CIMB Research Report

SECTOR UPDATE

10 August 2010

MALAYSIA

Rubber Gloves

Striking back at the naysayers

OVERWEIGHT Maintained

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Contents

Investment summary

- **Glovemakers still get our thumbs-up.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. In this report, we get to grips with each issue and lay out reasons why we think that the concerns are overdone. We are confident that demand growth is strong enough to absorb the new capacity and the glove makers' pricing power will allow them to pass on cost increases. The sector remains an OVERWEIGHT and all the glove stocks under our coverage remain Outperforms. Factors that could catalyse the sector include the continuing uptick in demand from the healthcare industry, capacity expansion and strong earnings growth. Supermax and Latexx remain our top picks.
- **Concern #1 – Too much expansion on hand.** Massive capacity expansion plans by most of the companies have stirred fears of a potential glut. We do not think that this will be an issue as demand for rubber gloves remains resilient and is still estimated to grow at an average rate of 8-10% p.a. Slight excess capacity is not uncommon as traditionally glove makers operate at 70-75% utilisation rates instead of the full capacity seen over the past year.
- **Concern #2 – Weakening of US$ and high latex prices.** Investors are also worried that the weakening US$ and high latex prices will erode margins and earnings. We are not unduly worried as this is not the first time that glove manufacturers are facing this situation. Like in the past, ASPs can be adjusted for higher cost and weaker US$ and unfavourable trends have only a temporary effect.
- **Concern #3 – Removal of gas subsidies.** The recent move by the government to cut subsidies for fuel and sugar has stirred fears that power subsidies could be the next target. As natural gas is the main source of energy for rubber glove manufacturers, a rollback of this subsidy could lead to earnings and margin squeeze. But again, the higher cost can easily be passed down as it represents just a small portion of total costs, i.e. 8% compared to 56% for latex.
- **Concern #4 – Squeezed margins.** Another concern that is consistently being raised by investors is margin erosion for the glovemakers. Given the resilience of rubber glove demand, we are not worried about this as glove manufacturers have been consistently working on an absolute profit per glove sold for many years. As selling prices are revised upwards or downwards to reflect changes in cost and RM:US$ rate, margins will also change. More importantly, the absolute margin per box of gloves should remain intact.
- **Concern #5 – Stretched valuations.** While it is true that rubber stocks have performed very well, they continue to trade at a discount to the market instead of the premium that they historically traded at. Despite improving share liquidity, the sector now stands at an average FY10 forward P/E of 10.1x or just half the peak seen for some of the manufacturers as compared to the levels they were trading at back in 2006/07. The stocks are also trading at a huge discount to the market, which is currently trading at an FY10 P/E of 15.6x. We believe that rubber glove companies are still undervalued, considering the huge earnings upside from expansion programmes, which are supported by the steadily rising demand from the healthcare industry.

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	2.81	4.45	135	10.8	8.3	32.3	1.6	16.9	2.7
Hartalega	HART MK	O	7.98	12.73	615	11.1	9.3	19.1	4.2	44.4	3.1
Kossan	KRI MK	O	3.67	6.08	373	8.7	7.0	16.7	2.4	31.6	2.5
Latexx	LTX MK	O	3.52	5.44	236	7.6	5.9	43.9	2.9	46.0	2.3
Supermax	SUCB MK	O	6.00	9.50	648	9.6	8.3	24.4	2.7	32.4	1.6
Top Glove	TOPG MK	O	6.13	8.90	1,205	12.7	11.4	26.5	3.3	28.9	3.2
Simple average						**10.1**	**8.4**	**27.2**	**2.9**	**33.4**	**2.6**

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

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Background

Getting to grips with the concerns

Rubber glove stocks have come under pressure in recent months due to some concerns and misconceptions about the industry. In this report, we get to grips with each issue and lay out reasons why we think that the concerns are overdone. The concerns are 1) overcapacity due to ongoing major expansion plans, 2) weakening of the US$ and record latex prices, 3) potential removal of natural gas subsidies, 4) margin contraction and 5) premium valuations.

Concern #1: Overcapacity

No glut based on our analysis

Oversupply issue is overplayed. The first main concern raised by investors is the possibility of oversupply due to the massive capacity expansion plans announced by the glove manufacturers. We do not think that this will be an issue as demand for rubber gloves remains resilient and is still estimated to grow at an average rate of 8-10% p.a.

Real output to be about 27bn pieces. All of the six rubber glove companies that we actively cover have announced that they are expanding their annual capacity by 3bn-10bn pieces over the next two years. What about the glovemakers that we do not cover? Ansell (ANN AU, Not Rated) and Kimberly Clark (KMB US, Not Rated) do not disclose their capacity expansion plans as examination and surgical gloves make up only 7-33% of their total sales. Siam Sempermed, a JV between Semperit AG (SEM AV, Not Rated) and Sri Trang Agro Industry Plc (STA TB, Not Rated), is expanding its Thai plant by about 3bn pieces over the next two years. However, these expansions are coming in progressively. Furthermore, most glove manufacturers can only run at a maximum utilisation rate of 90% as they require some downtime for maintenance. This, along with potential problems such as commissioning problems, delay in approvals for foreign labour and gas supply as well as holdups in equipment delivery, underpins our assumptions of around 70% utilisation on average. This implies the addition of only 27bn pieces of gloves in total for 2010 and 2011.

New supply needed to keep up with demand. There are no official statistics on the actual size of the rubber glove market. However, most rubber glove manufacturers believe that the size of the market was around 135bn-140bn pieces last year and expect it to grow to about 154bn pieces this year. Assuming 10% demand growth a year, the world will need additional capacity of 29bn pieces by the end of 2011. Working on 70% utilisation and no expansion by other glove manufacturers, we estimate that the real output of the seven rubber glove manufacturers will only be 27bn pieces compared to the expected demand of 29bn pieces (Figure 3).

Figure 1: Capacity expansion plans (bn pieces p.a.)

			Annual increase			Annual increase		Growth in 2 years	
	2009	2010	Absolute	(%)	2011	Absolute	(%)	Absolute	(%)
Adventa	3.5	5.2	1.7	49%	6.9	1.7	33%	3.4	97%
Hartalega	6.2	8.4	2.2	35%	9.6	1.2	15%	3.4	55%
Kossan Rubber	11.0	14.5	3.5	32%	17.5	3.0	21%	6.5	59%
Latexx Partners	6.0	9.0	3.0	50%	10.5	1.5	17%	4.5	75%
Siam Sempermed	10.0	11.5	1.5	15%	13.0	1.5	13%	3.0	30%
Supermax	14.5	17.6	3.1	21%	21.7	4.2	24%	7.3	50%
Top Glove	31.5	36.8	5.3	17%	41.3	4.6	12%	9.8	31%
Total	**82.7**	**102.9**	**20.2**	**24%**	**120.5**	**17.6**	**17%**	**37.9**	**46%**

Source: Companies, CIMB Research

Figure 2: Global rubber glove demand

	Demand (bn pieces)	Growth %	Growth Absolute (bn pcs)
1999	49.5	n/a	n/a
2000	54.5	10%	5.0
2001	60.0	10%	5.5
2002	70.0	17%	10.0
2003	80.0	14%	10.0
2004	90.0	13%	10.0
2005	100.0	11%	10.0
2006	112.0	12%	12.0
2007	123.0	10%	11.0
2008	129.7	5%	6.7
2009	140.0	8%	10.3
2010F	154.0	10%	14.0
2011F	169.4	10%	15.4

Source: Companies, CIMB Research

Figure 3: Rubber glove demand vs. supply analysis

	Growth assumptions									
	6%		8%		10%		12%		14%	
	Addition	Total	Addition	Total	Addition	Total	Addition	Total	Addition	Total
2010F	8.4	148.4	11.2	151.2	14.0	154.0	16.8	156.8	19.6	159.6
2011F	8.9	157.3	12.1	163.3	15.4	169.4	18.8	175.6	22.3	181.9
Total additional demand in two years	**17.3**		**23.3**		**29.4**		**35.6**		**41.9**	
Additional capacity of 38bn pieces by six rubber glove manufacturers:										
@ 50% utilisation ~ **19bn**	Excess supply		Excess demand		Excess demand		Excess demand		Excess demand	
@ 60% utilisation ~ **23bn**	Excess supply		Excess demand		Excess demand		Excess demand		Excess demand	
@ 70% utilisation ~ **27bn**	Excess supply		Excess supply		Excess demand		Excess demand		Excess demand	
@ 80% utilisation - **30bn**	Excess supply		Excess supply		Excess demand		Excess demand		Excess demand	

Source: CIMB Research

High utilisation but spare capacity is desirable

Utilisation rates are still running high for some manufacturers. Most rubber glove manufacturers were running at maximum capacity last year due to strong demand during the H1N1 outbreak. This year, utilisation has eased off, largely due to additional capacity that came in early this year and slower demand induced by high latex prices as customers are waiting for rubber prices to fall further after reaching an all-time high in April. However, manufacturers with bigger exposure to nitrile, i.e. Hartalega, Kossan and Latexx continue to operate at high utilisation rates of 85-90%. Top Glove is currently running at 75% utilisation, which it views as a comfortable level as it likes to keep extra capacity in case of sudden big orders from their customers or disease outbreaks.

Rising demand from healthcare and non-healthcare

Proxy for rising healthcare spending. Rubber glove usage is a proxy for healthcare spending, which is on the rise globally. Developed countries like the US and Norway are well ahead in their healthcare awareness programmes. Their average per capita spending is US$7,285 in the case of the US and US$4,763 in the case of Norway. While it will take time before other countries catch up, countries such as China and Brazil are already putting more emphasis on healthcare systems. Since 2006, the Chinese government has announced new rounds of healthcare reforms including increases in insurance coverage for the population, the building of more hospitals and improvements in hospital services. China is expected to spend about US$124bn on these reforms by 2011. Meanwhile, in Brazil, the government is putting more emphasis on hygiene after the H1N1 flu outbreak in the region last year. Currently, Brazil spends about 8.4% of GDP on healthcare and has one of the highest numbers of dentists per 10,000 persons (Figure 4). Supermax, Top Glove and Siam Sempermed currently hold the largest market share in Brazil.

New demand beyond healthcare. Besides the traditional demand from healthcare usage in developed countries, growth could come from other developing countries due to growing concern over hygiene or disease outbreaks such as the H1N1 last year which led to a sudden surge in demand, especially from Latin America. Rubber glove usage is also expanding beyond healthcare and is now more visible in the food, beauty and services industries. These factors, along with the ageing population in developed countries, urbanisation of the world population as well as increasing wealth and life expectancy in developing and middle-income countries, will ensure sustainability of rubber glove demand. Going by this, the manufacturers have to expand in order to keep pace with growing market demand.

Figure 4: Cross-country comparison

	Country	Life expectancy	Physicians per 10,000 people	Nurses per 10,000 people	Hospital beds per 10,000 people	Dentists per 10,000 people	Per capita expenditure on health (USD)	Healthcare costs as a percent of GDP	% of government revenue spent on health	% of health costs paid by government
		**	***	***	***	***	*	*	*	*
1	Australia	82	10	109	39	15	3,357	8.9%	17.6%	67.5%
2	Belgium	80	42	5	53	8	3,323	9.4%	14.4%	74.1%
3	Brazil	73	17	29	24	12	837	8.4%	5.4%	41.6%
4	China	74	14	10	30	1	233	4.3%	9.9%	44.7%
5	Canada	81	19	100	34	12	3,900	10.1%	18.1%	70.0%
6	France	81	37	81	72	7	3,709	11.0%	16.6%	79.0%
7	Germany	80	35	80	83	8	3,588	10.4%	18.2%	76.9%
8	India	64	6	13	9	1	109	4.1%	3.7%	26.2%
9	Italy	82	37	69	39	6	2,686	8.7%	13.9%	76.5%
10	Japan	83	21	95	139	7	2,696	8.0%	17.9%	81.3%
11	Netherlands	80	39	151	48	5	3,509	8.9%	16.2%	82.0%
12	Norway	81	39	163	39	9	4,763	8.9%	18.3%	84.1%
13	Spain	81	38	74	34	6	2,671	8.5%	15.6%	71.8%
14	UK	80	21	6	39	4	2,992	8.4%	15.6%	81.7%
15	USA	78	27	98	31	16	7,285	15.7%	19.5%	45.5%

Based on latest available data for each country:
*2007
** 2008
*** 2009

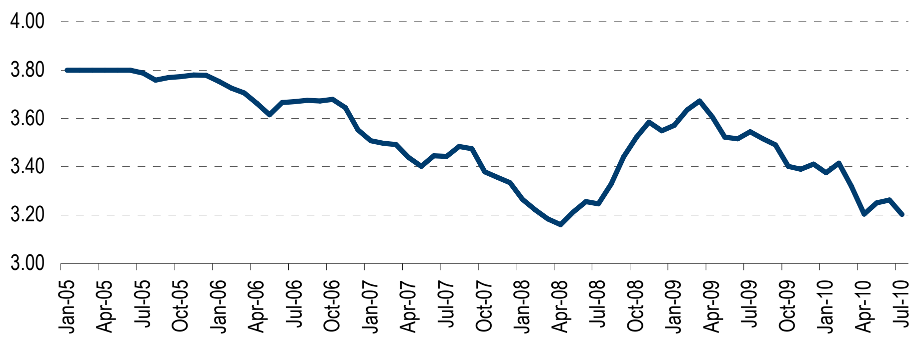
Source: Population Reference Bureau, WHO, CIMB Research

Concern #2: Weakening US$ and high latex prices

Currrency effect and higher raw material costs can be passed on

Weakening US$... US$ depreciation is a major worry for exporters, glove manufacturers being no exception as more than 95% of their production is exported. YTD, the greenback has lost more than 8% against the ringgit and is now around RM3.14:US$. Our house forecasts call for a continued softening of the US$ to RM3.10:US$1 by September and RM3.05:US$1 by December this year before rebounding back to RM3.10:US$1 by June next year. Although this reduces the value of the exports in ringgit terms, glovemakers are able to claw back part of the currency loss by raising their selling prices. On top of that, they pay for 50-70% of their key raw materials in US$, which creates a natural hedge.

