

Gas price hike to have little impact on glove sector

PETALING JAYA: Gas Malaysia Bhd's gas price hike for the third quarter period of this year is expected to have minimal impact on the price of rubber gloves.

With natural gas accounting for about 10% of glove manufacturing cost, TA Securities in a report yesterday said the impact would be insignificant.

"In our forecast, we have assumed the price of natural gas to decrease by 15.5% in 2021, compared with RM33.65 per metric mullion British thermal unit (MMBtu) in 2020.

As for the average selling price (ASP) of gloves, based on channel checks, TA Securities said it is still expected to drop by around 5% to 10% month-on-month.

"For instance, we expect Top Glove's fourth-quarter 2021 ASP to be US\$57 (RM238) per 1,000 gloves, compared with an estimated US\$68 (RM285) per 1,000 gloves in the third quarter of 2021.

"In terms of volume, we remain optimistic that glove manufacturers' total production will be fully sold this year. Overall, we make no changes to our earnings estimates at this juncture for glove companies under our coverage."

Last Friday, Gas Malaysia announced that the average natural gas selling price for the



Unfazed: A health-care worker putting on gloves before work in the Klang Valley. Natural gas accounts for 10% of the sector's cost, rendering any price hike insignificant.

distribution segment for the period of July 1, 2021 to Sept 30, 2021 is RM30.03 per MMBtu, representing an 11.8% or RM3.18 per MMBtu increase compared to the average of RM26.85 per MMBtu for the second quarter of 2021.

Compared with 2020, TA Securities said the average natural gas price has dropped from RM33.65 per MMBtu or lower by RM3.62 per MMBtu. The research house is reiterating a "neutral" stance on the rubber glove sector.

Separately, Maybank Investment Bank Research (Maybank IB) said Gas Malaysia's price hike is likely due to an increase in gas cost from Petronas.

"Higher gas cost would have a positive impact on Gas Malaysia's spread, all else equal. However, the possible volume shortfall from ongoing movement restrictions would have an offsetting impact on earnings."

Maybank IB said its earnings forecast and target price of RM2.80 for Gas Malaysia are unchanged. "Every five sen per MMBtu change to our spread assumption would move our 2021 net profit forecast by 3.8%.

"Gas volumes would likely be pressured as the lockdown restrictions drag on, thus the likelihood of positive earnings surprises diminishes, in our view."