

Rubber Gloves

OVERWEIGHT

Maintained

Getting to grips with US healthcare reform

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US health insurance reform

US President Barack Obama is proposing comprehensive health insurance reforms that will benefit American families and small businesses. The healthcare reform bill is targeted to be passed by year-end.

46m Americans not insured. It is understood that about 46m or 15% of Americans are not insured, mainly because of loss of employment-based coverage. This arises from a host of factors: job losses, rising premiums, fewer employers offering coverage (including retiree coverage) and more employees declining coverage. The uninsured group apparently consists mostly of young adults, employees in smaller firms and those on relatively low wages.

Proposing insurance for all. Under the reform, insurance coverage will be extended to the 46m. This group of people will have guaranteed access to quality, affordable healthcare and will be able to choose a plan that suits their family needs. Insurance companies will not be allowed to deny them coverage because of pre-existing medical conditions.

Affordable insurance for those who already have one. For those who already have health insurance, the reform is said to provide them with more security and stability. It will limit the out-of-pocket costs and prevent insurance companies from dropping coverage if they get too sick. They can also have affordable insurance options if they lose their jobs or change jobs. It will even cover preventive care like check-ups and mammograms, thereby saving lives and money.

Working towards passing the health reform. President Obama is said to be committed to working to pass a comprehensive health reform bill this year in order to control rising healthcare costs, guarantee the choice of doctor and assure high-quality, affordable healthcare for all Americans. All in, the comprehensive health reform should:

- reduce long-term growth of healthcare costs for businesses and government
- protect families from bankruptcy or debt because of healthcare costs
- guarantee choice of doctors and health plans
- invest in prevention and wellness
- improve patient safety and quality of care
- assure affordable, quality health coverage for all Americans
- maintain coverage when Americans change or lose their jobs
- end barriers to coverage for people with pre-existing medical conditions.

Comments

The winners. We are not entirely surprised by the news as the issue of healthcare reform has been high on the agenda for quite sometime this year. This is positive news for the glovemakers, especially those with the biggest exposure to the US market, i.e. Hartalega (HART MK, Outperform) and Kossan (KRI MK, Outperform) as well as OBM players such as Supermax (SUCB MK, Outperform) and Adventa (ADV MK, Not Rated) as they can command higher prices when demand is strong. Currently, Malaysian glovemakers export 27-77% of their output to the US.

Glovmakers expect demand to rise. From our checks with the glovemakers, most of them concur with our favourable take on the healthcare reforms as the insurance coverage will give US citizens better access to quality healthcare services. This will increase the consumption of medicines and medical disposables such as gloves.

Figure 1: Percentage of revenue contribution from the US

	% of revenue from the US
Hartalega	77%
Kossan Rubber	50%
Latexx Partners	44%
Supermax	39%
Top Glove	27%

Source: Companies, CIMB Research

Valuation and recommendation

Maintain OVERWEIGHT. We maintain our OVERWEIGHT stance on the rubber glove sector in light of the favourable industry landscape, our expectations of continued market leadership for Malaysia's glovemakers and the demand resilience for rubber gloves, especially examination and medical-grade gloves. All glove stocks under our coverage remain Outperforms. Potential re-rating catalysts are a continued uptick in demand from the healthcare industry, ongoing capacity expansion and strong earnings growth. Supermax and Kossan are our top picks. For Supermax, the potential share price triggers include the improvement in its earnings and margins stemming from overseas distribution centres and OBM model. As for Kossan, the potential upside catalysts include improving earnings ability due to its changing product mix and aggressive capacity expansion.

Figure 2: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x)		3-yr EPS CAGR (%)	P/BV (x)	ROE (%)	Div yield (%)
						CY2009	CY2010		CY2009	CY2009	CY2009
Hartalega	HART MK	O	5.40	6.93	374	13.8	10.5	28.0	4.1	34.3	2.2
Kossan	KRI MK	O	3.73	6.03	171	7.5	7.4	21.8	1.6	15.4	1.6
Latexx	LTX MK	O	1.86	2.56	104	7.4	5.4	75.9	2.2	33.9	1.1
Supermax	SUCB MK	O	2.50	4.02	190	7.2	6.5	20.3	1.5	21.8	2.8
Top Glove	TOPG MK	O	7.29	8.60	633	13.7	12.7	19.8	2.5	19.8	2.2
Simple average						9.9	8.5	33.2	2.4	25.0	2.0

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

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SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

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TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

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