CIMB Research Report

SECTOR UPDATE

6 January 2010

MALAYSIA

Rubber Gloves

In great shape

OVERWEIGHT Maintained

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- **In great shape; maintain OVERWEIGHT.** The rubber glove sector had a spectacular year in 2009, raising the question of further upside from here on. We believe that prospects remain favourable and demand growth is sustainable. This underpins our decision to retain our OVERWEIGHT stance on the sector. Factors that could extend the re-rating include the continuing uptick in demand from the healthcare industry, ongoing capacity expansion and above-market earnings growth driven by major capacity expansion by many of the glove companies. Adventa and Supermax remain our top picks.
- **Outperform and higher targets for all stocks.** We retain our earnings forecasts and Outperform recommendations for all the glove stocks under our coverage. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium over our target market P/E of 15x instead of parity. Our target prices for the remaining glove companies rise in tandem, except for Adventa and Supermax for which we reduced our discount relative to Top Glove by 10% in view of their exposure to the OBM segment and high liquidity. This raises their target prices by about 25%.
- **2009 was a great year.** 2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.
- **Strong performance but still undervalued.** Rubber glove companies outperformed the KLCI in 2009, surging 94-540% compared to a 45% gain for the KLCI. Despite the strong performance, their P/E ratings remain at a discount to the market instead of the premium that they historically traded at. The sector now stands at an average FY10 P/E of 9.4x or just half of the peak during end-06/early-07. We believe that the rubber glove companies are still undervalued and offer tremendous earnings upside due to their expansion programmes.
- **Demand to remain strong...** Demand for rubber gloves is expected to be strong over the next few years. Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.
- **…, underpinning major expansion plans.** Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding annual capacity of 3bn-7bn pieces (17-97% growth) to capture a bigger slice of the expanding market.

Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2010	Core P/E (x) CY2011	3-yr EPS CAGR (%)	P/BV (x) CY2010	ROE (%) CY2010	Div yield (%) CY2010
Adventa	ADV MK	O	3.13	5.44	134	10.1	7.6	31.5	1.7	19.7	3.1
Hartalega	HART MK	O	6.21	11.24	442	10.4	8.2	34.5	3.5	38.3	3.4
Kossan	KRI MK	O	5.49	8.95	258	7.7	6.1	34.6	1.8	26.1	3.1
Latexx	LTX MK	O	3.18	4.36	184	7.7	6.1	89.8	2.6	39.5	1.6
Supermax	SUCB MK	O	4.70	7.96	370	9.0	7.8	37.2	1.9	23.7	2.2
Top Glove	TOPG MK	O	10.08	15.90	906	11.5	10.5	21.9	3.1	29.0	2.9
Simple average						**9.4**	**7.7**	**41.6**	**2.4**	**29.4**	**2.7**

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

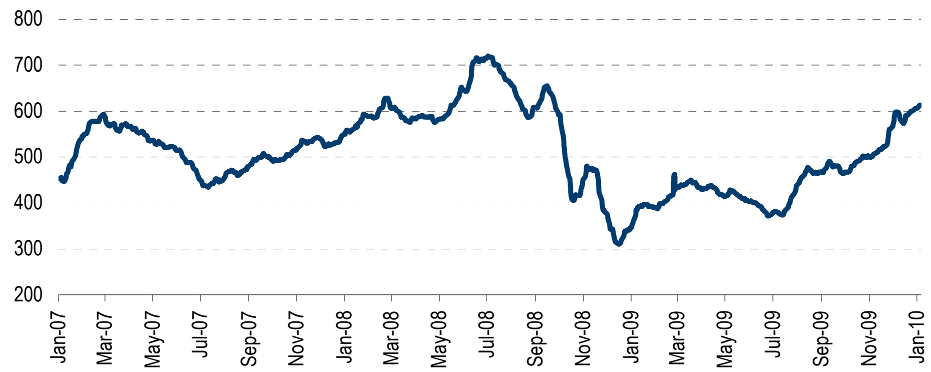
Review of 2009

2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.

Order cycle returned to normal… In 2008, latex prices went to a high of RM7.20/kg in July before dropping to as low as RM3.10/kg in December. In view of the falling latex prices and uncertain economic conditions, glove customers around the world scaled back their orders and kept inventory at a minimum. As a result, there was a qoq pullback in sales in 1Q09. But latex price headed upwards again in 1Q09 and glove sales went back to normal in 2Q09 as most customers reverted to their normal order cycle.

…as latex prices climbed back up. At the start of 2009, latex prices continue to trade at a low of about RM3.46/kg due to the weak global demand for rubber which mainly comes from the automotive sector. However, rubber prices climbed higher over the course of the year as the biggest rubber producers i.e. Thailand, Indonesia and Malaysia cut production. Latex prices averaged RM4.51/kg in 2009 in line with our forecast of RM4.50/kg (2008: RM5.68/kg). Across the board, glove manufacturers continued to use the previous month's average latex price in setting their selling prices, thereby maintaining their margins.

Figure 1: Latex price trend (sen/kg)



Source: Bloomberg

Gas and energy prices reduced. Effective 1 Mar 2009, the government revised the cost of gas supplied to the power sector and industrial users. As rubber glove manufacturers generally fall under the category of small-medium scale industries which consume less than 2mmscfd, gas prices were cut by 32% from RM22.06/mmbtu to RM15/mmbtu. Tenaga also announced a 5% cut in electricity rates for all industrial users. The news brought cheer to the rubber glove manufacturers which managed to enjoy a slight margin expansion before the cost savings were passed back to their customers. Moreover, the move made Malaysian rubber glove manufacturers more cost competitive than other glove manufacturers in the region, specifically Thailand and Indonesia.

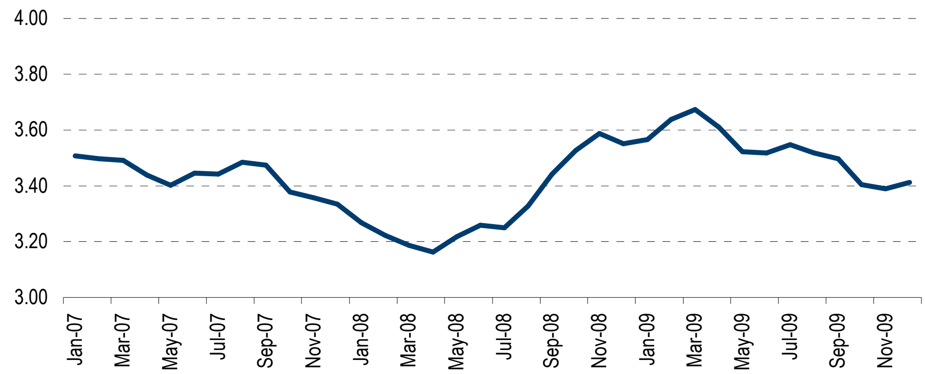
Figure 2: Revision in gas prices

	Previous price 1 Aug 2008 (RM)	Revised price 1 Mar 2009 (RM)	% change
Power sector	14.31	10.70	(25.2)
Industrial sector:			
Less than 2mmscfd	22.06	15.00	(32.0)
More than 2mmscfd	23.88	15.35	(35.7)

Source: Gas Malaysia, The Star

US$ strengthened. As more than 95% of rubber gloves produced in Malaysia are exported, the volatility of the US$ is one of the major issues that glove manufacturers face. In view of the depreciation of the US$ in early 2008, some of the rubber glove manufacturers such as Kossan and Adventa entered into 1-year foreign hedging contracts to lock in their US$ receipts during end-08. However, the situation turned against them as US$ firmed throughout 1H09, leading to huge losses for these companies. The RM:US$ exchange rate averaged RM3.53:US$1 in 2009 in line with our forecast of RM3.50:US$1 (2008: RM3.29:US$1). For 2010, our economics research team projects an average rate of RM3.45:US$1.

