

Rubber stamping the growth road map

- Structural supply drop vs rising demand will lead to rubber price uptrend
- Thai rubber players are now dominating global rubber industry to gain price benefits
- Initiated rubber sector with Overweight and top picks NER and STGT

Growing demand vs gridlocking supply for natural rubber

Thailand has long doubtless been a global dominant NR producer with over 1/3 of supply at over 4mtpa. In the past two years global rubber supply has suffered great declines due to the impact of El Nino, the shift to other crops away from rubber in Indonesia, the world's second largest rubber producer, and the growing demands from China. The global rubber market size is projected to grow from USD48.5b in 2024 to USD88.1b in 2035, growing at 5.57% CAGR in 2024E-35E, according to The Association of Natural Rubber Producing Countries (ANRPC), which forecasted that global natural rubber (NR) supply will remain in the shortage of in 2024 and likely to witness increased shortages until 2028.

Structural decline in rubber plantations in Thailand

Between 2017 and 2022, Thailand's total rubber cultivation area shrank by 4.5% due to limitations on the land availability, temperature increases due to climate change, increased labor costs, natural disasters, and the widespread occurrence of leaf flow disease which decreases tree productivity, but the impacts were partly offset by 17.5% rising rubber cultivation in the newly opened areas, resulting tighter rubber supply.

The Thai tyre market is highly competitive

Due to its advantageous geographic location, favorable labor conditions, and government incentives, an increasing number of Chinese tyre companies are choosing to set up factories in Thailand. Major players include Michelin, Dunlop, Yokohama Tyre, and Llit. The Thai automobile tyre market not only features local enterprises but also multinational tyre giants. Chinese tyre brands such as Linglong Tyre and Chengshan Tyre have also established a significant presence in Thailand by setting up factories.

Thai tyre production growths are rosy; EUDR is an upside

Thailand's BOI forecasts that from 2024 to 2033, Thai tyre production will grow to 96.31m units by 2033, growing at CAGR of 5.2% on solid domestic demand for tyre exports. Thai rubber and NR-glove exporters - STA, STGT, NER – have well prepared for the EUDR enforcement at end-2025 (large companies) and mid-2026 (SMEs) will benefit from EUDR price premium, even small at THB2-3/kg over non-EUDR NR.

Overweight with NER and STGT as top picks

We initiated our coverage on Thai rubber sector with an overweight on strong net profit growths in 2024E-26E on the back of 1) rising demands for tyre, glove, and auto parts thanks to the global relocations of EV and tyre producers; 2) higher rubber prices from THB60-65/kg to THB80-90/kg; and 3) capacity expansions. Our top picks are NER (Buy, TP THB8.0) and STGT (Buy, TP THB14) with NER's catalysts on 33% capacity expansion by 2026, higher rubber price, and attractive valuation at sub-5x 2025E P/E and 6% plus dividend yield. STGT will benefit from higher margins on rising selling prices, the weakening Thai Baht, and capacity expansion. We are neutral on STA (Neutral, TP THB20) given its net profit remains highly unpredictable due to the low utilization rates and the less effective pricing strategy to be offset by benefit of EUDR.

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Rubber stamping the growth road map

Rubber demand growth remains sanguine

The global rubber market size is projected to grow from USD48.5b in 2024 to USD88.1b in 2035, growing at 5.57% CAGR in 2024E-35E, according to The Association of Natural Rubber Producing Countries (ANRPC). ANRPC has forecasted that global natural rubber (NR) supply will remain in the shortage of in 2024 and likely to witness increased shortages until 2028.

Specifically, ANRPC has lowered its forecast for the supply of natural rubber in 2024 from 14.54mt to 14.50mt due to unfavorable climatic conditions as the El Nino phase transitions into La Nina, along with a widespread leaf fall disease negatively impacting both yield and quality of rubber latex.

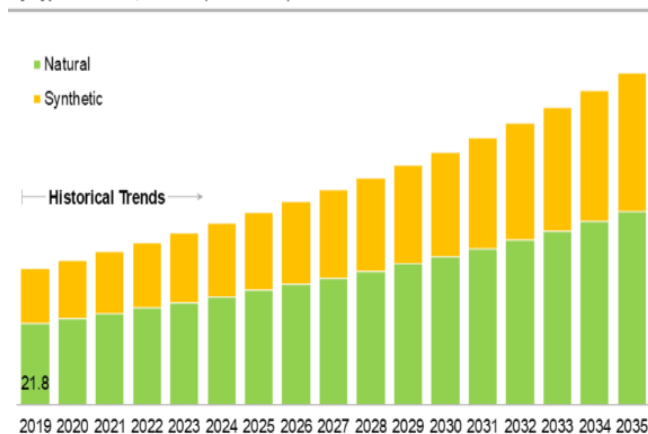
Smallholder rubber farmers in top rubber-producing countries, including Thailand and Indonesia, are also reluctant to expand their planting areas due to labor shortages and the emergence of more economically valuable crops. ANRPC warns that this supply shortage could continue until 2028, leading to a global shortfall of around 0.6mt to 0.8mt of rubber annually.

Meanwhile demand appears to be on the rise, as ANRPC has revised its forecast for global rubber demand in 2024 from 15.67mt to 15.75mt. This upward revision is driven by the expectation that China's consumption will gradually recover as the Chinese government implements various policies to boost economic growth. These developments have caused a sharp rise in global rubber prices during the first eight months of this year.

In 2018-22 global rubber supply had outpaced demands as a result of the better-than-expected productions and slowdown in demand particularly in 2020-23 during the global pandemic of Covid-19. However, demand has already rebounded meaningfully while supply has in contrast declined due to the structural changes in the plantation crops in key rubber producers including Indonesia and Malaysia.

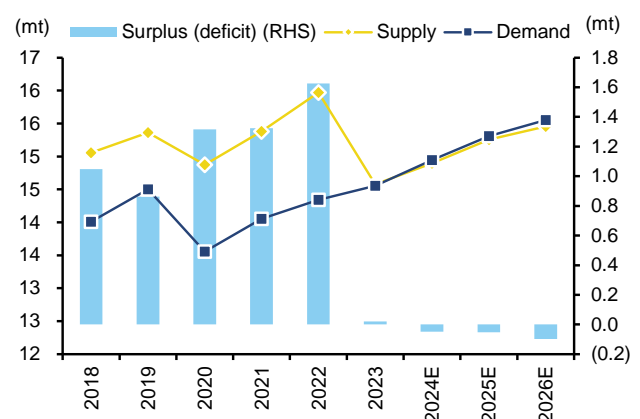
Exhibit 1: Global rubber market

By Type of Rubber, Till 2035 (USD Billion)



Sources: Roots Analysis

Exhibit 2: Global rubber supply and demand



Sources: ANRPC

2017 rubber price spike due to supply shortages on Thailand's flood. As a result of the projected shortfall of supply in 2025E-26E, the rubber futures (SGX TSR20) and China natural rubber price have risen to its highest level since its last peak in 2017 mainly due to the severe damages in 12 provinces in southern Thailand, the major global area for rubber plantation, affected by the worst floods in 30 years.

According to the Rubber Authority of Thailand the flood wiped out at least 360,000 tons of NR output expected in 2017 in Thailand. Given Thailand is the world's largest rubber producer with over 1/3 market share, the 7.6% y-y plunge in the rubber production to 4.38mt in 2017.

In conjunction with the supply dips by 0.6% in 2014-16 due to the depressed rubber prices while demand grew by 3.2% in the same period, the estimated rubber supply shortage of 0.655mt (5% of global supply) could not catch up with demand growth on the global economic recovery, which global GDP growth of 3.4% in 2017, up from 3.1% in 2016.

Exhibit 3: SGX TSR20 FOB Feb 2025 (W2G25)



Sources: Barchart.com

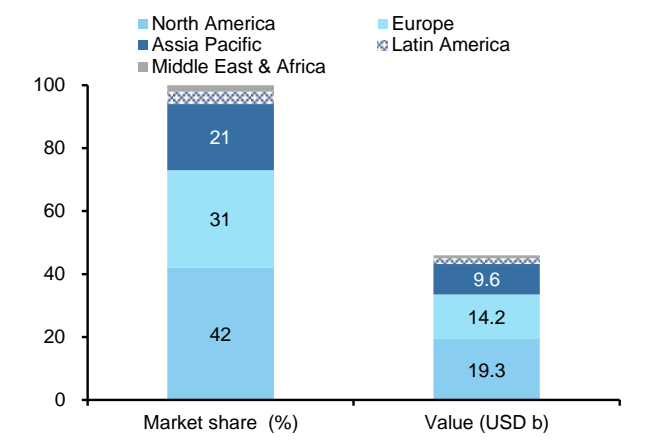
Exhibit 4: China natural rubber prices



Sources: MaroMicro

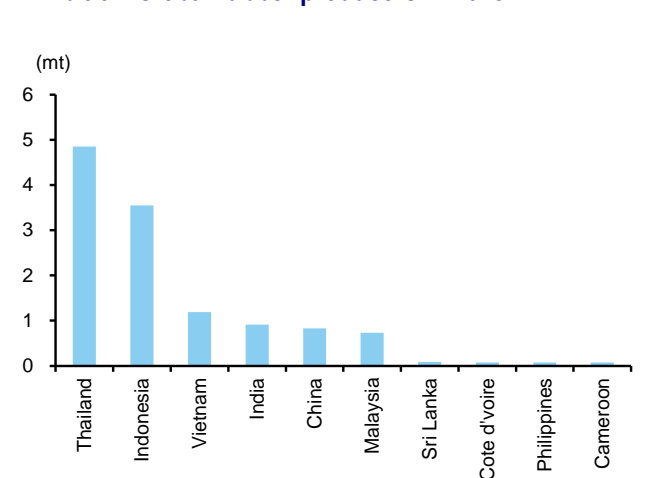
Thailand has long doubtless been a global dominant NR producer with over 1/3 of supply at over 4mtpa. In the past two years global rubber supply has suffered great declines due to the impact of El Nino, the shift to other crops away from rubber in Indonesia, the world's second largest rubber producer, and the growing demands from China.

