Neutral

Rubber Glove

A Better Tomorrow?

So far 2011 has been a challenging year for rubber glove makers overwhelmed by a plethora of unpleasant events such as (i) high latex prices, (ii) depreciating USD against RM, and (iii) hikes in electricity and natural gas tariff. As a result, most domestic players are experiencing earnings contraction due to depleting margins. Of late, the overall situation remains uncertain as the RM has further strengthened to below RM3.00/USD with no immediate recovery of the USD in sight. Latex prices although has stabilised over the past 2 month, is still relatively high averaging at about RM8.50/kg vis-a-vis the pre-commodity rally level of RM4.00-5.00/kg. As for natural gas, the tariff will increase by RM3/MMBTU every six months till December 2015. All in all, the industry players are facing a testing period but as always, we expect them to come out unscathed.

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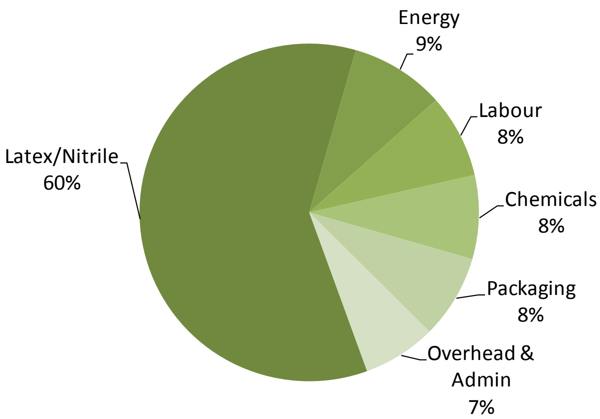
What Happened?

Latex price surged. In tune with the global commodity rally, latex price has had surged to a high of RM10.90/kg in March 2011 before retracing back to the current level of RM8.80/kg. Prior to the commodity phenomenon, latex price has had been hovering at the RM8.50/kg level thus the recent increase would have somewhat alleviated investors' concerns towards gloves manufacturers on the impact of rising cost cascading down to earnings. For the moment, we are **NEUTRAL** on the sector as prevailing high latex price remains the scourge for the glove manufacturers.

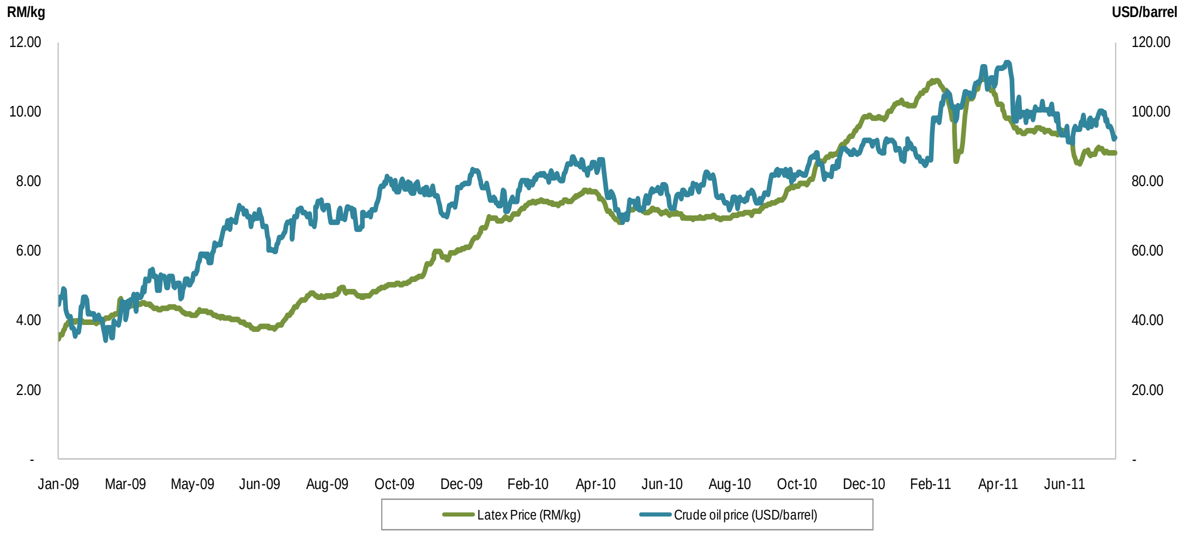
Latex accounts for about 60% of cost of production. It is known fact that glove making companies have the luxury to pass portion of the increase in latex price on to their customers, especially for the premium grade medical gloves. We understand that most have already reviewed this and have conducted numerous price revisions in the past 12 months. This is mainly because the usage of rubber gloves is made mandatory within the medical sector and that rubber gloves account for less than 1% of the total cost of healthcare centres. As such, any increase in the selling prices of gloves is deemed insignificant, nonetheless there is a time lag for the "cost-pass" of between 1-2 months depending on bargaining power of the companies and product mix.

