CIMB Research Report

Rubber Gloves

Packing a punch

SECTOR UPDATE

27 July 2009

OVERWEIGHT | Maintained

MALAYSIA

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Investment summary

- **Top of the global league.** The rubber glove industry is one of the few industries where Malaysia boasts market leadership. Malaysia is the world's largest exporter and producer of rubber gloves, supplying 60-65% of the global requirements for rubber gloves. Despite competition from its neighbours like Thailand, Indonesia, and in recent times, China, we expect Malaysia to remain the dominant player, thanks to its dynamic and farsighted glovemakers.
- **Demand boost from health scares and awareness of hygiene.** Prospects for Malaysian rubber gloves remain bright, thanks to the emergence of new diseases like the recent A(H1N1) flu, SARS and variants of the bird flu, heightened awareness of the need for hygiene and increasing healthcare spending by governments around the world.
- **Racing to add capacity.** The glove manufacturers have not been slow in responding to the changing environment and increase in demand. Many are putting in new capacity. Supermax (SUCB MK, Outperform) has ventured downstream by setting up its own overseas distribution centres to support its distribution channels and own brand network while Top Glove (TOPG MK, Outperform) has even gone upstream. Over the next 2-3 years, each of the industry giants will be adding 3bn-8bn pieces to annual capacity to capture a bigger slice of the expanding market.
- **Companies are differentiating themselves.** To support their expansion plans, the industry giants are taking three major routes to differentiate themselves through 1) sheer scale which gives them better bargaining power, a prime example being Top Glove Corporation 2) branding, i.e. own-brand manufacturing (OBM) which enables them to bypass the distributors and bump up their margins for instance, Supermax Corporation and 3) higher-value products, examples being Kossan Rubber Industries (KRI MK, Outperform), Hartalega Holdings (HART MK, Outperform) and Latexx Partners (LTX MK, Outperform). These strategies will allow the big players to stay on top of the game even in the face of competition from neighbouring countries.
- **Maintain OVERWEIGHT.** We maintain our OVERWEIGHT stance on the sector in light of the favourable industry landscape, our expectations of continued market leadership for Malaysia's glovemakers and the demand resilience for rubber gloves, especially examination and medical-grade gloves. Moreover, the higher demand triggered by the A(H1N1) flu outbreak could offset the slowdown experienced by the glove players earlier this year when glove customers around the world scaled back their orders in anticipation for a further decline in latex prices. Potential re-rating catalysts for the sector include the continued uptick in demand from the healthcare industry, ongoing capacity expansion and strong earnings growth.
- **All glove stocks rated Outperforms.** Across the board, we apply a target market P/E of 15x and reduce our discounts by 10-20% pts. We initiate coverage on two stocks, Hartalega and Latexx Partners with an Outperform call on both stocks. Hartalega is in a great position to tap on the increasing preference for nitrile gloves and the rising global glove usage. Prospects for Latexx are favourable as rising healthcare needs around the world will ensure demand for its new capacity. Top Glove remains an Outperform for its position as a volume player with strong finances to boot. Also an Outperform is Kossan which stays as our top pick for its consistent sales growth, high production efficiency and continuous expansion. Joining Kossan as our top pick is Supermax which we upgrade from Trading Buy to Outperform for its cheap valuations, potential earnings improvement from its OBM model and increasing contribution from its distribution centres.

Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US$ m)	Core P/E (x) CY2009	Core P/E (x) CY2010	3-yr EPS CAGR (%)	P/BV (x) CY2009	ROE (%) CY2009	Div yield (%) CY2009
Hartalega	HART MK	O	4.50	6.93	309	11.5	8.8	28.0	3.4	34.3	2.6
Kossan	KRI MK	O	3.60	6.03	163	7.2	7.2	21.8	1.6	15.4	1.7
Latexx	LTX MK	O	1.76	2.43	97	8.4	5.4	72.9	2.2	29.0	1.1
Supermax	SUCB MK	O	2.27	4.02	170	6.5	5.9	20.3	1.4	21.8	3.1
Top Glove	TOPG MK	O	7.10	8.60	608	13.3	12.4	19.5	2.4	19.8	2.2
Simple average						**9.4**	**7.9**	**32.5**	**2.2**	**24.1**	**2.1**

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

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Background

Industry consolidation leaves only 45 players

Local consolidation. The initial surge in rubber glove demand started with the spread of AIDS and other critical diseases. In the early 1990s, glove manufacturers in Malaysia mushroomed to about 200 players. Over the years, the industry has gone through a massive consolidation, driven largely by increasing prices for raw materials, principally latex and more stringent quality requirements. This forced many companies to exit the industry. Currently, there are 45 companies registered under the Malaysian Association of Rubber Glove Manufacturers (MARGMA) (Figure 1). However, due to overlapping ownership, the number could be as low as just 13 big companies

Figure 1: Rubber glove manufacturers registered under MARGMA

1	Adventa Health Sdn Bhd	24	N. S. Uni-Gloves Sdn Bhd
2	Alliance Rubber Products Sdn Bhd	25	Oon Corp Resources (M) Sdn Bhd
3	Ansell (Kedah) Sdn Bhd	26	Perusahaan Getah Asas Sdn Bhd
4	Besglove Medicare Sdn Bhd	27	Perusahaan Pelindung Getah (M) Sdn Bhd
5	Betelcare Sdn Bhd	28	Quality Latex Products Malaysia Sdn Bhd
6	Bonric Sdn Bhd	29	Riverstone Resources Sdn Bhd
7	Brightway Holdings Sdn Bhd	30	Sanchem Corporation Sdn Bhd
8	Comfort Rubber Gloves Industries Sdn Bhd	31	Seal Polymer Industries Berhad
9	Concept Rubber Products Sdn Bhd	32	Smart Glove Corporation Sdn Bhd
10	Contract Latex Dippers Sdn Bhd	33	Sri Johani Sdn Bhd
11	Cranberry (M) Sdn Bhd	34	Supermax Corporation Berhad
12	Flexitech Sdn Bhd	35	Supermax Glove Manufacturing Sdn Bhd
13	G.B. Industries Sdn Bhd	36	Tan Sin Lian Industries Sdn Bhd
14	Hartalega Sdn Bhd	37	Tekmedic (M) Sdn Bhd
15	Koon Seng Sdn Bhd	38	TG Medical Sdn Bhd
16	Kossan Latex Industries (M) Sdn Bhd	39	Titi Glove Sdn Bhd
17	Latexx Manufacturing Sdn Bhd	40	Top Glove Corporation Bhd
18	Longcane Industries Sdn Bhd	41	Ultrawin Sdn Bhd
19	MAPA Gloves Sdn Bhd	42	Wear Safe Sdn Bhd
20	Marcon Rubber Industry Sdn Bhd	43	WRP Asia Pacific Sdn Bhd
21	Masif Latex Products Sdn Bhd	44	WRP Sinetimed Sdn Bhd
22	Maxter Glove Manufacturing Sdn Bhd	45	YTY Industry Sdn Bhd
23	Metacure Surgical Gloves Sdn Bhd		

