

HLIB Research

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NEUTRAL (Maintain)

Stock Rating

Stock	Rating	Price	Target
Top Glove	BUY	3.23	4.00
Hartalega	NEUTRAL	6.32	6.50
Kossan	NEUTRAL	2.70	2.65

Gloves

Talks on windfall tax returns

The Windfall Profit Levy Bill is reported to be tabled for a second reading in the Parliament and talks of it being imposed on the glove sector have resurfaced. We do not rule out the possibility of windfall tax being imposed onto the glove makers, but we reckon that the higher taxes would hurt the local industry players amid falling ASPs and intensified competition coming from China. We make no changes to our earnings forecast now, as we await further information to become available. Maintain **NEUTRAL** on the glove sector.

NEWSBREAK

The Parliament session on its second day today underlined the second reading of the Windfall Profit Levy (Amendment) Bill 2020 by the Minister of Finance, in its Order Paper published today. ([source](#))

HLIB's VIEW

Gloves in the windfall tax spotlight again. Windfall tax could be an additional source of income for the financially-stretched government amidst the pandemic and talks on potentially implementing upon the local glove makers are not new, as glove makers have enjoyed supernormal profits since the Covid-19 pandemic.

Adding more headwinds. We believe that additional taxes could hurt the local glove industry, taking into account that glove producers are facing sector-wide headwinds of falling ASPs and intense competition coming from China. Higher taxes will undeniably reduce the glove players' competitiveness in the global arena, especially when the Chinese medical gear producers are entitled to generous government subsidies. As such, taking all these into perspective, it would not make fair economic sense to impose windfall taxes on the local glove players, bearing in mind that the government is already taking a larger pie from the former's supernormal profits via the standard corporate tax rate.

Perhaps during Budget 2022, if it does happen. There are no further details available at this juncture, and it is unclear as to which industry will be impacted. Recall that in the tabling of Budget 2021, the "big-4" local glove producers collectively committed to a one-off contribution of RM400m towards the government to help fight Covid-19. Hence, should the windfall tax materialise, it may possibly happen in the upcoming Budget 2022 on 29 October. Until then, we expect sentiment on the glove sector to be weak, given the uncertainty.

Forecast. Based on our preliminary estimates, every 1% increase in taxes would result in c.1.3% decline in sector profits (assuming this is taxed at the PBT level). However, we make no changes to our earnings estimates for Top Glove, Hartalega and Kossan at this point, given the lack of clarity.

Maintain NEUTRAL. Our recommendations and TPs on Top Glove (BUY, TP: RM4.00), Hartalega (NEUTRAL, TP: RM6.50) and Kossan (NEUTRAL, TP: RM2.65) remains unchanged. Maintain **NEUTRAL** on the glove sector.

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.