Exhibit 5: Global rubber consumptions by market in 2023



Sources: Predecence Research

Exhibit 6: Global rubber producers in 2023



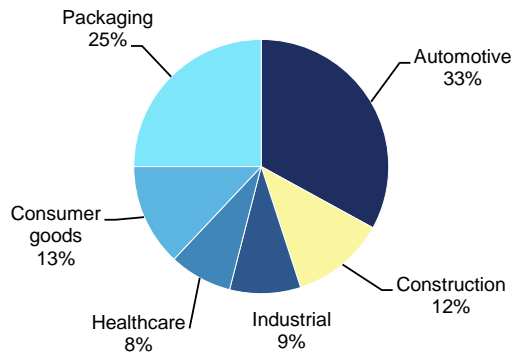
Sources: ANRPC

Rubber price uptrend has yet to upend

Global rubber markets are witnessing an unprecedented surge in NR prices as supply constraints and rising demand create a perfect storm across major producing and consuming regions. The rubber as a commodity, crucial for tyre manufacturing and various industrial applications, is experiencing significant price appreciation across Asia, Africa, and other key markets.

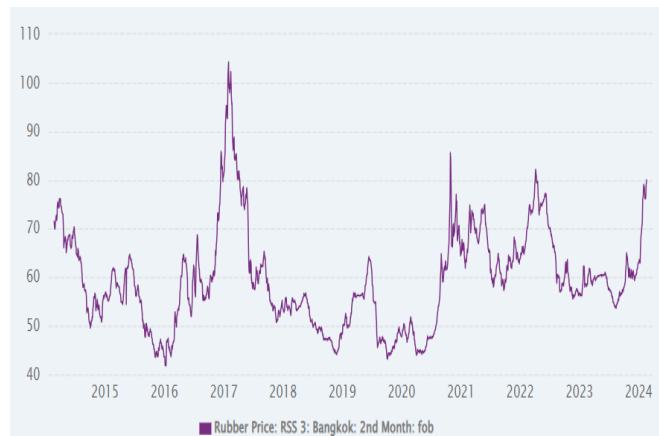
Post-National Day holiday, China's NR market has maintained robust performance, with prices fluctuating at historically high levels. The Tianjin inventory continues its downward trajectory as downstream tyre manufacturers increase their procurement activities. China's government initiatives further promote automobile consumption to provide supports to NR demand, despite steel tyre production running at lower levels.

Exhibit 7: Rubber market share by end user industry in 2023



Sources: ANRPC

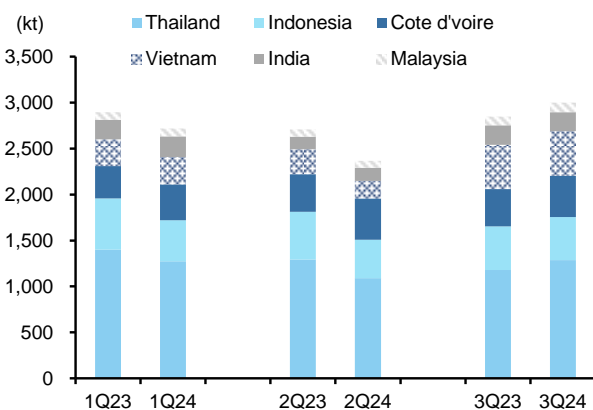
Exhibit 8: Thailand's rubber price; RSS 3 Bangkok (2nd month FOB)



Sources: CEIC

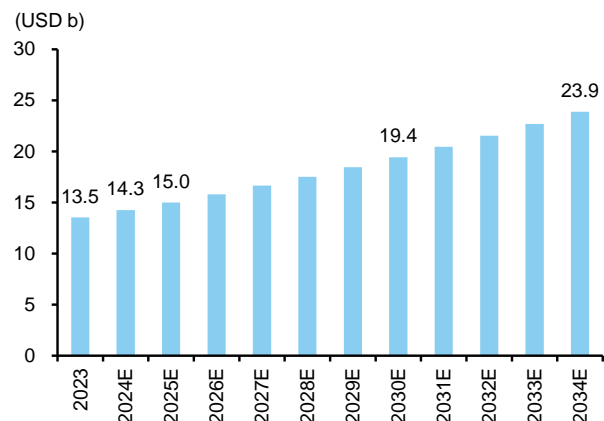
Meanwhile, Thailand, a key NR producing country, is experiencing production challenges due to adverse weather conditions, including heavy rainfall and flooding that erode NR outputs, further exacerbating global NR supply. Indonesia is facing two key challenges of declining production due to rainfall and international exchange rate fluctuations.

Exhibit 9: Rubber productions by key producers in 9M24



Sources: Global Data

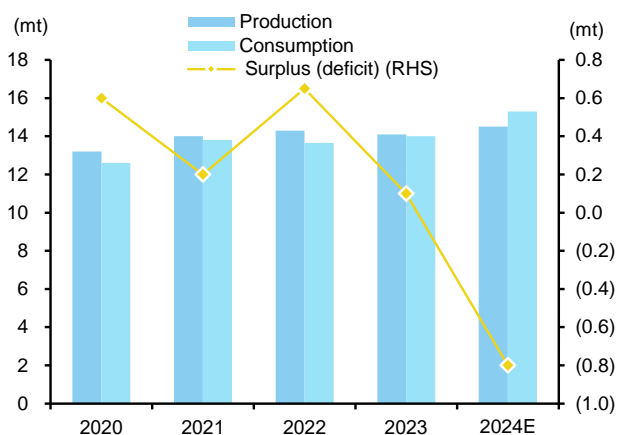
Exhibit 10: US rubber market



Sources: Precedence Research

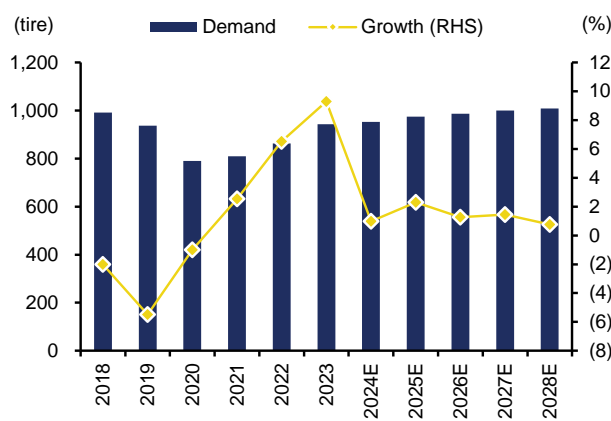
US is the world's largest rubber market with USD13.5b value in 2023 and is projected to grow at 5.3% CAGR to USD23.9b in 2034. North America has held the largest revenue share of 42% in 2023 due to its thriving automotive and manufacturing sectors, driving robust demand for rubber products. The region's advanced technological infrastructure fosters innovation and product development in the rubber industry. A well-established supply chain and a growing emphasis on sustainability further bolster North America's dominance in the global rubber market.

Exhibit 11: Global rubber production and demand



Sources: Global Data Automotive Intelligence

Exhibit 12: Global rubber tyre demand

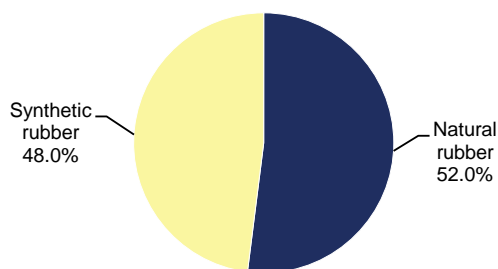


Sources: ANRPC

In 2023, NR segment had the highest market share of 52%. However, the rapid and unpredictable price fluctuation of NR as well as synthetic rubber create challenges for manufacturers, particularly impacted by the weather conditions affecting rubber tree plantations, geopolitical events, and global economic uncertainties. The key challenges in rubber industry also include the trends on sustainable and responsible sourcing practices, as well as efforts to address environment concerns associated with deforestation (EUDR).