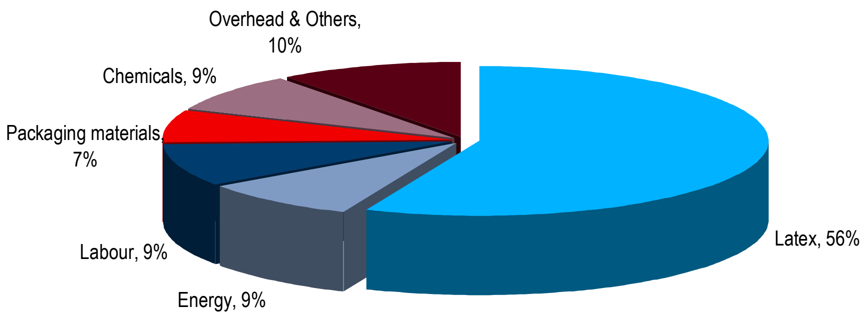
Figure 5: RM:US$ trend



Source: CEIC

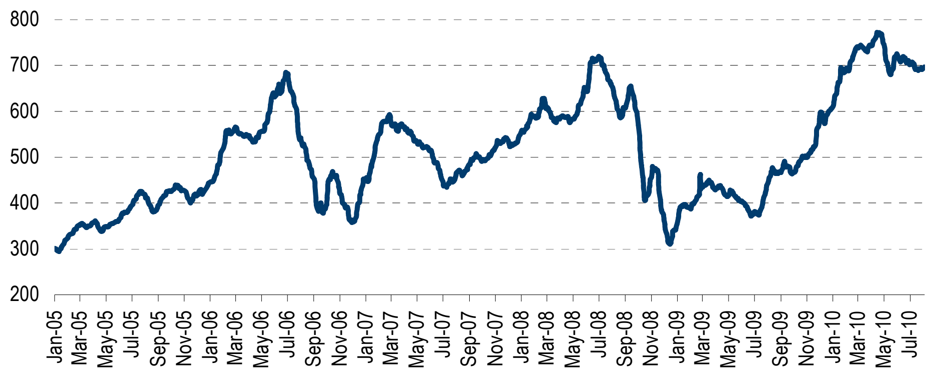
... and high latex prices not a major concern. Latex is the largest cost component for rubber glove manufactures, making up on average 56% of total production costs (Figure 6). The volatility of latex prices (Figure 7) continues to be a concern, though not a major one. In practice, selling prices for rubber gloves are quoted based on the average price of latex and the RM:US$ rate from the month before (Figure 8). This means that the glovemakers are able to pass on the latex price increase and foreign exchange movements to their customers, albeit with a 1-2 month lag. Selling prices are also revised when there is a sudden change in cost, for example, when electricity and natural gas rates were revised during mid-2008 and early 2009.

Figure 6: Average cost structure for rubber glove manufacturers



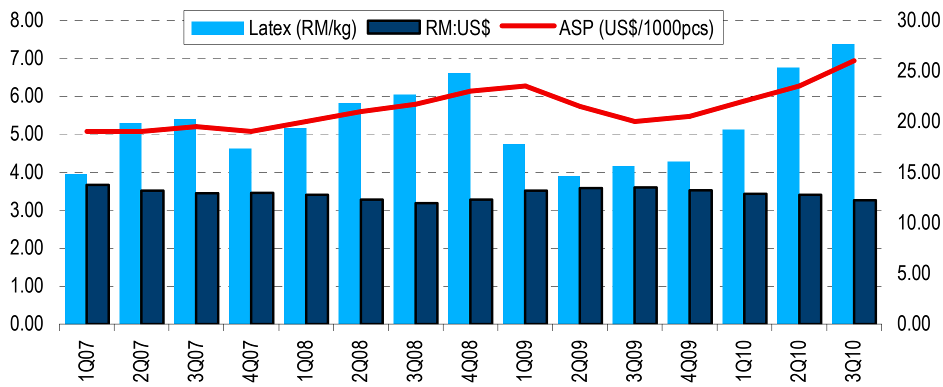
Source: Companies, CIMB Research

Figure 7: Latex price trend (sen/kg)



Source: Bloomberg

Figure 8: Top Glove adjusts ASPs for previous month's average latex price and RM:US$

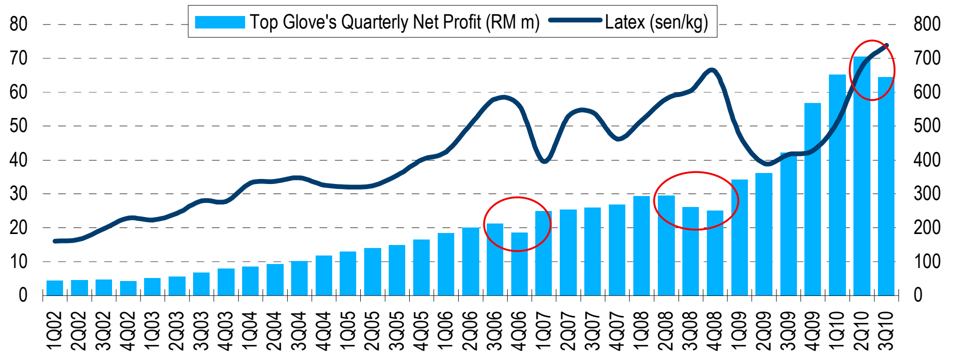


Source: Top Glove, Bloomberg, CEIC, CIMB Research

Upward trajectory for earnings

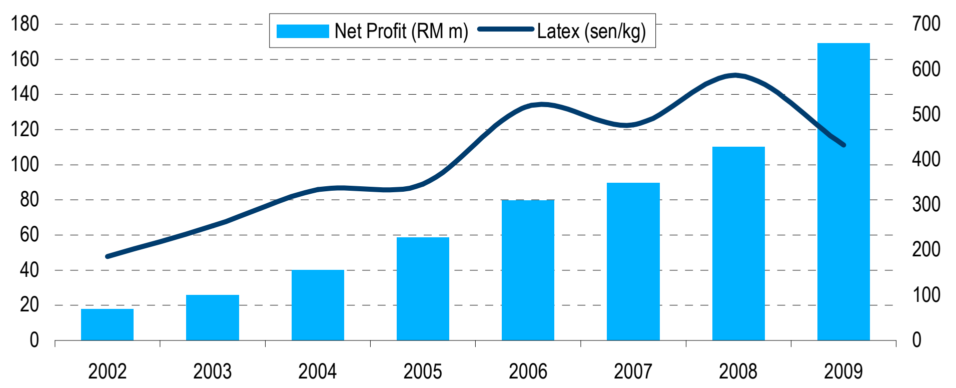
Earnings contraction, if any, would be temporary. The US$ has been depreciating and latex price reached an all-time high this year. However, we are not worried as this is not the first time that glove manufacturers are facing this situation. A firmer ringgit and rising latex price have proven to have minimal impact on the companies' bottomline as the companies have the ability to adjust prices, albeit after a short time lag. As Figure 9 shows, every time latex prices reached a new high (early-06 and mid-08), Top Glove's earnings fell for 1-2 quarters due to the time lag and a slight pullback in demand as customers anticipated a decline in rubber prices. In view of this, we think that some manufacturers may report a qoq earnings decline this month (see Appendix). Nevertheless, we are not concerned about the weak quarterly numbers (Figure 9) as the companies should still show strong earnings growth given that capacity expansion and growing demand should override short-term currency depreciation and latex price trends (Figure 10).

Figure 9: Top Glove's quarterly net profit vs. latex price



Source: Top Glove, Bloomberg, CIMB Research

Figure 10: Top Glove's annual net profit vs. latex price



Source: Top Glove, Bloomberg, CIMB Research

Concern #3: Removal of subsidies

Gas subsidy removal can be passed on

Rollback of gas subsidy. The main source of energy for rubber glove manufacturers is natural gas (Figure 11), the cost of which is subsidised by the government. The government recently cut subsidies for fuel and sugar, raising fear that power subsidies, which include natural gas and electricity rates, could be the next target. If the government removes or scales back the subsidies, it could lead to earnings and margin squeeze for the manufacturers.

Figure 11: Energy usage

	Natural gas	Biomass	Coal
Adventa	50%	50%	-
Hartalega	80%	20%	-
Kossan	100%	-	-
Latexx	100%	-	-
Supermax	75%	25%	-
Top Glove	50%	25%	25%*

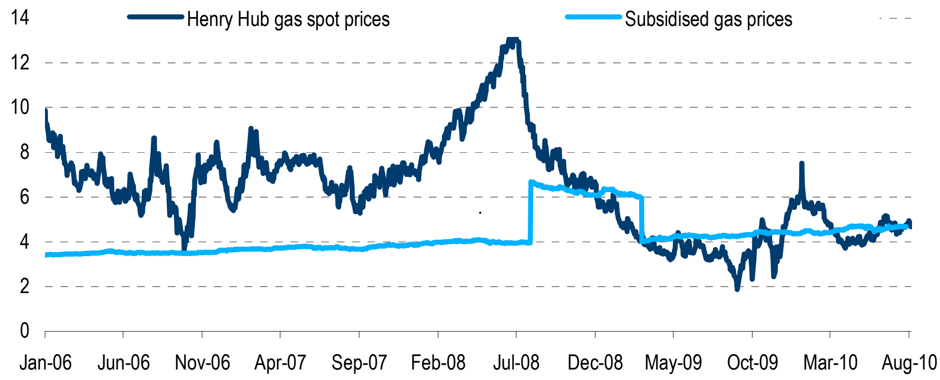
** China plant Source: Companies, CIMB Research*

Two main benchmarks for international gas prices

International gas prices. The market currently uses two benchmarks for natural gas spot prices, i.e. Henry Hub and medium fuel oil (MFO). Based on Henry Hub's latest three-month average spot price of around US$4.58/mmbtu (Figure 12), the rubber glove sector is already paying market prices using locally sourced gas. However, we note that the government could be basing its computations on MFO. Based on this, there is a huge disparity in costs as the rubber glove manufacturers are enjoying a 57% discount to the US$10.98/mmbtu average three-month market price for MFO

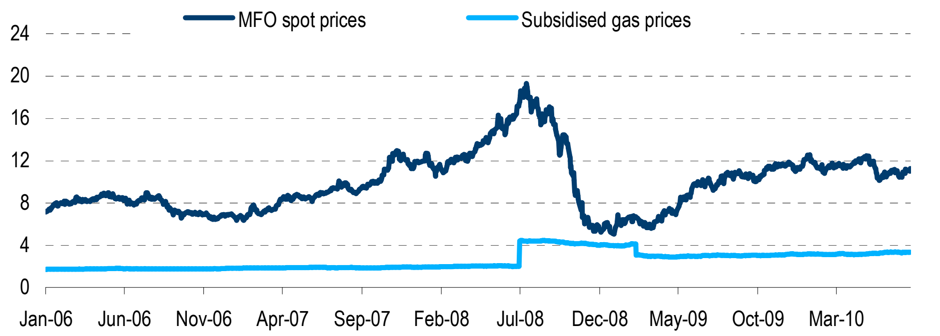
(Figure 13). If the government is using MFO price, the subsidy on gas prices could be reduced or even completely removed to reduce the disparity.

Figure 12: Henry Hub natural gas prices vs. rubber glove sector's subsidised gas price (US$/mmbtu)



Source: CIMB Research, Bloomberg

Figure 13: MFO spot prices vs. rubber glove sector's subsidised gas price (US$/mmbtu)



Source: CIMB Research, Bloomberg

Only 8% of total costs

Natural gas is a smaller portion of costs compared to latex. Historically, rubber glove manufacturers have adjusted their selling prices to reflect the higher or lower natural gas prices (Figure 14). Given that natural gas prices make up only about 8% of glovemakers' total costs, we do not think it will be difficult for manufacturers to pass on the gas cost increase, if any, in the future. That said, there could still be an initial negative impact because of the time lag between the increase in gas price and glove price increases (Figure 15).

Moving into other alternatives as well

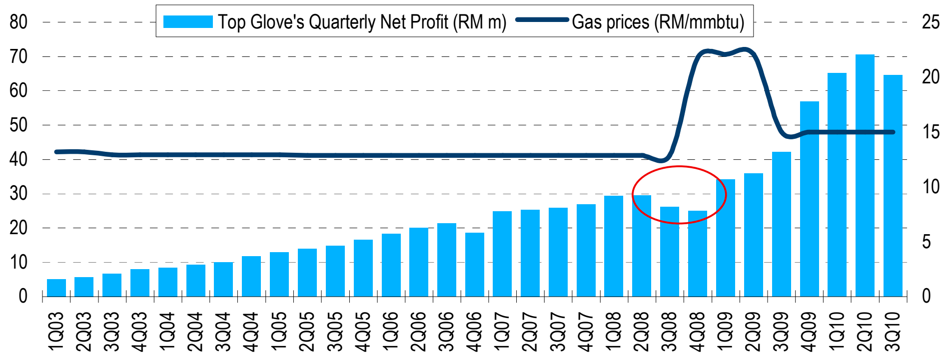
Looking at other alternatives. With an eye on the longer term, local manufacturers have already taken various steps to minimise their dependence on natural gas in case of insufficient supply. Most of the players have already started or have announced plans to use biomass as an alternative form of energy. The exception is Latexx which said that it has enough gas supply for its future expansion because of the location of its plant in Kamunting, away from the Klang Valley. There are also initiatives by the rubber glove manufacturers to acquire smaller existing plants with natural gas supply or acquire land where the natural gas pipeline already runs.

Figure 14: Gas prices paid by rubber glove manufacturers

Date	RM/mmbtu	Change
Oct-02	13.19	-
Mar-03	12.93	-2.0%
Jan-05	12.87	-0.4%
Aug-08	21.82	69.5%
Sep-08	22.06	1.1%
Mar-09	15.00	-32.0%

Source: Companies,, CIMB Research

Figure 15: Top Glove's quarterly net profit vs. gas price



Source: CIMB Research, Bloomberg

Concern #4: Contraction in margins

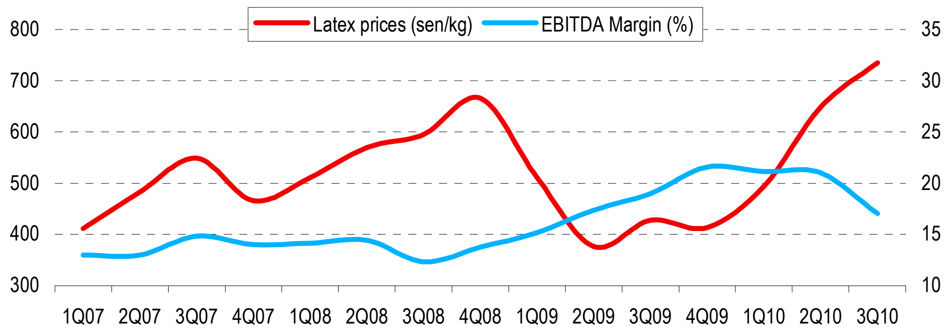
Higher ASPs will lead to margin compression…

Absolute profit per glove is relatively fixed. Another concern that is consistently being raised by investors is margin erosion for the glovemakers. Given the resilience of rubber glove demand, we are not worried about this as glove manufacturers have been consistently working on an absolute profit per glove sold for many years. As selling prices are revised upwards or downwards to reflect changes in cost and RM:US$ rate, margins will also change (Figure 16). Given this, higher costs will lead to higher average selling prices, which will ultimately result in margin compression.