Figure 3: RM:US$ exchange rate



Source: CEIC

H1N1 fuelled demand… In April 2009, the H1N1 influenza broke about in South America and spread across the globe. By June, the World Health Organisation (WHO) declared the outbreak as a pandemic. As at 27 Dec 2009, the death toll was at least 12,220, more than half of which was in the Americas and a fifth was in Europe. Not surprisingly, demand for medical disposables such as rubber gloves increased significantly. Our industry sources believe that global demand for rubber gloves could have increased by as much as 15% in 2009 compared to growth rates of 8-10% p.a. in previous years.

.. which caused a supply shortage. The demand surge led to a global shortage of gloves, partly because the manufacturers had been cautious in their expansion due to the downturn of the global economy in 2008. To cater to the rising orders, Supermax and Latexx Partners brought forward their expansion plans to 2009 and should reap the benefits from 1Q10 onwards.

Major contributor to rubber exports. Malaysia exported RM7.03bn worth of rubber gloves in 2008. In Jan-Oct 09, Malaysia's total rubber glove exports amounted to RM5.85bn. Malaysian Rubber Glove Manufacturers Association (MARGMA) expects 2009 rubber glove exports in value terms to be similar to 2008 even though volumes are higher. This is because of lower average selling prices due to lower costs, especially for latex.

Share price performance. Rubber glove companies outperformed the KLCI in 2009, surging 94-540% compared to a 45% gain for the KLCI. The best-performing stock was Latexx Partners which reported higher earnings as a result of its aggressive expansion. The laggard was Kossan whose share price was, in our opinion, held back by falling contribution from its TRP division, forex losses and two fire incidents.

Figure 4: Share price performance vs. KLCI

	31-Dec-08	31-Dec-09	Growth
	Closing share price (RM)		
Adventa	0.69	3.17	362.8%
Hartalega Holdings	1.65	6.22	277.0%
Kossan Rubber Industries	2.80	5.43	93.9%
Latexx Partners	0.48	3.07	539.6%
Supermax Corporation	0.80	4.72	490.0%
Top Glove Corporation	3.50	10.06	187.4%
KLCI Index	876.75	1,272.78	45.2%

Source: Bloomberg, CIMB Research

Outlook for 2010

Demand to remain strong. Demand for rubber gloves is expected to be strong over the next few years. Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. Rubber glove will remain as protection against the spread of diseases, especially for healthcare workers. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.

Disease outbreaks. On top of that, the emergence of new viruses such as the H1N1, SARS and variants of the bird flu is expected to boost rubber glove demand further. Supermax strongly believes that the global demand for gloves will remain strong as the outbreak of H1N1 is providing a boost to the 10% annual organic demand growth. In 2009, the company received orders for 17.5bn pieces of gloves but expected to fulfil only 12.4bn pieces due to lack of fresh capacity during the year. This results in an order backlog of 5.1bn for 2010 (Figure 5). Although this may be a source of dissatisfaction for its customers, we think that all the players faced a similar problem last year.

Update on US healthcare reform. Recently, the US Senate approved President Barack Obama's healthcare overhaul which backed sweeping changes in the medical insurance market and new coverage for tens of millions of uninsured Americans. The overhaul, which is Obama's top legislative priority, is expected to lead to the biggest changes in the US$2.5tr US healthcare system since the 1965 creation of the government-run Medicare health programme for the elderly and disabled. The US House of Representatives and Senate will meet again sometime this month to mesh their bills which have some key differences such as the creation of a government-run health insurance plan, abortion rules and tax issues. But the bills have some areas in common including subsidies for lower- and middle-income earners to buy insurance coverage and creation of "exchanges" where individuals and small business can compare and shop for plans. We think the US healthcare reform will be positive for the Malaysian rubber glove industry as the companies under our coverage currently export 20-77% of their output to the US. As the insurance coverage will give US citizens better access to quality healthcare services, it should increase the consumption of medicines and medical disposables such as gloves. According to Supermax, the US accounts for almost 40% of the global rubber glove demand which is estimated to be at about 140bn pieces in 2009. Healthcare reform could increase the US's demand by as much as 5%.

Figure 5: Orders received by Supermax ('000 pieces)

		2009				
Orders Received	**2008**	**1Q09**	**2Q09**	**3Q09**	**4Q09**	**Total**
Polymer's customers	13,500	3,050	4,000	4,000	3,800	14,850
From APLI's customers	2,640	330	330	330	330	1,320
H1N1	Nil	Nil	450	300	300	1,050
Total orders received	16,140	3,810	4,630	4,630	4,430	17,500
Total shipped	12,765	2,995	3,015	3,130	3,250	12,390
Back orders	3,375	815	1,615	1,500	1,180	5,110

Source: Company,, CIMB Research

Big expansion plans. Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years (Figure 6). Among the big six, Adventa and Kossan appears to be the most aggressive in their expansion. Over the next two years, each of the industry giants will be adding 3bn-7bn pieces of annual capacity (17-97% growth) to capture a bigger slice of the expanding market

Accelerating expansion plans. In view of the favourable outlook for the industry, the glove manufacturers are going ahead with their expansion plans. Some, i.e. Latexx and Supermax have even brought forward their expansion to 2009 to take advantage of the current high demand. Latexx started putting in new lines at Plant 1 in 4Q09 while Supermax kicked off its 12-line expansion at its Meru plant around the same time. It should start commissioning these new lines by 1Q10. On top of that, completion of Top Glove's Factory 20 has been brought forward from June 2010 to February 2010.

Figure 6: Capacity expansion plans (bn pieces p.a.)

	2009	2010	Annual increase Absolute	(%)	2011	Annual increase Absolute	(%)	Growth in 2 years Absolute	(%)
Adventa	3.5	5.2	1.7	49%	6.9	1.7	33%	3.4	97%
Hartalega	6.4	7.9	1.5	23%	10.0	2.1	27%	3.6	56%
Kossan Rubber	11.1	14.5	3.4	31%	18.0	3.5	24%	6.9	62%
Latexx Partners	6.0	7.6	1.6	27%	9.0	1.4	18%	3.0	50%
Supermax	14.5	17.6	3.1	21%	21.7	4.2	24%	7.3	50%
Top Glove	31.5	35.3	3.8	12%	36.8	1.5	4%	5.3	17%
Total	**73.0**	**88.1**	**15.1**	**21%**	**102.4**	**14.4**	**16%**	**29.5**	**47.9%**

Source: Companies, CIMB Research

Improvement in technology. On top of capacity expansion, rubber glove manufacturers are using technology to maintain their competitive edge. This includes producing better quality gloves, installing double former glove manufacturing facilities and putting in auto stripping systems. Some of these technologies are either patented (for example, Supermax's dental gloves) or are pending patents (for example, Hartalega's double former lines). We believe there will be more technological advances in 2010 as more and more companies focus on their research & development programmes. By moving ahead with technology and automation, the companies will be able to improve quality and overall efficiency, which will give them lower costs and better margins in the longer term.