Production cost breakdown



Source: BIMB Securities

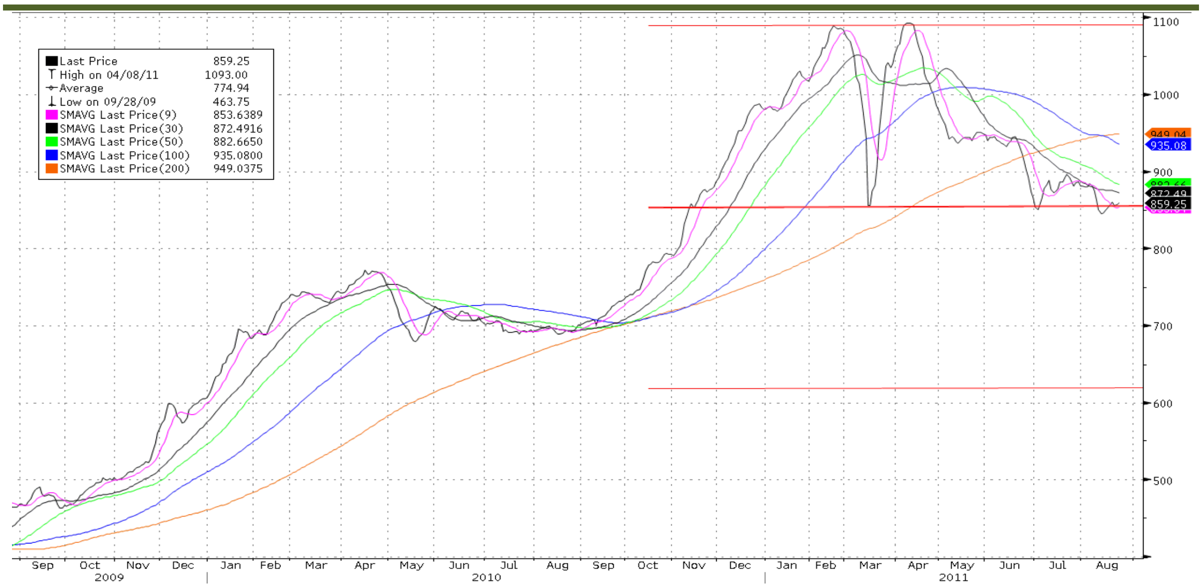
Latex & Crude oil price



Source: Bloomberg

Technical Outlook on Natural Latex Price. Chart below shows that the rubber price has peaked in early 2011 at RM10.90/kg. It has since moved south and stabilised in the range of RM8.50-RM9.00/kg recently. The level of RM8.50/kg is the critical support for the double top pattern (a bearish signal). If the price could not sustain at above RM8.50/kg, it is expected to fall further to below RM6.50/kg. For now, we expect the price to hoverat between the range of RM8.50 – RM11.00/kg.

Technical Outlook on Natural Latex Price



Source: Bloomberg

The USD effect. The ringgit Malaysia has appreciated about 6.3% against the USD in the past 12 months and this will have a slight negative impact on the companies' bottom-line but will not take a full hit given the natural hedge of 60%-70%% stemming from imported costs. In total, Malaysia and Thailand are producing about 80% of rubber gloves sold worldwide. Thailand as our nearest competitor is facing a greater problem as the Thai Baht is experiencing greater fluctuations by about 8.1% than the RM over the same period. As for Indonesia, despite having a better advantage than Malaysia in terms of currency exchange, they do not have the production scale and technology to meet the demand.

Regional Currencies against USD Relative Index

Source: Bloomberg

Electricity hike. The overall effect from the hike on electricity tariff would have immaterial impact to glove makers as electricity cost makes up of about 2% of their total cost, therefore a 7% increase in the tariff translated to only a 0.14% impact on total cost or less than 0.5% to bottomline.

Natural gas getting more expensive. Energy costs account for about 6-7% of total costs. Prior to the hike in natural gas, industry players are paying RM15/MMBTU as oppose to RM18/MMBTU currently and it is worthwhile to note that not 100% of the energy costs are of natural gas. Based on our estimates, glove makers would need to adjust their selling prices by not more than 3% per annum to match their absolute profit/unit. While the price adjustment is being done every 6 months, glove makers would have buffer to adjust their selling prices gradually; and we believe this should not be huge a problem as in the past 12 months, all the industry players have increased their selling prices by more than 15% due to increase in latex price. Moreover, this scenario is a little different from hike in latex price where buyers can switch from natural latex to nitrile. The increase in natural gas would also affect nitrile producers, therefore, nitrile glove producers would have to increase their selling price in this case and buyers would not have substitute product.

