



# Industry Focus: RUBBER INDUSTRY (GLOVES)

Prepared by:

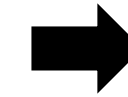
**GROUP RISK DIVISION**  
**Strategic Credit & Economic Analytics**  
**Credit Risk Management**



**KEMENTERIAN PEMBANGUNAN  
USAHAWAN DAN KOPERASI**  
MINISTRY OF ENTREPRENEUR DEVELOPMENT AND COOPERATIVES



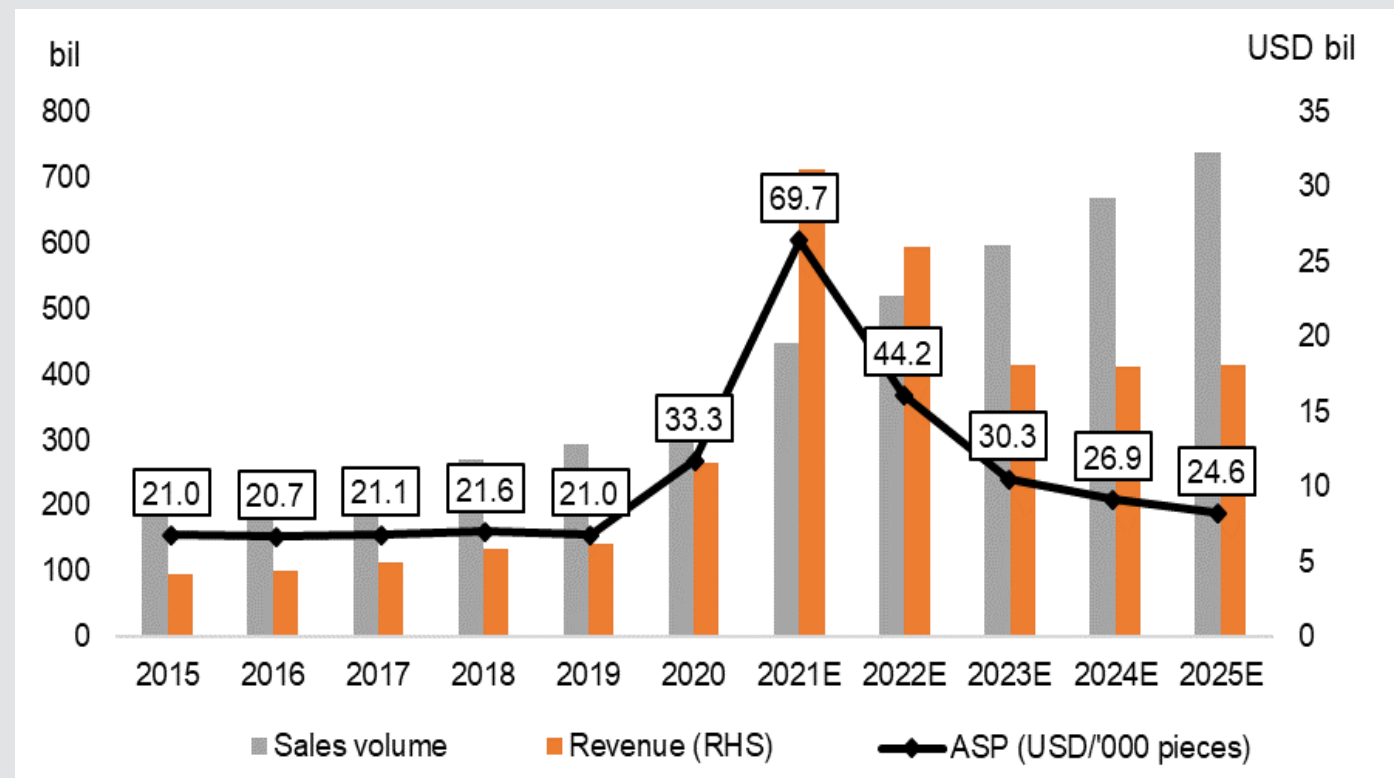
Dasar Keusahawanan Nasional  
"Negara Keusahawanan Unggul 2030"



Growth in the sales volume of rubber gloves is expected to **decelerate** as explosive demand in 2020 and 2021 (~20% y-o-y) is unlikely to happen in the medium term. The **glove sector is going through a paradigm shift towards normalisation due to the oversupply situation**. Average Selling Price (ASP) is gradually declining and is expected to clock in between USD30-USD45 in the coming quarters.