.. but earnings are still set to grow.

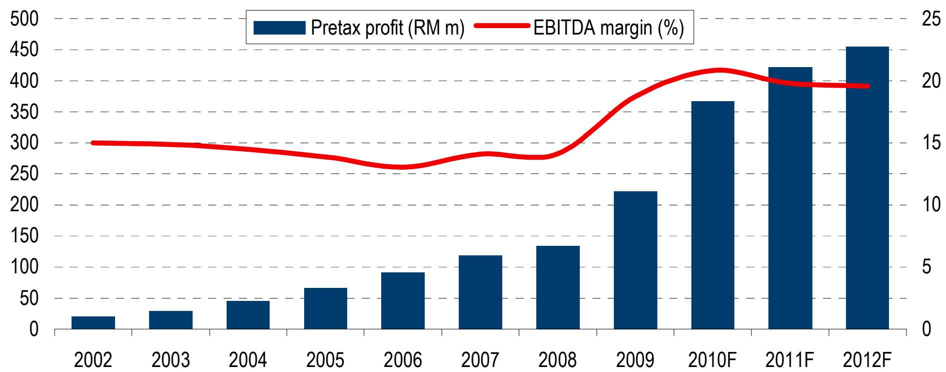
Net earnings still set to grow. Rubber glove manufacturers enjoyed stronger pricing power last year due to the shortage of supply in the market. But we think that EBITDA margins will come down by a few percentage points due to higher selling prices. This was evident in the results announced by Adventa, Top Glove and Latexx recently. That said, earnings will stay on an uptrend as demand is still expected to grow. Investors should not conclude that margin contraction will lead to lower earnings for the glove makers.

Figure 16: Top Glove's quarterly EBITDA margins vs. latex price



Source: Top Glove, Bloomberg, CIMB Research

Figure 17: Top Glove's annual EBITDA margins vs. pretax profit

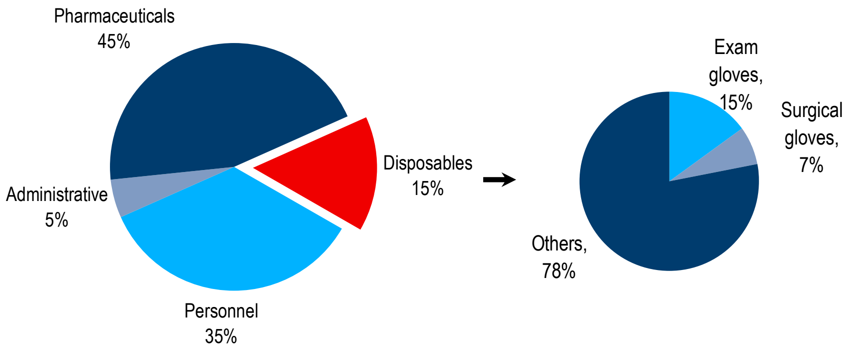


Source: Top Glove, Bloomberg, CIMB Research

Rubber gloves make up about 3% of healthcare centre costs

A small percentage of healthcare costs. Moreover, rubber gloves represent only a fraction of healthcare centres' expenditure. Examination and surgical glove costs make up 22% of the cost of disposables which, in turn, makes up 15% of healthcare centres' total costs. Ultimately, gloves account for just 3% of healthcare centres' total costs (Figure 18).

Figure 18: Typical expenditure of a healthcare centre



Source: Adventa, CIMB Research

Concern #5: Premium valuations

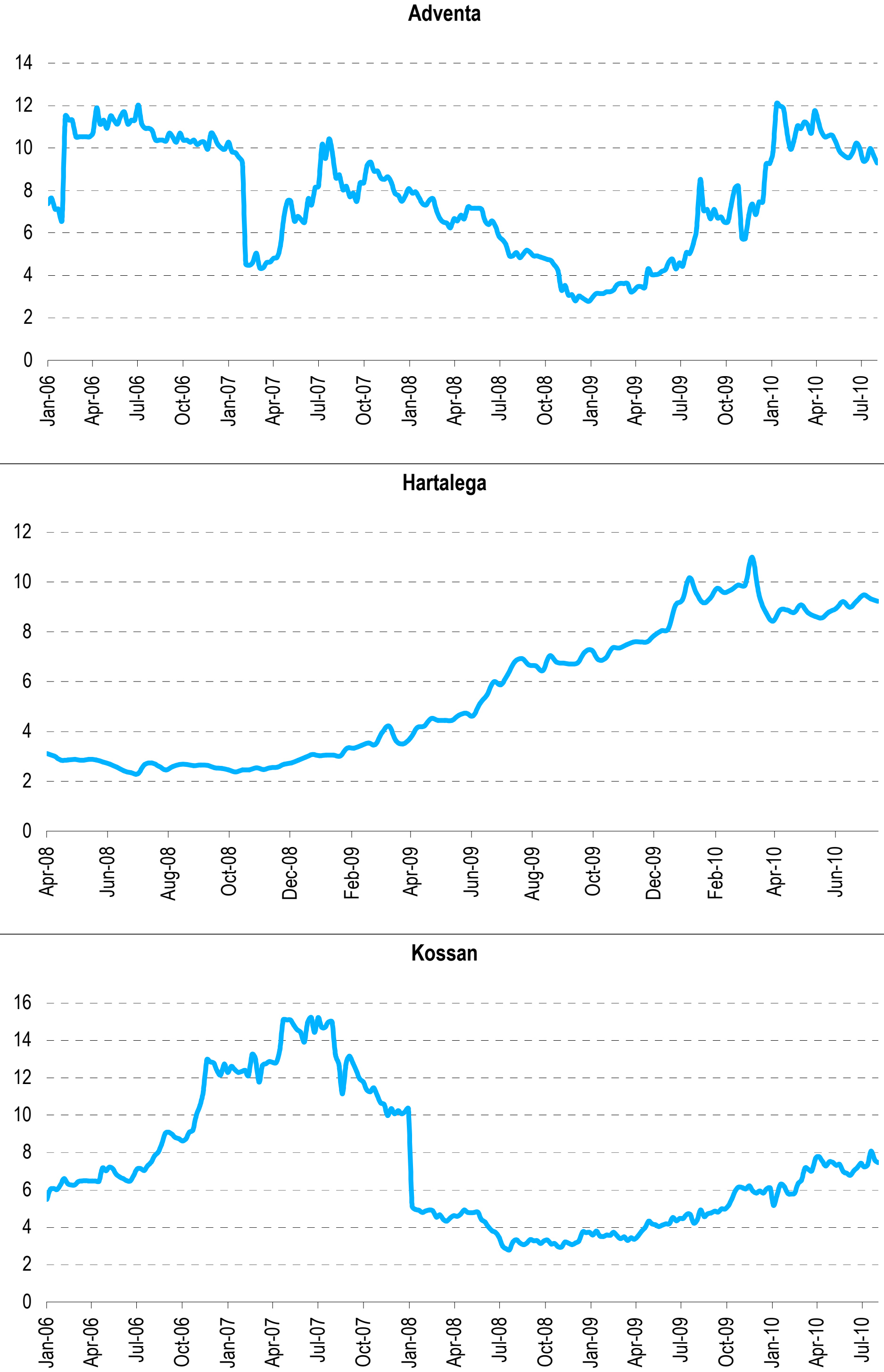
Sector trading at 10.1 x FY10 P/E, a huge discount to market's 15.6x.

Trading at discount to market. The last argument that is constantly raised by investors is the premium valuations of rubber glove stocks. Despite the gains in their share prices this year and the increase in their trading liquidity in recent months, we think that rubber glove stocks have yet to re-rate to fair levels. They continue to trade at a discount to market (FY10 P/E of 15.6x) instead of the premium that they historically traded at. The sector now stands at an average FY10 forward P/E of 10.1x or just half the peak seen for some of the manufacturers in 2006/07. In February 07, the industry leader, Top Glove was trading at almost 26x P/E (Figure 15).

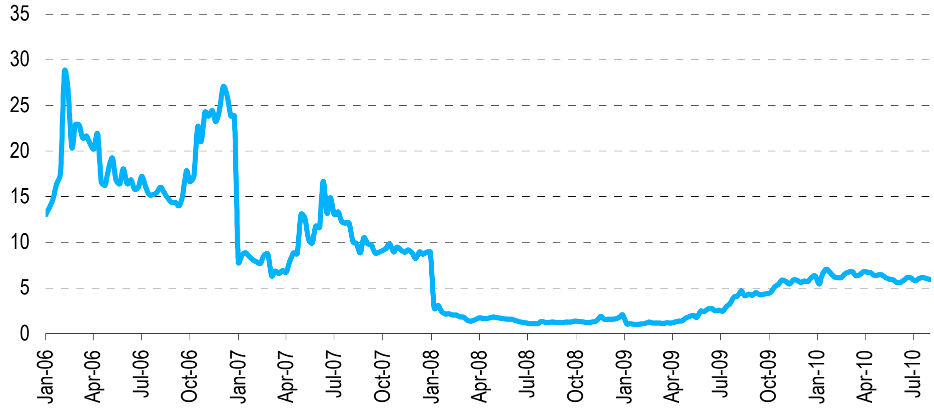
Strong earnings growth. In 2006-07, rubber glove manufacturers improved their net profit by 29% on average. Given the growing demand, we project a 3-year earnings CAGR of 27% for the sector, which is still a very solid figure given the big base resulting from last year's 60% growth.

Above-market ROE. As a result of the ongoing aggressive expansion, we expect the sector to report an average ROE of 33.5%, more than double the 14.4% that we are expecting for the market. Cheap valuations, strong earnings growth and above-market ROE figures lead us to believe that rubber glove companies are still undervalued and offer tremendous earnings upside due to their expansion programmes. The companies, especially Top Glove, should trade at a premium over the market given their long-term earnings sustainability and defensive qualities.

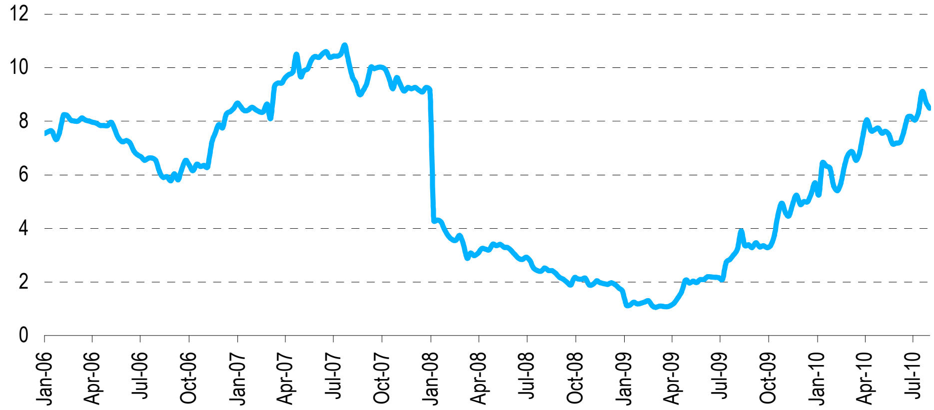
Figure 19: Rubber gloves' 12-month forward core P/E (x)



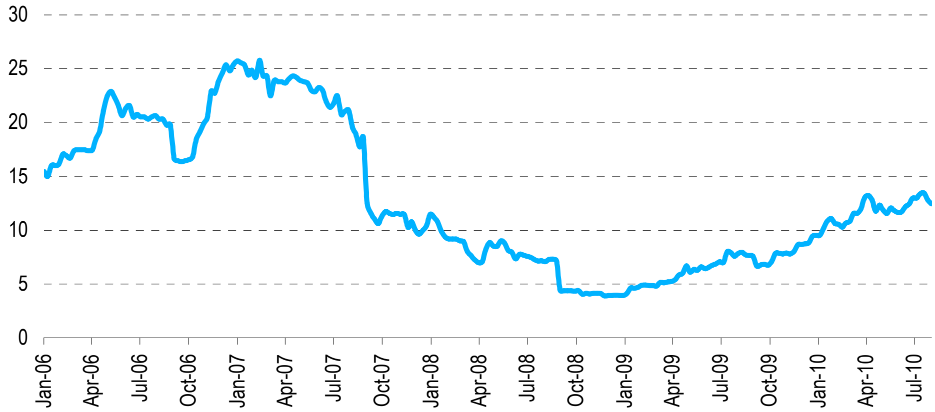
Latexx Partners



Supermax



Top Glove



Source: Companies, CIMB Research

Rubber glove stocks still outperformed the market

Still outperformed the market. Despite the strong share price performances last year, rubber glove stocks still outperformed the market. YTD, rubber glove stocks have risen 15-35% compared to just a 6% gain for the KLCI (Figure 20). The only underperformer this year is Adventa (-11%) which we believe has been a laggard due to concerns over execution and expensive valuations. Adventa has the highest FY10 P/E after Top Glove.

Figure 20: Share price performance

Company	Share price on 31-Dec-09 (RM)	Share price on 9-Aug-10 (RM)	Difference
Adventa	3.17	2.81	-11.4%
Hartalega	6.22	7.98	28.3%
Kossan	2.72	3.67	34.9%
Latexx	3.07	3.52	14.7%
Supermax	4.72	6.00	27.1%
Top Glove	5.03	6.13	21.9%
Average			**19.3%**
FBM KLCI	1,288.24	1,360.66	5.6%

Source: Bloomberg

SWOT analysis

Malaysia has been a dominant player in the rubber glove industry for many years. The country is currently the largest rubber glove exporter and is estimated to supply 60-65% of the global rubber glove requirements. The six largest rubber glove manufacturers in the country are estimated to supply 51% of the global requirements. These players have mastered the technological know-how of rubber glove manufacturing and are embarking on aggressive capacity expansion to keep pace with demand.