Source: MARGMA

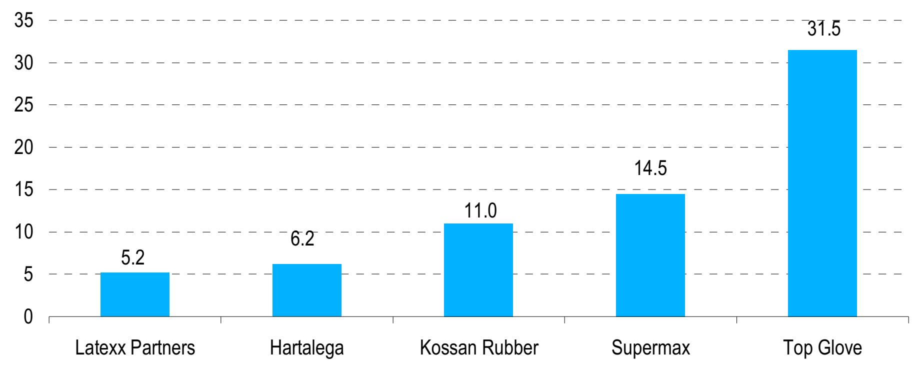
One of the few areas where Malaysia tops the global league

Holding the world's largest market share. Malaysia's rubber glove exports have been on the rise for much of the past decade. Rubber gloves are also the country's largest rubber export item, amounting to RM7.0bn or 62% of Malaysia's total rubber exports in 2008. The rubber glove industry is one of the few industries where Malaysia boasts market leadership. Malaysian is the world's largest exporter and producer of rubber gloves, supplying 60-65% of the global demand for rubber gloves.

The top five players hold almost 50% global market share

The biggest glove manufacturers. Malaysia's top five players are Top Glove Corporation, Supermax Corporation, Kossan Rubber Industries, Hartalega Holdings and Latexx Partners. The combined capacity of these five players works out to be almost 50% of the total global supply at 68.4bn pieces per annum. Figure 2 shows the current annual production capacity of each of these players.

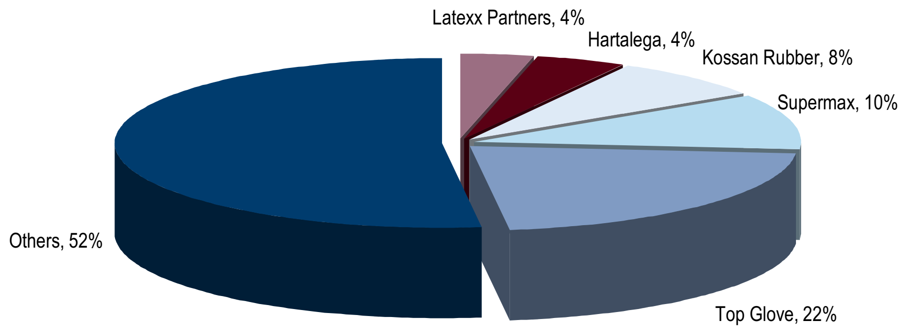
Figure 2: Current capacity of major glovemakers (bn pieces p.a.)



Total capacity of the Top 5 players combined = 68.4bn or almost 50% of the total global supply

Source: Companies, CIMB Research

Figure 3: Estimated global rubber glove market share

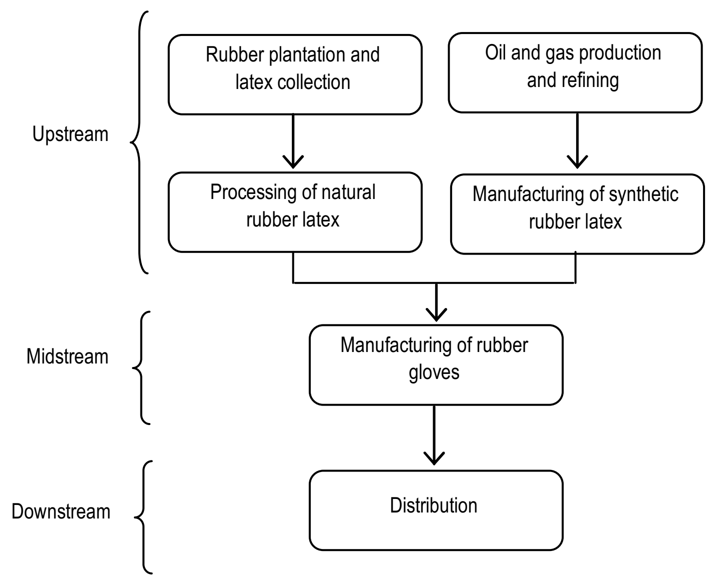


Source: Companies, CIMB Research

Glovemakers are moving downstream and upstream

Industry structure. The standard rubber glove manufacturer focuses only on glove manufacturing activities. However, the glove manufacturers have not been slow in responding to the changing environment and increase in demand. The top five players are still aggressively expanding, adding capacity of 3bn-8bn pieces per annum each between 2009 and 2011. Supermax has managed to penetrate into major markets like the US and Brazil by setting up its own downstream overseas distribution centres. In addition, Top Glove is the only glovemaker which has gone upstream through two latex manufacturing plants in Thailand.

Figure 4: Industry structure



Source: Companies, CIMB Research

Outlook

Demand

Demand driven by healthcare…

A function of healthcare... Demand for gloves is a function of healthcare, hygiene and population size. Considering the increasing healthcare needs and greater awareness of the need for better hygiene, we believe the global outlook for the glove industry remains attractive. At present, world consumption stands at 140bn pieces a year and demand is estimated to increase 10-12% annually.

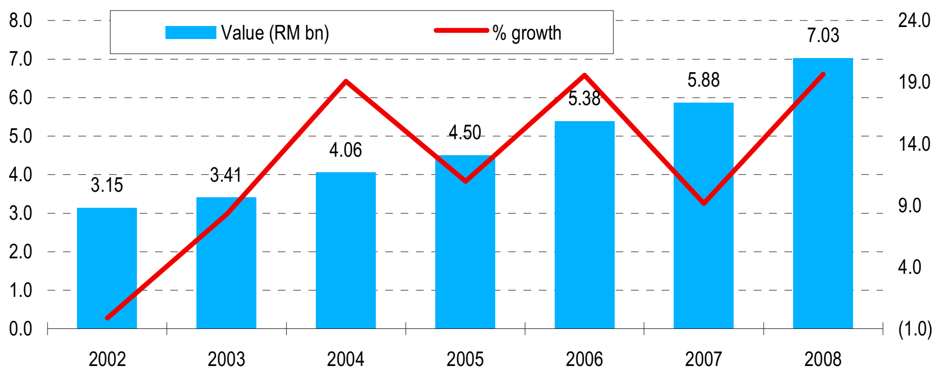
…and health scares

…and health scares. The surge in the demand for rubber gloves for medical applications came in the 1970s when AIDS started surfacing. The emergence of viruses like bird flu, SARS and the recent A(H1N1) flu will continue to drive the demand for rubber gloves.

Rising demand from overseas markets

Export numbers are growing. The rubber glove industry is highly export-oriented with over 95% of output typically heading for the export markets. Malaysia's rubber glove exports have been on the rise since 2002 and hit a record of RM7.0bn in 2008. MARGMA expects the figure to touch at least RM7.5bn this year.

