	2.6	2.2
<b>Simple Average</b>				<b>6.5</b>	<b>11.8</b>	<b>102.5</b>	<b>(47.0)</b>	<b>8.8</b>	<b>4.1</b>	<b>101.5</b>	<b>37.9</b>	<b>5.3</b>	<b>4.3</b>

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## Sector Recommendation Guideline

**OVERWEIGHT:** The industry, as per our coverage universe, is expected to outperform the FBMKLCI over the next 12 months.

**NEUTRAL:** The industry, as per our coverage universe, is expected to perform in line with the FBMKLCI over the next 12 months.

**UNDERWEIGHT:** The industry, as per our coverage universe, is expected to underperform the FBMKLCI over the next 12 months.

## Stock Recommendation Guideline

**BUY :** Total return within the next 12 months exceeds required rate of return by 5%-point.

**HOLD :** Total return within the next 12 months exceeds required rate of return by between 0-5%-point.

**SELL :** Total return is lower than the required rate of return.

**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, January 13, 2021, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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