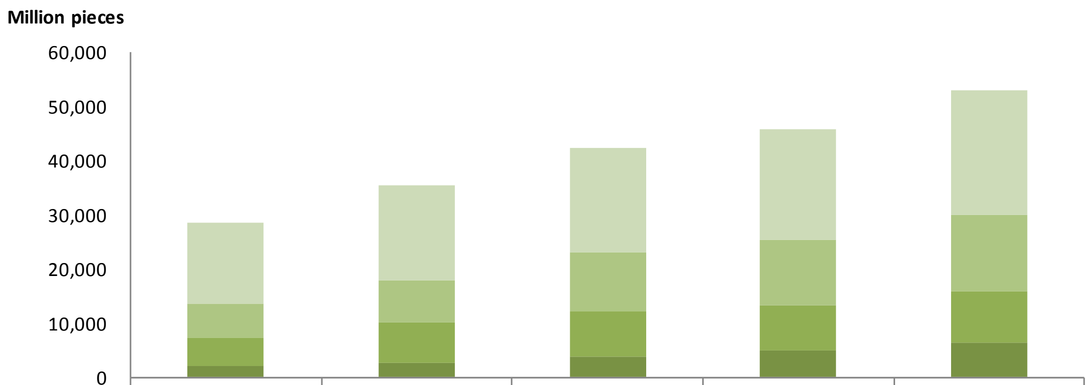
DESPITE ALL THE SETBACKS, WE ARE STILL A DOMINANT FORCE TO THE WORLD

We are one of the biggest rubber producers. The productions of natural rubber are mostly centred in the Asian region. Accounting for 15% of global consumption market share, Malaysia is the world's 3rd largest producer of natural rubber after Thailand and Indonesia. Malaysia produced 939,019 tonnes of natural rubber in 2010, 10% higher than 2009 production of 856.2 tonnes.

Malaysia is still the world's number ONE latex glove makers. Going downstream, Malaysia is the world's largest producer and exporter of rubber gloves contributing 60% of the global demand followed by Thailand at 16.8%, China 6.7% and Indonesia 5.1%. In 2010, Malaysia's export for rubber gloves amounted to RM8.9bn or 52.5bn pieces. The top 4 Malaysian's rubber glove player, namely Top Glove, Supermax, Kossan and Hartalega controlled about 50% of global supply, rendering them the upper hand when price adjustments are required.

World class player. The rubber glove industry is one of a very few world class industries to have emerged from Malaysia. Malaysia was also the pioneer in the rubber glove manufacturing industry which grew rapidly in the eighties following the AIDS scare. This industry has been experiencing aggressive expansion in recent years due to strong global demand. At present, the global consumption for rubber gloves is still growing at about 10% per annum due to recent regulations on occupational safety According to the Malaysian Rubber Glove Manufacturers' Association (MARGMA), Malaysia's exports account for more than 60% of world's requirements. Our top 5 largest glove manufacturers, namely Top Glove, Kossan and Supermax, Hartalega and Adventa, account for more than 60% of Malaysia's total exports. North America is the biggest importer of rubber gloves from Malaysia, accounting for 45% followed by Europe's 22% and South America 20%. The demand for rubber gloves is increasing from India, China and Vietnam due to increase in health and hygiene awareness. The demand for lower-end powdered latex gloves is popular among developing countries whose end-users are more cost-conscious. Powder-free latex and nitrile gloves are preferred by developed countries namely the United States and Europe.

Production output for major players



	2006	2007	2008	2009	2010
Top Glove	15,000	17,700	19,300	20,600	23,000
Supermax	6,300	7,600	10,800	12,000	14,000
Kossan	5,200	7,600	8,500	8,500	9,500
Hartalega	2,100	2,600	3,700	4,800	6,500

Source: BIMB Securities

Expecting further industry consolidation. The glove making industry has seen a certain degree of consolidation following the technological advancements together with escalating costs have led to some smaller and uncompetitive producers being acquired by larger players. Currently there are only less than 50 glove manufacturers in Malaysia as compared to more than 200 during the early 1990s. Not long ago, we saw the merging between Supermax and Seal Polymer and there are some speculations over the M&A between Latexx Partner and Top Glove. We believe further industry consolidation will benefit the large players. Synergies in infrastructure can be obtained, leading to cost savings in the long term.