A supportive environment also plays a role in the success of the Malaysian rubber glove players. They get strong government backing from bodies such as the Malaysian Rubber Export Promotion Council (MREPC) and Malaysian Rubber Board (MRB). Also, Malaysia is located near the key source of the major raw material, natural latex, which mainly comes from Thailand. Malaysia is also blessed with good infrastructure, reliable energy supply and a relatively stable government compared to some countries in the region. We believe that rubber glove manufacturers will also be able to continue riding on the rising demand from greater hygiene awareness and increasing healthcare spending by governments around the world.

On the flip side, the rubber glove players have weaknesses and face threats. The majority of the players are OEM manufacturers, which means that few products carried their name. This could be a major disadvantage as customers can easily switch to another manufacturer in another country.

On top of that, even though most rubber glove companies have pricing power and are able to pass on any cost increase or savings back to its customers, the volatile latex prices and weak US$ could dampen their margins and earnings in the period before the prices are adjusted. Higher natural gas and fuel costs arising from a removal of subsidies could also have a negative impact on margins.

Figure 21: SWOT analysis

Strengths	Opportunities
• Largest global exporter holding 60% global market share • The biggest six players are estimated to control 51% of the world market • Continuous capacity expansion to maintain or expand market share	• Strong government backing • Close to source of raw material, natural rubber latex • Good infrastructure and reliable energy supply • Rising demand from greater hygiene awareness • Growth in healthcare spending
Weaknesses	**Threats**
• Majority are OEM manufacturers; dependent on healthcare multinationals	• Volatile commodity prices • Weakening US$ • Higher energy costs

Source: CIMB Research

Dupont analysis

2009 was a great year for the glove manufacturers. Strong rubber glove demand led to shortage of supply. This, coupled with the favourable environment of lower energy costs, latex price decline and an appreciating US$, propelled the manufacturers' earnings to record levels. During that period, Hartalega notched the highest ROE and EBIT margin as the company's superior operational efficiency allowed it to achieve margins that were almost double that of its rivals. Latexx Partners earned the second highest ROE through its capacity expansion and move towards premium products such as powder-free and nitrile gloves.

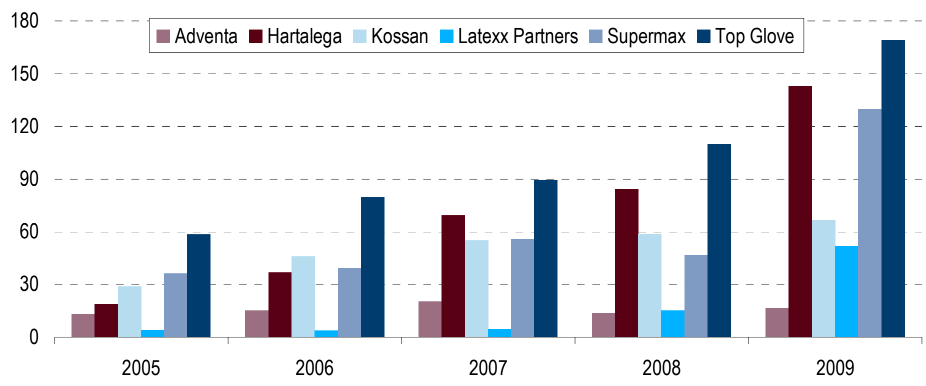
By 2011, we expect Latexx Partners to top Hartalega's ROE with its plans to further expand its premium rubber glove segment. Adventa and Kossan should see strong improvement from the 2009 levels when earnings were buffeted by foreign exchange losses arising from structured long-term hedging contracts.

Figure 22: Dupont analysis

	Adventa	Hartalega	Kossan Rubber	Latexx Partners	Supermax	Top Glove	Average
FYE	Oct	March	Dec	Dec	Dec	Aug	
2009							
ROE (%)	9.2	47.0	20.4	35.3	26.6	22.7	**26.9**
Tax & MI retention (x)	0.9	0.8	0.8	1.0	0.9	0.8	**0.8**
Interest burden (x)	0.5	1.0	0.6	0.9	1.2	1.0	**0.9**
EBIT margin (%)	12.6	31.1	17.7	17.8	16.3	15.0	**18.4**
Asset turnover (x)	0.8	1.3	1.3	1.2	0.9	1.4	**1.1**
Equity multiplier (x)	1.9	1.4	2.1	2.0	1.9	1.5	**1.8**
2011F							
ROE (%)	14.6	37.6	30.9	39.7	28.9	27.8	**29.9**
Tax & MI retention (x)	0.9	0.8	0.8	1.0	0.9	0.8	**0.8**
Interest burden (x)	1.0	1.0	1.0	0.9	1.1	1.0	**1.0**
EBIT margin (%)	11.1	30.7	15.3	20.5	16.7	17.2	**18.6**
Asset turnover (x)	0.9	1.2	1.6	1.2	1.2	1.5	**1.3**
Equity multiplier (x)	1.6	1.3	1.8	1.7	1.5	1.4	**1.5**

Source: CIMB Research

Figure 23: Net profit comparison (RM m)



Source: Companies, CIMB Research

Financials

Strong earnings growth since inception

Strong growth in profit. Rubber glove manufacturers have been enjoying strong profit growth, many since inception. Demand for rubber gloves remains resilient as the majority of the products go to the healthcare segment. Over the past decade, rubber glove demand has been growing 10% on average each year and this trend is expected to continue. Many of the players are expanding capacity in a big way and this will be the key revenue driver. Judging from the encouraging demand and major expansion plans, we expect glove manufacturers to report an average 3-year EPS CAGR of 27%.

Healthy gearing levels

Expansion will be mostly financed by internally-generated funds. Two rubber glove manufacturers, namely, Hartalega and Top Glove turned from net gearing to net cash last year. For the rest, gearing levels have improved, thanks to a strong improvement in cashflow. Capital expansion will cost RM50m-100m for each of the rubber glove manufacturers, depending on the size of the factory to be built and the equipment used. Given their better cash position, glove manufacturers are likely to use internally generated funds to finance expansion. Should the need arise, they will take on borrowings.

Figure 24: Rubber glove companies compared

	Adventa	Hartalega	Kossan Rubber	Latexx Partners	Supermax	Top Glove	
Year-end	October	March	December	December	December	August	**Sector**
Bloomberg Code	ADV MK	HART MK	KRI MK	LTX MK	SUCB MK	TOPG MK	**average**
Recommendation	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OVERWEIGHT**
Share price (RM)	2.81	7.98	3.67	3.52	6.00	6.13	
Target price (RM)	4.45	12.73	6.08	5.44	9.50	8.90	
Target price basis	13.2x P/E or 20% discount to Top Glove's target P/E	14.9x P/E or 10% discount to Top Glove's target P/E	11.6x P/E or 30% discount to Top Glove's target P/E	11.6x P/E or 30% discount to Top Glove's target P/E	13.2x P/E or 20% discount to Top Glove's target P/E	16.5xP/E or 10% premium to market P/E of 15x	
Turnover							
FY09	282.7	571.9	837.0	328.5	814.8	1,529.1	727.3
FY10F	358.3	746.5	1,152.3	574.9	1,249.3	2,032.1	1,018.9
FY11F	498.2	866.0	1,498.9	679.2	1,522.4	2,426.6	1,248.5
FY12F	649.7	970.2	1,668.6	810.8	1,683.6	2,639.4	1,403.7
Pretax Profit							
FY09	30.0	177.9	140.4	51.8	157.5	222.0	129.9
FY10F	41.4	231.7	177.6	101.6	248.4	367.2	194.6
FY11F	53.6	269.2	222.5	130.8	287.3	421.7	230.8
FY12F	71.0	302.4	255.1	154.8	306.6	455.2	257.5
Pretax margin							
FY09	6.5%	10.4%	10.4%	15.8%	18.7%	14.5%	12.7%
FY10F	11.6%	15.4%	15.4%	17.7%	19.9%	18.1%	16.3%
FY11F	10.8%	14.8%	14.8%	19.3%	18.9%	17.4%	16.0%
FY12F	10.9%	15.3%	15.3%	19.1%	18.2%	17.2%	16.0%
Net Profit							
FY09	17.0	143.0	66.8	51.3	129.8	169.1	96.2
FY10F	37.4	185.2	134.4	100.6	211.1	283.3	158.7
FY11F	48.3	215.1	168.4	129.5	244.2	325.0	188.4
FY12F	64.0	241.7	190.4	153.2	260.6	350.7	210.1
Net profit margin							
FY09	6.0%	25.0%	8.0%	15.6%	15.9%	11.1%	13.6%
FY10F	10.4%	24.8%	11.7%	17.5%	16.9%	13.9%	15.9%
FY11F	9.7%	24.8%	11.2%	19.1%	16.0%	13.4%	15.7%
FY12F	9.8%	24.9%	11.4%	18.9%	15.5%	13.3%	15.6%
ROE							
FY09	9.2%	47.0%	20.4%	35.3%	26.6%	22.7%	26.9%
FY10F	14.7%	43.8%	32.0%	46.0%	32.5%	29.5%	33.1%
FY11F	14.6%	37.6%	30.9%	39.7%	28.9%	27.8%	29.9%
FY12F	15.3%	32.7%	28.3%	33.9%	24.6%	27.4%	27.0%
Dividend yield							
FY09	2.3%	2.5%	2.4%	0.5%	1.8%	9.0%	3.1%
FY10F	2.4%	3.2%	4.7%	2.2%	2.0%	3.0%	2.9%
FY11F	3.4%	3.8%	6.0%	3.1%	2.3%	3.4%	3.7%
FY12F	4.8%	4.4%	6.8%	3.9%	2.6%	3.8%	4.4%
P/B (x)							
FY09	2.4	5.5	3.4	4.1	3.7	2.2	3.6
FY10F	1.7	4.0	2.5	2.8	2.8	3.5	2.9
FY11F	1.3	3.0	2.0	2.0	2.2	3.1	2.3
FY12F	1.1	2.4	1.6	1.5	1.8	2.9	1.9
P/E (x)							
FY09	16.1	13.7	10.2	14.2	15.4	16.8	14.4
FY10F	11.9	10.6	9.1	7.5	9.9	13.6	10.4
FY11F	9.2	9.1	7.2	5.9	8.5	11.9	8.6
FY12F	6.9	8.1	6.4	4.9	8.0	11.0	7.6

Source: CIMB Research

Valuation and recommendation

Striking back at the naysayers

Striking back at the naysayers. To recap, rubber glove stocks have come under pressure in recent months due to misconceptions about the industry. In this report, we look at each of the concerns and explain why we think they are overblown.

Concern #1 – Overcapacity. As highlighted earlier, the expansion plans will come in progressively. Slight excess capacity is not uncommon as traditionally glove makers operate at 70-75% utilisation instead of the full capacity seen over the past year. Demand is still expected to grow by 8-10% per annum. Going by this, we believe that the manufacturers have to expand in order to keep pace with growing market needs.

Concern #2 – Weakening of US$ and high latex prices. A firmer ringgit and rising latex price have proven to have minimal impact on the companies' bottomline as the companies have the ability to adjust prices, albeit after a short time lag. We are not concerned about upcoming weak quarterly results as the companies should still show strong earnings growth given that capacity expansion and growing demand should override short-term currency depreciation and latex price trends.

Concern #3 – Higher cost from removal of gas subsidies. Although there is a risk that gas subsidies may be rolled back, we do not think it will be difficult for manufacturers to pass on the cost increase given that natural gas prices make up only about 8% of glovemakers' total costs. On top of that, most of them have indicated that they will move into biomass for their future expansion in order to reduce their reliance on natural gas.

Concern #4 – Contraction in margins. As glove manufacturers worked on relatively fixed absolute margins per box of glove sold, a contraction in margins does not necessarily translate into lower earnings. We believe that earnings will still continue to rise given the growing demand and manufacturers' ability to pass on the cost increases.

Concern #5 –Premium valuations. Despite their share price gains and improving share liquidity in recent months, glove makers still trade at an average FY10 forward P/E of 10.1x, 35% below the market's FY10 P/E of 15.6x. We believe they are still undervalued, considering the brisk projected earnings growth of 23.7% for FY10 and ROE of 33.5%.

We remain OVERWEIGHT on rubber gloves

Maintain OVERWEIGHT on rubber gloves. All in all, we remain positive on the rubber glove sector in view of the sustainability of demand and the manufacturers' pricing power. The Malaysian rubber glove sector is advancing well ahead of its competitors from other countries, thanks to continuous innovations in glove technology and manufacturing process. All the six rubber glove manufacturers we cover are fundamentally strong companies for which demand remains resilient regardless of the condition of the global economy. We retain our OVERWEIGHT stance on the rubber glove sector as we believe that the misconceptions have been overplayed and there is still upside to their share prices given the strong earnings growth and undemanding valuations. The recent weakness in share prices create a good buying opportunity. Moreover, bonus issues announced by Hartalega, Kossan, Supermax and Top Glove will also help to boost liquidity and make the stocks more affordable in terms of absolute cost. All the glove stocks under our coverage remain as Outperforms. Potential re-rating catalysts include the continuing uptick in demand from the healthcare industry, ongoing capacity expansion and strong earnings growth. Supermax and Latexx remain our top picks.

Supermax and… 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 the favourable outlook for the company, we maintain our Outperform call and end-CY10 target price of RM9.50 which we continue to peg to a 13.2x P/E or 20% discount to Top Glove's target P/E of 16.5x. Potential share price triggers include the potential improvement in earnings, supported by the group's ongoing expansion and OBM segment.

.. Latexx stay as our top picks. We believe that industry prospects for rubber glove remain favourable and Latexx is one of the key beneficiaries. The company appears well on course for continued growth, thanks to its aggressive expansion plans and move into the premium segment. Our Outperform call remains intact, along with our target price of RM5.44, which we continue to base on a 11.6x P/E or a 30% discount to Top Glove's target P/E of 16.5x. Factors that could catalyse the stock include its improving earnings ability, driven by its major expansion plans and move towards premium products.

Hartalega's distinctive feature is its niche in nitrile gloves, which make up a whopping 85% of its sales. The company is the largest nitrile glove manufacturer in Malaysia. Hartalega's capacity currently stands at 7bn pieces p.a. Its progressive expansion plans could raise its annual glove production capacity to 9.6bn pieces by FY12. On top of that, the company is actively looking for new landbank for further expansion beyond FY12. We retain our Outperform call and end-CY10 target price of RM12.73, which we continue to peg to a 10% discount to Top Glove's target P/E of 16.5x. Potential share price catalysts include its ability to sustain high margins due to its superior operational efficiency and higher premium products.