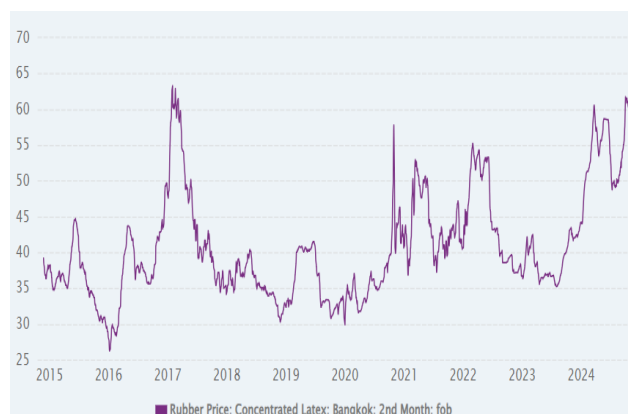
Thai rubber and NR-glove exporters - STA, STGT, NER, NDR, TRUBB – have well prepared for the EUDR enforcement at the end of 2025 (large companies) and mid-2026 (SMEs) and will gain benefits from EUDR price premium, even small at THB2-3/kg over non-EUDR NR. The recent price hike of concentrated latex at a faster rate than the price hikes of RSS and STR indicates that STGT is likely to command higher price premium for its gloves in 2025E onwards.

Exhibit 13: Global rubber demand by segment



Sources: ANRPC

Exhibit 14: Thailand's rubber concentrated latex price: Bangkok (2nd month FOB)



Sources: CEIC

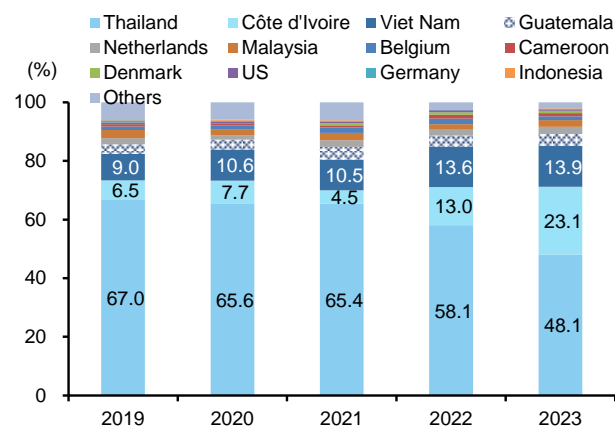
Thailand rubber industry

Winner on rubber jackpot on supply shortages

Since Thai government launched a rubber promotion policy in 1989, natural rubber has become Thailand's leading agricultural export product. The rubber industry in Thailand consists of three main segments: upstream production, intermediate processing, and downstream processing.

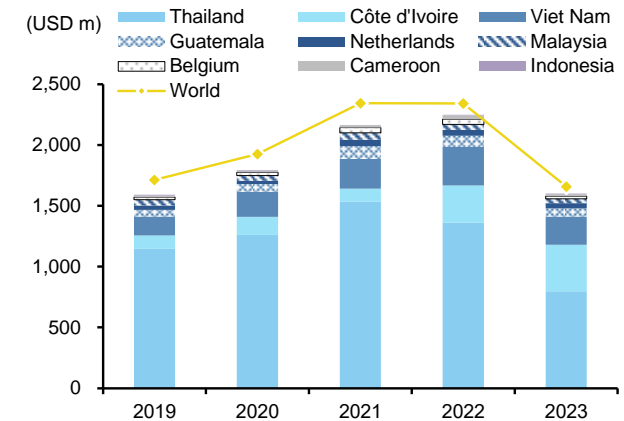
Thailand is the world's leading upstream rubber producer, and an important exporter of intermediate rubber products such as concentrated latex and ribbed smoked sheets (used in tyres and automotive parts). The downstream segment, the final stage of processing rubber into products such as gloves and tyres, is less developed and mostly reliant on foreign investment and technology.

Exhibit 15: Natural rubber export (%)



Sources: Trademap.com

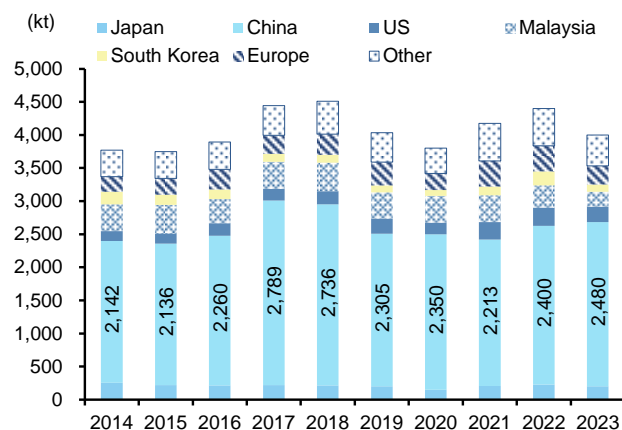
Exhibit 16: Natural rubber export



Sources: Trademap.com

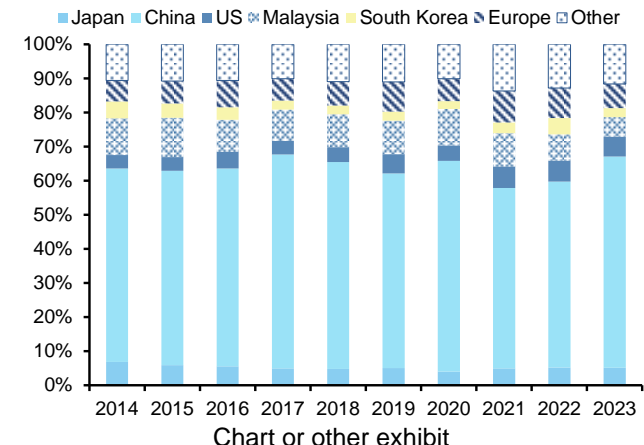
However, the downstream segment of the Thai rubber industry is growing thanks to public support and emerging young entrepreneurs inspired by the development of the glove industry in Malaysia. China is Thailand's biggest natural rubber export market, followed by Malaysia for intermediate rubber products. Despite a significant drop in rubber prices globally, the value of natural rubber exports to the EU grew from USD1.32b in 2019 to USD2.19b in 2022.

Exhibit 17: Thailand's rubber export market volume



Sources: Office of Agricultural Economics

Exhibit 18: Thailand's rubber export market volume (%)



Sources: Office of Agricultural Economics

Thailand's National Rubber Committee has classified rubber plantation areas into two different types based on the cultivation period and the region where the plantation was established. The original rubber plantation areas, the first type, are found in 14 provinces of the Southern region and three provinces of the Eastern region. These areas account for 64% of rubber cultivation and were mostly established on agricultural land previously used for fruit production.

The newly opened rubber plantation areas, the second type, are found in 60 provinces in the Northern, Northeastern, Western, Central and Eastern regions and account for 36% of the cultivation area. In these areas, rubber was planted mainly on agricultural land originally used for cassava or sugar cane cultivation or paddy fields, but also in some logged-over forests.

Structural decline in rubber plantations in Thailand. Between 2017 and 2022, Thailand's total rubber cultivation area decreased by 4.5%. Cultivation in the original plantation areas declined due to limitations on the availability of land, temperature increases due to climate change, increased labor costs, natural disasters, and the widespread occurrence of leaf flow disease which decreases tree productivity. However, rubber cultivation in the newly opened areas increased by 17.5% during the same period. This highlights that rubber plantations are generally moving towards the north and northeast of the country, which poses a deforestation risk in those regions.

Exhibit 19: Thailand's rubber plantation and cuttable areas, production, and yields

2023	North	Northeast	Central	South	Total
Plantation (m rai)	1.556	6.229	2.374	13.882	24.0
Cuttable (m rai)	1.416	6.045	2.194	12.837	22.5
Production (m tree)	0.281	1.368	0.393	2.766	4.8
Yield (kg/rai)	199	226	179	216	214

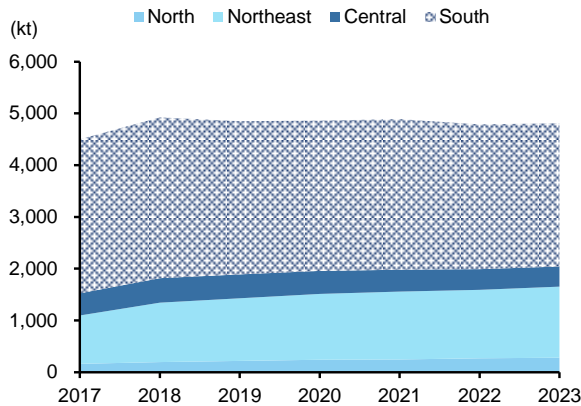
Sources: Department of Agriculture

EUDR preparation for Thai rubber industry is ready. A key step the Rubber Authority of Thailand (RAOT) is taking to support implementation of the EUDR is the mapping of production areas. RAOT has so far mapped more than 3.1m hectares of rubber plantations, or 79% of the country's total rubber cultivation area, and collected geolocation information about 1.98m rubber plots.

Geolocation information about each plot is stored in a central database. The system developed and managed by RAOT can compare mapped rubber plantation areas with protected areas and forest areas. In doing so, RAOT intends to identify areas of rubber production, geolocate all plots of land and generate evidence about deforestation-free rubber production.