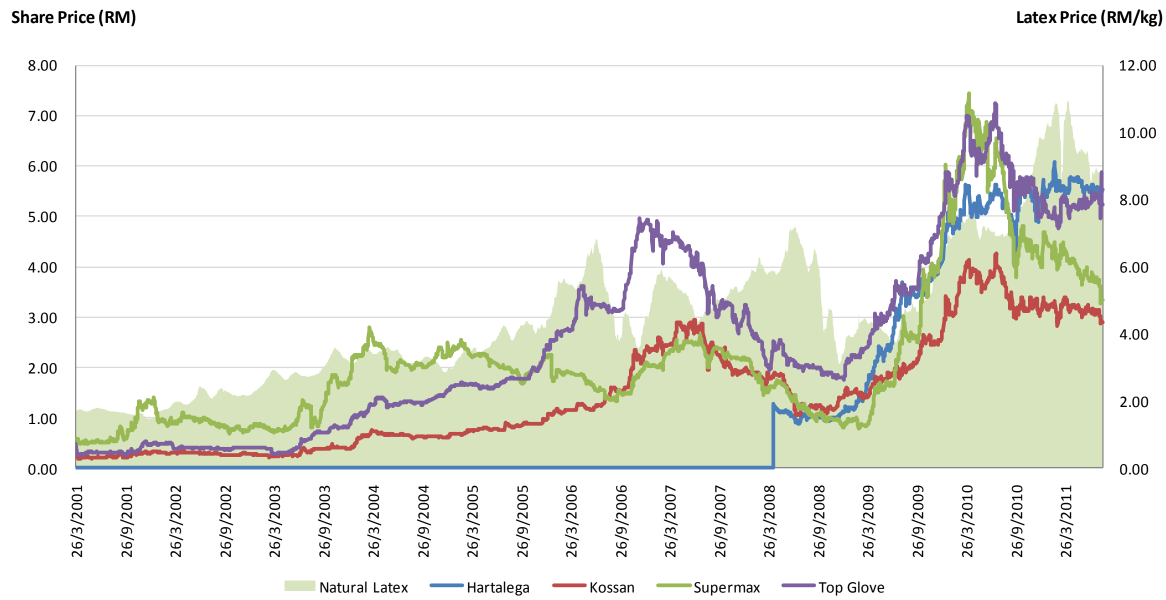
Switching production into nitrile gloves. Nitrile gloves are gaining popularity and major players have had began to switch their production into nitrile gloves. The more stable nitrile price is currently 40% cheaper than natural latex. Hartalega which has ventured into nitrile gloves 8 years ago will have a better advantage in their product quality and market positioning. Kossan and Supermax are expanding their nitrile production and will be the key earnings drivers for FY11.

What are Nitrile gloves? Nitrile gloves are made of synthetic polymer that exhibit rubber like characteristics. They contain no latex proteins and offer excellent resistance to punctures and tears. Nitrile gloves are three times more puncture resistant than rubber and can be used to offer superior resistance to many types of chemicals such as greases, solvents, and oils. Lots of laboratories are now switching from the latex gloves to nitrile in attempts to decrease latex allergy occurrence for the workers. The laboratory nitrile gloves with high stage of dexterity are the essential needs in order to reduce the risk of accidents & injury.

Above average ROE. Rubber glove companies are able to generate higher returns to shareholders as their ROEs are above KLCI average. For the past 5 years, the average ROE for the sector ranged between 19% and 29% is above KLCI range of 15%-19%. Hartalega provides the highest return to shareholders averaging at 34.2%, followed by Kossan's 23.6%.

Valuations & Recommendations. Despite the easing of latex price, we are **NEUTRAL** on the sector because at RM8.80/kg, it is still relatively high thus customers are still keeping their inventory level at a minimum level. For now we are cautiously optimistic and may look to upgrade the sector once the outlook for commodities is less sanguine amid the global slowdown. We stress that demand for rubber gloves is rather resilient and players should benefit if prices of raw materials declines. Nevertheless, we still favour some glove players given their exposure in nitrile gloves and premium grade medical gloves, which are less impacted by natural latex and depreciating USD. We have **BUY** recommendations for **Kossan (TP: RM4.46)** and Hartalega **(TP: RM6.91)** and **NEUTRAL** on Supermax (TP: RM3.12) and Top Glove (TP: RM4.82).

Share Prices Of Companies Against Latex Price



Source: Bloomberg/ BIMB Securities

Earnings Summary

	Hartalega	*Kossan*	*Supermax*	*Top Glove*
Price as at 26/8/2011	5.54	2.68	2.71	4.90
Target Price	**6.92**	**3.19**	**3.12**	**4.82**
Recommendation	**BUY**	**BUY**	**NEUTRAL**	**NEUTRAL**
Revenue (RMm)				
CY11	790.0	1,211.2	923.3	2,048.7
CY12	926.6	1,483.1	1,093.3	2,234.1
EBITDA (RMm)				
CY11	290.7	159.1	125.9	214.3
CY12	322.3	170.6	147.4	251.0
PER				
CY11	9.7	9.0	8.9	24.1
CY12	8.8	8.4	7.8	20.3
Earnings (RMm)				
CY11	206.8	95.0	103.6	125.2
CY12	228.8	101.9	117.9	149.1
EPS (sen)				
CY11	56.9	29.7	30.5	20.3
CY12	62.9	31.9	34.7	24.1
BV per share (RM)				
CY11	1.63	1.60	2.33	1.82
CY12	2.04	1.81	2.62	1.90
P/BV				
CY11	3.4	1.7	1.2	2.7
CY12	3.4	1.8	1.2	2.5
Dividend per share				
CY11	21.0	10.0	5.0	15.0
CY12	22.0	11.0	6.0	16.0
Dividend yield				
CY11	3.8%	3.7%	1.8%	3.1%
CY12	4.0%	4.1%	2.2%	3.3%
ROE (%)				
CY11	38.0%	19.8%	13.8%	10.1%
CY12	34.4%	18.7%	14.0%	11.7%