Staying at the Top. Although competition has been rising, Top Glove is holding tight to its position as the largest rubber glove manufacturer in the world with an annual capacity of 33.0bn pieces. The company is also actively looking at any potential M&As around the region in order to expand its market share as it already has presence in Malaysia, Thailand and Indonesia. We like the company for its position as the market leader and its focus as a volume player. We maintain our Outperform call on Top Glove as we believe that prospects remain favourable for both the industry and the company. Our end-CY10 target price remains at RM8.90, still based on a 10% premium over our target market P/E of 15x. The stock could enjoy further re-rating on the back of a continuing uptick in demand and ongoing capacity expansion.

Positive on Kossan. Demand for Kossan's medical gloves should remain resilient given increasing hygiene awareness and rising healthcare spending, especially with the rising incidence of health scares. We like the company for its ability to secure high-volume contracts from big MNCs and operate at high utilisation rates. To reflect the improved outlook for the company, we are lowering our discount to Top Glove's target P/E of 16.5x from 40% to 30%, which raises our target price from RM5.21 to RM6.08. We maintain our Outperform call on the company given the likely re-rating trigger of a potential improvement in the group's long-term earnings supported by its major expansion plans.

Adventa strives to be the reference company for surgical gloves. On top of that, it intends to leverage its strong surgical glove segment to become a significant diversified healthcare products supply chain provider in the region by developing its downstream business activities further. Part of this includes developing its life science division which handles the trading of dialysis equipment. We like Adventa for its niche in surgical glove and aggressive long-term plans to develop its other business segments and become a significant healthcare products supplier in the region. Adventa remains firmly an Outperform as the stock could enjoy a re-rating from improving quarterly earnings coming from the capacity expansion and growing global demand. Our target price remains intact at RM4.45, still pegged to 13.2x P/E or a 20% discount to Top Glove's target P/E of 16.5x.

COMPANY BRIEFS…

CIMB Research Report

COMPANY UPDATE

Syariah-compliant stock

MALAYSIA

Adventa Bhd

Striking back at the naysayers

OUTPERFORM Maintained

RM2.81 @09/08/10

Target: RM4.45

Rubber Gloves

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- **Maintain OUTPERFORM.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. We are, however, confident that demand growth is strong enough to absorb the new capacity and the glovemakers' pricing power will allow them to pass on the cost increases. As a result, we are keeping our earnings numbers for Adventa as well as our target price of RM4.45. Our target basis remains 13.2x P/E, based on a 20% discount to Top Glove's target P/E of 16.5x. Adventa remains an OUTPERFORM as the stock could enjoy a re-rating from improving quarterly earnings coming from the capacity expansion and growing global demand. The recent share price consolidation of the rubber glove stocks presents a good opportunity to accumulate them.
- **New glove capacity coming in.** Adventa expects its sales to increase progressively this year as the new capacity from the new high-output glove factory in Kluang and new lines from its Kota Bharu plant will allow it to handle more orders from 4QFY10 onwards. The new capacity is coming in a couple of months later than initially planned due to late equipment delivery.
- **Long-term goals.** Adventa strives to be the reference company for surgical gloves. On top of that, it intends to leverage its strong surgical glove segment to become a significant diversified healthcare products supply chain provider in the region by developing its downstream business activities further. Part of this includes developing its life science division which handles the trading of dialysis equipment.

Financial summary

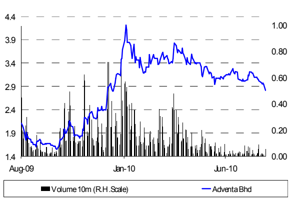
FYE Oct	2008	2009	2010F	2011F	2012F
Revenue (RM m)	185.9	282.7	358.3	498.2	649.7
EBITDA (RM m)	23.0	45.5	55.4	72.4	94.2
EBITDA margins (%)	12.3%	16.1%	15.5%	14.5%	14.5%
Pretax profit (RM m)	13.5	18.4	41.4	53.6	71.0
Net profit (RM m)	13.8	17.0	37.4	48.3	64.0
EPS (sen)	9.2	11.3	24.8	32.1	42.4
EPS growth (%)	(32.5%)	22.9%	120.2%	29.4%	32.3%
P/E (x)	30.7	25.0	11.3	8.8	6.6
Core EPS (sen)	9.2	18.3	24.8	32.1	42.4
Core EPS growth (%)	(32.5%)	100.0%	35.4%	29.4%	32.3%
Core P/E (x)	30.7	15.3	11.3	8.8	6.6
Gross DPS (sen)	0.0	6.7	7.0	10.0	14.0
Dividend yield (%)	0.0%	2.4%	2.5%	3.6%	5.0%
P/BV (x)	2.5	2.3	1.7	1.3	1.0
ROE (%)	8.2%	9.2%	14.7%	14.6%	15.3%
Net gearing (%)	45.3%	41.6%	34.0%	32.7%	30.7%
P/FCFE (x)	44.1	198.8	(53.3)	(58.3)	36.4
EV/EBITDA (x)	21.8	11.0	9.2	7.4	5.9
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.95	0.85	1.01

Source: Company, CIMB Research, Bloomberg

Stock Information

Market cap:	RM424m/US$135m
12-m price range:	RM4.21
	RM1.55
3-m avg daily vol:	0.4m
No. of shrs (m):	151
Est. free float (%):	56.1
Conv. secs (m):	None
Major shareholders (%):	
- Low Chin Guan	38.6
- Lembaga Tabung Haji	5.3

Price chart



Source: Bloomberg

Corporate profile

Adventa started its operations in 1988 with a single production line for examination gloves. Soon after that, it obtained US FDA approval to start exporting to the US. By 1994, the company had the capacity to produce 120m pieces p.a. and ventured into the production of surgical gloves. Today, Adventa is principally involved in the manufacture and trading of gloves and medical supplies. The group now has the capacity to produce 260m pairs of surgical gloves and 2.9bn pieces of examination & dental gloves p.a. Headquartered in Kota Bharu, Kelantan, the group has manufacturing facilities in Kota Bharu, Kluang in Johor and Montevideo in Uruguay.

Financial tables

PROFIT & LOSS

(RM m, FYE Oct)	2008	2009	2010F	2011F	2012F
Revenue	186	283	358	498	650
Operating expenses	(163)	(237)	(303)	(426)	(555)
EBITDA	23	45	55	72	94
Depreciation & amortisation	(7)	(10)	(12)	(17)	(23)
EBIT	16	36	44	55	72
Net interest & invt income	(3)	(6)	(2)	(2)	(1)
Associates' contribution	0	0	0	0	0
Exceptional items	0	(12)	0	0	0
Others	0	0	0	0	0
Pretax profit	**13**	**18**	**41**	**54**	**71**
Tax	0	(2)	(4)	(5)	(7)
Minority interests	0	0	0	0	0
Net profit	**14**	**17**	**37**	**48**	**64**
Adj. wt. shares (m)	151	151	151	151	151
Unadj. year-end shares (m)	139	145	151	151	151

KEY RATIOS

(FYE Oct)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	(17.4)	52.1	26.7	39.0	30.4
EBITDA growth (%)	(21.7)	98.0	21.8	30.6	30.2
Pretax margins (%)	7.3	6.5	11.6	10.8	10.9
Net profit margins (%)	7.4	6.0	10.4	9.7	9.8
Interest cover (x)	4.6	6.3	10.3	11.8	13.9
Effective tax rates (%)	N/A	8.3	10.0	10.0	10.0
Net dividend payout (%)	0.0	44.9	21.2	23.4	24.7
Debtors turnover (days)	101.8	61.5	65.7	65.7	65.7
Stock turnover (days)	92.1	67.6	65.7	65.7	65.7
Creditors turnover (days)	46.3	37.7	34.2	28.3	25.0

BALANCE SHEET

(RM m, end Oct)	2008	2009	2010F	2011F	2012F
Fixed assets	156	163	223	269	321
Intangible assets	3	3	3	3	3
Other long-term assets	19	20	19	19	18
Total non-current assets	**178**	**186**	**245**	**291**	**343**
Cash and equivalents	38	39	41	32	26
Stocks	47	52	64	90	117
Trade debtors	52	48	64	90	117
Other current assets	8	21	18	25	32
Total current assets	**144**	**159**	**187**	**236**	**292**
Trade creditors	24	29	34	39	44
Short-term borrowings	53	57	63	69	76
Other current liabilities	10	8	9	9	9
Total current liabilities	**86**	**95**	**105**	**117**	**130**
Long-term borrowings	62	58	64	71	78
Other long-term liabilities	5	6	7	8	9
Total long-term liabilities	**67**	**65**	**71**	**79**	**86**
Shareholders' funds	**168**	**184**	**255**	**330**	**417**
Minority interests	1	1	1	1	1
NTA/share (RM)	1.10	1.20	1.67	2.17	2.75

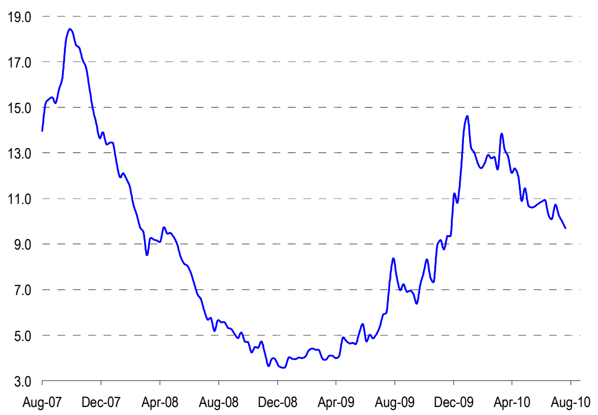
KEY DRIVERS

(FYE Oct)	2009	2010F	2011F	2012F
Production capacity (m pcs p.a)	3,300	3,800	5,300	6,600
Capacity utilisation (%)	80.0%	70.0%	75.0%	75.0%
ASP (US$) per 1,000 pieces	20.00	28.00	26.00	27.00
Exchange rate (RM to US$)	3.50	3.17	3.11	3.15
Natural rubber price (RM /kilogram)	4.50	6.50	6.10	6.20

CASH FLOW

(RM m, FYE Oct)	2008	2009	2010F	2011F	2012F
Pretax profit	13	18	41	54	71
Depreciation & non–cash adj.	7	10	12	17	23
Working capital changes	(4)	(7)	(22)	(52)	(56)
Cash tax paid	0	0	(2)	(4)	(5)
Others	0	7	0	0	0
Cash flow from operations	**16**	**28**	**30**	**15**	**32**
Capex	(26)	(29)	(50)	(35)	(35)
Net investments & sale of FA	0	1	0	0	0
Others	1	0	0	0	0
Cash flow from investing	**(26)**	**(27)**	**(50)**	**(35)**	**(35)**
Debt raised/(repaid)	19	2	12	13	14
Equity raised/(repaid)	0	7	0	0	0
Dividends paid	(6)	(4)	(8)	(10)	(12)
Cash interest & others	(3)	(4)	18	9	(5)
Cash flow from financing	**10**	**1**	**21**	**11**	**(3)**
Change in cash	**0**	**1**	**2**	**(9)**	**(6)**
Change in net cash/(debt)	**(19)**	**0**	**(10)**	**(21)**	**(20)**
Ending net cash/(debt)	**(77)**	**(77)**	**(87)**	**(109)**	**(128)**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB Research, Bloomberg

CIMB Research Report

COMPANY UPDATE

Syariah-compliant stock

MALAYSIA

Hartalega Holdings

Striking back at the naysayers

OUTPERFORM	Maintained
RM7.98	@09/08/10
	Target: RM12.73
	Rubber Gloves

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

- **Maintain OUTPERFORM.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. We are, however, confident that demand growth is strong enough to absorb the new capacity and the glovemakers' pricing power will allow them to pass on the cost increases. We are leaving our earnings forecasts for Hartalega unchanged. Our target price remains intact at RM12.73 as we continue to value the stock at 14.9x P/E, a 10% discount to Top Glove's target P/E of 16.5x. Hartalega remains an OUTPERFORM, with the potential re-rating catalyst being its ability to keep its margins high with the help of superior operational efficiency and premium products. The recent share price consolidation of the rubber glove stocks presents a good opportunity to accumulate them.
- **Largest nitrile player in the country.** Hartalega's distinctive feature is its niche in nitrile gloves, which make up a whopping 85% of its sales. The company is the largest nitrile glove manufacturer in Malaysia. On top of that, it has arguably the most efficient glove manufacturing facilities with its high-capacity production lines and state-of-the-art technology for its new glove plants.
- **Capacity expansion intact.** Hartalega's capacity currently stands at 7bn pieces p.a. Its progressive expansion plans could raise its annual glove production capacity to 9.6bn pieces by FY12. The company is also actively looking for new landbank for further expansion beyond FY12.

Financial summary

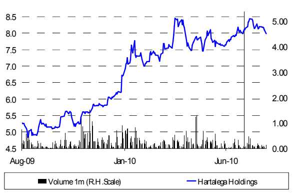
FYE Mar	2009	2010	2011F	2012F	2013F
Revenue (RM m)	443.2	571.9	746.5	866.0	970.2
EBITDA (RM m)	107.9	203.7	261.4	304.6	343.5
EBITDA margins (%)	24.3%	35.6%	35.0%	35.2%	35.4%
Pretax profit (RM m)	95.5	177.9	231.7	269.2	302.4
Net profit (RM m)	84.5	143.0	185.2	215.1	241.7
EPS (sen)	34.9	59.0	76.4	88.8	99.8
EPS growth (%)	21.5%	69.2%	29.5%	16.2%	12.4%
P/E (x)	22.9	13.5	10.4	9.0	8.0
Core EPS (sen)	32.9	59.0	76.4	88.8	99.8
Core EPS growth (%)	14.7%	79.3%	29.5%	16.2%	12.4%
Core P/E (x)	24.2	13.5	10.4	9.0	8.0
Gross DPS (sen)	12.0	20.0	26.0	31.0	36.0
Dividend yield (%)	1.5%	2.5%	3.3%	3.9%	4.5%
P/BV (x)	7.6	5.5	3.9	3.0	2.3
ROE (%)	39.0%	47.0%	43.8%	37.6%	32.7%
Net gearing (%)	7.7%	N/A	N/A	N/A	N/A
Net cash per share (RM)	N/A	0.14	0.57	1.03	1.60
P/FCFE (x)	46.3	23.4	13.5	12.0	10.0
EV/EBITDA (x)	18.1	9.3	6.9	5.5	4.5
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.15	1.15	0.99

Source: Company, CIMB Research, Bloomberg

Stock Information

Market cap:	RM1,934m/US$614m
12-m price range:	RM8.45
	RM4.84
3-m avg daily vol:	0.2m
No. of shrs (m):	242
Est. free float (%):	44.3
Conv. secs (m):	None
Major shareholders (%):	
- Hartalega Industries Sdn	50.6
- Budi Tenggara Sdn Bhd	5.1

Price chart



Source: Bloomberg

Corporate profile

Hartalega is a leading global producer of nitrile gloves. The group began its manufacturing operations in 1988 and in the same year, made its foray into the overseas market by exporting to the US. Since inception, Hartalega has been focusing on R&D on automation systems to improve the production efficiency and effectiveness of its glove manufacturing operations. It currently owns five manufacturing plants on a 22-acre site in Batang Berjuntai, Selangor. Its annual production capacity is currently 7.0bn pieces.

