

## Flash Note

### OVERWEIGHT (maintain)

#### Absolute Performance (%)

	1M	3M	12M
Kossan	-2.6	+32.5	+150.7
Supermax	-1.0	+15.4	+54.2
Top Glove	-6.1	-6.1	-1.3
Hartalaga	-4.2	-4.4	-48.4

### H1N1 scare returns

#### H1N1 alert at Sabah hospitals

Two adults and five children have tested positive for the H1N1 flu virus in Sabah, Malaysia. To recap, the highly contagious H1N1 flu pandemic emerged in 2009. The Centers for Disease Control and Prevention estimated that 61 million people were infected and around 12,470 people were killed by the deadly virus between April 2009 to April 2010. While the H1N1 virus flu is no longer regarded as a pandemic, we believe this will certainly help to spur the demand for healthcare products such as face mask and rubber gloves. Separately, there were also a brand new type of bird flu, H10N8 that had killed an elderly woman in Jiangxi, China on December 2013.

#### Potentially higher orders in anticipation of higher future demand

Although the actual increase in the use of examination gloves is not immediate, we anticipate a potential increase in usage of gloves in the coming months which will prompt healthcare companies to stock up on gloves. This is expected to put more pressure on the supply of gloves. At present, glove makers are already operating at near maximum optimal capacity, with an average utilization rate of 85%.

#### A boost from growing healthcare awareness

Unlike in 2009 during which the surge in glove usage arose from a recovery in the global economy and the H1N1 pandemic, we believe that orders are on the rise because the global population is increasingly becoming more hygiene conscious. Some have even set more stringent requirements on the quality of gloves used while others are encouraging more healthcare centres to use them, especially the developing countries where the practice of using gloves is still minimal. We believe that hygiene concerns of both individuals and governments will gradually lead to higher glove usage over time.

#### Operating environment is still healthy

The sector's key growth driver, latex price, which makes up 55% of glove manufacturers' production cost, is still low at RM4.80-5.50/kg despite entering into the wintering period, (Wintering period starts from Feb-April annually). Coupled with the increase in plant automations to help boost operating efficiencies, we are positive on the glove manufacturers' ability in sustaining healthy operating margins.

#### Share prices of glove companies may rally due to H1N1 and H10N8

Recall that the share price for rubber gloves companies surged strongly in end March 2013, following the news of an outbreak of H7N9 flu virus in China. If history were to repeat itself, we believe share prices for the four glove companies to again outperform due to a spike in glove demand. While we are hopeful that the outbreak would be contained soon, we believe this incident would fuel demand for examination gloves (increasing hygiene awareness and health alert) and thus benefiting the entire rubber gloves sector.

#### Maintain Overweight on the sector.

In view of: 1) the low and stable latex cost; 2) resilient demand from both developed and developing economies due to improving health awareness and more stringent regulations; and 3) improving plant automation, we remain positive on the rubber glove sector. We maintain our **OVERWEIGHT** view on the sector.

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#### Fig 2: Valuation matrix

Stock	Rating	Sh Pr (RM)	TP (RM)	Shares out	Mkt Cap (RMm)	Year End	Core PE (x)		EPS growth (%)		EV/EBITDA (x)	P/B (x)	ROE (%)		Net Div Yield (%)	
							CY13	CY14	CY13	CY14			FY13	FY14	FY13	FY14
Kossan	BUY	4.18	5.08	639.5	2,673	Dec	19.3	14.8	30.2	19.4	10.4	2.4	18.5	18.7	1.7	2.2
Top Glove	ADD	5.40	6.48	620.5	3,351	Aug	15.2	13.8	11.1	10.1	9.2	2.7	15.8	17.0	2.8	3.5
Supermax	BUY	2.90	3.60	679.2	1,970	Dec	14.7	12.0	21.7	10.1	10.7	1.9	14.7	13.5	2.4	2.8
Hartalaga	ADD	7.00	7.75	746.0	5,222	Mar	19.1	16.4	16.2	16.6	12.5	7.1	31.3	30.3	2.1	2.4
Simple average							17.1	14.3	19.8	14.1	10.7	3.5	20.0	19.9	2.2	2.7

Source: Bloomberg, Affin

## Equity Rating Structure and Definitions

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

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