Source: BIMB Securities

Hartalega Holdings

Crème de la Crème

BUY

Price	RM5.54
Target Price	RM6.91

Stock Data

Bloomberg Ticker	HART MK	Altman Z-score	11.9
Market Cap	2,015.4	YTD price chg	3.7%
Issued shares	363.8	YTD KLCI chg	-4.9%
52-week range (H)	6.08	Beta	0.9
52-week range (L)	4.04	**Major Shareholders**	
3-mth avg daily volume	257,076	Hartalega Industries	50.6%
Free Float	43.8%	Budi Tenggara SB	5.0%
Shariah Compliant	Y	Kuan Kam Peng	0.7%

Share Performance (%)	1mth	3mth	12mth
Absolute	(0.5)	(1.4)	10.2
vs. KLCI	3.1	4.2	3.1

Financial Highlights

FYE 31 Mar	2009	2010	2011	2012E	2013E
Turnover	443.2	571.9	734.9	808.4	966.0
EBIT	97.9	181.2	245.7	274.9	303.1
Pretax profit	95.5	177.8	243.3	272.3	300.4
Net Profit	**84.5**	**142.9**	**190.2**	**212.3**	**234.3**
EPS (sen)	23.3	39.3	52.3	58.4	64.5
EPS growth (%)	110.2%	69.1%	33.1%	11.7%	10.3%
PER (x)	23.8	14.1	10.6	9.5	8.6
DPS (sen)	7.7	20.0	21.0	22.0	22.0
Div. Yield (%)	1.4%	3.6%	3.8%	4.0%	4.0%
NTA/share (RM)	0.70	0.97	1.36	1.72	2.15
EBIT margin	22.1%	31.7%	33.4%	34.0%	31.4%
Pretax margin	21.5%	31.1%	33.1%	33.7%	31.1%
Effective tax rate	11.5%	19.5%	21.8%	22.0%	22.0%
ROE	33.2%	40.4%	38.5%	37.9%	33.3%
ROA	26.4%	33.5%	34.3%	30.3%	27.5%
Net Gearing (x)	0.08	net cash	net cash	net cash	net cash

Growth ratios					
Turnover	56.5%	29.0%	28.5%	10.0%	19.5%
EBIT	105.2%	85.0%	35.7%	11.9%	10.3%
Pretax profit	104.6%	86.2%	36.8%	11.9%	10.3%
Core Net profit	110.2%	69.1%	33.1%	11.7%	10.3%

Share Price Chart

With 20 years of experience under its belt, Hartalega is the world's largest nitrile gloves producer with production capacity of 9bn pieces per annum. We like Hartalega's extensive exposure in the nitrile segment which is less elastic to the volatility in production cost. Being in the premium grade segment is also beneficial where the company has greater bargaining power when fixing its selling prices due to limited supply. We expect net earnings to grow by 11.7% and 10.3% for FY12 and FY13 respectively. We peg a target price of RM6.91 based on 11x PER over CY11 EPS of 62.9 sen. Hartalega is a BUY.

Plant expansion. Hartalega's 5th production plant has been completed with 10 lines which will boost its annual capacity by about 3bn pieces, pushing total capacity up to 9bn pieces per annum by end of FY11. On top of this, its 6th production plant is in the pipeline and will commence construction later of 2011. Once completed, it will boost production capacity by another 3bn pieces per annum.

Greater production efficiency. Hartalega has industry leading manufacturing facilities with production lines able to produce more than 30,000 pieces per hour, far above the industry average. The company believes in high automation and invented the 1st automated mechanical stripping system in the industry able to remove nitrile gloves of hand moulds since 1995.

Less fluctuation for nitrile compared to natural latex. Latex price although has fallen, since its peak at RM10.90/kg in February, it is still relative high at around RM8.63/kg (vs. RM6.90 12 months ago). Nevertheless, Hartalega has a product mix of more than 80% nitrile gloves and we believe the less volatile nitrile cost will provide stability and more time for Hartalega to fix its selling price in the event of seeing an increase higher nitrile price. This has been proven, as for the past 4 quarters, Hartalega is able to maintain its EBIT margin above 30% compared to the industry average of 12%-15%.

Very resilient. The volatility of natural latex price over the past 12 months had caused many rubber glove producers to suffer in maintaining their profit margins. Nevertheless, Hartalega's margin is still expanding and earnings are still growing QoQ despite the adverse macro environment. While the success can be attributed to its right industry position, which has more stable pricing, however, its production efficiency is also another vital factor.

Strong financials. We expect Hartalega to register net earnings of RM212.3m and RM234.3m for FY12 and FY13 respectively. Balance sheet is strong with a net cash position, while its ROE is the highest in the industry hovering at 44.6% for FY11.

View & Valuation. We value Hartalega at RM6.91 based on its 3 year average PE Band of 11x over its CY12 EPS of 62.8 sen. We like Hartalega for its huge exposure in the nitrile segment and premium grade product mix, which have higher bargaining power when revising its selling prices, hence profitability. We rate Hartalega a **BUY**.