Figure 5: Malaysia's rubber glove exports (RM bn)

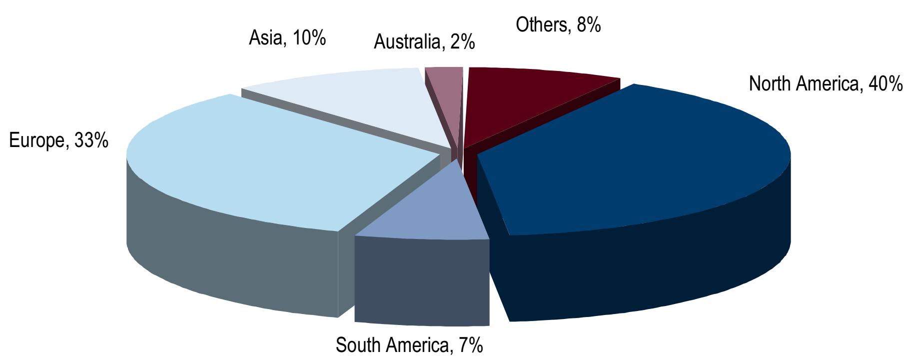


Source: CEIC

Top 10 export destinations

Top 10 export destinations. Some 40% of Malaysia's rubber glove exports go to the North America, 33% to Europe, 10% to Asia, 7% to South America, 2% to Australia and 8% to other regions (Figure 6). The 10 top rubber glove export destinations in 2008 were among the most developed countries in the world, i.e. the US, Germany, UK, Japan, France, Brazil, Italy, Netherlands, Spain and Canada (Figure 7). These 10 countries took up 75% of total rubber glove exports in 2008.

Figure 6: Malaysia's rubber glove exports by destination



Source: MREPC

Figure 7: Top 10 export destinations in 2008

Country	Surgical (RM m)	% share of total export	Non-surgical (RM m)	% share of total export	Value (RM m)
US	336.7	13%	2,287.0	87%	2,623.7
Germany	103.6	20%	419.5	80%	523.2
UK	40.9	10%	351.4	90%	392.3
Japan	53.0	15%	304.8	85%	357.9
France	68.5	24%	219.5	76%	288.0
Brazil	2.1	1%	285.9	99%	288.0
Italy	22.9	9%	237.3	91%	260.2
Netherlands	51.2	28%	133.9	72%	185.0
Spain	5.3	3%	173.5	97%	178.9
Canada	13.4	8%	146.7	92%	160.1

Source: Department of Statistics

China and India will be the key growth markets

Increasing healthcare spending. The US and UK are well ahead in their healthcare awareness programmes. Their average per capita spending on healthcare services and facilities is US$6,714 in the case of the US and US$2,784 per capita in the case of the UK. We believe that it will take some time before other countries are able to catch up on such spending. Nevertheless, we think that China and India, which have populations of more than 1bn each, are the key markets to keep a watch on over the next few years as hygiene is becoming an important factor, especially with the emergence of new viruses. Given their long experience in glove production and commitment to quality, Malaysian glove manufacturers are well placed to meet the continued demand and provide quality gloves at reasonable prices. This underpins our belief that rubber gloves will continue to be the main contributor to Malaysia's exports of rubber products in the next few years.

Figure 8: Healthcare spending and future growth

Country	Population (bn)	Healthcare expenditure per capita (US$)	Healthcare % of GDP
USA	0.303	6,714	15.3%
UK	0.061	2,784	8.4%
South Africa	0.048	869	8.6%
Brazil	0.189	765	7.5%
Saudi Arabia	0.024	607	3.4%
Malaysia	0.026	500	4.3%
China	1.328	342	4.5%
India	1.152	109	4.9%

Source: WHO 2006

Supply

Riding on exit of MNCs

Outsourcing play. Local glove manufacturers are benefiting from the recent trend of outsourcing by multinationals (MNCs) like Kimberly Clark, Ansell and Cardinal Health. We understand from industry players that since the middle of 2006, these MNCs have stopped expanding their production lines, opting instead to outsource their production to OEM players.

Going for stretch goals

Ambitious expansion plans in place. Increasing glove supply is also well supported by the aggressive expansion plans of several local manufacturers. The top five local glove manufacturers are embarking on capacity expansion averaging 3bn-8bn pieces p.a each in the next three years. The most aggressive are Latex and Kossan Rubber which are raising their capacity by 73% each, followed by Hartalega with 69% capacity growth planned over three years. Assuming global glove demand increases 10% p.a., the world will need some 169bn gloves in 2011 and Malaysia's top five glovemakers will be able to supply almost 55% of the global requirements, up from its current 48%.

Figure 9: Targeted annual glove production capacity (bn pieces)

	Current	2009	2010	2011	Growth in 3 years (%)
Hartalega	6.2	6.5	8.2	10.5	69.4%
Kossan Rubber	11.0	11.1	14.5	19.0	72.7%
Latexx Partners	5.2	6.0	7.6	9.0	73.1%
Supermax	14.5	14.5	16.2	19.2	32.4%
Top Glove	31.5	31.5	34.5	34.5	9.5%
Total	**68.4**	**69.6**	**81.0**	**92.2**	**34.8%**

Source: Companies, CIMB Research

Industry trends

Three strategies

Companies have to differentiate themselves. Companies in this competitive industry are taking three major routes to differentiate themselves from the competition. The first one is through sheer scale, i.e. putting in capacity that will allow them to become giant suppliers with more bargaining power. The second is through branding, by promoting the OBM model and bypassing distributors. The third way is through higher-value products such as powder-free gloves, synthetic gloves or surgical gloves.

Sheer scale

Gaining market share through sheer scale. Over the years, Top Glove has been expanding to gain market share. The company tops the global league with a market share of 22% and is planning to step up its capacity to 34.5bn pieces in 2010. This will give the company the advantage of scale over its competitors. Currently, powdered NR gloves make up half of Top Glove's output.

OEM model has its advantages

OEM vs. OBM. Malaysian gloves are predominantly sold to multinational original equipment manufacturing (OEM) resellers. According to MARGMA, the average requirement ratio among glove buyers is about 80% for OEM production versus 20% for original brand manufacturing (OBM) production. As such, many glove players are content with the advantages of having a ready customer, such as savings in promotion and advertising expenditure and not having to deal with the hassles of developing a brand.

Moving towards OBM

Promoting OBM. However, the overdependence on the OEM market may not be good for the long term. Malaysian Rubber Export Promotion Council (MREPC) encourages local glove manufacturers to develop their own brands while promoting Malaysia's own national brand, which is the Standard Malaysian Gloves (SMG). The SMG certification was developed by the Malaysian Rubber Board in consultation with various relevant authorities to ensure that powdered and powder-free latex examination gloves manufactured are of international standards. Within our coverage, the biggest OBM player is Supermax which derives 55% of its revenue from gloves sold under its own brands. Having their own brand allows OBM companies to command higher prices and expand margins, especially in situations where there is a shortfall of gloves due to high demand like the ongoing A(H1N1) flu.

Figure 10: Revenue mix between OEM and OBM

	OEM	OBM
Hartalega	96%	4%
Kossan Rubber	95%	5%
Latexx Partners	100%	-
Supermax	45%	55%
Top Glove	80%	20%

Source: Companies, CIMB Research

Going after the premium segment

Shift towards the premium segment. More and more glovemakers are moving into the premium segment which includes powder-free NR and nitrile gloves. The biggest nitrile glove manufacturer is Hartalega which has 80% of its output in nitrile examination gloves. Other players, especially Kossan and Latexx Partners, are also moving towards the powder-free segment and nitrile segment.

Figure 11: Curent product mix

	Powdered	Powder-free	Nitrile	Others
Hartalega	4.0%	16.0%	80.0%	-
Kossan Rubber	15.0%	50.0%	35.0%	-
Latexx Partners	22.0%	64.0%	14.0%	-
Supermax	41.0%	36.0%	23.0%	-
Top Glove	52.0%	27.0%	7.0%	14.0%

Source: Companies, CIMB Research

Industry consolidation

Small players are exiting the industry

Big players to tighten their grip. The number of industry players in the country has been chopped from around 200 in the early 1990s to about 45 recently. Due to overlapping ownership, the number could be as low as just 13 big companies (Figure 12). We believe there will be further consolidation among the smaller players as more and more countries observe quality requirements. On top of that, the volatility of latex prices, especially during July last year, may force smaller glovemakers to close down or consolidate. In the end, manufacturers with economies of scale will be the ones that can operate profitably. Thus, further consolidation and exit by smaller companies will translate into a bigger vacuum for the bigger players to fill.

