

'Neutral' on rubber gloves sector

GAS PRICE HIKE: Industry will remain resilient as impact from domestic influences is limited, says PublicInvest

PUBLIC Investment Bank Bhd (PublicInvest) is maintaining its "neutral" call on the rubber gloves sector, despite the expected rising costs from natural gas tariff hike.

"Gas Malaysia Bhd announced the government has approved the revision of the natural gas tariff in Peninsular Malaysia for the non-power sector. The revision will take place effective May 1, with tariff rates to increase between 18 and 26 per cent from the existing rates.

"The hike has been much anticipated and would have a minimal impact of one to two per cent increase to the energy cost of players within our coverage — this constitutes three to five per cent of cost of gross sales across all companies.

"By taking on a conservative approach to our estimates, we continue to recommend the sector with a 'neutral' view as long-run sector performance is determined by capac-

ity expansion and efficiency strategies, which would translate to higher earnings," the research house said in its note.

According to PublicInvest, it concedes that the sector would remain resilient as the impact from domestic influences is limited with 50 per cent of total cost dependent on market prices of natural latex and nitrile.

"We are not fazed by the announcement as we have already accounted for the potential exposure of higher costs in our respective coverage valuations. To remain competitive, the glove players have been diversifying its energy uses to other more cost-efficient methods, such as biomass."

Following last year's rally of glove players the trend has stabilised at this trading range and PublicInvest continues to like Kossan Rubber Industries Bhd, and is positive on Hartalega Holdings Bhd.