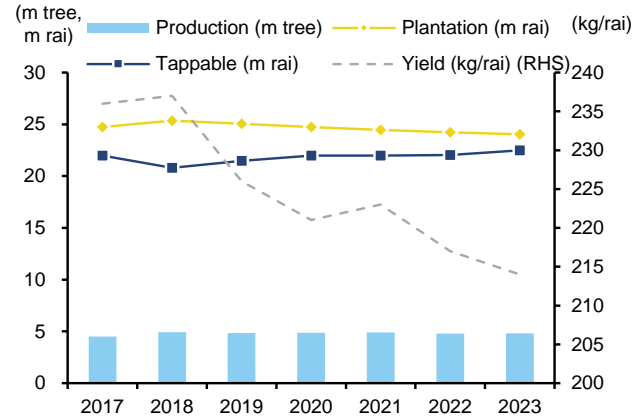
Using a forest cover map based on EUDR/FAO definitions will be key to demonstrating that the rubber destined for the EU did not cause deforestation after the EUDR cut-off date of 31 December 2020.

Exhibit 20: Rubber productions by region



Sources: Department of Agriculture

Exhibit 21: Rubber production, plantation and cuttable areas, and production yields



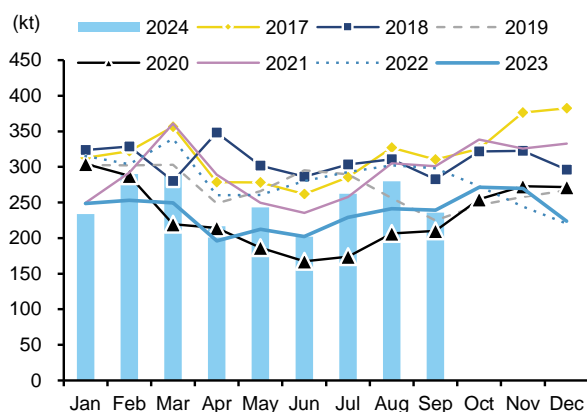
Sources: Department of Agriculture

It is evident that despite the relatively stagnant areas of rubber plantations and tappable rubber trees, the country's rubber productions have been declining due to the sharp drops in the production yields, which have fallen from 237kg/rai in 2018 down to only 214kg/rai in 2023.

Many reasons contribute to the falling yields. First, the weather conditions – hotter-than-normal temperature could cause the “perennial dead” for rubber trees due to draught. Second, the impacts of El Nino further worsen the draught and leads to higher number of “perennial dead” rubber trees. Third, the Phytophthora palmivora (Butler) caused by fungi disease has led the many dying rubber trees in the past two years.

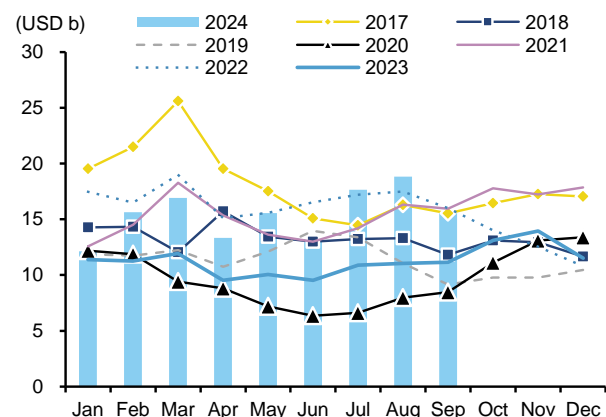
Lower rubber exports in 2023-24. In 9M24, Thailand exports lower amount of rubber due to the lower tappable rubber trees but higher values y-y thanks to the higher rubber prices. We think the rubber prices will remain higher above THB65/kg and likely to surge to THB80-90/kg in 2025E given the projected supply shortages while demand recovery could drive up rubber price.

Exhibit 22: Thailand's monthly rubber export volume



Sources: Department of Agriculture

Exhibit 23: Thailand's monthly rubber export value



Sources: Department of Agriculture

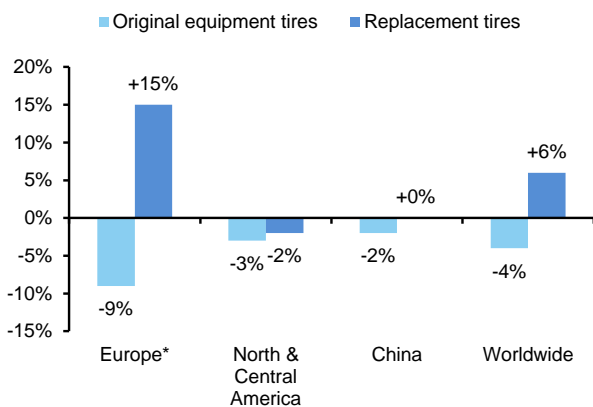
Global tyre market on solid replacement demand

The global automotive tyre market is projected to rise from USD403.5b in 2024 to USD626.7b in 2034, driven by the 3.4% CAGR sales of global automobile tyres in 2024-34, according to Fact.MR.

Automotive tyres are essentially the rubber-covered, circular components of vehicles that fit over the wheel rims, functioning as a shield for the wheel rim and generating traction between the vehicle and the road surface. Hence, tyre will be made by rubber in order to be highly flexible cushions, absorbing stress from the vehicle and reducing the impact of vibrations.

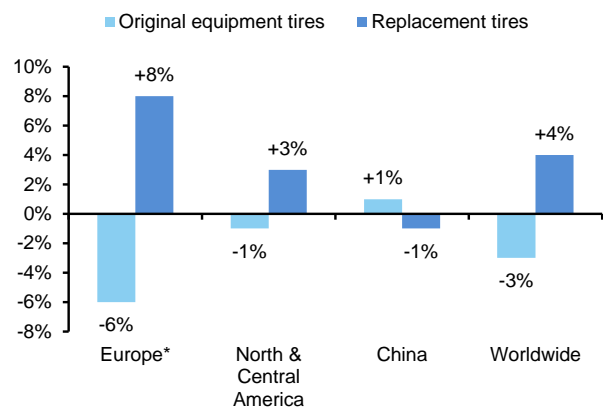
Demand for tyres is rising exponentially due to the rising need for vehicle production to meet the demand growth for automobiles. Demand for tyres from OEMs is fueled by the rise in vehicle sales, especially in developing countries. The needs for tyres rise in direct proportion to the number of cars made and sold worldwide.

Exhibit 24: Tyre demands for passenger cars and light trucks in October 2024 vs October 2023



Sources: Michelin

Exhibit 25: Tyre demands for passenger cars and light trucks in 10M24 vs 10M23



Sources: Michelin

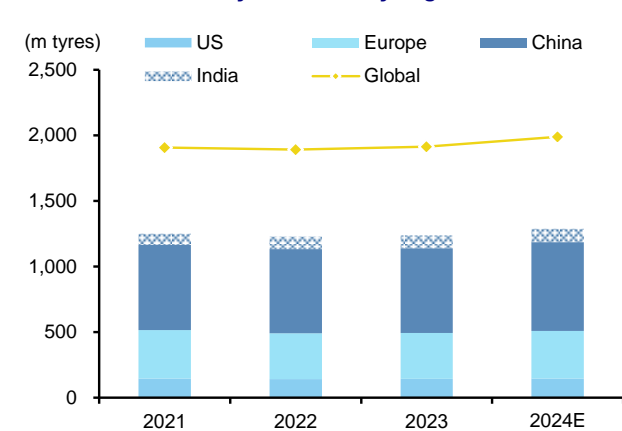
The OEM tyre market may be impacted by changes in the trends of automobile industry mainly in the current transition from the Internal Combustion Engine (ICE) oil-based vehicle era to the EV era and autonomous vehicles. The tyres needed for EVs frequently need certain qualities, including low rolling resistance for increased range. Expansion of automobile tyre OEM market is expected to be driven by the increasing production and sales of passenger and light commercial vehicles worldwide.

According to Michelin, global demand for tyres used for passenger cars and light trucks in October and 10M24 has grown mostly in European market, led by 15% y-y growth in replacement market to more than offset 9% y-y drop in OEM market (new cars). In China demands for OEM dipped 2% y-y while replacement market flattened as a result of the high inventory of tyres but is likely to decline as demands for new EVs increase after the government's stimulus packages.

New raw material and design technologies will enable tyre makers to increase revenue, despite challenging market conditions, according to Smithers market forecast, which reveals that sales are continuing on a post-Covid recovery trajectory. The market will be worth a projected USD262.2b in 2023, with a total of 2.47b tyres sold worldwide.

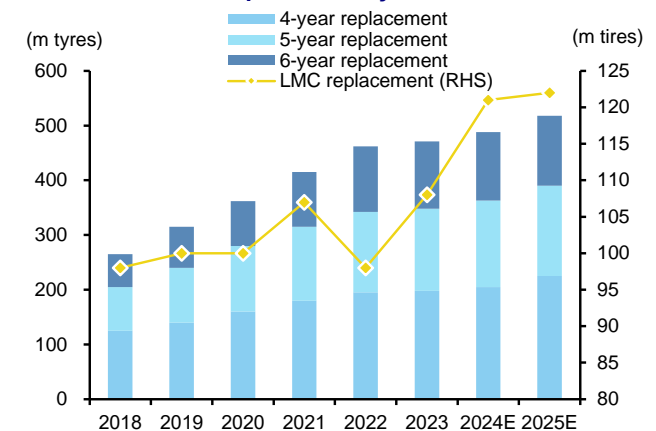
Smithers expert forecasting shows that over the next five years value will increase at a compound annual growth rate (CAGR) of +5.2%, to reach USD337.3b in 2028, at constant prices. Across the same period, volume sales will increase at a slower rate, +3.5% CAGR, to reach 2.94b units in 2028. This is indicative of shifting technical requirements in vehicle purchasing and design, within a febrile macroeconomic landscape.