Figure 12: 13 biggest glove manufacturers

1 Adventa Health Sdn Bhd
2 Ansell (Kedah) Sdn Bhd
3 Comfort Rubber Gloves Industries Sdn Bhd
4 Hartalega Holdings Berhad
  - Hartalega Sdn Bhd
5 Kossan Rubber Industries Berhad
  - Kossan Latex Industries (M) Sdn Bhd
  - Perusahaan Getah Asas Sdn Bhd
  - Wear Safe Sdn Bhd
6 Latexx Partners Berhad
  - Latexx Manufacturing Sdn Bhd
7 Quality Latex Products Malaysia Sdn Bhd
8 Riverstone Resources Sdn Bhd
9 Smart Glove Corporation Sdn Bhd
10 Supermax Corporation Berhad
  - Maxter Glove Manufacturing Sdn Bhd
  - Seal Polymer Industries Berhad
  - Supermax Glove Manufacturing Sdn Bhd
11 Top Glove Corporation Bhd
  - Flexitech Sdn Bhd
  - TG Medical Sdn Bhd
12 WRP Asia Pacific Sdn Bhd
  - WRP Sinetimed Sdn Bhd
13 YTY Industry Sdn Bhd

Source: MARGMA, Companies, CIMB Research

Tighter regulations

Stricter guidelines

Tougher regulations. Despite the general perception of rubber gloves as a low-value product, it is regulated by numerous government agencies due to its function as a quasi medical device and the occasional occurrence of allergies to latex protein. To penetrate the export market, gloves have to conform to various standards. In the US, the importation of latex examination gloves is regulated by the US Food and Drug administration (FDA) while in Europe, it must confirm to the medical devices directive.

FDA inspection criteria tightened

New FDA requirements… In Dec 08, the US FDA stepped up its inspection criteria for gloves entering the US market. The new standard acceptable quality level (AQL) for examination glove is now 2.5 (4.0 previously) while for surgical glove, the AQL must be 1.5 (2.5 previously). We gathered that most glove companies were well aware of this ruling and had even implemented the new AQL ruling way ahead before the Dec 08 ruling.

Figure 13: US FDA regulations

	Previous AQL rule	New AQL rule (effective 19 Dec 08)
Examination gloves	4.0	2.5
Surgical gloves	2.5	1.5

Source: FDA

.. and Brazilian authorities stepped up their glove rulings

…along with new Brazilian standards. Apart from FDA requirements, from 1 January, glove manufacturers or suppliers in Brazil are required to print their distributor's name and glove lot/batch number on each piece of glove. Top Glove and Supermax, which tie for the top spot in terms of market share in Brazil, responded quickly to this rule and were approved by the Brazilian authorities for continued distribution of gloves in the country since late last year.

Standard Malaysian Glove

Standard Malaysian Glove. Back home, MREPC has been promoting the Standard Malaysian Glove (SMG) product certification. SMG is a product certification developed in consultation with US FDA that assures the manufacture of high quality, low protein, low powder or powder-free medical examination gloves.

Costs

Pricing power

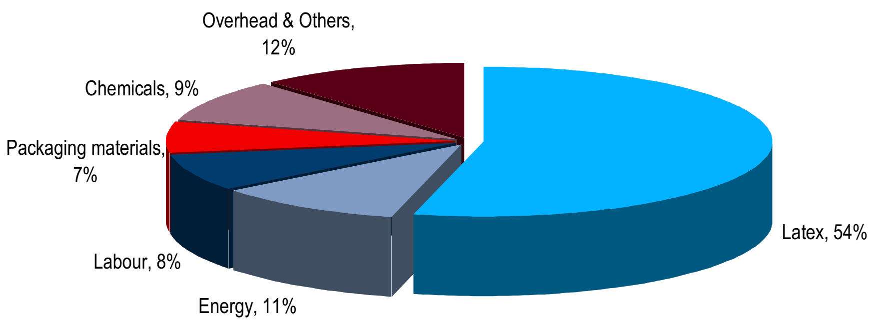
Triple whammy last year. Glovemakers faced a triple whammy last year in the form of higher latex price, a hike in gas costs and an increase in power rates. To offset the rising production cost, they raised the prices of their products three times. The ability to pass on the higher cost to consumers without a dent on sales volume is one of the main factors that make the rubber glove industry highly resilient. The practice has been to pass on cost increases to customers. The percentage can vary from 70% to 100% depending on the customers that they deal with.

Figure 14: Cost breakdown of individual players

	Hartalega	Kossan Rubber	Latexx Partners	Supermax	Top Glove	Average
Latex	51%	53%	54%	60%	51%	54%
Energy	8%	9%	14%	11%	11%	11%
Labour	9%	8%	7%	7%	9%	8%
Packaging materials	4%	9%	5%	9%	7%	7%
Chemicals	9%	9%	11%	8%	9%	9%
Overhead & Others	19%	12%	9%	5%	13%	12%

Source: Companies, CIMB Research

Figure 15: Average cost structure



Source: CIMB Research

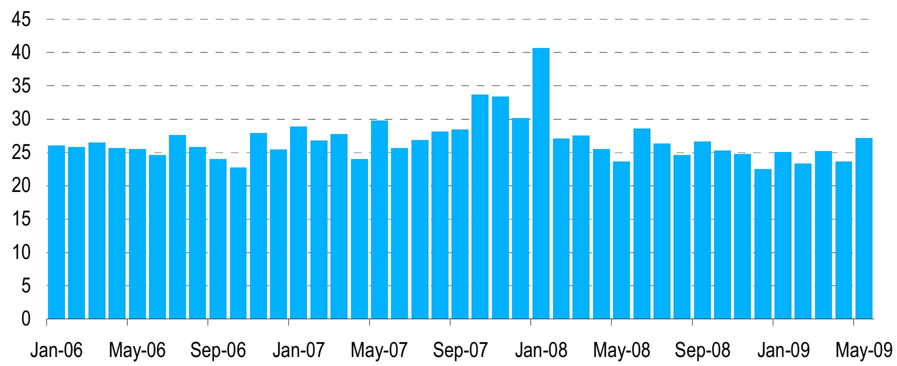
Risks

Threat from upcoming producers

Regional rivals. Cheaper labour cost and abundance of latex make Thailand and Indonesia potential strong competitors to Malaysia. But most indigenous Indonesian and Thai companies are much smaller than their Malaysian counterparts. Furthermore, Malaysian companies have superior track records for quality, enabling them to command a slight price premium in the market.

Volatility of latex prices. Natural latex is a major cost component for most rubber glove manufacturers. Latex makes up about 51-60% of the glove manufacturers' costs. Even though the price of latex has been trending down this year from a high of RM7.20/kg in Jul 08 to about RM4.12/kg recently, the price volatility can have a negative effect on manufacturers' costs and margins. However, we take comfort in knowing that most of this cost can be transferred to customers.