Interest from foreign investors returning. Rubber glove was a hot sector a few years back but fell out of favour in 2007-08 when the US$ weakened and latex prices surged. Nevertheless, the sector regained favour in 2009 as investors realised that rubber glove companies operate on a relatively fixed margins and were set for robust growth. This was substantiated by the high quarterly earnings posted by many of the company. Figure 7 shows the latest foreign shareholding level of the rubber glove manufacturers. Foreign shareholding is at its highest ever for Top Glove, the global leader in rubber gloves. We view this as a good sign for the industry as it shows strong interest from foreign investors.

Figure 7: Latest foreign shareholding levels

Adventa	=> Around 10% currently - Peaked at 14% in early 08
Hartalega	=> Less than 5% since 08
Kossan	=> Around 9% currently - Peaked at around 18% in 07
Latexx	=> None
Supermax	=> Around 11% currently – Peaked at almost 30% in 05
Top Glove	=> 37% currently - This is the company's highest foreign shareholding level

Source: Companies,, CIMB Research

OBMs are the most liquid. Figure 8 shows the liquidity of rubber glove stocks. The most liquid stocks over the past three months were Supermax and Adventa which are both OBM players and our current top picks. They are followed by Latexx, Top Glove, Kossan and Hartalega. Besides Kossan and Latexx, all other glove stocks showed higher trading volumes during the past three months than the preceding six months. In terms of value, Supermax topped the league with an average daily trading value of RM15.8m for the past three months. This is more than triple the daily average of RM5.1m for its nearest competitor, Top Glove.

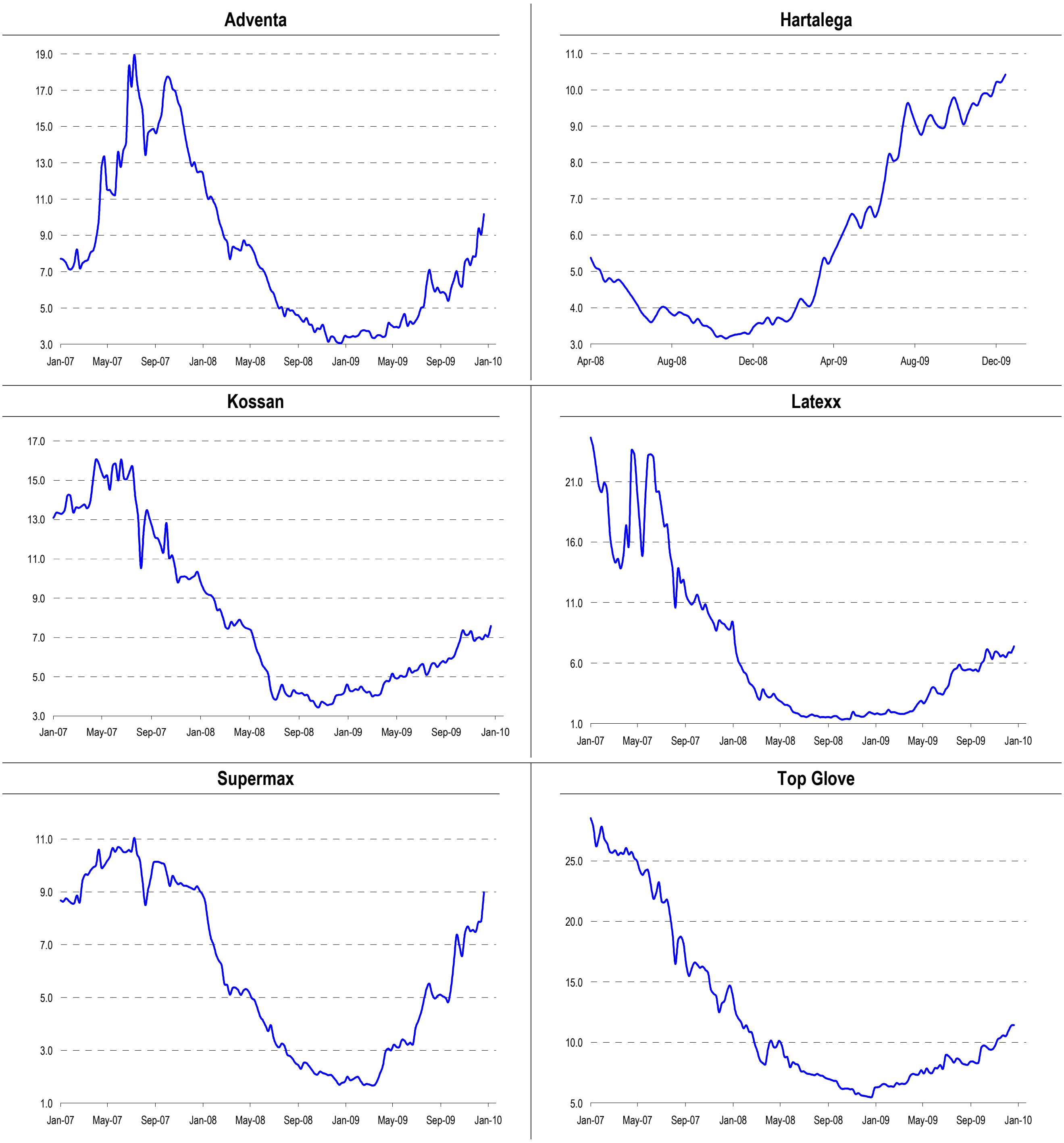
Figure 8: Liquidity of rubber glove stocks

Company	Average volume traded 3 months	6 months	Average daily value traded (3 months) (RM)
Adventa	2,090,505	1,693,023	5,031,242
Hartalega	319,305	273,394	1,895,416
Kossan Rubber	365,369	480,351	1,836,253
Latexx Partners	1,475,358	2,025,161	4,039,637
Supermax	4,169,915	3,322,094	15,783,310
Top Glove	588,161	531,144	5,058,827

Source: Bloomberg

Still undervalued. Despite the gains in their share prices last year and increase in liquidity in recent months, rubber glove stocks have yet to re-rate to fair levels and continue to trade at a discount to the market instead of the premium that they historically traded at. The sector now stands at an average FY10 P/E of 9.4x or just half the peak seen at end-06/early-07. As at end-06, Top Glove, the industry leader, was trading almost at 31x P/E. We believe that the rubber glove companies are still undervalued and offer tremendous earnings upside due to their expansion programmes supported by the steadily rising demand from the healthcare industry. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity. We believe that the premium is justified as investors rediscover the attractive qualities of the rubber glove stocks such as long-term earnings sustainability and defensive qualities (Figure 10). For Adventa and Supermax, we have also reduced our discount to Top Glove by 10% in view of their exposure to the OBM segment and high liquidity. This raises their target prices by about 25%. Our target prices for the remaining glove companies rise in tandem with Top Glove's premium, leading to 37-81% share price upside (Figure 11).

