

Bouncing back on lower volatility – The rally amongst glove stocks continued to gain traction over the past month, with the sector rising 4.7% versus a 1.6% gain for the FBMKLCI index. Latex-centric stocks such as Topglove and Supermax gained more than 10% in the past month on lower latex prices and increasing concerns about the spread of bird flu or H5N1 in Hong Kong and China. Meanwhile, earnings of most rubber glove companies continue to show QoQ improvement as strong headwinds of high latex prices, weak US\$ and hikes in electricity and natural gas tariffs (which had buffeted the sector for the past 18 months) appear to be subsiding. Latex, which account for 60-65% of production costs, has fallen by 41% from a high of RM10.84/kg wet in Feb 2011 to RM6.35/kg currently - lower than the RM7.00/kg wet by end-2011 predicted by the management of some glove companies. Meanwhile, the appreciation of the US\$ by 7.5% to RM3.15 in the last few months will also help glove producers boost margins in the next 2-3 quarters. Every 10 sen rise in the USD/MYR rate adds about 3% to the bottom-line of glove manufacturers.

We are currently Neutral on the Gloves sector. Prospects for the sector should improve going forward as latex and nitrile prices ease and the Ringgit weakens amid a slowing global economy. Global demand for gloves will continue to grow at 8-10% per annum given its recession-proof demand within the healthcare sector. The improvement in sequential 3Q performance by glove companies also provide anecdotal evidence that earnings have bottomed out in 2Q 2011. Meanwhile, the cost discount of nitrile to latex of 10-46% in the past 12 months has now reversed to parity, thus favouring latex dominant producers such as Top Glove and Supermax. Top Glove expects FY12 revenue to grow 20% YoY and PAT margins to rebound from a record low of 5.6% in FY11 whilst Supermax's 4QFY11 results, to be released in mid-Feb, is expected to show a 15% QoQ improvement in core earnings.

Malaysian Gloves Sector

Stock	Shr	TP	Mkt Cap	PER (x)		EPS Growth (%)		Div Yld (%)	Price Change (%)			
	Price	(RM)		Rec	(RMm)	CY11	CY12		CY11	CY12	CY12	1 mth
Top Glove	5.12	3.40	Sell	3,167	26.1	21.5	-39.7	21.2	2.2	10.6	5.6	1.4
Hartalega	5.87	6.80	Buy	2,139	10.5	9.3	14.1	12.4	4.8	3.9	4.1	9.7
Kossan	3.30	3.50	Buy	1,055	11.3	10.1	-17.7	12.0	2.4	4.1	17.4	5.1
Supermax*	3.96	-	NR	1,347	12.2	10.1	-32.5	21.7	2.4	10.0	38.5	-2.5
Latexx*	1.96	-	NR	438	7.5	6.8	-16.1	11.5	3.0	1.6	25.6	-23.1
Adventa*	1.60	-	NR	244	32.5	9.4	-76.7	244.9	4.2	-2.4	1.3	-33.3
Simple average					16.7	11.2	-28.1	54.0	3.2	4.7	15.4	-7.1

NR – non-rated, * consensus; Source: Bloomberg, Maybank-IB

Mid-day breaking news

LOCAL...

▶ **Foreign funds bought Malaysian stocks for the third straight month in Dec** as the FBMKLCI index gained 10% in the last quarter, outpacing the MSCI Asia-Pacific Index's 0.7% gain. Overseas investors purchased a net RM800m of shares in Dec, RM700m in Nov and RM1.5m in Oct.

REGIONAL...

▶ **Asian stocks rallied on the first full trading day** of the New Year and credit risk fell after U.S. manufacturing rose at the fastest pace in six months.

Technical call of the day

- ▶ **HARTA (HART MK, RM5.90)** – The stock is trading upwards. All of its indicators are showing positive signals, denoting its current uptrend.
- ▶ **SUPERMX (SUCB MK, RM3.97)** – The stock is trading upwards. All of its indicators are positive denoting its current uptrend. However, bearish divergence signals indicate its waning uptrend.
- ▶ **TOPGLOV (TOPG MK, RM5.11)** – The stock is trading upwards. All of its indicators are showing positive signals, denoting its firm uptrend.

AM market snapshots

KLCI	1514.75	+1.21
STI	2702.26	+13.90
Hang Seng	18822.68	-54.73
Nikkei	8570.20	+114.85
KOSPI	1872.76	-2.65

AM top volume stocks

Ho Wah Genting	0.41	+0.06
Maxbiz	0.175	unch
Envair	0.30	+0.04
JCY	1.15	unch
Xidelang	0.39	+0.01

AM top gainer stocks

Dutch Lady	24.20	+0.78
KLK	23.60	+0.60
BAT	49.88	+0.44
Batu Kawan	17.90	+0.40
BHIC	3.84	+0.22

TECHNICAL SUPPORT

Contact: Research Team



HARTA (HART MK, RM5.90) Uptrend

Key levels

Resistance 2: RM6.08
Resistance 1: RM5.92
Support 1: RM5.90
Support 2: RM5.51

The stock is trading upwards in the short to medium term. All indicators are showing positive signals and the SMA is trading below its price bars, denoting its current uptrend.



SUPERMX (SUCB MK, RM3.97) Uptrend

Key levels

Resistance 2: RM4.52
Resistance 1: RM4.18
Support 1: RM3.97
Support 2: RM3.45

The stock is trading upwards in the short term. Most indicators are positive and the SMA is below its price bars, denoting its current uptrend. However, bearish divergence indicates the waning uptrend.



TOPGLOV (TOPG MK, RM5.11) Uptrend

Key levels

Resistance 2: RM5.58
Resistance 1: RM5.38
Support 1: RM5.11
Support 2: RM4.90

The stock is trading upwards in the short-to-medium term. All indicators are showing positive signals and the SMA is significantly below its price bars, denoting its current firm uptrend.

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