Exhibit 26: Global tyre market by region



Sources: Global Data

Exhibit 27: China replacement tyre sales



Sources: Global Data

High-performance tyres require more NR raw material. Several factors are pushing for the adoption of higher-performance tyres. High petroleum prices, tough new fuel efficiency requirements (Euro 7/NHTSA), and the transition to EV are all placing a premium on lower rolling resistance tyres. Realizing this, including on heavier SUV and electric powertrain models, while also optimizing handling and durability, is supporting a surge in sales of specialty and premium model tyres. Across the PLT, two-wheeler, and TBR segments, premium tyre sales will increase at +9.3% y-y for 2023-2028E; well ahead of standard tyres models (+2.3% CAGR).

This creates a major opportunity for investment in superior tyre compounds and tread designs. In particular, many leading tyre OEMs are deploying their latest enhancements to design products for EV fitments, as automakers worldwide push towards phasing out ICE vehicles. Countering this are ongoing increases in tyre raw materials. This is eroding profits, with high oil prices and shipping costs in the wake of the pandemic, exacerbated by the economic isolation of Russia's oil and gas segment following the invasion of Ukraine.

In the short term, this is making Asian imports more cost-competitive, and stimulating investment in more energy-efficient tyre manufacturing equipment in developed regions. There are shifts within the selection of raw materials, as tyre OEMs introduce higher-performance designs, and corporate strategies prioritize more sustainable material sets. This is seeing increased volumes of natural rubber (latex) in tyres, along with lower rolling resistance silica fillers.

On a parallel track, tyre makers will place extra emphasis on ethical sourcing, especially of natural rubber, with the new EU Deforestation Regulation posing a direct challenge for European OEMs. Emerging concerns over tyre particulate emissions are expected to increase over the next five years – stimulating sales of harder wearing tyre compounds, and the evolution of alternatives to 6PPD in manufacturing operations.

EUDR – opportunity or obstacle?

In June 2023, the EU Regulation on Deforestation-Free Products (EUDR) entered into force. When it comes into application at the end of 2024, EU operators placing seven commodities on the EU market – including natural rubber and its derivatives such as gloves and tyres – will have to ensure that these products are deforestation-free and legal in the country of production.

Given the importance of rubber for the economy and rural incomes, Thailand is making significant efforts to support EU operators' compliance with the EUDR and mitigate potential challenges for its farmers, traders and processors.

A one-year delay for EUDR. On 14 November 2024 the EU Parliament has voted to adopt a one-year postponement of the application date of the EU Deforestation Regulation (EUDR). In addition, the Parliament adopted the proposal tabled by the EPP Group for a four-tier deforestation risk categorisation of producing countries. The Commission is required to finalise the country benchmarking system by 30 June 2025.

The delay comes in response to concerns raised by EU member states, non-EU countries, traders, operators, and trade associations such as the Agricultural Industries Confederation (AIC) and its European counterparts that they would not be able to fully comply with the rules if applied as of the end of 2024.

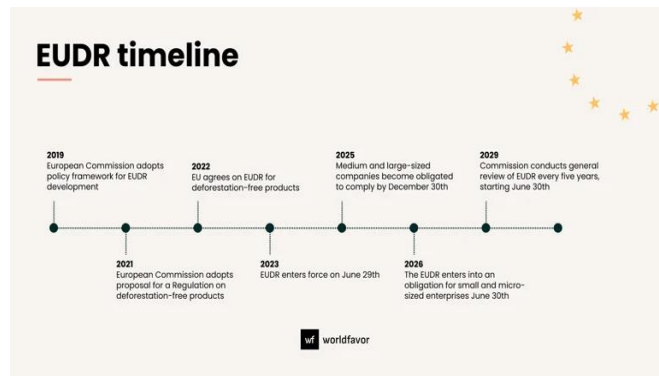
The EUDR has been in force since 29 June 2023 and its provisions are due to be implemented from 30 December 2024. However, **the EUDR implementation will be deferred to 30 December 2025 for large companies, and 30 June 2026 for small companies.**

Exhibit 28: Thailand's rubber price STR 20



Sources: CEIC

Exhibit 29: EUDR new timeline after a one-year delay



Sources: EU

Registering smallholder rubber farmers in preparation for EUDR

Nearly all of Thailand's natural rubber – 90% – is produced by smallholders: there are 1.68m smallholders engaged in rubber production on 3.9m hectares of plantation area. This is significant from an economic and livelihood perspective, as almost 25% of all households engaged in the agricultural sector in Thailand are producing rubber.

Smallholder plots tend to be small, with households cultivating 2.3 hectares on average. Profits from latex harvesting have declined substantially, and even turned negative, for rubber farmers in the past years. In the south of Thailand, the sharp decline in rubber prices after 2011 almost halved the income of rubber-farming households.

While the situation has recently improved, incomes are still much lower than 2011 levels. The small-scale rubber sector in Thailand is fragmented. Smallholders are organised into both formal and informal groups. Currently, there are a total of 958 such groups throughout the country. They are divided into 233 rubber farmer groups and 725 rubber plantation fund cooperatives supported by the Department of Cooperatives. Informal farmer groups exist primarily for participation in auctions.

Farmers don't have formal obligations towards each other in such groups. Cooperative members, however, have obligations and in return, receive funds and subsidized fertilisers. Thailand has 122,602 farmers who are cooperative members. Considering that Thailand has close to 1.7m rubber farmers, the number of organised smallholders is limited.

As of March 2024, RAOT has registered more than 1.6m farmers, as well as farmers' groups and rubber processing entities. As part of the registration, RAOT is collecting information about the farmers, the geolocation data of their plots of land and information about their products (see mapping section above).

One key challenge related to the registration of farmers is land tenure. The number of households who do not hold a land title for their rubber plantations is a concern and appears to be increasing, primarily in the newly opened areas. Having a land title is a prerequisite for registration by RAOT.

Traceability of natural rubber supply chains. These mapping and registration efforts are fundamental steps for providing the information needed by operators to conduct due diligence under the EUDR when placing rubber products on the EU market. But to achieve this, geolocation and legality information need to be passed on from one actor to the next along the entire supply chain.

In this context, traders play a critical role in Thailand and it will be important to include them in RAOT's registration systems. Rubber supply chains are complex, with several layers of traders between producers and processors, who are often located far apart.

Traders mix rubber from different sources in collection centres and their supply chain transactions are often informal, which adds an extra layer of complexity. It will be important to identify incentives for traders to formally register in RAOT's systems allowing rubber collection centres to record inputs and outputs so that manufacturers can trace the raw material inputs back to the source.

An effective national traceability system can support the inclusion of smallholders into rubber supply chains and prevent disruptions in the rubber trade from Thailand to Europe, and to other countries that process products for the European market such as Malaysia. Without a system in place, smallholder farmers who are not mapped and traders operating informally risk being excluded from European supply chains.

However, traceability is not only about geolocation information. Evidence of compliance with the laws and regulations applicable in Thailand shall be passed on together with evidence of deforestation-free production⁹. Land tenure or use rights for rubber plantations located in national reserved forests could be especially problematic, as it requires a permit to collect natural rubber from this type of public land.

Assuring the legality of cultivating rubber on public lands, in particular in national reserved forests, will be necessary to ensure that only legal rubber products are placed on international markets. Another challenge from a legal perspective is related to the employment of foreign workers in rubber plantations and processing facilities. The Thai rubber sector is heavily reliant on foreign workers from neighbouring countries. Ensuring that these workers have the appropriate permits and working conditions in compliance with Thai laws will be important.

Do Chinese tyres still have export advantages ?

In recent years, the global tyre industry has seen significant shifts, with Chinese tyres increasingly coming under scrutiny and facing various trade barriers. From anti-dumping duties to increased tariffs and regulatory hurdles, Chinese tyres are encountering a complex landscape of international trade challenges. We analyzed the current state of international tyre market to explore whether Chinese tyres still hold export advantages amid growing resistance and evolving trade policies.

1. Rising Trade Barriers

South Africa's Anti-Circumvention Investigation. On 20 September 2024, South Africa's International Trade Administration Commission (ITAC) launched an anti-circumvention investigation targeting new inflatable radial tyres exported from China through Cambodia, Thailand, and Vietnam. This move aims to address concerns that these countries are acting as intermediaries to circumvent anti-dumping duties imposed on Chinese tyres. This investigation highlights the increasing vigilance of countries like South Africa in scrutinizing the origins of tyre imports and enforcing trade regulations.