Kossan Rubber Industry

Perfectly Balanced

BUY

Price	RM2.68
Target Price	RM3.19

Stock Data

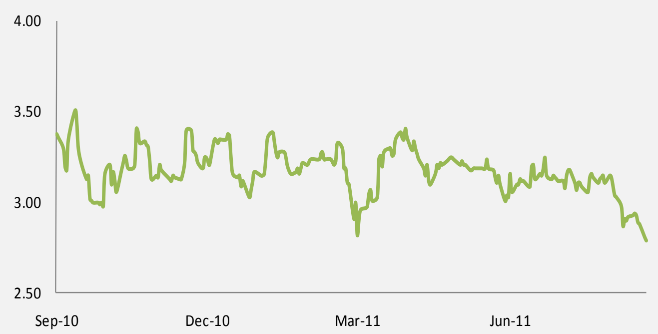
Bloomberg Ticker	KRI MK	Altman Z-score	4.5
Market Cap	856.9	YTD price chg	-15.2%
Issued shares	319.7	YTD KLCI chg	-4.9%
52-week range (H)	3.58	Beta	1.2
52-week range (L)	2.68	**Major Shareholders**	
3-mth avg daily volume	275,031	Kossan Holdings SB	51.8%
Free Float	35.8%	KWAP	7.6%
Shariah Compliant	Y	Asian Small Coys Por	4.9%

Share Performance (%)	1mth	3mth	12mth
Absolute	(13.5)	(9.3)	(20.3)
vs. KLCI	(23.7)	(7.0)	(23.7)

Financial Highlights

FYE 31 Dec	2009	2010	2011E	2012E	2013E
Turnover	842.1	1,047.9	1,211.2	1,483.1	1,524.8
EBIT	92.5	151.2	123.2	130.6	138.5
Pretax profit	85.8	148.1	121.0	131.0	138.6
Net Profit	**66.7**	**118.2**	**95.0**	**101.9**	**107.9**
EPS (sen)	20.9	37.0	29.7	31.9	33.7
EPS growth (%)	0.1	0.8	(0.2)	0.1	0.1
PER (x)	12.8	7.2	9.0	8.4	8.0
DPS (sen)	9.0	9.0	10.0	11.0	11.0
Div. Yield (%)	3.4%	3.4%	3.7%	4.1%	4.1%
NTA/share (RM)	1.12	1.40	1.59	1.80	2.03
EBIT margin	11.0%	14.4%	10.2%	8.8%	9.1%
Pretax margin	10.2%	14.1%	10.0%	8.8%	9.1%
Effective tax rate	21.5%	19.9%	20.0%	20.0%	20.0%
ROE	20.3%	29.4%	19.8%	18.7%	17.6%
ROA	9.9%	16.1%	11.6%	11.3%	10.9%
Net Gearing (x)	0.51	0.15	0.28	0.30	0.21
Growth ratios					
Turnover	-6.1%	24.4%	15.6%	22.5%	2.8%
EBIT	15.1%	63.5%	-18.6%	6.0%	6.1%
Pretax profit	17.7%	72.5%	-18.3%	8.3%	5.8%
Core Net profit	13.7%	77.2%	-19.6%	7.3%	5.9%

Share Price Chart



KOSSAN is one of the world's largest powder-free natural rubber and nitrile medical glove manufacturers with annual capacity of 12bn pieces. The company is also Malaysia's largest manufacturer for Technical Rubber Products for automotive, marine, construction and civil engineering, mining, general industries as well as aerospace. We like Kossan's expansive exposure in the premium market segment which has less competition and less elastic to the volatility in latex price where the company is able to pass on additional cost to customers. We are also positive on Kossan's new intervention into clean room products with the acquisition of Cleanera HK Ltd. We have a BUY recommendation on Kossan with a target price of RM3.19.

Balanced product mix. Kossan is one of the world largest powder-free medical glove manufacturers with annual capacity of 12bn pieces as at 4QFY10. The company has a balanced 50:50 product mix of natural rubber and nitrile gloves.

Premium grade medical gloves. 90% of Kossan's glove products are premium grade medical gloves mostly sold to developed nations such as the US, Canada, Europe, Japan, Germany, Scandinavian Countries, Australia etc. as these countries are the most stringent on the usage of gloves. Therefore, Kossan will have a strong bargaining power against its customers when comes into product pricing and should suffer less from the recent hike in latex price.

Expansion plan. Kossan has begun with its new expansion plan in 4 phases, where the 1st phase had commenced in 4QFY09 and completed in 4QFY10. Phase 2 will commence in 1QFY11, Phase 3 in 2QFY11 and Phase 4 in 4QFY11. These 4 phases will add 32 production lines mainly for nitrile and surgical gloves; and will boost production capacity by about 6.5bn pieces per annum making total installed capacity of over 15bn pieces per annum by end of FY12.

Offering wider product range. Kossan has recently acquired Cleanera HK Ltd for USD3.06m, where its operation is located in Dongguan, China involving in the manufacturing of clean room products such as masks, wipes and gloves. The acquisition is part of Kossan's expansion plan to venture into higher value added gloves that complements the Company's core business in the manufacture and sale of examination and medical gloves.