Sector	Outlook
Rubber	<b>Stable</b>

## ASP to normalise next year

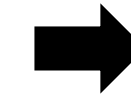


## Recent developments

- ✓ **ASPs will continue to fall** due to (1) rising supply & new production facilities in China (high-tech) and Thailand, and (2) easing demand for rubber gloves amid the accelerated Covid-19 vaccination progress globally.
- ✓ Nonetheless, ASPs are likely to be higher than pre-pandemic level given heightened costs to comply with ESG practices.
- ✓ In Oct 2021, Supermax had been served with a withhold release order by the US Customs and Border Protection (CBP) on forced labour finding. Top Glove was also barred by the CBP in July 2020 for the same reason.
- ✓ **In the long run, the sector is set to gain from increase in hygiene awareness** and the growth in the healthcare industry against a backdrop of an **ageing population** and a potentially prolonged pandemic/endemic situation.

## Industry Focus: Rubber (2/3)

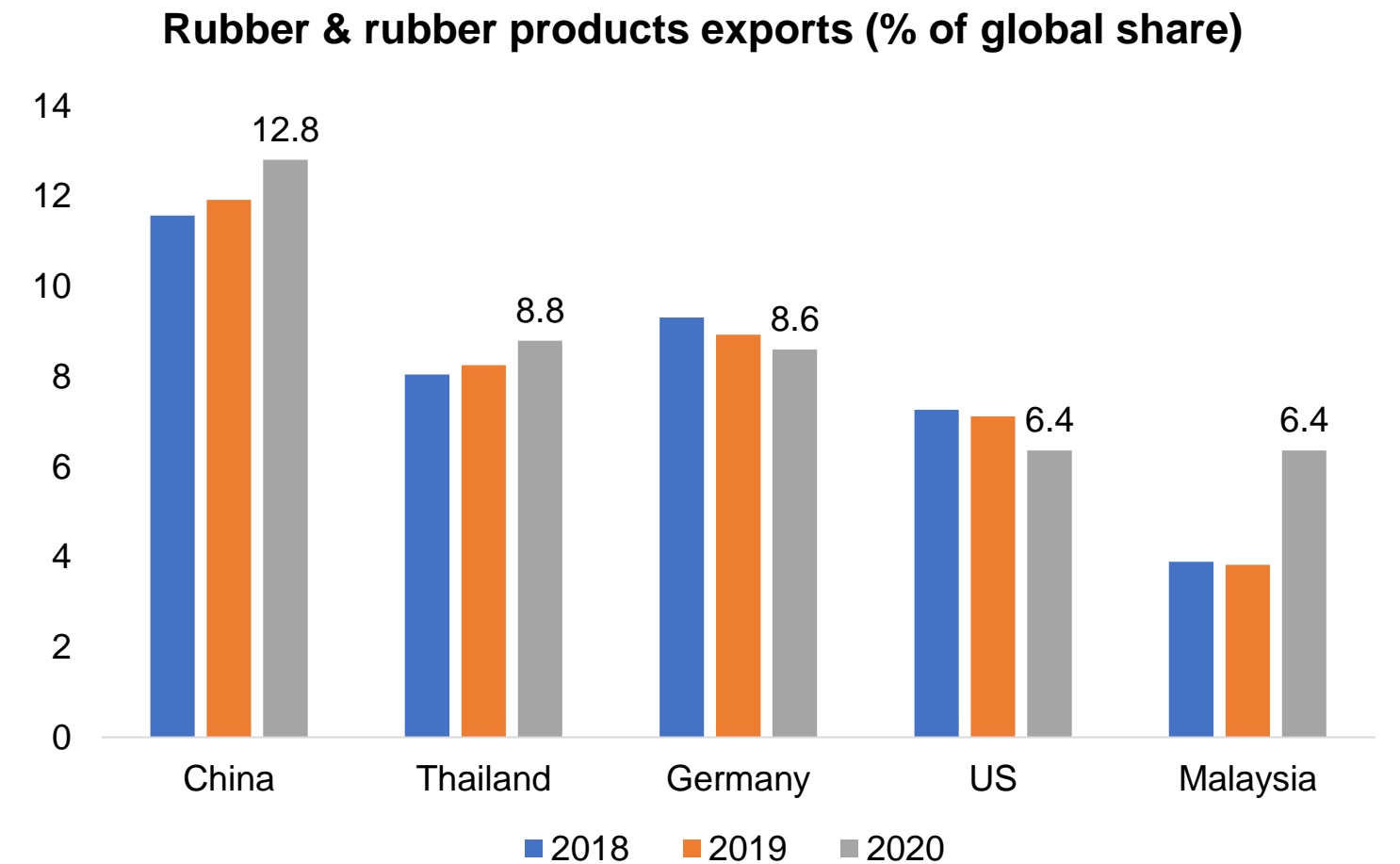
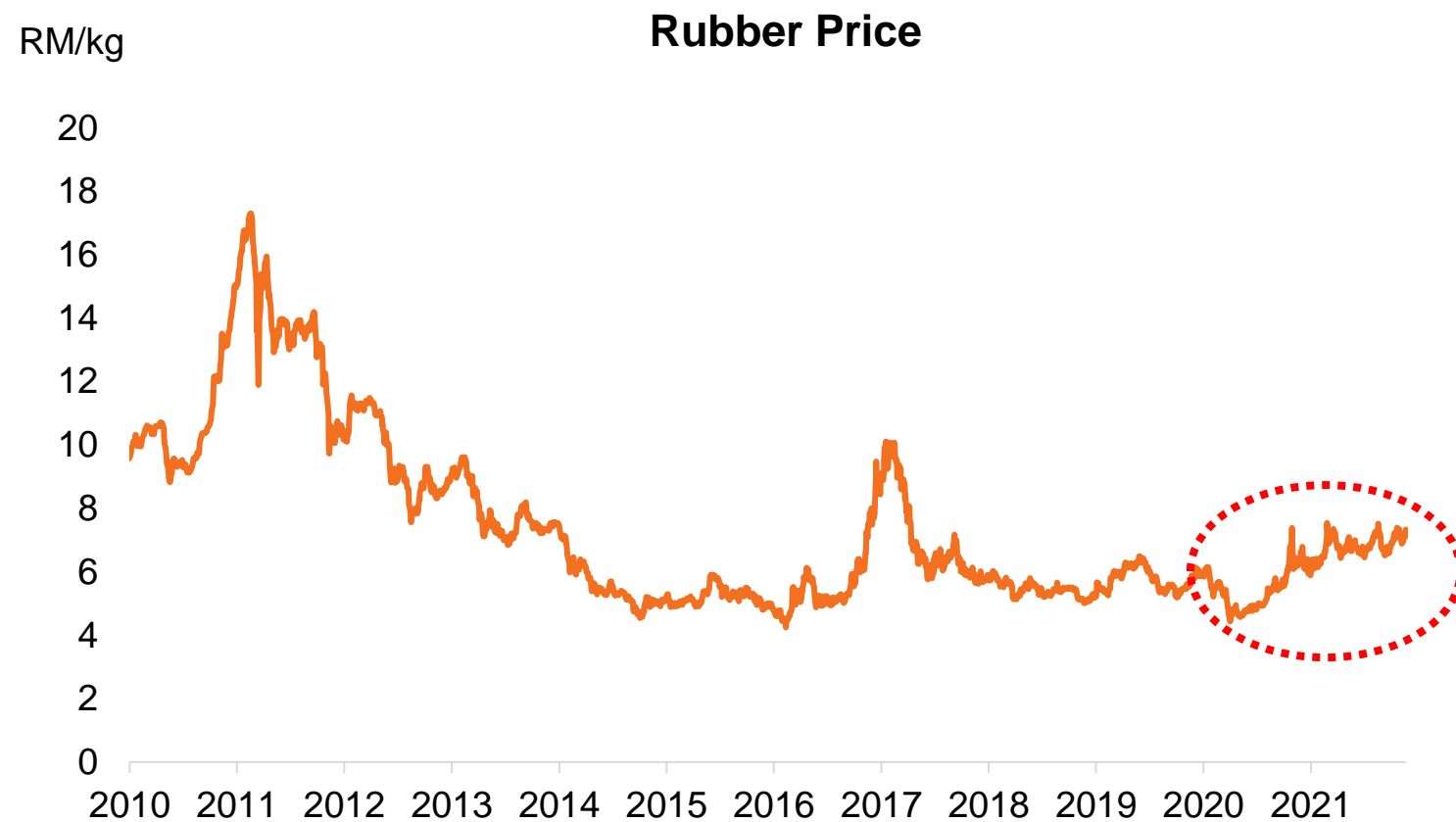
  
