



## Overweight ▲

### Rubber Gloves –Sector Update

#### *Rubber Price All The Way Down*

Latex price has declined by more than 16% over the past 2 weeks. From its peak of RM10.93/kg earlier this year, latex price had since been on a downtrend before closing at RM6.43/kg yesterday. Recall in our sector update “A Better Tomorrow” dated 29<sup>th</sup> August, an upgrade for the sector is in the offing on the back of softer latex prices and this is the time. Most rubber gloves companies have suffer time lag in passing down higher cost to customers; and now with the down trending latex price, they will enjoy the benefit of this reversal. We have revised our 2012 earnings forecast upwards for these companies. Target prices have also been adjusted following the earnings revision. We are upgrading the sector to **OVERWEIGHT**.

#### Natural Latex Price



Source: Bloomberg

**Expect slight margin recovery.** During the 1H, when latex price was on the uptrend, peaking at RM10.93/kg on 7th April 2011, most glove manufacturers experienced margin compression resulted from a 2-month time lag in passing on the cost. Now, with the opposite occurring, the same time lag effect will improve their profit margins. We can expect some margin recovery for glove companies in the next quarterly result.

**Will latex price continue to drop?** Earlier, we have forecasted latex price to drop to RM6.50 when the critical supported level of RM8.50/kg has been violated. Though we can never rule out that latex price may drop further to below RM6.00/kg; nevertheless, we believe latex price should average at between RM6.00-6.50/kg in mid to longer term.

**Upgrade to Overweight.** We have revised our 2012 earnings estimates upwards for companies (refer to page 2) by imputing lower latex prices in our earnings model. In our previous sector update, we mentioned of a possible upgrade for the rubber glove sector once the latex price drops below RM7/kg and holding for a longer period. With the promising outlook going forward, we are upgrading the Rubber Glove sector to **OVERWEIGHT** but shall remain vigilant on the latex price trend in the immediate future. We are maintaining our **BUY** recommendations on **Hartalega (BUY, TP: RM6.92)** and **Kossan (BUY, TP: RM4.09)** while upgrading **Top Glove (BUY, TP :RM5.26)** and **Supermax (BUY, TP : RM4.33)** from Neutral to **BUY**.

## Earnings Summary

	<i>Hartalega</i>	<i>Kossan</i>	<i>Supermax</i>	<i>Top Glove</i>
<i>Recommendation</i>	<b>BUY</b> ◀▶	<b>BUY</b> ◀▶	<b>BUY</b> ▲	<b>BUY</b> ▲
<i>Price as at 14/11/2011</i>	5.60	3.17	3.82	4.48
<i>Target Price</i>	<b>6.92</b> ◀▶	<b>4.09</b> ▲	<b>4.33</b> ▲	<b>5.26</b> ▲
<i>Potential Upside</i>	23.6%	29.1%	13.4%	17.4%
<i>Valuation methodology 3-year PER</i>	<b>11x</b>	<b>11x</b>	<b>11x</b>	<b>20x</b>
<b>Revenue (RMm)</b>				
<i>CY11</i>	790.0	1,211.2	923.3	2,058.6
<i>CY12</i>	926.6	1,450.1	1,061.2	2,106.8
<b>EBITDA (RMm)</b>				
<i>CY11</i>	290.7	159.1	125.9	211.3
<i>CY12</i>	322.3	191.7	164.7	264.2
<b>PER</b>				
<i>CY11</i>	9.8	10.7	13.0	21.5
<i>CY12</i>	8.9	8.5	9.7	17.0
<b>Earnings (RMm)</b>				
<i>CY11</i>	206.8◀▶	95.0◀▶	104.0◀▶	128.6◀▶
<i>CY12</i>	228.8◀▶	118.8▲	133.9▲	162.9▲
<b>EPS (sen)</b>				
<i>CY11</i>	56.9	29.7	29.4	20.8
<i>CY12</i>	62.9	37.2	39.4	26.3
<b>BV per share (RM)</b>				
<i>CY11</i>	1.63	1.60	2.32	1.84
<i>CY12</i>	2.04	1.86	2.65	1.94
<b>P/BV</b>				
<i>CY11</i>	3.4	2.0	1.6	2.4
<i>CY12</i>	3.4	2.2	1.6	2.7
<b>Dividend per share</b>				
<i>CY11</i>	21.0	10.0	5.0	11.0
<i>CY12</i>	22.0	11.0	6.0	16.0
<b>Dividend yield</b>				
<i>CY11</i>	3.8%	3.2%	1.3%	2.5%
<i>CY12</i>	3.9%	3.5%	1.6%	3.6%
<b>ROE (%)</b>				
<i>CY11</i>	38.0%	19.8%	13.9%	10.5%
<i>CY12</i>	34.4%	21.5%	15.8%	13.0%

Source: BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months
<b>OUTPERFORM</b>	The stock is expected to perform ahead of the market in the next 12 months
<b>TRADING BUY</b>	The stock is expected to outperform the market in the next 3 months
<b>NEUTRAL</b>	The stock is expected to perform in line with the market in the next 12 months
<b>TRADING SELL</b>	The stock is expected to underperform the market in the next 3 months
<b>SELL</b>	An expected price depreciation of more than 10% in the next 12 months

**SECTOR RECOMMENDATION**

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

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

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

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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