

Malaysia: Measures to review swaying rubber price still an ongoing process

KUCHING: Latex prices have rebounded recently from the low of RM5.26 per kilogramme in August to RM6.42 per kg in October, translating to a 22.1 per cent increase.

Although this factor might raise concerns among investors that the margin of glove makers could possibly be narrowed and thereby affecting their bottomlines, analysts however were of the view that as long as the latex price hover around RM6 to RM7 per kg, it was still manageable for players.

“What actually concerns us more is the possibility of the drastic price movement hitting an extremely high level which will eventually tarnish the cost as well as the purchasing power of glove distributors and end users,” revealed an analyst from OSK Research Sdn Bhd (OSK Research) in a research report.

To recap, last week Reuters reported that the world’s top rubber producers namely Thailand, Indonesia and Malaysia have set a support mechanism to intervene should rubber prices fall below US\$2.70 per kg (approximately RM8.24 per kg).

Officials from the three countries met last week to review measures to support the market. However, the defense price has yet to be determined, pending confirmation from the three governments.

The OSK Research analyst said that the intervention would not be an easy task and the three countries might face some difficulties as most rubber producers are small farmers and cutting production meant slashing their income, unless the governments have a concrete plans to subsidise the producers.

Secondly, the ramification of the measures would not support the rubber price stability if the market enters a bearish mode because rubber is a commodity that is traded on the international financial platform and is open to speculation by investors around the globe, including hedge fund managers.

OSK Research concurred that the intervention price of US\$2.70 per kg might not post any significant immediate impact on the glove makers.

With positive sentiments of the rubber price to rebound, the analyst said that the latex price for financial year 2012 was within its assumption and would not hurt the valuation on the glove companies.

Hence, OSK Research maintained an overweight outlook on the rubber gloves sector and recommended a strong fair value for Top Glove Corporation Bhd at RM6 per share, Supermax Corporation Bhd at RM2.7, Kossan Rubber Industries Bhd at RM4.53 per share and Hartalega Sdn Bhd at RM4.83 per share.