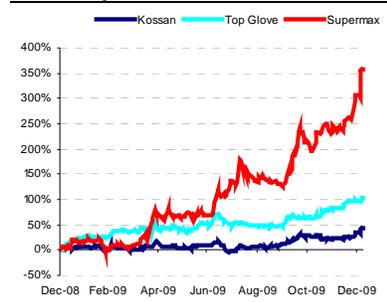


Sector Update

OVERWEIGHT (maintain)

Relative performance



Absolute Performance (%)

	1M	3M	YTD
Kossan	+19.0	+26.9	+92.8
Supermax	+45.4	+102.8	+559.0
Top Glove	+14.5	+29.1	+157.8

Stock	Rating	TP (RM)
Kossan	BUY	8.51
Supermax	BUY	7.82
Top Glove	BUY	15.03

Still upbeat on this Star performer of 2009

A Star in 2009 - share prices appreciated by 94-490% in 2009

Rubber glove companies ended 2009 on a high note, with share prices surging by 94-490% (outperformed KLCI) underpinned by strong yoy earnings growth of 64-88%. Despite the sharp valuation multiple re-rating – from 2-7x in Jan-09 to 8-14x currently, we believe there is still further scope for PE multiple expansion considering the strong underlying earnings growth momentum. This is especially so for Kossan and Supermax, which are trading at CY10 PEs of 8.8x and 10.0x, respectively. At their peak, Kossan traded at forward PE of 16.6x (Jun-07) while Supermax was at 16.8x (Mar-04). Valuations, in our view, are still undemanding, relative to both the sector's historical trading range as well as the market.

Poised for further re-rating – still a Star in 2010

The equity market is poised for further recovery into 2010 (at least in 1Q10), underpinned by improving economic data points, broad based earnings upgrades and little risk of tightening. Furthermore, with the rubber glove sector returning to its heydays, backed by defensive but strong earnings growth, we believe it is reasonable to expect PE valuation to rise to 1SD above historical mean. As such, we raise our target PE for Top Glove to 19.5x (1SD above mean) from 16x (mid-point of mean and 1SD above mean), which leads to a higher target price of RM15.03 from RM12.33 previously. In light of Top Glove's position as the world's largest rubber glove manufacturer, we have benchmarked Supermax and Kossan's valuations to Top Glove. Supermax's PE is raised to 13.7x (30% discount to Top Glove) while Kossan's PE to 12.7x (35% discount to Top Glove).

Fig 1: Changes in target prices and PE multiple

	Top Glove	Supermax	Kossan
Target price (RM)			
Prior	12.33	6.41	6.72
Revised	15.03	7.82	8.51
PE multiple (x)			
Prior	16.0	11.2	9.0
Revised	19.5	13.7	12.7

Source: Affin estimates

Swelling retained earnings, high possibility of bonus issue and higher DPS

In addition to capital gains, we believe shareholders may potentially be rewarded by another round of bonus issue or special dividends. Judging from past track record, glove manufacturers have been generous in rewarding shareholders vide at least 2-3 rounds of bonus issues since their IPO debut, backed by continued profitability and swelling retained earnings. Based on the latest quarterly results, we estimate that glove companies under our coverage have more than sufficient distributable equity reserves to comfortably undertake a 1:1 bonus issue, and possibly even stretch to 2:1. However, considering the need to retain some reserves, we believe any shares distribution exercise will likely be less than 1:1. While this will not have any fundamental impact, any bonus issue exercise will still boost stock liquidity, and is viewed to be positive to sentiment and share price. As a gauge, after Top Glove's announcement of a 2:5 bonus issue back in Oct-06, its PE multiple expanded to 30x. Likewise, sentiments on Kossan and Supermax were also lifted, trading at forward PE of 16x and 13x, respectively.

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Fig 2: Historical bonus issues by Kossan and Top Glove

Kossan		Supermax		Top Glove	
Date	Entitlement	Date	Entitlement	Date	Entitlement
Sep-99	Bonus issue 8:5	Aug-03	Bonus issue 1:3	Apr-02	Bonus issue 3:10
Jun-03	Bonus issue 1:5	Jan-06	Bonus issue 1:4	Mar-03	Bonus issue 2:5
Jul-05	Bonus issue 2:5	Mar-07	Share split 1-into-2	Feb-05	Share split 1-into-2
	Share split 1-into-2			Jan-07	Bonus issue 2:5