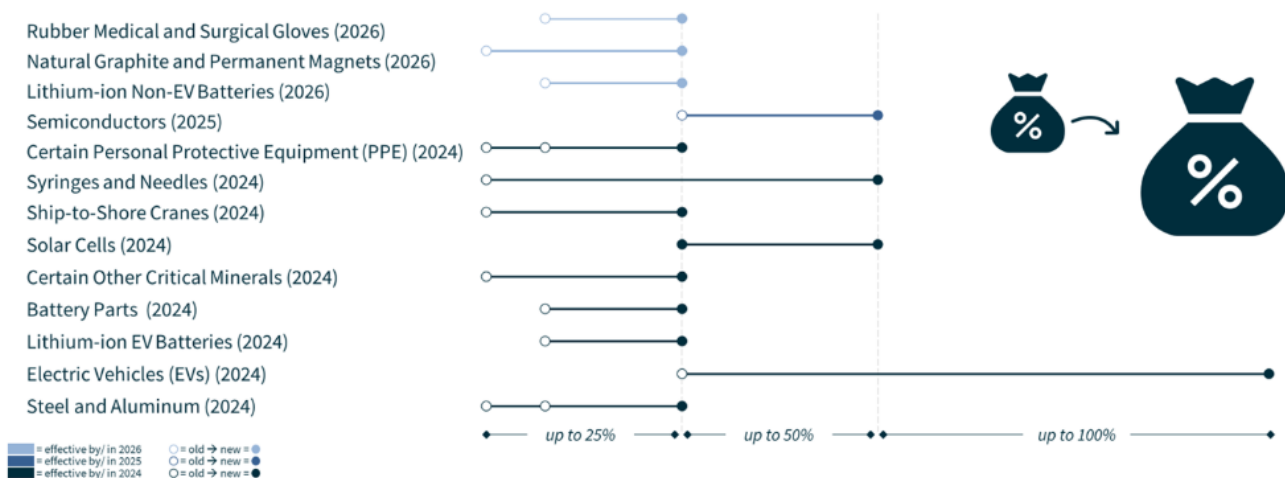
Brazil's Increased Tariffs. Brazil recently approved a significant tariff hike for passenger car tyres, raising the import duty from 16% to 25% as of 18 September 2024. The Brazilian tyre manufacturing sector has advocated for a rise in import tariffs for commercial vehicle tyres from 16% to 35%, citing the negative impact of low-priced foreign products on the domestic industry. With Brazilian tyre prices reportedly 70% lower than the international average, this tariff adjustment reflects a broader trend of protecting local industries from international competition.

US tariff hikes. Announced in June 2024, US again hike its tariffs on Chinese imported products into US markets, including EVs, Li-ion battery, solar cells, medical equipment, semiconductors, and rubber medical gloves. The US tariffs, particularly EV, are expected to have minimal impact on EU-China trade. An analysis from the Kiel Institute shows, that US imports only amount to 12,000 Chinese EV annually, making any diversion to other markets negligible, and that the EU is the main market for Chinese EVs, with nearly 500,000 units sold in 2023.

Exhibit 30: US hiked tariffs on Chinese imported goods on ground of China's Unfair Trade Practices

Tariff Raises Envisioned by the White House

(according to the Fact Sheet published by the White House on 14th May 2024)



Sources: The White House

Global Resistance Against Chinese Tyres

Chinese tyres have faced global resistance due to their competitive pricing, which many perceive as unfairly undercutting local markets. While US tariff hikes on Chinese EVs may have limited impacts, the EU's tariff hikes on Chinese EVs underscores the EU's significant role and negotiating power in this market.

It is ironic that while EU countries, US, and other developed countries have long enforced their "green rules" on products imported from other countries, including Thailand, such as EUDR, EU's tariff hikes against Chinese EVs have nothing but the contradictions to its stance to achieve the green transformation. Countries worldwide have implemented anti-dumping and countervailing duties against Chinese tyres.

India: On 19 July 2024, India's Ministry of Finance decided to extend the countervailing duty on Chinese truck and bus tyres for another five years, maintaining a rate of 17.57% on CIF values.

United Kingdom: On 27 August 2024, the UK Trade Remedies Authority (TRA) proposed higher tariffs on Chinese truck and bus tyres to protect the domestic tyre retreading industry from cheap imports. The TRA's preliminary findings indicate that tariffs on some Chinese commercial tyres could exceed 1,000 RMB per tyre.

US: On 8 August 2024, the US International Trade Commission voted to continue imposing anti-dumping and countervailing duties on Chinese truck and bus tyres. These duties, initially set between 21% and 63.3% for anti-subsidy and 9% to 22.6% for anti-dumping, will remain until the next review in 2029.

Exhibit 31: US imports of tyres by countries

2023	Import value (USD m)	Change (%)	Companies
Thailand	3,297.0	(3.7)	Bridgestone, Deestone, Double Coin, Goodyear, JGST, Linglong, Maxxis, Michelin, Otani, Prinx Chengshan, Sentury, Sumitomo, Vee, Yokohama, ZC Rubber
Mexico	2,184.0	15.6	Bridgestone, Goodyear/Cooper, JK tyre, Michelin, Pirelli
Japan	1,764.0	2.5	Bridgestone, Sumitomo, Toyo, Yokohama
Canada	1,694.0	6.7	Bridgestone, Goodyear, Michelin
Vietnam	1,187.0	(7.6)	Bridgestone, Casumina, Goodyear (Cooper), Maxxis, DaNang Rubber, Jinyu Tyre Kenda, Kumho, Sailun, Yokohama
Others	8,597.0	(10.7)	
Total	18,723.0	(4.8)	

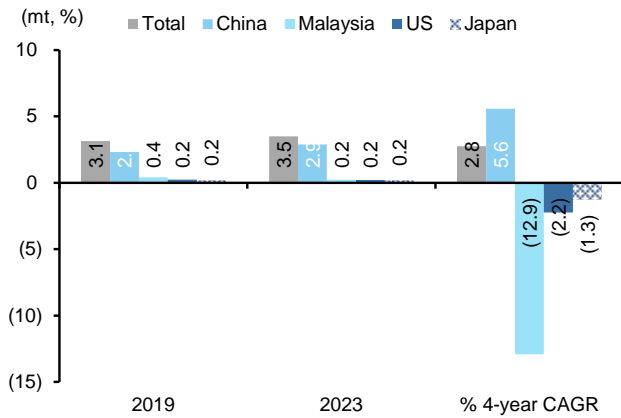
Sources: US Department of Commerce

Thailand sees limited impact on US tariffs on tyre exports

China's strategy to mitigate trade barriers by establishing tyre manufacturing bases in Thailand has faced backlash. With increased tyre exports from Thailand to the US, the US has initiated annual reviews and live hearings on anti-dumping petitions related to Thai and Korean tyres. The US Steel Workers Union's petition, alleging a 47.8% dumping margin for Thai tyres, underscores the intensifying scrutiny on regional production shifts.

However, Thailand has increasingly consumed rubber in domestic markets, mainly for car tyres, NR gloves, and other rubber applications such as medical equipment. During 2019-23, rubber consumptions for domestic market tripled from 581kt in 2019 to 1.2mt in 2023, driven by car tyres (54% in 2023), auto parts (7%), gloves (9%), flexible rubber (10%), and other applications (17%). These higher demand for rubber alone timely help offset the stagnant demand for car tyres due to the impact of geopolitical tariffs.

Exhibit 32: Thailand's rubber export volume growths



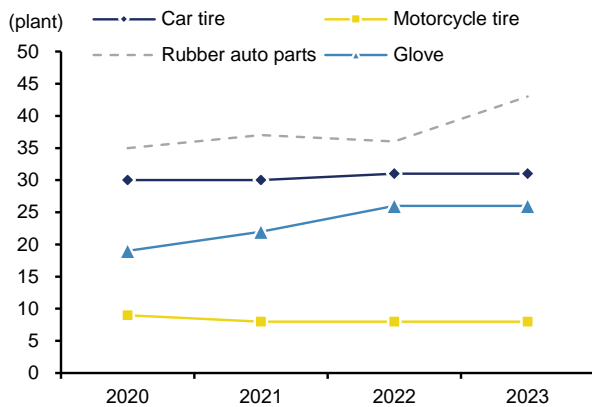
Sources: Office of Agricultural Economics

Exhibit 33: Thailand's rubber demand and export

Thailand's rubber demand (tpa)	2019	2023	% 4-year CAGR
Automobile	413,019	758,180	16.4
Surgical glove	64,378	127,640	18.7
Elastic	111,471	116,117	1.0
Rubber band	8,605	17,770	19.9
Other	65,611	227,747	36.5
Thailand's rubber export volume	2019	2023	% 4-year CAGR
China	2.31	2.87	5.6
Malaysia	0.40	0.23	(12.9)
US	0.23	0.21	(2.2)
Japan	0.20	0.19	(1.3)
Total	3.14	3.50	2.8

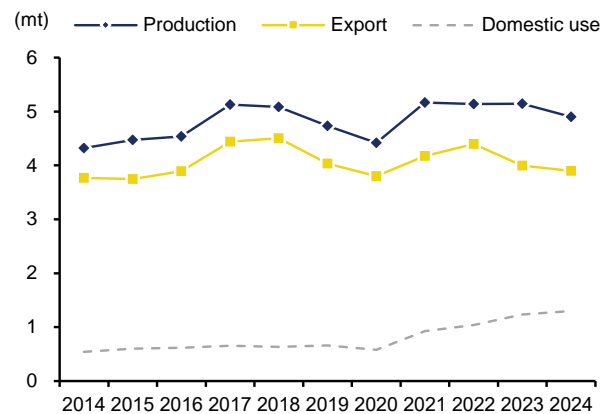
Sources: Office of Agricultural Economics

Exhibit 34: Thailand's number of production plants for car tyres, motorcycle tyres, rubber auto parts, and gloves