Financial tables

PROFIT & LOSS					
(RM m, FYE Mar)	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Revenue	443	572	747	866	970
Operating expenses	(335)	(368)	(485)	(561)	(627)
EBITDA	108	204	261	305	344
Depreciation & amortisation	(16)	(26)	(32)	(39)	(47)
EBIT	92	178	229	266	297
Net interest & invt income	(2)	0	2	4	6
Associates' contribution	0	0	0	0	0
Exceptional items	5	0	0	0	0
Others	0	0	0	0	0
Pretax profit	**95**	**178**	**232**	**269**	**302**
Tax	(11)	(35)	(46)	(54)	(60)
Minority interests	0	0	0	0	0
Net profit	**85**	**143**	**185**	**215**	**242**
Adj. wt. shares (m)	242	242	242	242	242
Unadj. year-end shares (m)	242	242	242	242	242

KEY RATIOS					
(FYE Mar)	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Revenue growth (%)	72.1	29.0	30.5	16.0	12.0
EBITDA growth (%)	25.8	88.8	28.3	16.5	12.8
Pretax margins (%)	21.5	31.1	31.0	31.1	31.2
Net profit margins (%)	19.1	25.0	24.8	24.8	24.9
Interest cover (x)	38.0	52.7	105.5	122.7	152.4
Effective tax rates (%)	11.5	19.5	20.0	20.0	20.0
Net dividend payout (%)	25.5	25.4	25.5	26.2	27.1
Debtors turnover (days)	37.3	43.2	37.2	34.0	34.5
Stock turnover (days)	19.2	16.8	16.0	17.0	17.3
Creditors turnover (days)	12.3	13.2	14.9	17.0	17.3

BALANCE SHEET					
(RM m, end Mar)	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Fixed assets	246	284	328	366	397
Intangible assets	0	0	0	0	0
Other long-term assets	0	9	0	0	0
Total non-current assets	**246**	**293**	**329**	**367**	**398**
Cash and equivalents	38	75	185	291	425
Stocks	25	28	37	43	49
Trade debtors	58	78	75	87	97
Other current assets	8	3	8	9	10
Total current assets	**128**	**184**	**304**	**430**	**581**
Trade creditors	18	24	37	43	49
Short-term borrowings	15	14	15	14	12
Other current liabilities	20	29	28	30	32
Total current liabilities	**53**	**66**	**81**	**87**	**93**
Long-term borrowings	43	28	30	27	25
Other long-term liabilities	25	28	29	31	32
Total long-term liabilities	**67**	**55**	**60**	**58**	**57**
Shareholders' funds	**254**	**354**	**492**	**651**	**828**
Minority interests	0	0	0	0	0
NTA/share (RM)	1.05	1.46	2.03	2.69	3.42

KEY DRIVERS				
(FYE Mar)	**2010**	**2011F**	**2012F**	**2013F**
Production capacity (m pcs p.a)	6,443	7,840	9,562	10,562
Capacity utilisation (%)	82.3%	80.0%	75.0%	75.0%
ASP (US$) per 1,000 pieces	30.82	34.50	35.00	35.50

CASH FLOW					
(RM m, FYE Mar)	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Pretax profit	95	178	232	269	302
Depreciation & non–cash adj.	16	26	32	39	47
Working capital changes	(21)	(16)	3	(10)	(9)
Cash tax paid	(4)	(22)	(35)	(46)	(54)
Others	3	1	(23)	(16)	(18)
Cash flow from operations	**88**	**166**	**209**	**236**	**268**
Capex	(61)	(67)	(70)	(70)	(70)
Net investments & sale of FA	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from investing	**(61)**	**(67)**	**(70)**	**(70)**	**(70)**
Debt raised/(repaid)	14	(16)	4	(5)	(4)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(8)	(44)	(31)	(53)	(58)
Cash interest & others	(6)	(3)	(2)	(2)	(2)
Cash flow from financing	**0**	**(63)**	**(29)**	**(59)**	**(64)**
Change in cash	**27**	**36**	**110**	**107**	**134**
Change in net cash/(debt)	**13**	**53**	**106**	**111**	**138**
Ending net cash/(debt)	**(19)**	**33**	**139**	**250**	**388**

12M - FORWARD FD CORE P/E (X)

Source: Company, CIMB Research, Bloomberg

CIMB Research Report

COMPANY UPDATE

Syariah-compliant stock

MALAYSIA

Kossan Rubber Industries Bhd

Striking back at the naysayers

OUTPERFORM	Maintained
RM3.67	@09/08/10
	Target: RM6.08
	Rubber Gloves

KRI MK / KRIB.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

- **Maintain OUTPERFORM.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. We are, however, confident that demand growth is strong enough to absorb the new capacity and the glovemakers' pricing power will allow them to pass on the cost increases. To reflect the improved outlook for the company, we are lowering our discount to Top Glove's target P/E of 16.5x from 40% to 30%, which raises our target price from RM5.21 to RM6.08. We maintain our Outperform call on the company given the likely re-rating trigger of a potential improvement in the group's long-term earnings supported by its major expansion plans. The recent share price consolidation of the rubber glove stocks presents a good opportunity to accumulate them.
- **Resilient demand.** Kossan is the third largest rubber glove manufacturer in the country and has about 8% of global market share. With 95% of the company's products going to the medical category, demand for its products is resilient.
- **Expanding to cater to growing demand.** As demand for the company's products has been increasing, it has set some major expansion plans for the next few years including the upgrade and addition of new lines to its existing plants. On top of that, Kossan plans to put in 32 double former lines at a new factory to be built on a piece of land in Klang which it bought in May 05. All these lines, once commissioned, will take its annual capacity from 11.1bn currently to 18.0bn pieces per annum by 2011.

Financial summary

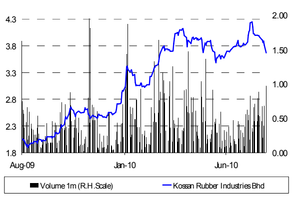
FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	897.2	837.0	1,152.3	1,498.9	1,668.6
EBITDA (RM m)	107.9	182.0	223.6	276.3	311.3
EBITDA margins (%)	12.0%	21.7%	19.4%	18.4%	18.7%
Pretax profit (RM m)	72.9	87.4	177.6	222.5	255.1
Net profit (RM m)	58.6	66.8	134.4	168.4	190.4
EPS (sen)	18.3	20.9	42.0	52.7	59.6
EPS growth (%)	6.5%	13.9%	101.2%	25.3%	13.1%
P/E (x)	20.0	17.6	8.7	7.0	6.2
Core EPS (sen)	18.3	37.5	42.0	52.7	59.6
Core EPS growth (%)	8.8%	104.3%	12.2%	25.3%	13.1%
Core P/E (x)	20.0	9.8	8.7	7.0	6.2
Gross DPS (sen)	3.0	4.5	9.0	11.5	13.0
Dividend yield (%)	0.8%	1.2%	2.5%	3.1%	3.5%
P/BV (x)	3.9	3.3	2.4	1.8	1.5
ROE (%)	21.3%	20.4%	31.6%	29.8%	26.5%
Net gearing (%)	70.1%	41.4%	8.6%	N/A	N/A
Net cash per share (RM)	N/A	N/A	N/A	0.12	0.54
P/FCFE (x)	(88.7)	42.0	11.8	13.3	8.0
EV/EBITDA (x)	12.8	7.3	5.4	4.1	3.2
% change in EPS estimates			-	-	
CIMB/Consensus (x)			1.13	1.18	1.24

Source: Company, CIMB Research, Bloomberg

Stock Information

Market cap:	RM1,173m/US$373m
12-m price range:	RM4.25 RM1.90
3-m avg daily vol:	0.4m
No. of shrs (m):	320
Est. free float (%):	36.3
Conv. secs (m):	None
Major shareholders (%):	
- Kossan Holdings Sdn Bhd	51.8
- KWAP	7.0
- Asian Small Companies	4.9

Price chart



Source: Bloomberg

Corporate profile

Kossan Rubber Industries was established in 1979. Back then, the company offered a range of cutless bearings that were often used in the marine industry. The company then ventured into rubber glove manufacturing and introduced its first glove production line in 1988. It was listed on the Main Board of Bursa Malaysia in 1996. Today, Kossan has a total of 124 glove production lines producing 11.1bn pieces per annum. The company also specialises in the manufacture of high technical input rubber products for a wide range of applications including automotive, marine, construction and infrastructure.

Financial tables

PROFIT & LOSS

(RM m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	897	837	1,152	1,499	1,669
Operating expenses	(789)	(655)	(929)	(1,223)	(1,357)
EBITDA	108	182	224	276	311
Depreciation & amortisation	(26)	(34)	(38)	(47)	(50)
EBIT	82	148	186	230	261
Net interest & invt income	(9)	(8)	(8)	(7)	(6)
Associates' contribution	0	0	0	0	0
Exceptional items	0	(53)	0	0	0
Others	0	0	0	0	0
Pretax profit	**73**	**87**	**178**	**222**	**255**
Tax	(14)	(20)	(43)	(53)	(64)
Minority interests	(1)	0	(1)	(1)	(1)
Net profit	**59**	**67**	**134**	**168**	**190**
Adj. wt. shares (m)	320	320	320	320	320
Unadj. year-end shares (m)	320	320	320	320	320

KEY RATIOS

(FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	27.7	(6.7)	37.7	30.1	11.3
EBITDA growth (%)	19.2	68.8	22.8	23.6	12.7
Pretax margins (%)	8.1	10.4	15.4	14.8	15.3
Net profit margins (%)	6.5	8.0	11.7	11.2	11.4
Interest cover (x)	7.8	16.2	18.6	24.1	28.9
Effective tax rates (%)	18.8	23.0	24.0	24.0	25.0
Net dividend payout (%)	12.1	16.2	16.1	16.4	16.4
Debtors turnover (days)	60.6	77.7	65.6	61.3	65.8
Stock turnover (days)	40.4	48.5	41.2	42.0	45.0
Creditors turnover (days)	42.2	50.6	44.1	45.2	48.5

BALANCE SHEET

(RM m, end Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	361	359	385	408	421
Intangible assets	1	1	1	1	1
Other long-term assets	2	1	1	1	1
Total non-current assets	**364**	**361**	**387**	**409**	**423**
Cash and equivalents	17	23	120	194	320
Stocks	112	110	150	195	217
Trade debtors	161	195	219	285	317
Other current assets	0	0	0	0	0
Total current assets	**290**	**328**	**489**	**674**	**854**
Trade creditors	115	117	161	210	234
Short-term borrowings	173	138	131	124	118
Other current liabilities	1	7	20	43	53
Total current liabilities	**289**	**262**	**312**	**377**	**405**
Long-term borrowings	54	34	32	30	29
Other long-term liabilities	11	35	36	36	37
Total long-term liabilities	**65**	**69**	**68**	**67**	**66**
Shareholders' funds	**299**	**357**	**494**	**637**	**802**
Minority interests	1	1	2	3	3
NTA/share (RM)	0.93	1.12	1.54	1.99	2.51

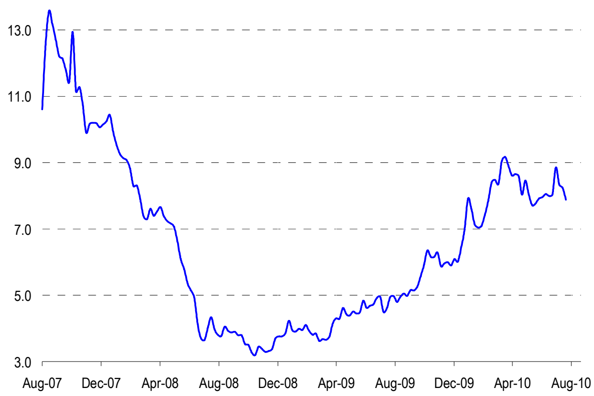
KEY DRIVERS

(FYE Dec)	2009	2010F	2011F	2012F
Production capacity (m pcs p.a)	11,100	14,500	18,000	19,500
Capacity utilisation (%)	76.1%	70.0%	70.0%	70.0%
ASP (US$) per 1,000 pieces	31.00	34.00	35.00	36.00

CASH FLOW

(RM m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	73	87	178	222	255
Depreciation & non–cash adj.	26	34	38	47	50
Working capital changes	0	0	0	0	0
Cash tax paid	(14)	(20)	(43)	(53)	(64)
Others	(25)	(24)	4	(52)	(20)
Cash flow from operations	**60**	**77**	**177**	**164**	**221**
Capex	(66)	(32)	(60)	(60)	(60)
Net investments & sale of FA	0	0	0	0	0
Others	0	0	0	0	0
Cash flow from investing	**(66)**	**(32)**	**(60)**	**(60)**	**(60)**
Debt raised/(repaid)	2	(9)	(9)	(8)	(8)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	0	(8)	(11)	(22)	(28)
Cash interest & others	(47)	25	0	0	0
Cash flow from financing	**(45)**	**7**	**(19)**	**(30)**	**(35)**
Change in cash	**(51)**	**52**	**97**	**74**	**126**
Change in net cash/(debt)	**(52)**	**62**	**106**	**82**	**133**
Ending net cash/(debt)	**(210)**	**(149)**	**(43)**	**40**	**173**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB Research, Bloomberg

CIMB Research Report

COMPANY UPDATE

Syariah-compliant stock

MALAYSIA

Latexx Partners

Striking back at the naysayers

OUTPERFORM	Maintained
RM3.52	@09/08/10
	Target: RM5.44
	Rubber Gloves

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

- **Maintain OUTPERFORM.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. We are, however, confident that demand growth is strong enough to absorb the new capacity and the glovemakers' pricing power will allow them to pass on the cost increases. In light of this, our OUTPERFORM call on Latexx remains intact, along with our earnings forecasts and target price of RM5.44, which we continue to base on 11.6x P/E or a 30% discount to Top Glove's target P/E of 16.5x. Potential share price triggers include its improving earnings ability, driven by its major expansion plans and move towards premium products. The stock remains one of our top picks for the rubber glove sector. The recent share price consolidation of the rubber glove stocks presents a good opportunity to accumulate them.
- **Moving towards premium products.** Latexx targets to become a premium rubber glove player. It recently expanded its nitrile glove segment, which contributed 40% to sales in 2Q10 compared to the 30% contribution achieved in 1Q10.
- **Further upside to earnings.** Latexx's earnings growth will be supported by the company's progressive expansion plans and a product mix that is moving towards higher-margin products i.e. nitrile gloves. There is also upside to our numbers as they do not include the impact of its protein-free NR glove JV announced earlier this year, which could provide a further boost to earnings from 4Q10 onwards.