Figure 16: Import of latex concentrate (m tonnes)



Source: CEIC

Figure 17: Latex price trend (sen/kg)

Source: Bloomberg

Forex exposure. More than 95% of glovemakers' production go to the export market and most transactions are dominated in US$. The weakening of the ringgit should have a positive impact on glovemaker's sales and the situation would be reversed should the ringgit appreciate. The RM:US$ went to as low as RM3.16 last year, forcing most glovemakers to raise their selling prices to maintain their margins. For the 1H of this year, the average exchange rate was at RM3.59:US$1 which is good for glovemakers across the board. Moreover, it is comforting to know that more than 50% of raw materials, especially latex, is imported, creating a natural hedge when the US$ goes up or down.

Figure 18: RM:US$ trend

Source: CEIC

Natural gas. Gas prices were raised by up to 71.4% to RM22.06/mmbtu from RM12.87/mmbtu in Aug 08. On 1 Mar 09, gas price for rubber glove manufacturers, which consume 50,001-750,000 mmbtu per year, was slashed 32% to RM15.00/mmbtu. Although the latest international spot price for gas is US$3.37 (RM11.92), we understand that this excludes the processing and distribution costs. To recap, natural gas cost accounts for about 8% of the industry's costs. Alternatively, some companies have started to use biomass facilities for their energy or heating requirements. Biomass uses waste from the plantation and manufacturing sectors such as palm oil empty fruit bunches, palm kernel shells and wood chips. This will reduce their dependence on a single source of energy and buffer them from a potential shortage of gas supply in the future. Top Glove, Supermax and Hartalega are already using biomass as an alternative source of energy.

Figure 19: Revised natural gas rates (RM/mmbtu)

	Previous price 1 Aug 2008	Revised price 1 Mar 2009	% change
Gas usage for industrial & commercial sector:			
Between 50,001-750,000 mmBtu per year	22.06	15.00	(32.0)
More than 750,000 mmBtu per year	22.58	15.35	(32.0)

Source: Gas Malaysia

Figure 20: International gas prices (US$/mmbtu)

Source: Bloomberg

Labour scarcity. Foreign labour constitutes at least 40% of glove manufacturers' workforce. The glove industry relies on labour in areas such as the stripping of gloves, quality control and packing. As such, glove manufacturing companies are subject to the risk of labour shortages. Shortage of labour could compromise the glove manufacturers' ability to meet production schedules. Due to the strong demand for rubber gloves, most manufacturers are currently running at full capacity and are facing an acute shortage of workers, specifically foreign labour. MARGMA has been urging the authorities to expedite the approval of foreign workers for glove manufacturers. We understand that most glovemakers have submitted their application for approval of more foreign workers, especially to support their capacity expansion. On the other hand, with more efficient technology in place, some glovemakers have also moved ahead with automation which reduces their reliance on manpower and allow them to enjoy the benefits of economies of scale.

Figure 21: Estimated total workforce

	Total	Labour	
		Local	Foreign
Hartalega	2,000	30%	70%
Kossan Rubber	4,000	25%	75%
Latexx Partners	1,800	50%	50%
Supermax	4,500	60%	40%
Top Glove	8,600	45%	55%

Source: Companies, CIMB Research

Protein allergy controversy. The usage of natural gloves could cause allergic reactions in some individuals, leading to lawsuits served on glove manufactures in the past. However, this is no longer a risk as technological advances have minimised the protein content that triggers allergic reactions. On top of that, Malaysian glovemakers conform to various directives and standards for medical devices. The move towards nitrile glove production has also put Malaysian glove manufacturers ahead in the game in terms of technological know-how.

Competitive analysis

Rising barriers to entry. Although the barriers of entry appear to be low, stringent quality requirements and the importance of efficiency make it difficult for smaller glove players to survive in this volume game. The number of manufacturers has been whittled down from 200 in the early 1990s to only about 13 major glove producers currently. Rising latex prices have also forced many players to exit the industry, a move that leaves the bigger players with more economies of scale.

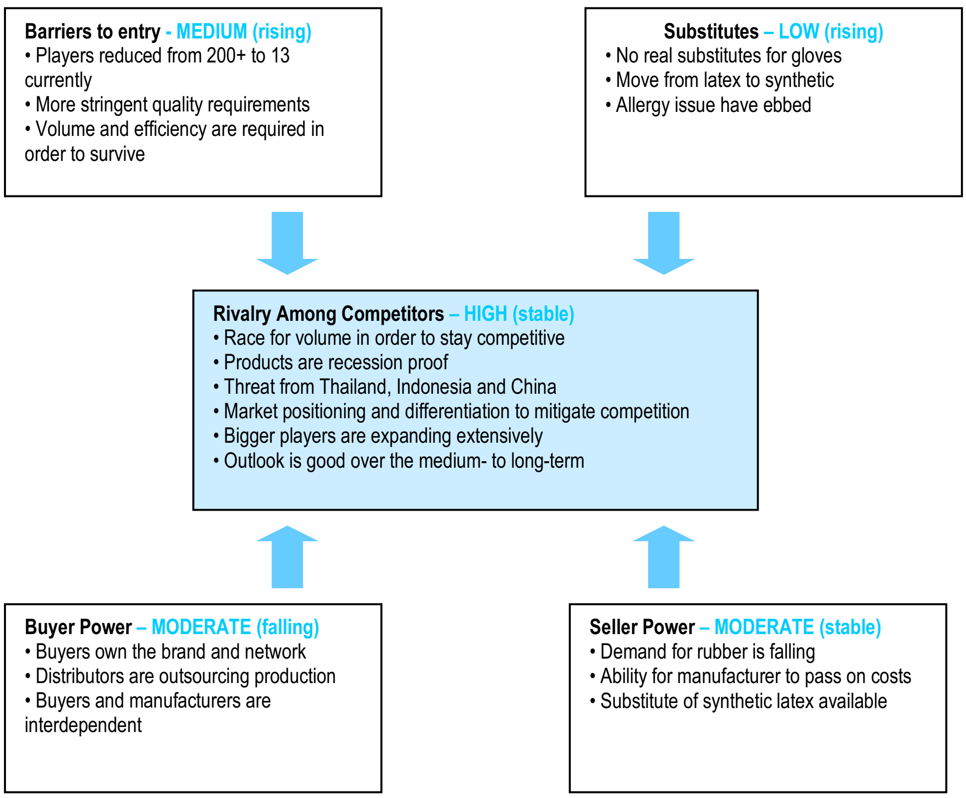
Few substitutes. The main substitute for natural rubber (NR) gloves is synthetic latex or nitrile gloves. Demand for nitrile gloves is largely driven by the protein allergy issue. While there is an increasing preference for nitrile gloves, especially from the developed countries, NR glove usage will be sustained in the medium- to long-term. This is because protein allergy is no longer an issue as technological advances have minimised the protein content that trigger allergic reactions in NR glove users.

Weakening buyer power. Buyer power is generally strong as buyers normally own the brand names and control the distribution network. However, buyer power has lessened somewhat as many MNCs are no longer expanding and are depending on OEM manufacturers. This creates an interdependent relationship between the buyer and the glovemakers, a fact that has allowed the latter to raise prices over the years. Furthermore, some manufacturers have set up their own distribution centres overseas which allows them to sell their OBM gloves and earn better margins.

Supplier power unchanged. Demand for raw rubber products in general is falling worldwide due to weak demand from the manufacturing and automotive sector. Latex concentrate suppliers generally do not have the direct power to influence rubber glove manufacturers as glovemakers can easily pass on cost increases to their customers. However, we do see more synthetic latex suppliers emerging in light of the increasing preference for nitrile latex. All in all, we believe that supplier power, whether for natural latex or synthetic, is moderate and stable.