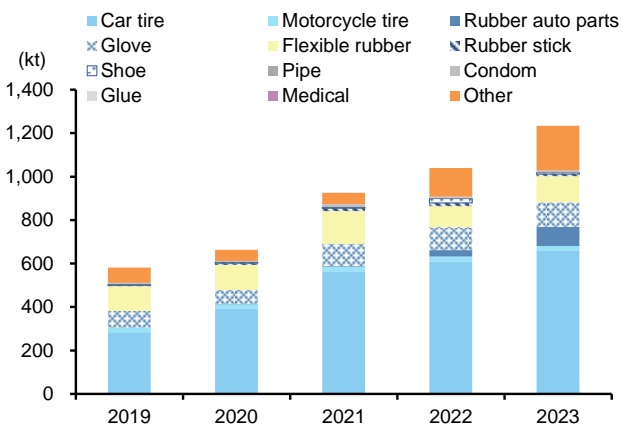
Sources: Department of Agriculture

Exhibit 35: Thailand's rubber consumptions and productions



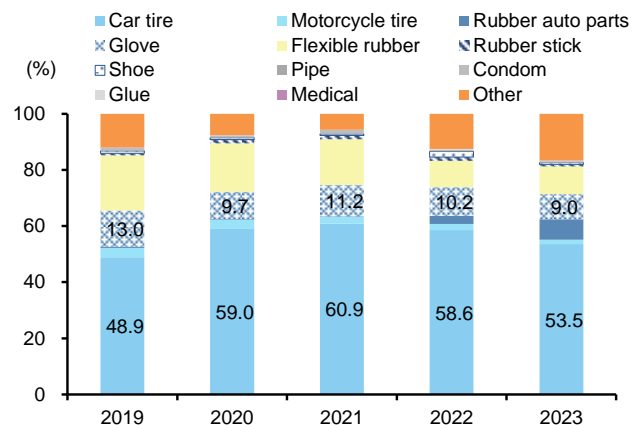
Sources: Department of Agriculture

Exhibit 36: Thailand's rubber demand by industry



Sources: Department of Agriculture

Exhibit 37: Thailand's rubber demand by industry (%)



Sources: Department of Agriculture

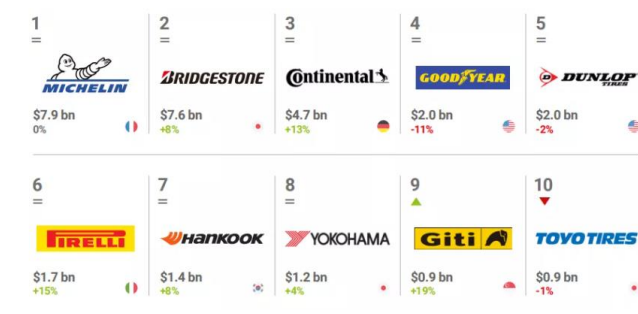
2. The Emergence of Global Trade Policies

EU's Anti-Subsidy Duties on EV. In addition to tyre-specific measures, broader trade policies affect Chinese manufacturing. On 4 July 2024, the European Commission imposed provisional anti-subsidy duties on Chinese EVs, with varying rates for different manufacturers. This move reflects the EU's growing concern over competitive pricing from Chinese producers and signals potential future challenges for other Chinese exports.

China's Response and Strategic Adjustments. China's tyre industry, once dominant due to low pricing, faces increased resistance globally. To counteract these barriers, Chinese tyre manufacturers are focusing on improving quality, investing in high-end technology, and enhancing brand reputation. Companies are also diversifying their manufacturing locations to mitigate the impact of tariffs and trade restrictions.

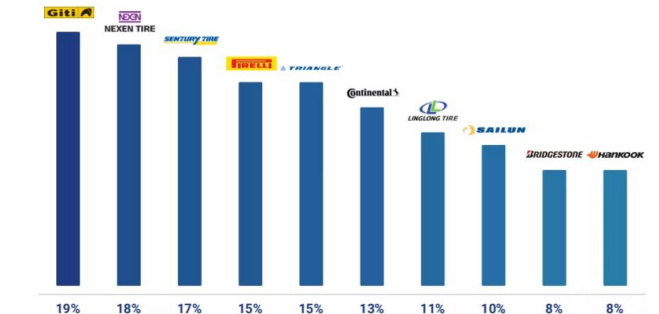
Domestic vs. International Market Dynamics. The rapid rise of Chinese tyre brands such as Triangle, Linglong, and Double Coin illustrates the sector's shift from low-cost to high-quality products. Despite the resistance, these brands are making strides in the high-end market, competing effectively against established international brands. The emphasis is shifting towards innovation, quality, and brand strength, challenging the perception of Chinese tyres as merely low-cost options.

Exhibit 38: Top 10 most valuable tyre brands 2024



Sources: Brand Finance 2024

Exhibit 39: Top 10 tyre brands by market share in 2024



Sources: Brand Finance 2024

In June 2024, Brand Finance, a brand valuation consultancy, released its latest 25 tyre brands ranking. While many US and incumbent brands - Michelin (France), Bridgestone (Japan), Continental, Goodyear, Dunlop, Pirelli (Italy), Hankook (South Korea), Yokohama (Japan) - have retained their top 10 rankings, Giti (Singapore) made into top 10 for the first time to substitute Toyo Tyres (Japan).

However, the highlights will be in the top 11-25 rankings, with four Chinese brands Sailun, Linglong Tyre, Sentury Tyre, Triangle Tyre made into top 25. Four Indian brands MRF, Apollo Tyres, JK Tyres, Ceat also entered the list, as well as two Taiwanese brands CST and Kenda Tyres.

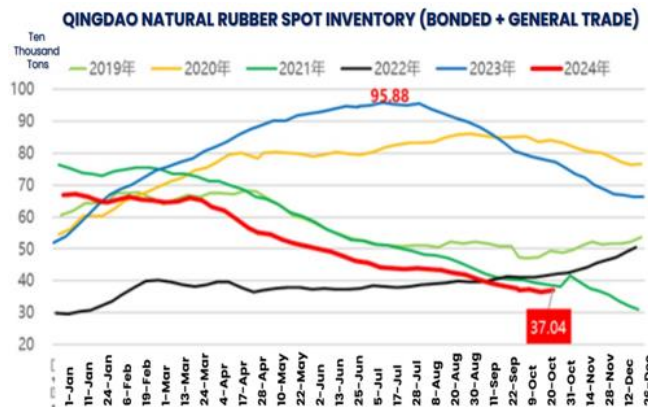
Six major Chinese tyre brands have made China the region with the highest representation of tyre brands. Sentury Tyre showed the fastest growth with a 17% increase, followed by the brand value of Triangle (15%), Linglong (11%), and Sailun (10%).

Nearly half of the world's fastest-growing tyre brands come from China, indicating that China has succeeded in transitioning from low-quality to high-quality brands, signaling a new era of competition and opportunity in the global tyre market.

China's low rubber inventory necessitates upcoming re-stocking in 2025E.

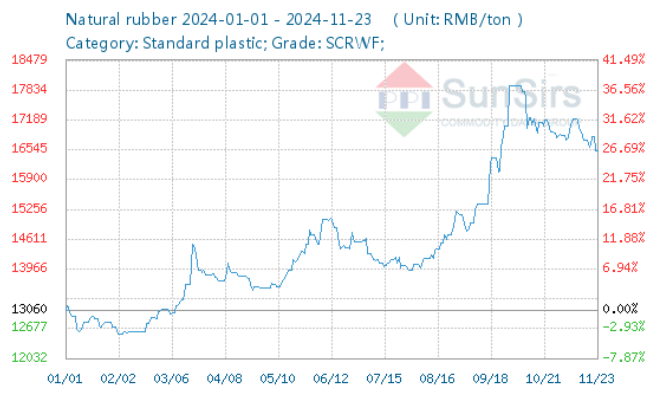
Rubber inventory at China's Qingdao is now at its historical low, which could lead to rubber restocking in the coming quarters that could drive up rubber prices higher towards THB80-90/kg. The repercussions of tariff hikes by US and other countries against Chinese tyres and EVs should have limited impacts on the global rubber prices, allowing the growing demand to push up prices higher, in our view.

Exhibit 40: Rubber inventory at China's Qingdao is at historical low



Sources: NER presentation

Exhibit 41: Natural rubber price jumps on higher demands from China



Sources: Bloomberg

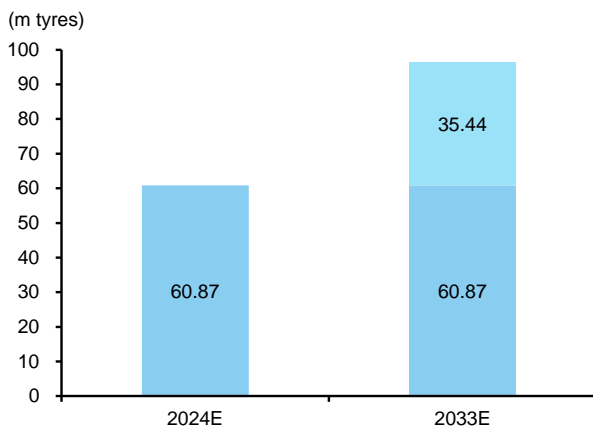
Thailand tyre industry – a glory time

Global relocations underway

Manufacturing is a vital component of Thailand's economy, with the total output of the manufacturing sector reaching USD133.87b in 2023, accounting for 27% of 2023 GDP. Thailand is the strongest manufacturing country among the ASEAN-10, particularly noted for its automotive industry chain, which includes automobile tyre manufacturing, whole vehicle manufacturing, and electronics manufacturing, holding a significant position in Southeast Asia.