Financial summary

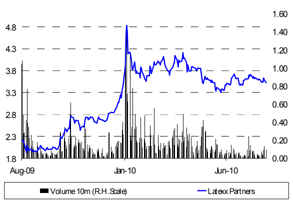
FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	223.3	328.5	574.9	679.2	810.8
EBITDA (RM m)	24.1	66.7	120.6	153.7	181.9
EBITDA margins (%)	10.8%	20.3%	21.0%	22.6%	22.4%
Pretax profit (RM m)	15.2	51.8	101.6	130.8	154.8
Net profit (RM m)	15.2	51.3	100.6	129.5	153.2
EPS (sen)	7.8	24.9	46.4	59.7	70.7
EPS growth (%)	212.4%	219.7%	86.1%	28.8%	18.4%
P/E (x)	45.1	14.1	7.6	5.9	5.0
FD core EPS (sen)	5.5	18.7	36.6	47.1	55.8
FD core P/E (x)	63.7	18.9	9.6	7.5	6.3
Gross DPS (sen)	0.0	1.9	8.0	11.0	14.0
Dividend yield (%)	0.0%	0.5%	2.3%	3.1%	4.0%
P/BV (x)	5.7	4.0	2.9	2.0	1.5
ROE (%)	13.4%	35.3%	46.0%	39.8%	33.9%
Net gearing (%)	47.0%	43.0%	9.2%	N/A	N/A
Net cash per share (RM)	N/A	N/A	N/A	0.20	0.61
P/FCFE (x)	135.5	52.7	13.5	7.8	6.1
EV/EBITDA (x)	30.8	12.0	6.5	4.7	3.5
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.99	0.93	0.96

Source: Company, CIMB Research, Bloomberg

Stock Information

Market cap:	RM743m/US$236m
12-m price range:	RM4.83 RM1.93
3-m avg daily vol:	0.8m
No. of shrs (m):	211
Est. free float (%):	65.1
Conv. secs (m):	58.1
Major shareholders (%):	
- BT Capital Sdn Bhd	23.5
- Best Time Ventures	5.9
- Lembaga Tabung ?Haji	5.6

Price chart



Source: Bloomberg

Corporate profile

Latexx Partners was incorporated in 1988 and was listed on Bursa Malaysia in 1996. Its corporate office and manufacturing facilities are located in Kamunting Industrial Estate, in Kamunting, Perak. The company currently owns six manufacturing plants located on a 50-acre plot that has space for expansion. Its annual production capacity currently stands at 7.0bn pieces of gloves. The company focuses on higher-quality powder-free natural rubber (NR) gloves and nitrile gloves. It is planning a staggered capacity expansion in order to keep pace with growing market demand.

Financial tables

PROFIT & LOSS					
(RM m, FYE Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Revenue	223	328	575	679	811
Operating expenses	(199)	(262)	(454)	(526)	(629)
EBITDA	24	67	121	154	182
Depreciation & amortisation	(6)	(8)	(11)	(15)	(18)
EBIT	18	58	109	139	164
Net interest & invt income	(3)	(7)	(8)	(8)	(9)
Associates' contribution	0	0	0	0	0
Exceptional items	0	0	0	0	0
Others	0	0	0	0	0
Pretax profit	**15**	**52**	**102**	**131**	**155**
Tax	0	0	(1)	(1)	(2)
Minority interests	0	0	0	0	0
Net profit	**15**	**51**	**101**	**129**	**153**
Adj. wt. shares (m)	195	206	217	217	217
Unadj. year-end shares (m)	195	195	217	217	217

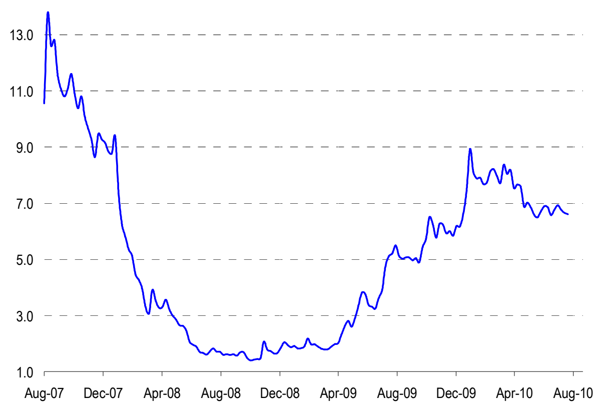
KEY RATIOS					
(FYE Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Revenue growth (%)	48.1	47.1	75.0	18.2	19.4
EBITDA growth (%)	130.4	176.9	80.7	27.5	18.4
Pretax margins (%)	6.8	15.8	17.7	19.3	19.1
Net profit margins (%)	6.8	15.6	17.5	19.1	18.9
Interest cover (x)	5.6	8.8	14.2	16.6	17.8
Effective tax rates (%)	0.1	0.9	1.0	1.0	1.0
Net dividend payout (%)	0.0	5.7	12.9	13.8	14.9
Debtors turnover (days)	65.1	57.1	49.7	57.3	57.0
Stock turnover (days)	52.3	41.4	34.1	40.4	40.2
Creditors turnover (days)	81.8	64.3	58.1	67.4	67.1

BALANCE SHEET					
(RM m, end Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Fixed assets	119	173	215	254	289
Intangible assets	20	20	20	20	20
Other long-term assets	7	21	6	6	6
Total non-current assets	**146**	**215**	**242**	**280**	**315**
Cash and equivalents	10	19	75	153	254
Stocks	36	38	69	82	97
Trade debtors	44	59	98	115	138
Other current assets	0	0	0	0	0
Total current assets	**90**	**116**	**242**	**350**	**489**
Trade creditors	48	68	115	136	162
Short-term borrowings	37	43	43	43	44
Other current liabilities	0	0	0	0	0
Total current liabilities	**85**	**111**	**157**	**179**	**206**
Long-term borrowings	30	50	57	67	77
Other long-term liabilities	1	1	1	1	2
Total long-term liabilities	**31**	**51**	**59**	**68**	**79**
Shareholders' funds	**121**	**170**	**267**	**383**	**519**
Minority interests	0	0	0	0	0
NTA/share (RM)	0.52	0.77	1.14	1.67	2.30

KEY DRIVERS				
(FYE Dec)	**2009**	**2010F**	**2011F**	**2012F**
Production capacity (m pcs p.a)	6,000	9,000	10,500	12,000
Capacity utilisation (%)	63.6%	65.0%	65.0%	65.0%
ASP (US$) per 1,000 pieces	24.50	31.00	32.00	33.00
Exchange rate (RM to US$)	3.53	3.17	3.11	3.15
Natural rubber price (RM /kilogram)	4.51	6.50	6.10	6.20

CASH FLOW					
(RM m, FYE Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Pretax profit	15	52	102	131	155
Depreciation & non–cash adj.	6	8	12	15	18
Working capital changes	(23)	1	(23)	(9)	(12)
Cash tax paid	0	0	0	1	1
Others	2	2	8	1	1
Cash flow from operations	**(1)**	**63**	**99**	**138**	**163**
Capex	(23)	(48)	(50)	(50)	(50)
Net investments & sale of FA	0	1	0	0	0
Others	0	0	0	0	0
Cash flow from investing	**(23)**	**(47)**	**(50)**	**(50)**	**(50)**
Debt raised/(repaid)	29	(2)	8	10	12
Equity raised/(repaid)	0	2	0	0	0
Dividends paid	0	(4)	(5)	(16)	(20)
Cash interest & others	(21)	(30)	5	(4)	(5)
Cash flow from financing	**8**	**(35)**	**8**	**(10)**	**(13)**
Change in cash	**(16)**	**(18)**	**56**	**78**	**101**
Change in net cash/(debt)	**(44)**	**(16)**	**48**	**68**	**89**
Ending net cash/(debt)	**(57)**	**(73)**	**(25)**	**44**	**133**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB Research, Bloomberg

CIMB Research Report

COMPANY UPDATE

MALAYSIA

Supermax Corp Bhd

Striking back at the naysayers

BUY	Maintained
RM6.00	@09/08/10
	Target: RM9.50
	Rubber Gloves

SUCB MK / SUPM.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

- **Maintain BUY.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. We are, however, confident that demand growth is strong enough to absorb the new capacity and the glovemakers' pricing power will allow them to pass on the cost increases. In view of the favourable outlook for the sector, we maintain our BUY call on Supermax and end-CY10 target price of RM9.50 which we continue to peg to 13.2x FY10 P/E or a 20% discount to Top Glove's target P/E of 16.5x. Potential share price triggers include the potential improvement in earnings, supported by the group's ongoing expansion and OBM segment. The recent share price consolidation of the rubber glove stocks presents a good opportunity to accumulate them.
- **Largest OBM player.** 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. Its sales mix is 65% OBM and 35% OEM. 90% of its products are sold to the healthcare segment, out of which 47% are sold to the dental & scientific laboratory market.
- **Capacity expansion plans in place.** In response to the changing environment and continuous growth in global demand for rubber gloves, management has set in motion major capital expansion plans. Its GloveCity project remains on schedule. The first 32 production lines will add 4.2bn pieces to annual capacity, taking its total capacity to 21.7bn pieces p.a. by the end of 2011.

Financial summary

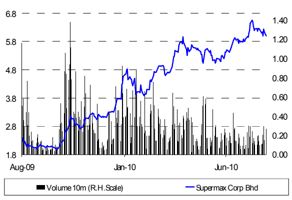
FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	811.8	814.8	1,249.3	1,522.4	1,683.6
EBITDA (RM m)	98.9	164.0	255.0	299.1	324.7
EBITDA margins (%)	12.2%	20.1%	20.4%	19.6%	19.3%
Pretax profit (RM m)	52.0	152.1	248.4	287.3	306.6
Net profit (RM m)	47.0	129.8	211.1	244.2	260.6
EPS (sen)	14.1	38.5	62.2	71.9	76.8
EPS growth (%)	(21.9%)	172.1%	61.7%	15.7%	6.7%
P/E (x)	42.5	15.6	9.6	8.3	7.8
Core EPS (sen)	18.7	39.8	62.2	71.9	76.8
Core EPS growth (%)	3.1%	113.3%	56.2%	15.7%	6.7%
Core P/E (x)	32.1	15.1	9.6	8.3	7.8
Gross DPS (sen)	2.6	8.7	9.6	11.5	12.8
Dividend yield (%)	0.4%	1.5%	1.6%	1.9%	2.1%
P/BV (x)	4.8	3.6	2.7	2.1	1.7
ROE (%)	11.7%	26.6%	32.4%	28.6%	24.2%
Net gearing (%)	90.0%	31.5%	19.2%	2.5%	N/A
Net cash per share (RM)	N/A	N/A	N/A	N/A	0.41
P/FCFE (x)	77.9	18.0	20.8	10.2	8.2
EV/EBITDA (x)	22.8	12.5	7.9	6.3	5.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.14	1.16	1.09

Source: Company, CIMB Research, Bloomberg

Stock Information

Market cap:	RM2,037m/US$648m
12-m price range:	RM6.55 RM1.99
3-m avg daily vol:	1.7m
No. of shrs (m):	339
Est. free float (%):	49.3
Conv. secs (m):	None
Major shareholders (%):	
- Thai Kim Sim, Stanley	20.4
- Tan Bee Geok, Cheryl	15.1
- Koperasi Permodalan Felda	5.5

Price chart



Source: Bloomberg

Corporate profile

Supermax Corporation is the second largest glove manufacturer in the country with a capacity of 14.5bn pieces per annum. As an own-brand manufacturer, Supermax has developed a range of successful brands such as Supermax, Aurelia, Maxter, Medic-dent and Supergloves which are trusted and recognised by laboratories, hospitals, pharmacists, doctors and surgeons around the world. The group has nine manufacturing plants in Malaysia and owns six distribution centres in the US, Brazil, Europe, Australia and Canada.