Figure 9: 12M - forward FD core P/E (X)



Source: Company, CIMB Research, Bloomberg

Figure 10: Industry earnings growth

Company	3-year EPS CAGR
Adventa	31.5%
Hartalega	34.5%
Kossan	34.6%
Latexx	89.8%
Supermax	37.2%
Top Glove	21.9%
Average	**41.6%**

Source: CIMB estimates

Figure 11: Recommendation, target price and basis

	Recommendation		Target price		Target basis	
Company	**Old**	**New**	**Old**	**New**	**Old**	**New**
Adventa	Outperform	Outperform	4.33	5.44	30% discount to Top Glove's 15x P/E	20% discount to Top Glove's 16.5x P/E
Hartalega	Outperform	Outperform	10.21	11.24	10% discount to Top Glove's 15x P/E	10% discount to Top Glove's 16.5x P/E
Kossan	Outperform	Outperform	8.13	8.95	40% discount to Top Glove's 15x P/E	40% discount to Top Glove's 16.5x P/E
Latexx	Outperform	Outperform	3.97	4.36	30% discount to Top Glove's 15x P/E	30% discount to Top Glove's 16.5x P/E
Supermax	Outperform	Outperform	6.40	7.96	30% discount to Top Glove's 15x P/E	20% discount to Top Glove's 16.5x P/E
Top Glove	Outperform	Outperform	14.45	15.90	Target market P/E of 15x	10% premium to target market P/E of 15x
Sector	**Overweight**	**Overweight**				

Source: CIMB estimates

Sustainable margins. The margins of rubber glove manufacturers improved in 2009, led by reduced pricing pressure due to strong demand. We think that margins will remain stable, if not improve, over the next few years given that glove prices can be adjusted to the previous month's average exchange rate and latex prices. There is also the possibility of margin expansion from greater cooperation between the players, improvement in product specifications and the sale of more gloves on an OBM basis.

Companies' strategies for 2010

As a result of the global shortage of rubber gloves in 2009, glove orders have spilled over to 2010. Capacity for 1Q10 for many manufacturers is already fully booked and the glove companies are now taking orders for their 2Q capacity. Across the board, the glove manufacturers are running flat out in an attempt to fulfil orders.

Adventa – small but the most aggressive. Adventa is the smallest rubber glove player among the big six in terms of production capacity, which stands at 250m pairs of surgical gloves p.a. and 3bn pieces of examination and dental gloves. The company plans to expand it to 350m pairs and 4.5bn pieces by the end of this year. Part of this includes installing new lines with a production capacity of 35,000 pieces per hour by 1H10 at its Kluang plant. The group expects its sales to increase substantially in FY10 as its new capacity and the new high output factory in Kluang will enable it to handle more orders. Its plant in Uruguay was certified at the end of last year and should start contribute positively to the company's bottomline from 2QFY10 onwards. On top of that, Adventa is pressing ahead with its plans to increase its investment in distribution and life sciences division. It intends to set up more distribution units overseas. Further testing of its dialysis equipment will be conducted this year before it can sell the product as targeted by 2011.

Continuous innovation by Hartalega. Hartalega's distinct competencies lie in its product and engineering innovations such as high capacity production lines and automated mechanical glove stripping system. For 2010, these will still be the company's main focus, along with its continuous R&D efforts to produce better quality gloves. It has laid out its own capacity expansion plans and targets to achieve 7.9bn pieces (from 6.2bn pieces currently) by the end of FY11 or Mar 2011. Part of this includes decommissioning 10 old lines and replacing them with six high-capacity lines at Plant 1 which is targeted to produce natural rubber powdered gloves for the emerging markets. Over the long term, Hartalega wants to expand its natural rubber range from 20% of sales to 30%.

Kossan puts back the positives. 2009 was not a good year for Kossan. Forex losses and two fire incidents made the company a laggard among the rubber glove stocks. However, the company is determined not to put a wrong foot this year and has sworn off long-term forex hedging contracts. Kossan has ambitious long-term expansion plans as some international MNCs have sounded it out on the possibility of long-term contracts. The company intends to raise its annual production capacity from 11.1bn pieces at end-09 to 14.5bn pieces at end-10.

Latexx's expansion is ahead of schedule. Latexx's expansion plans for its Plant 5 were completed about two months ahead of schedule last year. Due to that, installation of new lines at Plant 1 also kicked off in 4Q09 and these lines are expected to commission from 1Q10 onwards instead of 2Q10. The company appears to be ahead of its expansion schedule by at least three months. We gather that demand has been so great that Latexx may even bring forward some of the expansion planned for 2011 to 2010. Should this happen, its annual production capacity could go up to 9bn pieces by the end of this year, ahead of its mid-2011 target. On top of that, the group is growing its powder-free natural rubber and nitrile segments and has been selected by major MNCs as a contract manufacturer this year.

Supermax is also stretching its capacity. Installation at Supermax's Meru plant is on track and should contribute additional output of 1.7bn gloves by 1Q10. In total, the company is looking at an additional annual production capacity of 3.1bn in 2010, taking its capacity to 17.6bn pieces by the end of 2010, partly through the decommissioning of some old lines and replacement with new ones at its Malacca and Sungai Buloh plants. On top that, the company plans to penetrate the rubber glove market further with its own brand gloves and increase its market share in countries such as the US.

Top Glove is a powdered player. For 2010, Top Glove will continue to earmark more than 50% of its production for powdered gloves as the company has the edge in terms of volume, pricing and economies of scale. Demand from developing countries is also still very much focused on this segment as these gloves are much more affordable. Installation of 16 glove production lines in Top Glove's Factory 20 has started and construction of Factory 21 has also kicked off. On top of that, the group plans to add eight new production lines at Factory 18, to be completed by June 2010. The company targets to achieve a total production capacity of 35.3bn pieces by FY10 or August this year.

Valuation and recommendation

Maintain OVERWEIGHT. Last year, we released an in-depth report on the sector, went on a local roadshow and also held a 1-day event for the rubber glove companies and fund managers towards the end of the year. We also expanded our coverage from the big three players (Top Glove, Supermax and Kossan) to the big six with our initiation of coverage on Hartalega, Latexx and Adventa. We maintain our OVERWEIGHT stance on the rubber glove sector and also our earnings forecasts for all the glove companies under coverage in view of the favourable outlook and the sustainability of demand. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. All the glove stocks under our coverage remain as Outperforms, with Adventa and Supermax staying as our top picks. Factors that could extend the re-rating for the sector include the continuing uptick in demand from the healthcare industry, ongoing capacity expansion and strong earnings growth.

Adventa and… Adventa remains one of our top picks due to its high liquidity and aggressive long-term plans to grow its other business segments and become a significant healthcare products supplier in the region. We also like Adventa for its unique position as a player in the high-end surgical segment as well as a strong OBM player. We maintain our earnings forecasts. However, to reflect on its advantage as a strong OBM player and higher liquidity, we are lowering our discount to Top Glove's revised target P/E of 16.5x (10% premium to our target market P/E of 15x) from 30% to 20%, giving us a revised end-CY10 target price of RM5.44, up from RM4.33. This translates into share price upside of 74%. We maintain our Outperform call on the company, premised on the potential share price triggers of the strong improvement in its earnings ability through its surgical glove and OBM segment as well as its ambitious expansion plans.

… Supermax remain our top picks. Supermax sells most of its gloves under its own brand which allows it to command higher margins and gives it a strong presence in markets such as the US and Brazil. In view of this and the favourable outlook for the company, we maintain our Outperform call. To reflect the higher foreign shareholding and improved outlook due to its OBM exposure and higher liquidity, we are lowering our discount to Top Glove's revised target P/E of 16.5x (10% premium to our target market P/E of 15x) from 30% to 20%. This raises our end-CY10 target price from RM6.40 to RM7.96 which translates into share price upside of 69%. Potential re-rating catalysts include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM segment.