Source: Bursa Malaysia

Fig 3: Simulation of bonus issue payout on level of reserves

Kossan		Supermax		Top Glove	
Distributable reserves (RMm)	245.1	Distributable reserves (RMm)	283.7	Distributable reserves (RMm)	447.8
Shares out (m)	159.8	Shares out (m)	265.3	Shares out (m)	303.8
Par value (RM)	0.5	Par value (RM)	0.5	Par value (RM)	0.5
Share capital (RMm)	79.9	Share capital (RMm)	132.7	Share capital (RMm)	151.9
Bonus issue 1:1		Bonus issue 1:1		Bonus issue 1:1	
Distributable reserves (RMm)	165.2	Distributable reserves (RMm)	151.1	Distributable reserves (RMm)	295.9
Shares out (m)	319.6	Shares out (m)	530.6	Shares out (m)	607.5
Share capital (RMm)	159.8	Share capital (RMm)	265.3	Share capital (RMm)	303.8
Bonus issue 2:1		Bonus issue 2:1		Bonus issue 2:1	
Distributable reserves (RMm)	85.3	Distributable reserves (RMm)	18.4	Distributable reserves (RMm)	144.0
Shares out (m)	479.4	Shares out (m)	795.9	Shares out (m)	911.3
Share capital (RMm)	239.7	Share capital (RMm)	398.0	Share capital (RMm)	455.6

Source: Company, Affin estimates

Maintain OVERWEIGHT, top pick – Supermax

We believe rubber glove companies will continue to draw investors attention for their structural earnings growth story backed by highly visible growth drivers. Moreover, the sector is also one of Malaysia's unique investment proposition, commanding over 60% of global market share for latex examination gloves. We maintain our **OVERWEIGHT** stance on the sector with **Supermax (BUY, TP RM7.82)** and **Kossan (BUY, TP RM8.51)** being our top picks for their appealing valuations and fairly decent dividend yields of around 2-3%.

Key risk to our view

Inherent risks faced by glove manufacturers are: 1) labour conditions (may be affected by the government's policy to reduce dependence on foreign labour), 2) supply and pricing of natural gas, 3) RM/US\$ exchange rate, and 4) fluctuations in latex prices. The surge in demand for latex gloves stemming from the H1N1 flu outbreak had led to backlog orders of around 2-3 months for glove manufacturers, prompting some customers to offer premium prices for on-time delivery. As such, this has enabled glove manufacturers to raise selling prices in anticipation of higher latex prices and continued weakness of the US\$ going forward, will keep operating margins relatively buoyant and, supporting earnings momentum over the near-term.

Fig 4: Peers comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x)	Core PE (x)	EPS growth (%)	EPS growth (%)	EV/EBITDA (x)	P/B (x)	ROE (%)	ROE (%)	Div Yield (%)	Div Yield (%)
						CY10	CY11	CY10	CY11			FY10	FY11	FY10	FY11
Kossan	BUY	5.90	8.51	943	Dec	8.8	7.4	15.6	18.1	6.3	2.7	27.4	25.9	1.9	2.2
Top Glove	BUY	10.52	15.03	3,218	Aug	13.9	12.3	23.7	12.8	8.6	3.6	24.7	23.2	2.8	3.1
Supermax	BUY	5.70	7.82	1,512	Dec	10.0	8.4	19.9	18.8	9.0	3.0	27.3	26.9	3.0	4.0
Hartalega**	NR	6.72	na	1,628	Mar	12.0	9.4	24.9	28.2	8.8	3.5	32.0	29.8	2.7	3.8
Adventa**	NR	3.69	na	536	Oct	14.3	10.0	87.6	43.2	7.9	2.1	19.8	16.6	2.8	4.3
Latexx**	NR	3.47	na	686	Dec	8.4	6.6	58.0	26.8	7.3	na	39.5	35.3	1.4	2.0
Simple average						11.2	9.0	38.3	24.7	8.0	3.0	28.4	26.3	2.4	3.2