Positive Outlook



  
Stable Outlook

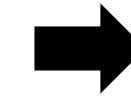


- ✓ Malaysia is one of the **top countries that produces natural rubber**, after Thailand, Indonesia, Vietnam, India and China.
- ✓ 60% of Malaysian gloves are made of nitrile gloves, natural rubber gloves constitute the remaining 40%.
- ✓ **Global natural rubber prices are envisaged to remain supported** in the near term due to supply and demand imbalances. At present, glove makers are facing **pricier material costs** as global natural rubber prices are at RM6.5/kg in 2021 (2020: RM4.5/kg) due to labour shortages and supply chain disruptions.
- ✓ Hartalega Holdings foresees **China's glove makers to contribute 23% of the total share of global glove supply** by 2022 (2021: 16%), while **Malaysia's market share is expected to reduce to 60% by 2022 (2021: 67%)**.



## Industry Focus: Rubber (3/3)

 **Positive Outlook**



 **Stable Outlook**

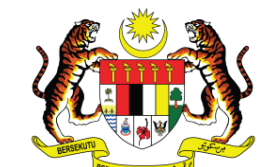
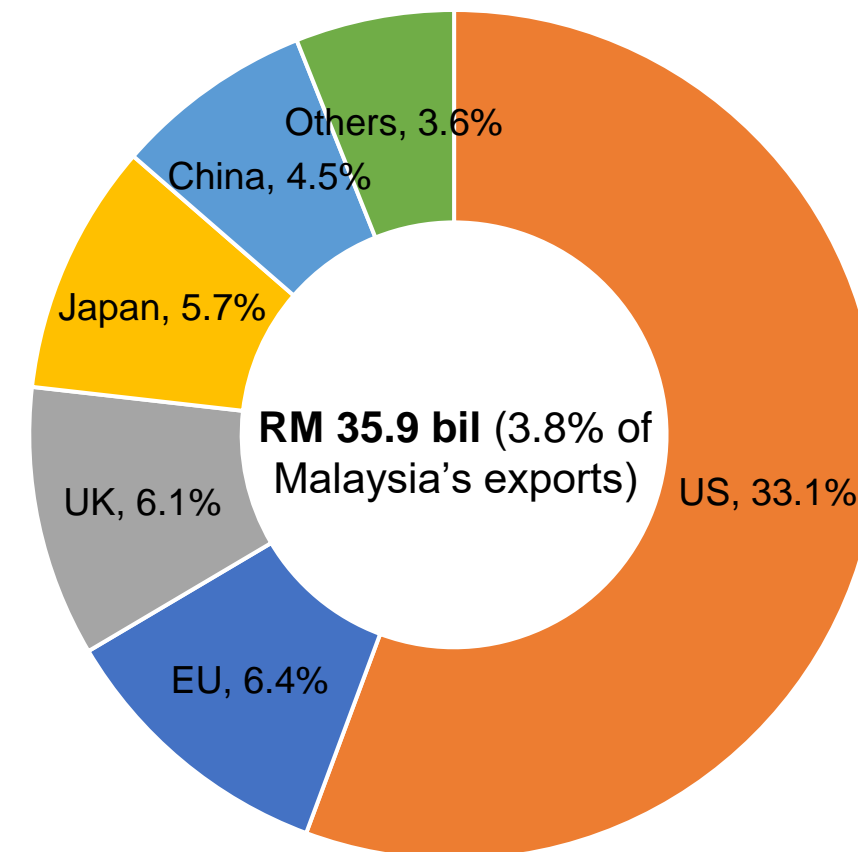