Efficient Hartalega. Hartalega's efficient glove manufacturing facilities and high-capacity production lines set it apart from the rest. It earmarks a big portion of its production for nitrile gloves and targets to become the top nitrile glove manufacturer in the world by FY11. In view of this, we retain our earnings forecasts and Outperform call. Our end-CY10 target price is upped from RM10.21 to RM11.24, pegged at a 10% discount to Top Glove's revised target P/E of 16.5x. Potential share price triggers include its ability to sustain high margins due to its superior operational efficiency and higher premium products.

2010 should be a better year for Kossan. We remain positive about Kossan given the potential improvement in its longer-term prospects. We like the company for its prudent capacity expansion plans, which lead to consistently high utilisation rates. 2010 should be a better year for Kossan given its expansion and an expected pick-up in its TRP division. We retain our earnings forecasts but increase our end-CY10 target price from RM8.13 to RM8.95, still based on a 40% discount to Top Glove's target P/E. Potential share price triggers include the improvement in its long-term earnings, thanks to its expansion.

Aggressive Latexx. Although Latexx has been aggressively expanding its capacity over the past few years, we think the company may bring forward part of its capacity expansion plan for 2011 to 2010 in view of the strong demand. We like the company for its aggressiveness and its move into higher-quality powder free natural rubber and nitrile gloves. We maintain our earnings forecasts until it confirms that it is bringing forward its expansion. Our Outperform call is intact, with a higher end-CY10 target of RM4.36 (from RM3.97 previously), which we continue to peg to a 30% discount to Top Glove's target P/E. Potential share price triggers include the strong improvement in its earnings ability, driven by its major expansion plans and move towards premium products. Latexx's 3-year EPS CAGR of 90% is the highest in the industry.

Still at the Top. Top Glove remains the largest global rubber glove manufacturer with a production capacity of 31.5bn pieces per annum. We salute the company for its industry leadership and its position as a volume player with strong finances to boot. Although its expansion plans may seem to be less aggressive than its competitors', we do not discount the possibility of a surprise in the form of further capacity expansion or even M&As given that it still has landbank for further expansion and the financial muscle for acquisitions. In view of the positive outlook, we now value it at a 10% premium to our target market P/E of 15x instead of parity. As a result, our end-CY10 target price rises from RM14.55 to RM15.90. We continue to rate Top Glove an Outperform for its leadership of the rubber glove industry. Potential upside catalysts include the continuing uptick in global glove demand and ongoing capacity expansion.

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COMPANY BRIEFS…

CIMB

CIMB Research Report

Adventa Bhd

In great shape

QUICK TAKES

6 January 2010

Syariah-compliant stock

OUTPERFORM Maintained

RM3.13 Target: RM5.44

Mkt.Cap: RM454m/US$134m

Rubber Gloves

MALAYSIA

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Raising target prices for all glove manufacturers

The rubber glove sector had a spectacular year in 2009, raising the question of further upside from hereon. We believe that prospects remain favourable and demand growth is sustainable. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. This underpins our decision to retain the sector as an Overweight. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity, leading to a rise to all rubber glove target prices by at least 10%. Adventa remains one of our top picks. We retain our earnings forecasts and OUTPERFORM call on the company. However, to reflect its pluses of strong OBM exposure and higher liquidity, we are lowering our discount to Top Glove's revised target P/E of 16.5x from 30% to 20%, giving us a revised end-CY10 target price of RM5.44, up from RM4.33.

Rubber glove sector remains in great shape

2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.

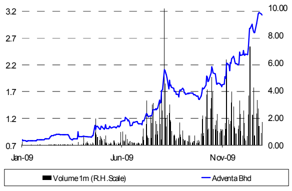
Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.

Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding 3bn-7bn pieces of annual capacity (17-97% growth) to capture a bigger slice of the expanding market.

Valuation and recommendation

Despite reporting RM15m forex losses, Adventa's share price shot up 363% last year. The outlook remains favourable as management has laid out aggressive expansion plans to cater to the growing demand and has assured investors that it will not go into any more long-term forex hedging contracts. Adventa remains one of our top picks due to its high liquidity and its unique position as a player in the high-end surgical segment as well as a strong OBM player. We maintain our earnings forecasts. However, to reflect its pluses of strong OBM exposure and higher liquidity, we are lowering our discount to Top Glove's revised target P/E of 16.5x (10% premium to our target market P/E of 15x) from 30% to 20%, giving us a revised end-CY10 target price of RM5.44, up from RM4.33. We maintain our OUTPERFORM call on the company, premised on the potential share price triggers of the strong improvement in its earnings ability through its surgical glove and OBM segment as well as its ambitious expansion plans.

Price chart



Source: Bloomberg

Financial summary

FYE Oct	2008	2009	2010F	2011F	2012F
Revenue (RM m)	185.9	282.9	401.7	547.3	674.0
EBITDA (RM m)	23.0	48.8	60.6	84.3	103.9
EBITDA margins (%)	12.3%	17.2%	15.1%	15.4%	15.4%
Pretax profit (RM m)	13.5	18.4	46.2	63.0	75.9
Net profit (RM m)	13.8	17.0	42.6	58.0	69.9
EPS (sen)	9.5	11.7	29.4	40.0	48.2
EPS growth (%)	(32.5%)	23.2%	150.7%	36.1%	20.5%
P/E (x)	32.9	26.7	10.7	7.8	6.5
Core EPS (sen)	9.5	21.2	29.4	40.0	48.2
Core EPS growth (%)	(32.5%)	122.8%	38.6%	36.1%	20.5%
Core P/E (x)	32.9	14.8	10.7	7.8	6.5
Gross DPS (sen)	0.0	7.0	9.0	13.0	16.0
Dividend yield (%)	0.0%	2.2%	2.9%	4.2%	5.1%
P/BV (x)	2.7	2.5	1.8	1.4	1.1
ROE (%)	8.2%	9.2%	17.0%	17.6%	16.6%
Net gearing (%)	45.3%	41.0%	54.6%	46.8%	37.7%
P/FCFE (x)	47.3	29.8	(22.9)	15.0	12.3
EV/EBITDA (x)	23.2	10.9	9.8	7.2	5.9
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.13	1.14	1.00

Source: Company, CIMB Research, Bloomberg

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CIMB

CIMB Research Report

Hartalega Holdings

In great shape

QUICK TAKES

6 January 2010

Syariah-compliant stock

OUTPERFORM	Maintained
RM6.21	Target: RM11.24
	Mkt.Cap: RM1,505m/US$444m
	Rubber Gloves

MALAYSIA

HART MK / HTHB.KL **Terence Wong CFA** +60(3) 20849689 – terence.wong@cimb.com

Raising target prices for all glove manufacturers

The rubber glove sector had a spectacular year in 2009, raising the question of further upside from here on. We believe that prospects remain favourable and demand growth is sustainable. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. This underpins our decision to retain the sector as an Overweight. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity, leading to a rise to all rubber glove target prices by at least 10%. We maintain our OUTPFERFORM call on Hartalega in view of its ambitious plans to be No.1 in nitrile gloves, its continuous innovation and the favourable industry prospects. We maintain our earnings projections but up our end-CY10 target price from RM10.21 to RM11.24, pegged at a 10% discount to Top Glove's revised target P/E.

Rubber glove sector remains in great shape

2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.