**based on consensus estimates

Source: Bloomberg, Affin estimates

Fig 5: Kossan forward PE trend

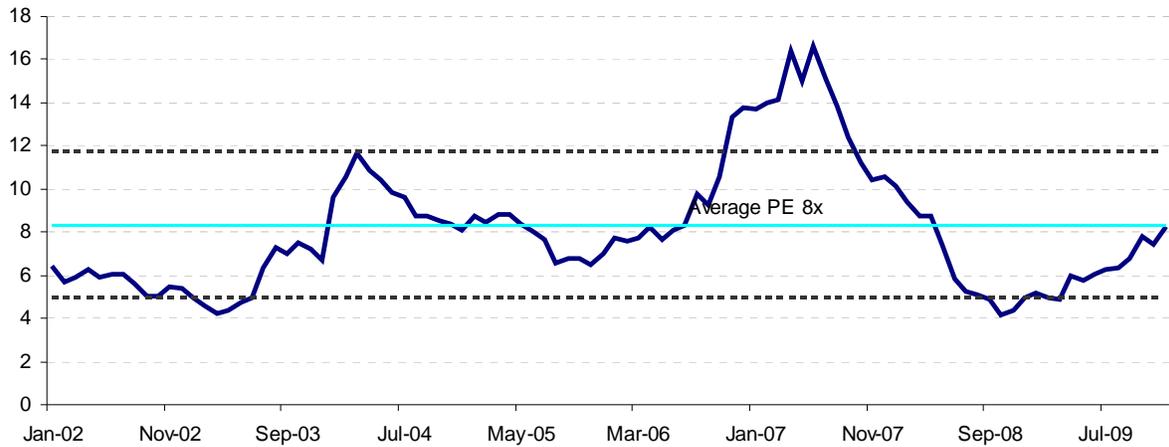


Fig 6: Supermax forward PE trend



Fig 7: Top Glove forward PE trend



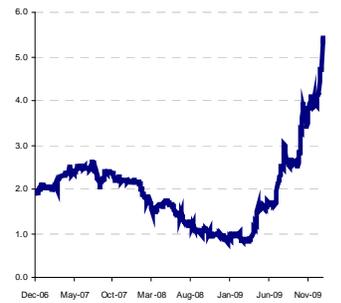
Share price chart



Kossan: Earnings & Valuation summary

FYE Dec	2007	2008	2009E	2010E	2011E
Revenue (RMm)	702.6	897.2	953.7	1,170.9	1,447.4
EBITDA (RMm)	91.3	109.0	147.9	173.9	197.4
Pretax profit (RMm)	58.3	72.9	73.1	135.1	159.4
Net profit (RMm)	55.1	58.6	57.9	107.4	126.8
EPS (sen)	34.5	36.7	36.2	67.2	79.3
EPS growth (%)	39.0	6.5	-1.3	85.6	18.1
PER (x)	17.1	16.1	16.3	8.8	7.4
Core net profit (RMm)	55.1	58.6	92.9	107.4	126.8
Core EPS (sen)	34.5	36.7	58.1	67.2	79.3
Core PER (x)	17.1	16.1	10.2	8.8	7.4
DPS (sen)	8.0	6.0	6.0	11.0	13.0
Dividend Yield (%)	1.4	1.0	1.0	1.9	2.2
EV/EBITDA (x)	11.9	10.3	7.5	6.2	5.3
Consensus profit (RMm)			70.4	98.6	121.4
Affin/Consensus (x)			0.8	1.1	1.0

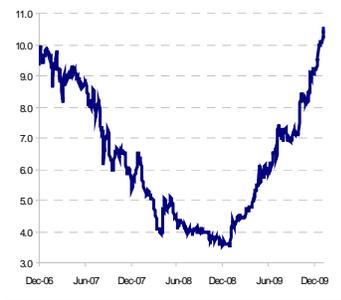
Share price chart



Supermax: Earnings & Valuation summary

FYE Dec	2007	2008	2009E	2010E	2011E
Revenue (RMm)	574.3	811.8	874.0	1,061.8	1,195.8
EBITDA (RMm)	74.9	98.9	159.7	186.6	213.8
Pretax profit (RMm)	58.6	52.0	150.8	180.9	214.9
Net profit (RMm)	55.9	47.0	126.7	151.9	180.6
EPS (sen)	21.1	17.7	47.7	57.3	68.1
EPS growth (%)	40.7	-16.0	169.5	19.9	18.8
PER (x)	27.0	32.2	11.9	10.0	8.4
Core net profit (RMm)	55.9	63.7	126.7	151.9	180.6
Core EPS (sen)	21.1	24.0	47.7	57.3	68.1
Core PER (x)	27.0	23.8	11.9	10.0	8.4
DPS (sen)	3.3	3.3	16.3	17.3	22.6
Dividend Yield (%)	0.6	0.6	2.9	3.0	4.0
EV/EBITDA (x)	24.4	18.9	11.0	9.2	7.8
Consensus profit (RMm)			123.0	136.9	152.0
Affin/Consensus (x)			1.0	1.1	1.2

Share price chart



Top Glove: Earnings & Valuation summary

FYE Aug	2008	2009	2010E	2011E	2012E
Revenue (RMm)	1,377.9	1,529.1	1,895.7	2,117.3	2,379.3
EBITDA (RMm)	196.7	245.0	354.5	390.0	441.8
Pretax profit (RMm)	134.6	222.0	294.6	328.7	377.9
Net profit (RMm)	110.1	169.1	222.8	248.6	285.8
EPS (sen)	36.7	56.3	74.2	82.8	95.2
EPS growth (%)	22.9	53.7	31.7	11.6	15.0
PER (x)	28.7	18.7	14.2	12.7	11.1
Core net profit (RMm)	110.1	169.1	222.8	248.6	285.8
Core EPS (sen)	36.7	56.3	74.2	82.8	95.2
Core PER (x)	28.7	18.7	14.2	12.7	11.1
DPS (sen)	11.0	22.0	29.0	33.0	38.0
Dividend Yield (%)	1.0	2.1	2.8	3.1	3.6
EV/EBITDA (x)	16.4	12.2	8.1	7.0	5.8
Consensus profit (RMm)			216.7	241.8	272.8
Affin/Consensus (x)			1.0	1.0	1.0

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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