Steady earnings. We expect Kossan to register net earnings of RM95m and RM101.9m for FY11 and FY12, respectively. Financial leverage is manageable with net gearing of 0.3x supported by strong interest cover ratio of over 14x.

Valuation. At current price, the stock is trading at forward PERs of below 10x for FY11 and FY12. We peg a target price at RM3.19 based on Kossan's 5-year average PE multiple of 10x over FY12 EPS of 31.9 sen. We recommend a **BUY** on Kossan.

Supermax Corporation

Branded Play

NEUTRAL

Price RM2.71
Target Price RM3.12

Stock Data

Bloomberg Ticker	SUCB MK	Altman Z-score	3.6
Market Cap	921.6	YTD price chg	-31.9%
Issued shares	340.1	YTD KLCI chg	-4.9%
52-week range (H)	5.26	Beta	1.7
52-week range (L)	2.71	**Major Shareholders**	
3-mth avg daily volume	620,494	Dato Seri Stanley Thai	20.4%
Free Float	56.0%	Datin Seri Cheryl Tan	15.1%
Shariah Compliant	Y	EPF	8.4%

Share Performance (%)	1mth	3mth	12mth
Absolute	(21.4)	(23.0)	(42.2)
vs. KLCI	(46.1)	(20.9)	(46.1)

Financial Highlights

FYE 31 Dec	2009	2010	2011E	2012E	2013E
Turnover	803.6	923.3	923.3	1,093.3	1,228.0
EBIT	131.9	148.5	90.7	109.1	124.0
Pretax profit	151.5	177.4	115.2	131.1	143.9
Net Profit	**126.6**	**168.2**	**103.6**	**117.9**	**129.5**
EBIT margin	16.4%	16.1%	9.8%	10.0%	10.1%
Pretax margin	18.8%	19.2%	12.5%	12.0%	11.7%
Effective tax rate	16.4%	5.2%	10.0%	10.0%	10.0%
ROE	26.0%	26.6%	13.8%	14.0%	13.7%
ROA	13.4%	16.0%	8.6%	9.0%	9.1%
Net Gearing (x)	0.32	0.27	0.18	0.15	0.10
EPS (sen)	37.2	49.4	30.5	34.7	38.1
EPS growth (%)	98.9%	32.8%	-38.4%	13.8%	9.8%
PER (x)	7.3	5.5	8.9	7.8	7.1
DPS (sen)	3.2	5.0	5.0	6.0	7.0
Div. Yield (%)	1.2%	1.8%	1.8%	2.2%	2.6%
NTA/share (RM)	1.56	1.99	2.25	2.53	2.84
Growth ratios					
Turnover	-1.0%	14.9%	0.0%	18.4%	12.3%
EBIT	87.9%	12.6%	-38.9%	20.3%	13.6%
Pretax profit	191.3%	17.1%	-35.1%	13.8%	9.8%
Core Net profit	98.9%	32.8%	-38.4%	13.8%	9.8%

Share Price Chart

Founded by a husband and wife team, Dato' Seri Stanley Thai and Datin Seri Cheryl Tan in 1987, Supermax started as a trading company distributing latex gloves. In a period of 20 years, Supermax has become the 2nd largest glove manufacturer in the world. 2011 may be a challenging year for Supermax but we believe the company's outlook will be bright in the long term. We peg a target price at RM3.81 based on its 5-year average per of 9x over FY12 EPS of 34.7 sen. Presently, we are NEUTRAL on the stock due to some margin compression resulted from the high latex price, nevertheless, should the latex price fall below RM8/kg, there could be a possibility of re-rating.

Having its own brand. Supermax is a leading manufacturer, distributor and marketer of premium quality medical gloves. Throughout the years, the company started its OBM and 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. Today, OBM has contributed 65% of the group's total sales.

Manufacturing capacity. Currently, Supermax has installed capacity of 17.6bn pieces per annum. For FY11, the company is planning to increase its production capacity by 4.1bn, bringing its annual capacity to 21.7bn.

Award winning company. Supermax has recently won the Company of The Year, Highest Return to Shareholder and Highest Growth in Profit before Tax award in the industrial products sector by TheEdge. Its Executive Chairman and Managing Director, Dato' Seri Stanley Thai was named Malaysia's CEO of the Year 2010, presented by the Prime Minister.

Financials. We expect a challenging year ahead for rubber glove makers given the high latex prices. Nevertheless, the demand for powder-free medical gloves is still strong despite distributors in the US are at present buying less and keeping their inventory levels at lowest possible level in the past few months. We believe buying will continue once prevailing stocks are depleted. We expect Supermax to register net profits of RM13.6m and RM117.9m for FY11 and FY12, respectively. Financial leverage is manageable with a net gearing of 0.4x and supported by a strong interest cover ratio of over 5x.

View & Valuation. We peg our fair value at RM3.12, based on its 5-year average PE band of 9x and the estimated FY12 EPS of 34.7sen. Presently, We assign a **NEUTRAL**-rating to Supermax, however, the stock is subject to re-rating should the latex price fall below RM8/kg.