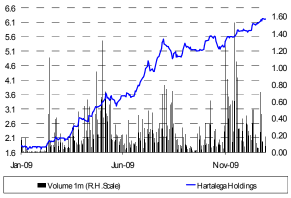
Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.

Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding 3bn-7bn pieces of annual capacity (17-97% growth) to capture a bigger slice of the expanding market.

Valuation and recommendation

Hartalega's efficient glove manufacturing facilities and high-capacity production lines set it apart from the rest. It earmarks a big portion of its production for nitrile gloves and targets to become the top nitrile glove manufacturer in the world by FY11. The company has laid out its own capacity expansion plans and targets to achieve 7.9bn pieces glove production capacity (from 6.2bn pieces currently) by the end of FY11 or Mar 2011. Part of this include decommissioning 10 old lines and replacing them with six high-capacity lines at Plant 1 which is targeted to produce natural rubber powdered gloves for the emerging markets. In view of the company's ambitious plans, continuous innovation and the positive industry outlook, we retain our earnings forecasts and OUTPERFORM call. Our end-CY10 target price is upped from RM10.21 to RM11.24, pegged at a 10% discount to Top Glove's revised target P/E of 16.5x. Potential share price triggers include its ability to sustain high margins due to its superior operational efficiency and higher-margin premium products.

Price chart



Source: Bloomberg

Financial summary

FYE Mar	2008	2009	2010F	2011F	2012F
Revenue (RM m)	257.6	443.2	603.6	753.8	987.8
EBITDA (RM m)	85.8	107.9	163.4	194.7	245.3
EBITDA margins (%)	33.3%	24.3%	27.1%	25.8%	24.8%
Pretax profit (RM m)	76.0	95.5	148.2	177.4	228.7
Net profit (RM m)	69.6	84.5	125.8	150.6	194.2
EPS (sen)	28.7	34.9	51.9	62.2	80.2
EPS growth (%)	87.7%	21.5%	48.9%	19.7%	29.0%
P/E (x)	21.6	17.8	12.0	10.0	7.7
Core EPS (sen)	28.7	32.9	51.9	62.2	80.2
Core EPS growth (%)	87.7%	14.7%	57.7%	19.7%	29.0%
Core P/E (x)	21.6	18.9	12.0	10.0	7.7
Gross DPS (sen)	4.5	12.0	18.0	22.0	29.0
Dividend yield (%)	0.7%	1.9%	2.9%	3.5%	4.7%
P/BV (x)	8.4	5.9	4.3	3.3	2.5
ROE (%)	39.4%	39.0%	41.8%	37.4%	36.7%
Net gearing (%)	18.2%	7.7%	6.5%	2.8%	N/A
Net cash per share (RM)	N/A	N/A	N/A	N/A	0.15
P/FCFE (x)	66.0	36.1	26.2	25.4	16.6
EV/EBITDA (x)	17.9	14.1	9.3	7.8	6.0
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.06	1.07	1.00

Source: Company, CIMB Research, Bloomberg

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CIMB

CIMB Research Report

QUICK TAKES

6 January 2010

Syariah-compliant stock

MALAYSIA

Kossan Rubber Industries Bhd

In great shape

OUTPERFORM	Maintained
RM5.49	Target: RM8.95
	Mkt.Cap: RM878m/US$259m
	Rubber Gloves

KRI MK / KRIB.KL **Terence Wong CFA** +60(3) 20849689 – terence.wong@cimb.com

Raising target prices for all glove manufacturers

The rubber glove sector had a spectacular year in 2009, raising the question of further upside from here on. We believe that prospects remain favourable and demand growth is sustainable. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. This underpins our decision to retain the sector as an Overweight. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity, leading to a rise to all rubber glove target prices by at least 10%. We remain positive about Kossan given the potential improvement in its longer-term prospects. We continue to rate the company an OUTPERFORM. We retain our earnings forecasts but increase our end-CY10 target price from RM8.13 to RM8.95, still based on a 40% discount to Top Glove's target P/E which has been revised to 16.5x.

Rubber glove sector remains in great shape

2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.

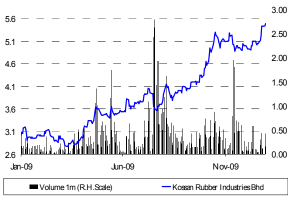
Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.

Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding 3bn-7bn pieces of annual capacity (17-97% growth) to capture a bigger slice of the expanding market.

Valuation and recommendation

2009 was not a good year for Kossan. Forex losses and two fire incidents made the company a laggard among the rubber glove stocks. However, the company is determined not to put a wrong foot this year and has sworn off long-term forex hedging contracts. We remain positive about Kossan given the potential improvement in its longer-term prospects. We like the company for its prudent capacity expansion plans, which lead to consistently high utilisation rates. 2010 should be a better year for Kossan given its expansion and an expected pick-up in its TRP division. We retain our earnings forecasts but increase our end-CY10 target price from RM8.13 to RM8.95, still based on a 40% discount to Top Glove's target P/E. Potential share price triggers include the improvement in its long-term earnings, thanks to its expansion.

Price chart



Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	702.6	893.1	962.6	1,194.5	1,519.6
EBITDA (RM m)	91.3	110.0	168.0	193.7	248.3
EBITDA margins (%)	13.0%	12.3%	17.5%	16.2%	16.3%
Pretax profit (RM m)	58.3	73.1	85.6	139.6	178.4
Net profit (RM m)	55.1	59.3	70.2	114.4	144.5
EPS (sen)	34.5	37.1	43.9	71.6	90.4
EPS growth (%)	19.8%	7.6%	18.5%	63.0%	26.3%
P/E (x)	15.9	14.8	12.5	7.7	6.1
Core EPS (sen)	33.7	37.1	68.9	71.6	90.4
Core EPS growth (%)	17.2%	9.9%	86.0%	3.8%	26.3%
Core P/E (x)	16.3	14.8	8.0	7.7	6.1
Gross DPS (sen)	10.0	12.0	10.0	17.0	22.0
Dividend yield (%)	1.8%	2.2%	1.8%	3.1%	4.0%
P/BV (x)	3.5	2.9	2.3	1.8	1.4
ROE (%)	24.8%	21.4%	20.6%	26.1%	25.4%
Net gearing (%)	51.8%	54.2%	33.1%	30.2%	29.3%
P/FCFE (x)	34.2	(19.5)	26.8	43.2	21.8
EV/EBITDA (x)	11.1	9.5	6.0	5.3	4.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.75	1.15	1.24

Source: Company, CIMB Research, Bloomberg

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CIMB

CIMB Research Report

QUICK TAKES

6 January 2010

Syariah-compliant stock

OUTPERFORM	Maintained
RM3.18	Target: RM4.36
	Mkt.Cap: RM628m/US$185m
	Rubber Gloves

MALAYSIA

Latexx Partners

In great shape

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Raising target prices for all glove manufacturers

The rubber glove sector had a spectacular year in 2009, raising the question of further upside from here on. We believe that prospects remain favourable and demand growth is sustainable. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. This underpins our decision to retain the sector as an Overweight. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity, leading to a rise to all rubber glove target prices by at least 10%. We maintain our OUTPERFORM call on Latexx in view of the company's aggressiveness and its move into higher-quality powder-free natural rubber and nitrile gloves. We make no changes to our earnings forecasts. However, in line with Top Glove's P/E upgrade, we now have a higher end-CY10 target price of RM4.36 (RM3.97 previously) for Latexx, which we continue to value at a 30% discount to Top Glove's target P/E.