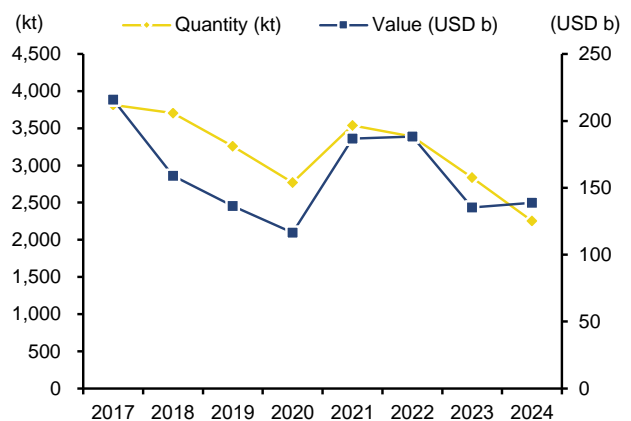
Thailand is a major global producer and exporter of rubber, with a total natural rubber production of 4.7mt in 2023, accounting for one-third of the world's production, thus giving the Thai automobile tyre industry a raw material advantage. As Thailand's economy has developed, the number of vehicles in the country has also steadily increased. According to Thai government statistics, in 2022, Thailand had 19m vehicles, with a vehicle ownership rate of 271 per thousand people. In Bangkok alone, the annual increase in passenger vehicle ownership exceeds 250,000 units. The development of Thailand's automotive industry has spurred the growth of its automobile tyre industry.

Exhibit 42: Thai Automobile tyre industry



Sources: ResearchandMarket

Exhibit 43: Thailand's rubber export volume and value



Sources: OAE

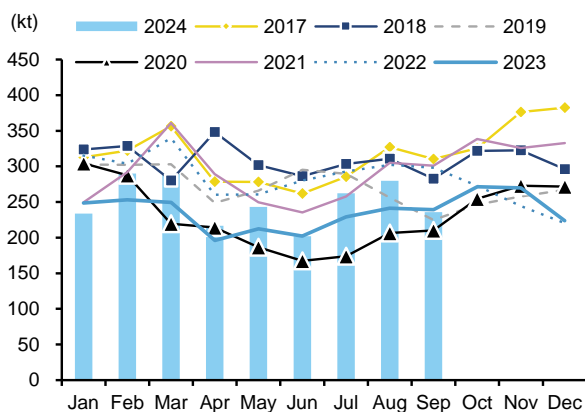
Thailand was the world's second-largest tyre exporter in 2022, accounting for 7.1% of the global market, with a slight decrease in export volume in 2023 but still maintaining a leading position. In 2022, the export value of automobile tyres reached USD2.89b. From 2021 to 2022, the fastest-growing export markets for Thai automobile tyres were Malaysia, Vietnam, and South Korea.

Thai tyre has become the first choice of many Thailand Tyre Manufacturers, its manufacturing base, technological innovation, labor costs and geographical advantages have played a key role. Thailand has a well-developed manufacturing infrastructure that provides an efficient production environment.

The continuous innovation of Thailand tyre factories in production technology is also the fundamental reason for the Thai tyre brands to gain a foothold in the world. Thailand is a leader in automotive innovation, and its many tyre manufacturers are globally recognized. In this article, we will take an in-depth look at the top 7 Thailand Tyre Manufacturers, according to the following Thailand tyre brands list and explore the best tyre brands in Thailand.

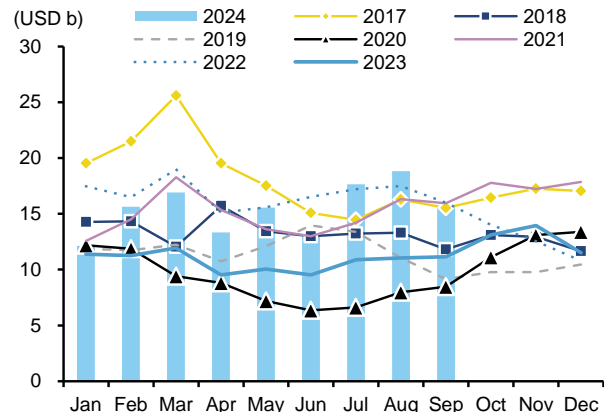
In Thailand's automotive market, passenger cars, including light commercial vehicles like pickup trucks, hold a significant market share. Since 2022, the sales of EV have seen exponential growth, breaking through the 50,000-unit mark in 2023. The future EV market will experience a minor explosion, which will also affect the development pattern of Thailand's automobile tyre industry. In 2023, Thai automobile tyre production was approximately 58m units, with passenger car tyres accounting for about 90% of the total automobile tyre production.

Exhibit 44: Thailand's rubber export by volume



Sources: OAE

Exhibit 45: Thailand's rubber export by value



Sources: OAE

The Thai tyre market is highly competitive. Major players include Michelin, Dunlop, Yokohama Tyre, and Llit. The Thai automobile tyre market not only features local enterprises but also multinational tyre giants. Chinese tyre brands such as Linglong Tyre and Chengshan Tyre have also established a significant presence in Thailand by setting up factories.

Due to its advantageous geographic location, favorable labor conditions, and government incentives, an increasing number of Chinese tyre companies are choosing to set up factories in Thailand. For example, Xinyuan Rubber (Thailand) Company is a state-owned multinational group involved in natural rubber processing and sales; in 2022, the Haomai Group set up its second tyre mold factory in Thailand.

Thailand's Board of Investment (BOI) forecasts that from 2024 to 2033, Thai tyre production will continue to rise, with automobile tyre production projected to reach 96.31m units by 2033, achieving an annual CAGR of 5.2%. In the coming years, the growth of Thailand's automobile tyre industry will be driven by domestic market demand as well as the continually increasing volume of tyre exports.

Initiated Thai rubber sector with an overweight

We initiated our coverage on Thai rubber sector with an overweight, convincing that the net profit growths of Thai rubber producers and exporters will be strong in 2024E-26E on the back of

1) rising demands for tyre, glove, auto parts, and other rubber-related products thanks to the global relocations of EV and tyre producers.

2) higher rubber prices from current bottom at THB60-65/kg to THB80-90/kg, driven by the strong rubber demands and tight supplies caused by structural changes in Indonesia, Vietnam, and Thailand from rubber plantations to palm (Indonesia), Durian (Vietnam, Thailand), and coffee (Thailand).

3) capacity expansions of NER, STA, and STGT, to timely reap the benefits of both higher rubber demands and prices.

Our top picks are NER (upstream rubber exporter) and STGT (downstream glove exporter). Catalysts for NER (Buy, TP THB8.0) are capacity expansion by 33% to 0.8mtpa by 2026, higher rubber price, and attractive valuation trading at sub-5x 2025E P/E and 6% plus dividend yield. STGT (Buy, TP THB14) will greatly benefit from higher margins on rising selling prices to match the preceding higher cost, the weakening Thai Baht against USD, and the capacity expansion and higher utilization rates.

We are neutral on STA (Neutral, TP THB20) given its net profit remains highly unpredictable due to the low utilization rates and the less effective pricing strategy. However, the benefit of EUDR for STA will be the highest among all Thai rubber producers but we expect the benefit to be smaller than the market's expectation.

Exhibit 46: Peers comparison

Company BBG code	Rec	Share Price (LCY)	Target price (LCY)	Upside (%)	Market Cap (USD m)	3Y EPS CAGR (%)	--- PE ---		--- ROE ---		--- PBV ---		EV/ EBITDA	
							24E (x)	25E (x)	24E (%)	25E (%)	24E (x)	25E (x)	24E (x)	25E (x)
THAILAND														
STGT TB	BUY	9.75	14	44	2,190	157.0	36.6	17.5	2.6	5.4	1.0	0.9	43.1	21.3
STA TB	NA	17.6	NA	NA	788	270.6	6.9	356.0	8.2	0.0	0.5	0.5	8.8	18.3
NER TB	BUY	4.8	8	67	255	21.1	4.6	4.2	23.9	22.9	1.0	0.9	10.5	11.5
Thailand avg					3,232	174.0	26.8	99.0	5.6	5.5	0.9	0.8	32.1	19.8
Malaysia														
TOPG MK	NA	1.16	NA	NA	2,085	(179.0)	31.4	na	4.8	(8.5)	1.5	1.7	11.4	na
HART MK	NA	3.55	NA	NA	2,718	(207.0)	3.7	295.8	58.0	1.5	2.2	2.4	2.3	44.9
KRI MK	NA	2.48	NA	NA	1,419	137.1	38.2	130.5	4.2	1.4	1.5	1.6	14.8	27.8
SUCB MK	NA	0.87	NA	NA	495	(185.2)	3.2	na	14.5	(3.1)	0.4	0.5	0.9	na
Malaysia avg					6,717	(208.3)	19.5	147.3	26.9	(2.0)	1.7	1.9	7.7	24.1

Price as of 25 November 2024

Sources: Bloomberg, Globlex Research

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Analyst Certification

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

- BUY:** Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

- Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.