Financial tables

PROFIT & LOSS					
(RM m, FYE Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Revenue	812	815	1,249	1,522	1,684
Operating expenses	(713)	(651)	(994)	(1,223)	(1,359)
EBITDA	99	164	255	299	325
Depreciation & amortisation	(29)	(32)	(38)	(44)	(51)
EBIT	70	132	217	255	273
Net interest & invt income	(20)	(17)	(15)	(16)	(17)
Associates' contribution	19	42	46	48	51
Exceptional items	(17)	(5)	0	0	0
Others	0	0	0	0	0
Pretax profit	**52**	**152**	**248**	**287**	**307**
Tax	(5)	(22)	(37)	(43)	(46)
Minority interests	0	0	0	0	0
Net profit	**47**	**130**	**211**	**244**	**261**
Adj. wt. shares (m)	333	337	339	339	339
Unadj. year-end shares (m)	330	335	339	339	339

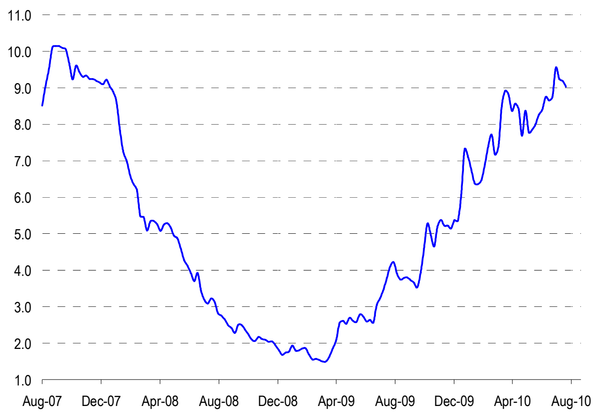
KEY RATIOS					
(FYE Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Revenue growth (%)	41.4	0.4	53.3	21.9	10.6
EBITDA growth (%)	32.0	65.9	55.4	17.3	8.5
Pretax margins (%)	6.4	18.7	19.9	18.9	18.2
Net profit margins (%)	5.8	15.9	16.9	16.0	15.5
Interest cover (x)	3.4	7.9	14.6	16.2	15.8
Effective tax rates (%)	9.6	14.7	15.0	15.0	15.0
Net dividend payout (%)	18.2	22.7	15.4	16.0	16.7
Debtors turnover (days)	49.9	58.0	49.7	54.8	57.3
Stock turnover (days)	54.4	54.0	39.2	43.2	45.2
Creditors turnover (days)	29.9	22.2	12.8	15.0	15.6

BALANCE SHEET					
(RM m, end Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Fixed assets	383	379	408	430	445
Intangible assets	29	29	29	29	29
Other long-term assets	128	162	177	185	194
Total non-current assets	**539**	**569**	**613**	**644**	**668**
Cash and equivalents	31	119	157	306	504
Stocks	136	106	162	198	219
Trade debtors	125	134	206	251	278
Other current assets	116	5	15	18	20
Total current assets	**407**	**365**	**541**	**774**	**1,021**
Trade creditors	68	31	56	69	76
Short-term borrowings	231	129	127	139	153
Other current liabilities	49	42	42	48	51
Total current liabilities	**347**	**202**	**225**	**256**	**280**
Long-term borrowings	175	165	174	191	210
Other long-term liabilities	8	9	9	9	10
Total long-term liabilities	**183**	**174**	**183**	**200**	**220**
Shareholders' funds	**416**	**558**	**746**	**961**	**1,189**
Minority interests	0	0	0	0	0
NTA/share (RM)	1.18	1.58	2.11	2.75	3.42

KEY DRIVERS				
(FYE Dec)	**2009**	**2010F**	**2011F**	**2012F**
Production capacity (m pcs p.a)	14,476	17,588	21,738	23,238
Capacity utilisation (%)	83.7%	75.0%	70.0%	70.0%
ASP (US$) per 1,000 pieces	23.74	28.00	29.00	30.00

CASH FLOW					
(RM m, FYE Dec)	**2008**	**2009**	**2010F**	**2011F**	**2012F**
Pretax profit	52	152	248	287	307
Depreciation & non–cash adj.	29	12	38	44	51
Working capital changes	3	85	(112)	(65)	(38)
Cash tax paid	(2)	(13)	(22)	(37)	(43)
Others	17	0	0	0	0
Cash flow from operations	**98**	**236**	**152**	**230**	**277**
Capex	(39)	(23)	(60)	(60)	(60)
Net investments & sale of FA	0	0	0	0	0
Others	(19)	0	0	0	0
Cash flow from investing	**(57)**	**(23)**	**(60)**	**(60)**	**(60)**
Debt raised/(repaid)	(16)	(101)	6	30	33
Equity raised/(repaid)	(6)	4	0	0	0
Dividends paid	(9)	(19)	(29)	(26)	(29)
Cash interest & others	(66)	1	(31)	(25)	(22)
Cash flow from financing	**(96)**	**(115)**	**(54)**	**(21)**	**(19)**
Change in cash	**(55)**	**98**	**38**	**149**	**198**
Change in net cash/(debt)	**(39)**	**199**	**32**	**119**	**165**
Ending net cash/(debt)	**(375)**	**(176)**	**(143)**	**(24)**	**141**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB Research, Bloomberg

CIMB Research Report

COMPANY UPDATE

Syariah-compliant stock

MALAYSIA

OUTPERFORM	Maintained
RM6.13	@09/08/10
	Target: RM8.90
	Rubber Gloves

Top Glove Corporation

Striking back at the naysayers

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

- **Maintain OUTPERFORM.** In recent months, rubber glove stocks have come under pressure as investors fret about issues such as overcapacity, the weak US$, high latex prices, a potential rise in energy prices, margin contraction and premium valuations. We are, however, confident that demand growth is strong enough to absorb the new capacity and the glovemakers' pricing power will allow them to pass on the cost increases. We make no changes to our earnings forecasts or our RM8.90 target price for Top Glove, which is still based on a 10% premium over our target market P/E of 15x. The stock remains an OUTPERFORM and could enjoy further re-rating on the back of a continuing uptick in demand and ongoing capacity expansion.The recent share price consolidation of the rubber glove stocks presents a good opportunity to accumulate them.
- **Industry demand remains healthy.** For the past decade, global rubber glove demand has racked up consistent growth of about 8-10% p.a. Top Glove, the world's largest player, believes that this trend will continue. Growth could also come from large untapped markets like China and India, the tightening of global healthcare regulations, rising hygiene awareness and new demand from non-medical sectors in developed countries, for instance, the food industry.
- **More capacity to come in.** In view of the potential uptick in global demand, Top Glove remains focused on expansion. Its current expansion includes the progressive addition of 88 lines by May 11. This could raise its capacity by 25% from the current 33.0bn pieces p.a. to 41.3bn pieces p.a. Its strong cash position will enable it to finance the expansion. Top Glove boasts strong finances with RM283.9m (RM0.94 per share) net cash as at end-May10.

Financial summary

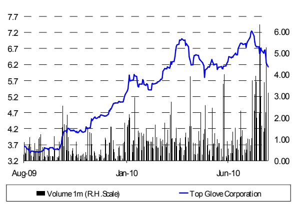
FYE Aug	2008	2009	2010F	2011F	2012F
Revenue (RM m)	1,377.9	1,529.1	2,032.1	2,426.6	2,639.4
EBITDA (RM m)	194.5	286.2	422.9	480.1	516.5
EBITDA margins (%)	14.1%	18.7%	20.8%	19.8%	19.6%
Pretax profit (RM m)	134.6	222.0	367.2	421.7	455.2
Net profit (RM m)	110.1	169.1	283.3	325.0	350.7
EPS (sen)	18.6	28.0	45.9	52.6	56.8
EPS growth (%)	21.2%	50.4%	63.8%	14.7%	7.9%
P/E (x)	32.9	21.9	13.4	11.6	10.8
Gross DPS (sen)	5.5	10.6	18.5	21.5	23.5
Dividend yield (%)	0.9%	1.7%	3.0%	3.5%	3.8%
P/BV (x)	5.4	4.4	3.5	3.0	2.9
ROE (%)	17.1%	22.7%	29.5%	27.8%	27.4%
Net gearing (%)	9.5%	N/A	N/A	N/A	N/A
Net cash per share (RM)	N/A	0.28	0.62	0.77	0.90
P/FCFE (x)	141.4	67.0	9.5	11.9	11.0
EV/EBITDA (x)	19.1	12.4	8.1	7.0	6.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.00	1.05	1.13

Source: Company, CIMB Research, Bloomberg

Stock Information

Market cap:	RM3,785m/US$1,205m
12-m price range:	RM7.24
	RM3.45
3-m avg daily vol:	1.5m
No. of shrs (m):	618
Est. free float (%):	55.3
Conv. secs (m):	None
Major shareholders (%):	
- Tan Sri Dr. Lim Wee Chai	28.9
- Top Glove Holdings	5.2
- Matthews International	5.1

Price chart



Source: Bloomberg

Corporate profile

Top Glove is the world's largest rubber glove manufacturer with an estimated global market share of 23% based on its existing annual capacity of 33.0bn pieces. Established in 1991, the group was listed on Bursa Malaysia in 2001. Currently, it has 371 production lines in 18 glove manufacturing factories located in Malaysia, Thailand and China. It also has two latex concentrate plants in Thailand with a combined capacity of 88,100 tonnes p.a. The company produces a diversified range of high-quality and value-added gloves for the medical, food & services, high technology and industrial markets.

Financial tables

PROFIT & LOSS

(RM m, FYE Aug)	2008	2009	2010F	2011F	2012F
Revenue	1,378	1,529	2,032	2,427	2,639
Operating expenses	(1,183)	(1,243)	(1,609)	(1,946)	(2,123)
EBITDA	194	286	423	480	516
Depreciation & amortisation	(53)	(57)	(60)	(64)	(67)
EBIT	141	229	363	416	449
Net interest & invt income	(8)	(6)	3	4	4
Associates' contribution	1	(1)	1	1	2
Exceptional items	0	0	0	0	0
Others	0	0	0	0	0
Pretax profit	**135**	**222**	**367**	**422**	**455**
Tax	(27)	(54)	(88)	(101)	(109)
Minority interests	2	1	4	4	5
Net profit	**110**	**169**	**283**	**325**	**351**
Adj. wt. shares (m)	591	604	618	618	618
Unadj. year-end shares (m)	592	590	618	618	618

KEY RATIOS

(FYE Aug)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	12.1	11.0	32.9	19.4	8.8
EBITDA growth (%)	12.3	47.2	47.8	13.5	7.6
Pretax margins (%)	9.8	14.5	18.1	17.4	17.2
Net profit margins (%)	8.0	11.1	13.9	13.4	13.3
Interest cover (x)	13.9	26.9	235.8	386.3	378.8
Effective tax rates (%)	19.7	24.3	24.0	24.0	24.0
Net dividend payout (%)	21.9	28.4	30.2	30.6	31.0
Debtors turnover (days)	50.7	49.2	39.7	41.2	42.9
Stock turnover (days)	37.0	33.0	25.3	25.9	25.4
Creditors turnover (days)	28.8	24.5	21.1	23.5	26.3

BALANCE SHEET

(RM m, end Aug)	2008	2009	2010F	2011F	2012F
Fixed assets	559	564	607	648	684
Intangible assets	20	20	22	22	22
Other long-term assets	22	36	18	17	17
Total non-current assets	**602**	**621**	**648**	**687**	**723**
Cash and equivalents	122	186	392	486	567
Stocks	158	119	163	182	185
Trade debtors	214	198	244	303	317
Other current assets	14	8	20	24	26
Total current assets	**508**	**511**	**819**	**996**	**1,095**
Trade creditors	113	92	142	170	211
Short-term borrowings	100	12	6	6	7
Other current liabilities	93	140	159	191	208
Total current liabilities	**306**	**244**	**307**	**368**	**426**
Long-term borrowings	87	9	4	5	5
Other long-term liabilities	30	33	37	39	41
Total long-term liabilities	**117**	**42**	**41**	**44**	**46**
Shareholders' funds	**667**	**825**	**1,095**	**1,245**	**1,314**
Minority interests	20	21	23	27	31
NTA/share (RM)	1.09	1.36	1.74	1.98	2.09

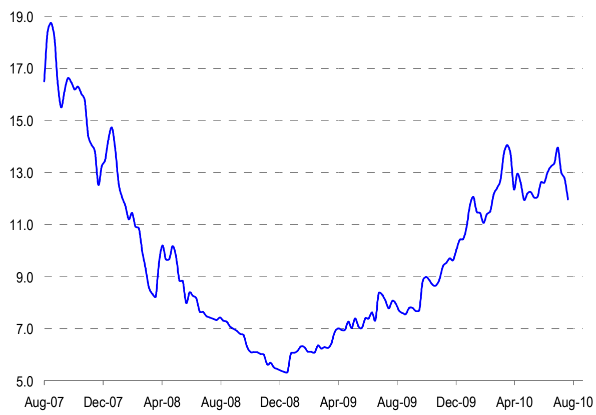
KEY DRIVERS

(FYE Aug)	2009	2010F	2011F	2012F
Production capacity (m pcs p.a)	31,500	35,250	41,250	42,750
Capacity utilisation (%)	75.0%	70.0%	70.0%	70.0%
ASP (US$) per 1,000 pieces	21.38	26.00	27.00	28.00
Exchange rate (RM to US$)	3.56	3.17	3.11	3.15
Natural rubber price (RM /kilogram)	4.33	6.50	6.10	6.20

CASH FLOW

(RM m, FYE Aug)	2008	2009	2010F	2011F	2012F
Pretax profit	135	222	367	422	455
Depreciation & non–cash adj.	53	57	60	64	67
Working capital changes	(73)	34	(39)	(51)	25
Cash tax paid	(21)	(39)	(54)	(88)	(101)
Others	(1)	22	175	71	(4)
Cash flow from operations	**93**	**296**	**509**	**417**	**442**
Capex	(65)	(67)	(100)	(100)	(100)
Net investments & sale of FA	1	3	0	0	0
Others	2	(10)	0	0	0
Cash flow from investing	**(62)**	**(74)**	**(100)**	**(100)**	**(100)**
Debt raised/(repaid)	(5)	(166)	(10)	1	1
Equity raised/(repaid)	(37)	11	0	0	0
Dividends paid	(27)	(32)	(181)	(243)	(276)
Cash interest & others	(4)	33	(12)	20	13
Cash flow from financing	**(74)**	**(155)**	**(203)**	**(223)**	**(262)**
Change in cash	**(43)**	**67**	**206**	**94**	**80**
Change in net cash/(debt)	**(38)**	**234**	**216**	**93**	**79**
Ending net cash/(debt)	**(65)**	**165**	**382**	**475**	**554**

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB Research, Bloomberg

Appendix

2Q results preview

Performance between Jan and May. We released two results round-up notes this year on 24 Mar and 22 June. Our main observation for the quarters ending Jan-May is the spillover of some orders to early 2010 due to last year's supply shortage. All rubber glove manufacture with extra capacity at the start of the year recorded higher sales volume. However, the sharp movement in latex pries and depreciating US$ started to take a toll on Adventa, Top Glove and recently, Latexx.

More results this month. Three more companies are slated to release their results this month – Hartalega (10 Aug), Kossan and Supermax (end of Aug). Although we have seen earnings and margins contractions for Adventa's 2QFY10/10, Top Glove's 3QFY8/10 and Latexx's 2QFY12/10, we do not think that the rest of the players will report significant qoq earnings and margin contractions. This is due to 1) additional capacity that came in for most of the players, 2) further improvement in capacity utilisation, and 3) the downtrend in latex prices after the peak in April, which allows manufacturers to adjust for better pricing, and 4) improvement in nitrile sales. Nevertheless, we are not concerned about the weak quarterly numbers as the companies should still show strong earnings growth this year given that capacity expansion and growing demand should override short-term currency depreciation and latex price trends.

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