Intense rivalry. Rivalry among the rubber glove manufacturers remains high as many of them are embarking on or are in the midst of large-scale expansion. Given the increase in demand, players are expanding capacity in order to secure bigger orders and garner a bigger share of the pie. However, competitive pressures will be lower for those which are able to differentiate themselves. With the top five players controlling half of the market, greater cooperation between players would also help.

Figure 22: Competitive analysis



Source: CIMB Research

Dupont analysis

In 2008, Hartalega notched the highest ROE and EBIT margin among the top five glovemakers as its superior production efficiency and differentiated gloves allowed it to command a higher margin for its products and generate greater returns for the company. Kossan Rubber earned the second highest ROE of 21.4% but its margin was only 9.4% as 25% of its turnover came from powdered gloves that year.

By 2010, Latexx will have the second highest ROE and Hartalega will still be tops though its ROE will slip. Supermax will see strong improvement due to margin expansion from its OBM model. The indusry's average EBIT margin will improve from 11.7% to 13.5%. This will be largely supported by the companies' expansion plans and their move into higher-margin and better-quality products.

Figure 23: Dupont analysis

	Hartalega	Kossan Rubber	Latexx Partners	Supermax	Top Glove	Average
2008						
ROE (%)	38.8	21.4	13.4	14.1	16.5	**20.8**
Tax & MI retention (x)	0.9	0.8	1.0	0.9	0.8	**0.9**
Interest burden (x)	1.0	0.9	0.8	0.7	1.0	**0.9**
EBIT margin (%)	22.2	9.4	8.3	8.7	10.0	**11.7**
Asset turnover (x)	1.4	1.5	1.1	1.0	1.3	**1.2**
Equity multiplier (x)	1.5	2.1	1.8	2.5	1.7	**1.9**
2010F						
ROE (%)	34.1	19.9	30.3	21.3	18.4	**24.8**
Tax & MI retention (x)	0.9	0.8	1.0	0.9	0.8	**0.9**
Interest burden (x)	1.0	0.9	0.9	1.1	1.0	**1.0**
EBIT margin (%)	21.9	8.8	13.3	12.6	11.1	**13.5**
Asset turnover (x)	1.3	1.6	1.3	0.9	1.3	**1.3**
Equity multiplier (x)	1.4	1.9	2.0	2.0	1.6	**1.8**

Source: Companies, CIMB Research

SWOT analysis

Our SWOT analysis shows that Hartalega excels in most of the categories. Top Glove and Kossan are next on the list. Kossan is in the third spot due to its high gearing, forex losses and volatile earnings from its technical rubber products division. Supermax and Latexx Partners bring up the rear as we believe they still need to improve their track records and bring down their gearing levels.

Malaysian's top five glovemakers control almost 50% of the world's rubber glove market. We believe that the rubber glove manufacturers should take advantage of Malaysia's dominance of the global market to cooperate and command premium prices for their quality rubber gloves. This will allow them to enjoy better margins and improve their bottomlines.

Figure 24: SWOT analysis for individual companies

SWOT	Hartalega	Kossan Rubber	Latexx Partners	Supermax	Top Glove
Strengths/weaknesses					
Track record	Strong	Strong	Moderate	Moderate	Strong
Financial resources	Strong	Moderate	Moderate	Moderate	Strong
Operational efficiency	Strong	Strong	Strong	Strong	Strong
Professionalism	Strong	Strong	Moderate	Moderate	Moderate
Corp governance/ transparency	Strong	Strong	Moderate	Moderate	Moderate
Earnings volatility	Low	Moderate	Moderate	Moderate	Low
Opportunities					
Ability to take advantage	Strong	Moderate	Moderate	Moderate	Strong
Business acumen	Strong	Strong	Strong	Moderate	Strong
Threats					
Policy risks	Low	Low	Low	Low	Low
Business risks	Low	Moderate	Moderate	Moderate	Low
Overall	**Strong**	**Strong**	**Moderate**	**Moderate**	**Strong**

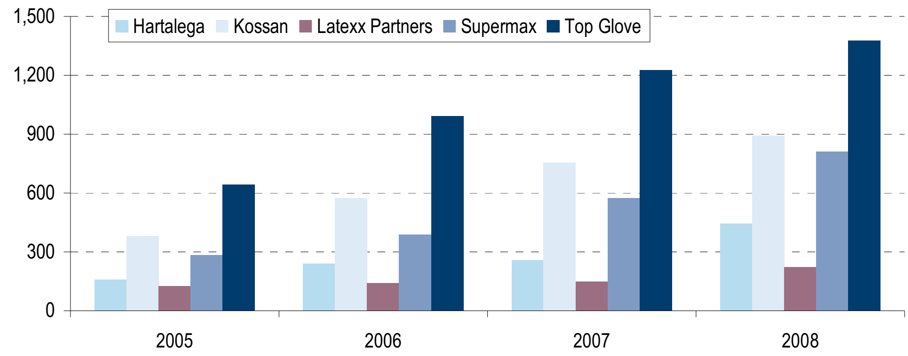
Source: CIMB Research

Valuation and recommendation

The sector's strength is apparent from the earnings track record of the five companies that we profile. As Figures 25-28 show, glove companies have been posting growth at both the revenue and net profit levels, thanks largely to their continuous capacity expansion.

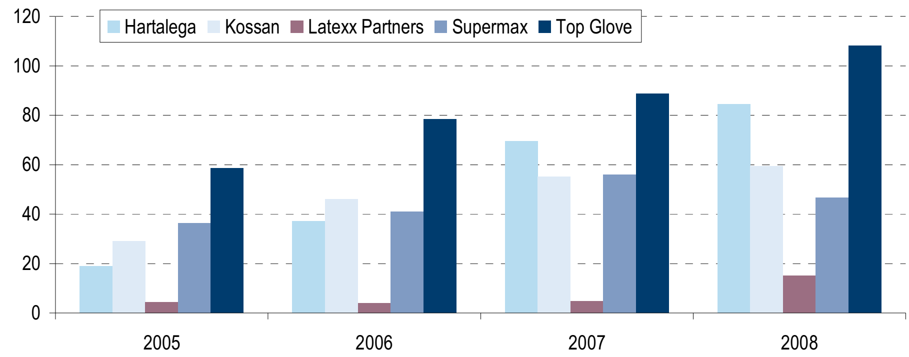
Among the top five players, Hartalega recorded the strongest net profit growth of 345% between 2005 and 2008. Next is Latexx Partners with a net profit growth of 255%, followed by Kossan at 105% and Top Glove at 85%. Supermax's net profit growth was affected by its misstep in investing in APLI which it wrote off fully late last year. Its net profit growth over the past four years was only 28%.