Top Glove Corporation

The World's Largest

NEUTRAL

Price	RM4.90
Target Price	RM4.82

Stock Data

Bloomberg Ticker	TOPG MK	Altman Z-score	10.7
Market Cap	3,030.7	YTD price chg	-1.6%
Issued shares	618.5	YTD KLCI chg	-4.9%
52-week range (H)	6.25	Beta	1.0
52-week range (L)	4.68	**Major Shareholders**	
3-mth avg daily volume	795,893	Tan Sri Lim Wee Chai	29.0%
Free Float	60.6%	Matthews International	5.2%
Shariah Compliant	Y		

Share Performance (%)	1mth	3mth	12mth
Absolute	(9.1)	(4.9)	(17.0)
vs. KLCI	(22.6)	1.2	(22.6)

Financial Highlights

FYE 31 Aug	2009	2010	2011E	2012E	2013E
Turnover	1529.1	2079.4	1982.6	2181.0	2340.2
EBIT	224.5	291.9	133.8	176.8	189.0
Pretax profit	222.0	305.0	146.8	186.3	198.9
Net Profit	**169.1**	**245.2**	**114.9**	**145.8**	**155.7**
CY Net Profit	**194.5**	**201.8**	**125.2**	**149.1**	**160.3**
EPS (sen)	27.4	39.7	18.6	23.6	25.2
EPS growth (%)	56.5%	45.0%	-53.1%	26.9%	6.8%
CY EPS (sen)	31.5	32.6	20.3	24.1	25.9
PER (x)	17.9	12.4	26.4	20.8	19.5
DPS (sen)	11.1	16.0	15.0	16.0	17.0
Div. Yield (%)	2.3%	3.3%	3.1%	3.3%	3.5%
NTA/share (RM)	1.30	1.73	1.77	1.85	1.93
EBIT margin	14.7%	14.0%	6.8%	8.1%	8.1%
Pretax margin	14.5%	14.7%	7.4%	8.5%	8.5%
Effective tax rate	24.3%	17.9%	20.0%	20.0%	20.0%
ROE	22.7%	25.6%	10.4%	12.8%	13.1%
ROA	15.1%	19.6%	8.1%	9.6%	9.5%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash

Growth ratios					
Turnover	11.3%	36.0%	-4.7%	10.0%	7.3%
EBIT	64.1%	30.0%	-54.1%	32.1%	6.9%
Pretax profit	62.5%	37.4%	-51.9%	26.9%	6.8%
Core Net profit	56.5%	45.0%	-53.1%	26.9%	6.8%

Share Price Chart

Top Glove ventured into the rubber glove industry in 1991, with 3 production lines. In a period of less than 20 years, Top Glove has embarked on a series of expansion plans and is now the world's largest rubber glove manufacturer with an annual production capacity of 33bn pieces. To mitigate the adverse impact of high latex price, Top Glove has ventured into rubber plantation in Cambodia. We expect FY11 to be a tough year for the company and expect it to recover in FY12 when latex price stabilises. We peg a target price of RM4.60 based on its 5-year average PE band of 19x over CY12 EPS of 24.2 sen. NEUTRAL

Timing differences in passing down latex cost. The sharp increase in latex price has caused Top Glove's recent quarter earnings to fall by approximately 45% YoY. Management highlighted that the company can pass on additional cost to customers however, due to (i) the timing differences and (ii) the increase in latex cost is faster than selling price revision, the company's bottomline has taken a hit. Nevertheless, we believe this is just for a short term concern as Top Glove should be able to maintain its margin when latex prices stabilise.

Venturing into rubber plantation. Top Glove has acquired a piece of land totalling 10,000 hectares (net planted area is 8,000 hectares) for its rubber plantation in Cambodia. Total capex (including land, planting and facilities) for the project is expected to cost RM160m, spreading over its planting period of 6 years. According to management, yield per annum is estimated at 4.2 tonnes per hectare. Based on our estimates, this would generate between 15%-20% of Top Glove's current annual latex consumption.

Normalising in earnings. We expected Top Glove to register net earnings of RM114.9m for FY11, which is 53% lower than the previous year. Nevertheless, the earnings reduction does not mean the company is doing badly for FY11 because both FY09 and FY10 were outstanding years where demand increased tremendously due to H1N1.

View & Valuation. We peg a target price of RM4.82 based on Top Glove's 5-year average PER of 19x and an estimated CY12 EPS of 24.1 sen. Due to the limited upside from here, we are **NEUTRAL** on Top Glove.

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months

OUTPERFORM	The stock is expected to perform ahead of the market in the next 12 months
TRADING BUY	The stock is expected to outperform the market in the next 3 months
NEUTRAL	The stock is expected to perform in line with the market in the next 12 months
TRADING SELL	The stock is expected to underperform the market in the next 3 months
SELL	An expected price depreciation of more than 10% in the next 12 months

SECTOR RECOMMENDATION

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

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

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

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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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