Globlex Securities Co., Ltd.

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Price and volume upsides over US tariff hike downside

- Risk from US tariff hikes is low on Thailand's tires exports
- Catalysts from capacity expansions, industry rubber price uptrend, and EUDR
- NER as top pick on 60% capacity growth, 25% unhedged margin upside, and EUDR

Already high US tariff rates on imported rubber tires from Thailand

We think the looming downside risk for Thai rubber companies from US import tariff hikes on the imported vehicle tires from Thailand will be small, if not negligible, given 1) the current import tariff rates applied on tire imports from Thailand to US have just recently been raised from 7.82% to 17.82% for passenger and pickup tires and from 16.33% to 26.33% for truck and bus tires; 2) even with the new higher tariff rates, the prices of imported tires from Thailand remain competitive compared to other countries.

Tariff hikes on Thailand's tires to US is less likely

Thailand has long been the largest exporter of vehicle tires to US, ranked #1 for passenger and pickup tires with a market share of 40.38% in 2024 and #1 for truck and bus tires with a market share of 42.1%. Vietnam is Thailand's major competitor with a market share of 22.12% for passenger and pickup (#3) and 23.68% for truck and bus (#2) in 2024. We believe the risk for US tariff hike on Thailand's vehicle tires is low given US has already imposed 25% tariff on imported products from Mexico and Canada (including tires) and 35% on China's tires, all being main tire exporters to US.

Structural cost competitiveness enables Thailand to endure more tariff hikes

Even with the new tariff embedded, the prices of tires imported from Thailand are still highly competitive compared to other producers, thanks to the low cost of raw materials as Thailand is the world's largest producer of natural rubber with over 5mtpa production, accounting for 1/3 of global natural rubber supply in 2024. Based on the forecast by the Association of Natural Production Countries (ANRPC), global natural rubber production is projected to fall short of consumption for the fifth consecutive year in 2025, as high rubber prices fell to encourage more tapping in major producing countries like Indonesia and Vietnam.

Natural rubber mega uptrend

The industry benchmark natural rubber prices – TOCOM in Osaka Exchange, SICOM in Singapore Exchange, and over-the-counter (OTC) and contract-for-difference (CFD), are all heading north since their most recent bottoms in Aug-23. The key catalyst for the rubber price mega uptrend is the structural growth in demand, mainly from replacement market (75% of total demand for tire) and shortfall in supply, mainly from two major producers Indonesia and Malaysia on their shift from rubber to palm plantations. We expect natural rubber price to stay above THB65/kg and heading north to THB70-90/kg in 2025-26, greatly benefiting all Thai rubber companies.

NER stands out as a sole winner

We remain bullish on Thai rubber plays and project their net profit to grow substantially, led by NER with its 60% capacity expansion in 2024-27, a zero-to-quarter sales volume price hedging strategy shift to better capture the rubber price uptrend, and the margin upside on upcoming EUDR in 2026 onwards. STA and STGT are less preferred due to their highly volatile margins on different hedging strategies and the excess capacity from their aggressive expansion in the past few years.

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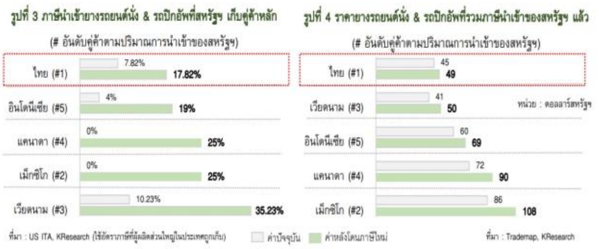
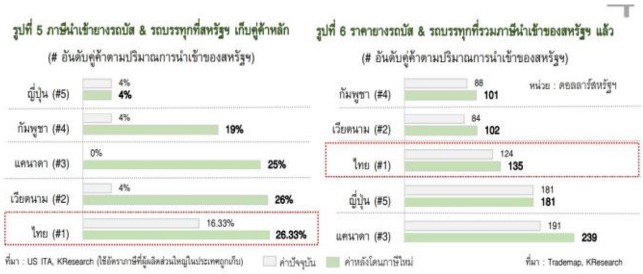
Exhibit 1: US import tariff for Thailand's passenger rubber tire



Sources: US ITA

Exhibit 2: US import tariff for Thailand's truck and bus rubber tire



Sources: US ITA

Exhibit 3: US import amount of vehicle tires

Sources: Trademap

Exhibit 4: Rubber prices based on over-the-counter (OTC) markets and contract-for-difference (CFD) financial instruments

Sources: Trading Economics

Exhibit 5: TOCOM rubber futures (JRUc1)

Sources: Investing.com

Exhibit 6: Singapore Rubber TSR20 Futures - (STFc1)

Sources: Name of source

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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 (target price* - current price) / 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.