Figure 25: Revenue comparison (RM m)



Source: Companies, CIMB Research

Figure 26: Net profit comparison (RM m)



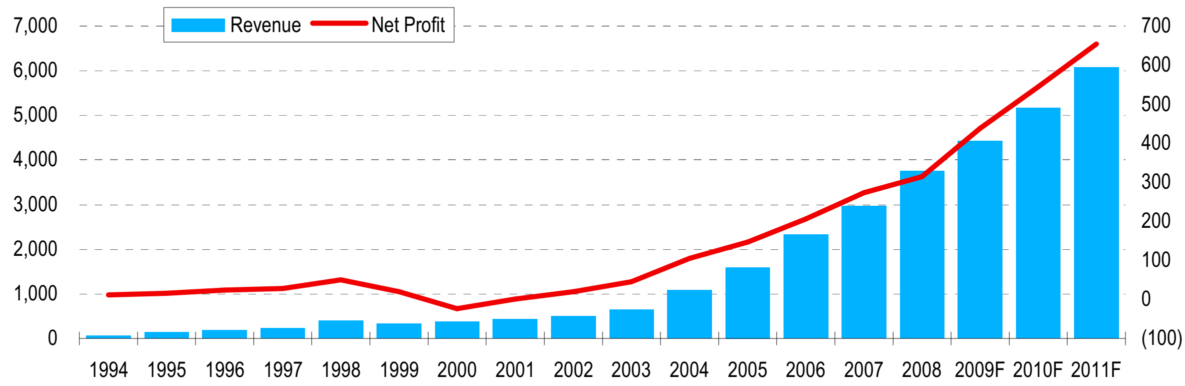
Source: Companies, CIMB Research

Figure 27: Historical comparison (RM m)

FYE	Hartalega March	Kossan Rubber December	Latexx Partners December	Supermax December	Top Glove August	Total
Revenue						
1994	n/a	38.0	29.1	n/a	n/a	67.0
1995	n/a	49.4	74.3	22.8	n/a	146.5
1996	n/a	61.8	94.8	31.4	n/a	188.0
1997	n/a	87.7	108.8	36.3	n/a	232.9
1998	n/a	113.0	187.2	48.9	48.5	397.6
1999	n/a	97.3	104.6	55.2	70.2	327.3
2000	n/a	104.7	105.5	62.8	103.2	376.1
2001	n/a	126.4	101.3	68.3	138.9	434.8
2002	n/a	153.1	86.7	84.6	180.2	504.6
2003	n/a	179.6	59.6	141.2	265.1	645.5
2004	109.6	277.8	60.5	218.4	418.1	1,084.4
2005	160.3	381.3	127.6	284.7	641.8	1,595.7
2006	240.9	573.9	141.0	389.1	992.5	2,337.4
2007	257.6	754.7	150.8	574.3	1,228.9	2,966.3
2008	443.2	893.1	223.3	811.8	1,377.9	3,749.3
2009F	558.4	931.6	352.8	828.1	1,759.6	4,430.5
2010F	715.2	1,226.9	482.4	861.2	1,878.5	5,164.2
2011F	949.8	1,570.2	596.2	904.2	2,053.2	6,073.6
Net Profit						
1994	n/a	5.2	6.2	n/a	n/a	11.3
1995	n/a	6.1	8.2	1.2	n/a	15.5
1996	n/a	8.1	12.9	3.3	n/a	24.3
1997	n/a	11.5	13.0	3.8	n/a	28.3
1998	n/a	19.8	17.6	5.4	7.1	49.9
1999	n/a	6.3	(6.0)	9.8	9.8	20.0
2000	n/a	2.4	(41.5)	4.1	11.6	(23.5)
2001	n/a	3.6	(22.3)	4.2	15.9	1.4
2002	n/a	15.6	(22.6)	8.9	18.1	19.9
2003	n/a	16.7	(13.9)	17.4	25.3	45.5
2004	13.5	22.1	(0.7)	30.2	39.9	105.1
2005	19.0	28.9	4.3	36.3	58.4	146.9
2006	37.0	46.0	3.9	40.8	78.4	206.2
2007	69.6	55.1	4.9	55.9	88.7	274.1
2008	84.5	59.3	15.2	47.0	108.1	314.0
2009F	98.1	51.1	40.7	92.5	156.0	438.3
2010F	133.0	80.3	63.6	101.5	166.6	545.1
2011F	177.4	107.1	78.8	108.2	182.3	653.8

Source: Bloomberg, CIMB Research

Figure 28: Industry revenue and net profit trend (RM m)



Source: Bloomberg, CIMB Research

Overweight sector

Time to grab a hold. Rubber glove was a hot sector some years back but fell out of favour in 2007-08 when the US$ weakened and latex prices surged. The sector is regaining favour as investors are waking up to the fact that rubber glove companies operate on relatively fixed margins and are set for robust growth, stoked by capacity expansion in the drive for market share. Given the favourable outlook for the sector, we extend our coverage from the three biggest rubber glove companies to the top five. In this report, we initiate coverage of Hartalega and Latexx Partners.

Packing a punch. We continue to value the glove companies on P/E basis. Rubber glove stocks have yet to re-rate to fair levels and continue to trade at a discount to the market instead of the premiums that they historically traded at. The sector now stands at an average FY09 P/E of 9.4x or just half of the peak of 18.1x at end-06. We believe that the companies are very undervalued and offer tremendous earnings upside due to their expansion programmes supported by the steadily rising demand from the healthcare industry. There is also the possibility of margin expansion from greater cooperation between the players. Weighing the very compelling P/E valuations and growth prospects, we draw the conclusion that investors should not miss out on this opportunity to invest in the sector.

Maintain OVERWEIGHT. We maintain our OVERWEIGHT stance on the rubber glove sector in view of the demand resilience for rubber gloves, especially examination and medical-grade gloves. Moreover, the higher demand triggered by the A(H1N1) influenza outbreak could offset the slowdown experienced by the glove players earlier this year when glove customers around the world scaled back their orders in anticipation for a further decline in latex prices. Due to improvement in the prospects for the sector, we now apply to the companies discounts of 0-30% to our target market P/E of 15x, instead of 30-50% discounts. Potential re-rating catalysts are the continued uptick in demand from the healthcare industry, ongoing capacity expansion and strong earnings growth.

Upgrade Supermax to OUTPERFORM. We believe that Supermax's prospects will continue to improve as demand should remain strong. We make no changes to our earnings forecasts. To reflect the improved outlook for the company, we are lowering our discount to our target market P/E of 15x from 50% to 30%, giving us a revised target price of RM4.02, up from RM2.87. This translates into share price upside of 77%. Given our new target price, we are upgrading the stock from a trading buy to an OUTPERFORM. In view of its cheapest valuations of 6.5x CY09 P/E and 5.9x CY10 P/E, steady earnings growth with 3-year EPS CAGR at 20.3% and the highest dividend yield for CY09, Supermax is now one of our top picks for the sector. Potential share price triggers include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Kossan stays an OUTPERFORM. As for Kossan, we continue to like the company for its ambitious expansion plans due to continuous high demand which we believe the market has yet to appreciate fully. We make no changes to our earnings forecasts. However, to reflect the improved longer-term outlook for the company, we are lowering our discount to our target market P/E of 15x from 30% to 20%, giving us a revised target price of RM6.03, up from RM5.27. This translates into share price upside of 67.5%. Kossan remains an OUTPERFORM and one of our top picks for the sector, predicated on the potential upside catalysts of improving earnings ability due to its changing product mix and aggressive capacity expansion.

Starting coverage of Hartalega with an OUTPERFORM. Hartalega, one of the two companies we are starting coverage of, is in a great position to tap on the increasing preference for nitrile gloves and the rise of global glove usage. Taking into account its smaller size relative to Top Glove but its stronger financial and operational capabilities relative to Latexx, we tag a 10% discount to our target market P/E of 15x, leading to an end-CY09 target price of RM6.93. Potential re-rating catalysts for Hartalega include its ability to sustain high margins due to its superior operational efficiency and differentiated gloves.

Initiate coverage of Latexx Partners with an OUTPERFORM call. Prospects for Latexx are positive as rising healthcare needs around the world will ensure demand for its new capacity. We begin coverage on the stock with an OUTPERFORM recommendation. In light of its smaller size relative to its largest competitor Top Glove and poorer track record, we tag a 30% discount to the target market P/E of 15x, giving us a target price of RM2.43. Potential re-rating catalysts include improving quarterly earnings, driven by its high production utilisation rates and ongoing expansion.