Rubber glove sector remains in great shape

2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.

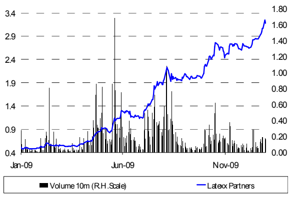
Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.

Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding 3bn-7bn pieces of annual capacity (17-97% growth) to capture a bigger slice of the expanding market

Valuation and recommendation

Although Latexx has been aggressively expanding its capacity over the past few years, we think the company may bring forward part of its capacity expansion plan for 2011 to 2010 in view of the strong demand. The company seems to be ahead of its capacity expansion schedule by at least three months with the commissioning of new lines at Plant 1 expected to kick off in 1Q. We like the company for its aggressiveness and its move into higher-quality powder-free natural rubber and nitrile gloves. We maintain our earnings forecasts until it confirms that it is bringing forward its expansion. Our OUTPERFORM call is intact, with a higher end-CY10 target of RM4.36 (RM3.97 previously), which we continue to peg to a 30% discount to Top Glove's target P/E. Potential share price triggers include the strong improvement in its earnings ability, driven by its major expansion plans and move towards premium products. Latexx's 3-year EPS CAGR of 90% is the highest in the industry.

Price chart



Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	150.8	223.3	392.7	534.9	646.6
EBITDA (RM m)	10.5	24.1	66.4	101.0	128.3
EBITDA margins (%)	6.9%	10.8%	16.9%	18.9%	19.8%
Pretax profit (RM m)	4.9	15.2	51.9	82.1	103.8
Net profit (RM m)	4.9	15.2	51.9	82.0	103.8
EPS (sen)	2.5	7.8	26.3	41.5	52.5
EPS growth (%)	(11.3%)	209.4%	238.8%	58.0%	26.5%
P/E (x)	126.9	41.0	12.1	7.7	6.1
FD core EPS (sen)	1.8	5.5	18.9	29.8	37.7
FD core P/E (x)	179.1	57.8	16.9	10.7	8.4
Gross DPS (sen)	0.0	0.0	3.0	5.0	7.0
Dividend yield (%)	0.0%	0.0%	0.9%	1.6%	2.2%
P/BV (x)	5.9	5.1	3.7	2.6	1.8
ROE (%)	6.5%	13.4%	35.8%	39.5%	35.3%
Net gearing (%)	11.9%	47.0%	33.6%	11.0%	3.9%
P/FCFE (x)	(183.1)	75.1	17.2	11.0	18.7
EV/EBITDA (x)	60.4	28.2	10.3	6.5	5.0
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			N/A	N/A	N/A

Source: Company, CIMB Research, Bloomberg

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CIMB

CIMB Research Report

6 January 2010

Supermax

In great shape

RECOM	Buy
PRICE	RM4.70
MKT CAPITALISATION	RM1.26bn
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

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Investment highlights

- **In great shape; maintain BUY.** The rubber glove sector had a spectacular year in 2009, raising the question of further upside from here on. We believe that prospects remain favourable and demand growth is sustainable. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. This underpins our decision to retain the sector as an Overweight. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity, leading to a rise to all rubber glove target prices by at least 10%. Supermax remains one of our top picks. We retain our earnings forecasts and BUY call on the company. However, to reflect its pluses of strong OBM exposure and higher liquidity, we are lowering our discount to Top Glove's revised target P/E of 16.5x from 30% to 20%, giving us a revised end-CY10 target price of RM7.96 for Supermax, up from RM6.40.
- **2009 was a great year.** 2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.
- **Demand to remain strong.** Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size. Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding annual capacity of 3bn-7bn pieces (17-97% growth) to capture a bigger slice of the expanding market.

Key stock statistics

FYE Dec	2008	2009F
EPS (sen)	17.7	49.2
P/E (x)	26.6	9.5
Dividend/Share (sen)	3.2	9.5
NTA/Share (RM)	1.6	2.0
Book Value/Share (RM)	1.6	2.0
Issued Capital (m shares)		268.3
52-weeks Share Price Range (RM)		RM4.80/RM0.78
Major Shareholders:		**%**
Dato' Seri Thai Kim Sim, Stanley		20.7
Datin Seri Tan Bee Geok, Cheryl		14.8
Koperasi Permodalan Felda		5.6

Per share data

FYE Dec	2006	2007	2008	2009F
Book Value (RM)	1.06	1.66	1.58	2.00
Cash Flow (sen)	17.2	32.0	37.3	55.3
Earnings (sen)	17.6	22.6	17.7	49.2
Dividend (sen)	3.3	3.0	3.2	9.5
Payout Ratio (%)	18.5	13.3	18.1	19.3
P/E (x)	26.7	20.8	26.6	9.5
P/Cash Flow (x)	27.3	14.7	12.6	8.5
P/Book Value (x)	4.4	2.8	3.0	2.4
Dividend Yield (%)	0.7	0.6	0.7	2.0
ROE (%)	17.9	17.9	11.7	27.8
Net Gearing (%)	77.9	87.9	90.0	55.2

Source: Company, CIMB estimates, Bloomberg

Figure 1: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	400.3	574.3	811.8	990.5
Operating Profit (EBIT)	53.4	74.9	98.9	184.6
Depreciation	(13.0)	(19.9)	(28.8)	(32.9)
Interest Expenses	(12.7)	(15.3)	(20.3)	(34.1)
Pretax Profit	47.3	58.6	52.0	155.3
Effective Tax Rate (%)	*16.0*	*4.4*	*9.6*	*15.0*
Net Profit	39.7	55.9	47.0	132.0
Operating Margin (%)	*13.3*	*13.0*	*12.2*	*18.6*
Pretax Margin (%)	*11.8*	*10.2*	*6.4*	*15.7*
Net Margin (%)	*9.9*	*9.7*	*5.8*	*13.3*

Source: Company, CIMB estimates

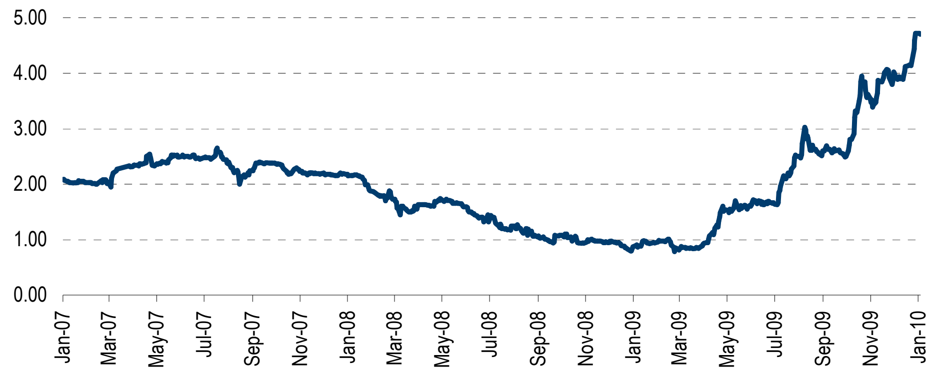
Outlook

Installation at Supermax's Meru plant is on track and should contribute additional output of 1.7bn gloves by 1Q10. In total, the company is looking at an additional annual production capacity of 3.1bn in 2010, taking its capacity to 17.6bn pieces by the end of 2010, partly through the decommissioning of some old lines and replacement with new ones at its Malacca and Sungai Buloh plants. On top of that, the company plans to penetrate the rubber glove market further with its own brand gloves and increase its market share in countries such as the US.