- ✓ **Gloves make up 90% of Malaysia's rubber products exports.**
- ✓ Malaysian rubber products are exported to more than 150 countries. **The USA, EU and UK** are top 3 importers of Malaysian rubber gloves, accounting for a combined 45% of total exports value.
- ✓ The country remains the **world's leading supplier of medical gloves** (examination and surgical gloves), **supplying >60% of the global demand.**

**Exports of Rubber Products (RM bil)**



**Exports Value of Rubber Gloves by destinations in 2020**



- ✓ As gloves manufacturing are based on **the volume of gloves** produced and **driven by both Average Selling Price & Raw Material Prices**, below guides can be use to check on their sustainability:

**Variables:**

**ASP:** USD 35 – USD 50

**Raw Material:**

- a. NBR (Nitrile) : USD 1200 – USD 1500 / mt (metric ton)
- b. NR (Natural latex) : RM 5.58/kg (60% DRC)

- ✓ *Few indicators to lookout for cash flow sensitize & Breakeven Analysis:*

Items	Percentage
Labour Cost	8%
Raw Material Cost	40%
Overhead Cost	10%
Admin Expenses	5%
<b>Grand Total</b>	<b>63%</b>

- ✓ Gross Profit Margin (GPM): 25% - 45%
- ✓ Recommended financing tenure : maximum of 5 years (exclude MORA)

## Recommendations (cont.)

To ensure sustainability in the gloves manufacturing business which is highly affected by the Average Selling Price, few additional factors are to be highly considered:

- i) Relevant certification(s) required for overseas market penetration:
  - a. FDA (US market)
  - b. 510K (US hospitals)
  - c. CE (European)
  - d. MDA (Malaysia medical grade gloves)
- ii) Valid purchase contract from the wholesaler/ trader or OEM contract manufacturing (LOI is NOT recommended).
- iii) Experienced Key Personnel in the organisation.

### MODERNIZATION AND AUTOMATION (IR 4.0) LEAD TO QUANTUM LEAPS IN PRODUCTIVITY

- ✓ **Only 1.7 workers are needed now to produce 1 million pieces of gloves a month** and are expected to cut down to 1.5 workers while we need **9.7 workers in earlier years**.
- ✓ **Production output** had been **increased** from producing **3,000 pcs/hour** to **45,000 pcs/hour** with the assistance of high-end machinery.

### ESG

- ✓ The industry is also currently taking a **significant drive towards sustainability to meet global standards of ESG** to enhance Malaysia's global standing.
- ✓ Industry players are stepping up their ESG efforts to cultivate R&D in the areas of **water conservation, alternative energy sources, sustainability and green labelling** of Malaysian-made rubber gloves.
- ✓ Malaysian manufacturers are allocating huge capital investments to **improve existing hostels or to build new hostels for workers housing under Act 446**, which requires minimum standards of housing for them.

## DISCLAIMER

SME BANK has exclusive proprietary rights in the data or information provided herein. This document is the property of SME BANK and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without SME BANK's prior written consent.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Any opinion, analysis, observation, commentary and/or statement made by SME BANK are solely statements of opinion based on information obtained from sources which SME BANK believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. SME BANK does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. Analysts based in SME BANK offices produce research on macroeconomics, equities, fixed income, currencies, commodities and portfolio strategy.

SME BANK and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by SME BANK or any information contained therein. Anyone using and/or relying on SME BANK document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bounded by it.





**Small Medium Enterprise Development Bank Malaysia Berhad** 49572-H

Menara SME Bank, Jalan Sultan Ismail 50250 Kuala Lumpur

**Tel:** 03-2615 2020 **Fax:** 03-2698 1748 **Email:** [customercare@smebank.com.my](mailto:customercare@smebank.com.my)

**[www.smebank.com.my](http://www.smebank.com.my)**

 smebank |  sme\_bank |  smebank\_malaysia |  smebankmalaysia



An agency under



**KEMENTERIAN PEMBANGUNAN  
USAHAWAN DAN KOPERASI**  
MINISTRY OF ENTREPRENEUR DEVELOPMENT AND COOPERATIVES