Recommendation

Supermax sells most of its gloves under its own brand which allows it to command higher margins and gives it a strong presence in markets such as the US and Brazil. In view of this and the favourable outlook for the company, we maintain our BUY call. To reflect the higher foreign shareholding and improved outlook due to its OBM exposure and higher liquidity, we are lowering our discount to Top Glove's revised target P/E of 16.5x (10% premium to our target market P/E of 15x) from 30% to 20%. This raises our end-CY10 target price for Supermax from RM6.40 to RM7.96, which translates into share price upside of 69%. Potential re-rating catalysts include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM segment.

Figure 2: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	811.8	990.5	1,237.8	1,499.9
EBITDA (RM m)	74.9	98.9	184.6	205.0	235.6
EBITDA margins (%)	13.0%	12.2%	18.6%	16.6%	15.7%
Pretax profit (RM m)	58.6	52.0	155.3	165.7	190.3
Net profit (RM m)	55.9	47.0	132.0	140.8	161.7
EPS (sen)	22.6	17.7	49.2	52.5	60.3
EPS growth (%)	+30%	-22%	+179%	+7%	+15%
P/E (x)	20.8	26.6	9.5	9.0	7.8
Core EPS (sen)	22.6	23.3	49.2	52.5	60.3
Core EPS growth (%)	+30%	+3%	+111%	+7%	+15%
Core P/E (x)	20.8	20.1	9.5	9.0	7.8
Gross DPS (sen)	3.0	3.2	9.5	10.5	12.5
Dividend yield (%)	0.6%	0.7%	2.0%	2.2%	2.7%
P/NTA (x)	2.8	3.0	2.4	1.9	1.6
ROE (%)	17.9%	11.7%	27.8%	23.7%	22.4%
Net gearing (%)	87.9%	90.0%	55.2%	32.8%	19.1%
P/CF (x)	80.4	48.8	9.0	5.8	9.0
EV/EBITDA (x)	18.9	15.5	7.9	6.8	5.7
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.06	1.03	1.03

Source: Company, CIMB Research, Reuters Estimates

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CIMB

CIMB Research Report

Top Glove Corporation

In great shape

QUICK TAKES

6 January 2010

Syariah-compliant stock

OUTPERFORM Maintained

RM10.08 Target: RM15.90

Mkt.Cap: RM3,083m/US$910m

Rubber Gloves

MALAYSIA

TOPG MK / TPGC.KL **Terence Wong CFA** +60(3) 20849689 – terence.wong@cimb.com

Raising target prices for all glove manufacturers

The rubber glove sector had a spectacular year in 2009, raising the question of further upside from here on. We believe that prospects remain favourable and demand growth is sustainable. Many of the companies in our universe are undertaking major capacity expansion, which will ensure earnings growth that is superior to the market. This underpins our decision to retain the sector as an Overweight. We continue to rate Top Glove an OUTPERFORM for its leadership of the rubber glove industry. In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity, leading to a rise to all rubber glove target prices by at least 10%.. As a result, our end-CY10 target price for Top Glove rises from RM14.55 to RM15.90.

Rubber glove sector remains in great shape

2009 was an excellent year for Malaysian rubber glove manufacturers. Customers' order cycle returned to normal, latex prices came down from record levels, energy prices also fell, the US$ strengthened and to top it off, H1N1 broke about in early 2Q, leading to a rubber glove shortage which manufacturers believe will continue well into 2010.

Malaysian glovemakers predominantly manufacture examination and medical-grade gloves which make up on average 90% of their output. We believe demand will not only be resilient but will continue to grow along with hygiene awareness, health regulations and population size.

Taking their cue from the global shortage of rubber gloves, Malaysian glove manufacturers will be expanding their capacity in a big way over the next few years. Supermax, Latexx and Top Glove have even brought forward their plans. Over the next two years, each of the industry giants will be adding 3bn-7bn pieces of annual capacity (17-97% growth) to capture a bigger slice of the expanding market.

Valuation and recommendation

We salute Top Glove for its industry leadership and its position as a volume player with strong finances to boot. Despite the gains in their share prices last year and increase in liquidity in recent months, rubber glove stocks have yet to re-rate to fair levels and continue to trade at a discount to the market instead of the premium that they historically traded at (Figure 1). In light of the positive industry outlook and superior earnings growth prospects, we now value Top Glove at a 10% premium to our target market P/E of 15x instead of parity. We believe that the premium is justified as investors rediscover the attractive qualities of the rubber glove stocks such as long-term earnings sustainability and defensive qualities. The sector's average 3-year EPS CAGR is at 41.6% (Figure 2) which is superior to market EPS of 18% for 2010 and 12% in 2011. Moreover, the company used to trade at a premium to market, with P/Es of almost 31x as at end-06. Being only about half its historical peak P/E, our 16.5x target P/E is not overly aggressive. As a result of the premium, our end-CY10 target price rises from RM14.55 to RM15.90. We continue to rate Top Glove an OUTPERFORM for its leadership of the rubber glove industry. Potential upside catalysts include the continuing uptick in global glove demand and ongoing capacity expansion.

Figure 1: Top Glove's 12M - forward FD core P/E (X)

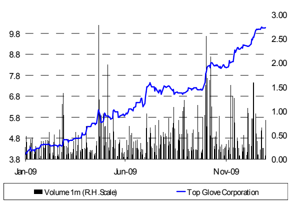
Source: Company, CIMB Research, Bloomberg

Figure 2: Industry earnings growth

Company	3-year EPS CAGR
Adventa	31.5%
Hartalega	34.5%
Kossan	34.6%
Latexx	89.8%
Supermax	37.4%
Top Glove	21.9%
Average	**41.6%**

Source: CIMB estimates

Price chart



Source: Bloomberg

Financial summary

FYE Aug	2008	2009	2010F	2011F	2012F
Revenue (RM m)	1,377.9	1,529.1	2,189.0	2,377.3	2,573.3
EBITDA (RM m)	194.5	286.2	397.8	432.5	468.2
EBITDA margins (%)	14.1%	18.7%	18.2%	18.2%	18.2%
Pretax profit (RM m)	134.6	222.0	336.7	369.5	404.2
Net profit (RM m)	110.1	169.1	260.1	285.3	311.9
EPS (sen)	37.2	56.4	85.2	93.4	102.2
EPS growth (%)	21.2%	51.3%	51.2%	9.7%	9.3%
P/E (x)	27.1	17.9	11.8	10.8	9.9
Gross DPS (sen)	11.0	21.3	28.0	31.0	34.0
Dividend yield (%)	1.1%	2.1%	2.8%	3.1%	3.4%
P/BV (x)	4.5	3.6	3.3	2.9	2.5
ROE (%)	17.1%	22.7%	29.4%	28.2%	27.0%
Net gearing (%)	9.5%	N/A	N/A	N/A	N/A
Net cash per share (RM)	N/A	0.56	0.85	1.36	1.81
P/FCFE (x)	116.3	54.7	19.9	11.6	11.7
EV/EBITDA (x)	15.8	10.1	7.1	6.2	5.5
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.17	1.15	1.13

Source: Company, CIMB Research, Bloomberg

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.	**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 stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	**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.
UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more 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 stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 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.
TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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