Maintain OUTPERFORM on Top Glove. We continue to like Top Glove for its focus as a volume player with strong finances to boot. However, valuations and growth potential are not as attractive as its smaller rivals. We make no changes to our earnings forecasts. Top Glove's end-CY 09 target price remains at RM8.60, which we continue to peg to our target market P/E of 15x. We maintain our OUTPERFORM call, which is premised on the potential re-rating catalysts of a continued uptick in demand due to the A(H1N1) outbreak, ongoing capacity expansion and improvement in quarterly margins from higher margin products.

Figure 29: Summary of stock recommendations and target prices (In order of preference)

	Previous				New					
Companies	Target price (RM)	Recommendation	Target Market P/E (x)	Discount to P/E	Target price (RM)	Recommendation	Target Market P/E (x)	Discount to P/E	Current upside
Supermax	2.97	Trading Buy	15.0	50%	4.02	Outperform	15.0	30%	77.1%
Kossan Rubber	5.27	Outperform	15.0	30%	6.03	Outperform	15.0	20%	67.5%
Hartalega	-	-	-	-	6.93	Outperform	15.0	10%	54.0%
Latexx Partners	-	-	-	-	2.43	Outperform	15.0	30%	38.1%
Top Glove	8.60	Outperform	15.0	-	8.60	Outperform	15.0	-	21.1%

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

Figure 30: Rubber glove companies compared

	Hartalega	Kossan Rubber	Latexx Partners	Supermax	Top Glove	Sector average
Year-end	Mar 09'	Dec 08'	Dec 08'	Dec 08'	Aug 08'	
Recommendation	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OUTPERFORM**	**OVERWEIGHT**
Share price (RM)	4.50	3.60	1.76	2.27	7.10	
Shares outstanding (m)	242.3	159.9	194.7	265.3	302.7	
Market capitalisation (RM m)	1,090.4	575.5	342.7	602.2	2,149.0	
Turnover (RM m)						
FY08	443.2	893.1	223.3	811.8	1,377.9	749.9
FY09F	558.4	931.6	352.8	828.1	1,759.6	886.1
FY10F	715.2	1,226.9	482.4	861.2	1,878.5	1,032.8
FY11F	949.8	1,570.2	596.2	904.2	2,053.2	1,214.7
Pretax profit (RM m)						
FY08	95.5	73.1	15.2	52.0	134.6	74.1
FY09F	111.5	62.3	40.7	108.8	197.4	104.1
FY10F	151.2	97.9	63.6	119.4	210.7	128.6
FY11F	201.6	132.2	78.8	127.3	230.3	154.1
Pretax margin						
FY08	21.6%	8.2%	6.8%	6.4%	9.8%	10.5%
FY09F	20.0%	6.7%	11.5%	13.1%	11.2%	12.5%
FY10F	21.1%	8.0%	13.2%	13.9%	11.2%	13.5%
FY11F	21.2%	8.4%	13.2%	14.1%	11.2%	13.6%
Net profit (RM m)						
FY08	84.5	59.3	15.2	47.0	106.1	62.4
FY09F	98.1	51.1	40.6	92.5	156.0	87.7
FY10F	133.0	80.3	63.6	101.5	166.6	109.0
FY11F	177.4	107.1	78.8	108.2	182.3	130.8
Net profit margin						
FY08	19.1%	6.6%	6.8%	5.8%	7.7%	9.2%
FY09F	17.6%	5.5%	11.5%	11.2%	8.9%	10.9%
FY10F	18.6%	6.5%	13.2%	11.8%	8.9%	11.8%
FY11F	18.7%	6.8%	13.2%	12.0%	8.9%	11.9%
ROE						
FY08	38.8%	21.4%	13.4%	14.1%	16.5%	20.8%
FY09F	33.2%	15.4%	29.0%	21.8%	20.7%	24.0%
FY10F	34.1%	19.9%	30.3%	21.3%	18.4%	24.8%
FY11F	34.4%	21.6%	28.6%	19.4%	17.3%	24.3%
ROA						
FY08	22.7%	9.1%	6.4%	4.9%	9.5%	10.5%
FY09F	19.1%	7.1%	12.4%	11.4%	11.7%	12.4%
FY10F	22.1%	9.6%	15.1%	9.5%	11.2%	13.5%
FY11F	23.4%	10.4%	15.8%	6.7%	10.9%	13.4%
Dividend yield						
FY08	1.8%	3.3%	0.0%	1.4%	1.6%	1.6%
FY09F	2.9%	1.7%	1.1%	3.1%	2.1%	2.2%
FY10F	4.0%	3.4%	1.7%	3.4%	2.4%	3.0%
FY11F	5.6%	5.1%	2.8%	3.6%	2.7%	3.9%
P/B (x)						
FY08	4.3	1.9	2.8	1.6	3.1	2.8
FY09F	3.2	1.6	2.2	1.5	2.5	2.2
FY10F	2.5	1.3	1.6	1.2	2.2	1.7
FY11F	1.9	1.0	1.2	1.1	1.9	1.4
P/E (x)						
FY08	12.9	9.7	22.5	9.7	19.9	15.0
FY09F	11.1	7.2	8.4	6.5	13.6	9.4
FY10F	8.2	7.2	5.4	5.9	12.8	7.9
FY11F	6.1	5.4	4.3	5.6	11.7	6.6

Source: Companies, CIMB Research

COMPANY BRIEFS…

27 July 2009

Supermax

Maximum potential

RECOM	Buy
PRICE	RM2.27
MKT CAPITALISATION	RM602.2m
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL — Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

Investment highlights

- **Maximum potential.** Having fully written off APLI last year, Supermax appears on track for better days ahead. Management retains its focus on stepping up its risk, receivable, inventory and productivity management, as well as optimising on production efficiency. The company plans to add some 5bn pieces or 32% to its production capacity, taking it to 19.2bn pieces by 2011.
- **Long-term plans.** The company is also firm on its plan to build a glove city on a 36.8-acre plot in Bukit Kapar, Klang. Tentatively, the project will kick off in 2011 and will be completed over a period of about 10 years though the eventual timing will depend on global glove demand. The land can accommodate six factories with a total capacity of 18bn pieces of gloves.
- **Stretching its market share.** We believe Supermax's prospects will continue to improve as demand for the company's products should remain strong. The company has always been active in participating in international trade shows and exhibitions worldwide and is currently the third biggest glove brand in the US dental market. It plans to penetrate new emerging markets such as India and Russia as part of its long-term expansion plans.
- **Maintain BUY.** We make no changes to our earnings forecasts. However, to reflect the improved outlook for the company, we are lowering our discount to our target market P/E of 15x from 50% to 30%, giving us a revised target price of RM4.02, up from RM2.87. Given our new target price, we are upgrading the stock from a trading-oriented buy to an outright BUY. In view of its cheap valuations, steady earnings growth and highest dividend yield, Supermax is now one of our top picks for the sector. Potential share price triggers include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Key stock statistics

FYE Dec	**2008**	**2009F**
EPS (sen)	17.7	34.9
P/E (x)	12.8	6.5
Dividend/Share (sen)	3.2	7.0
NTA/Share (RM)	1.5	1.5
Book Value/Share (RM)	1.5	1.5
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)		RM2.32/RM0.78
Major Shareholders:		**%**
Dato' Seri Thai Kim Sim, Stanley		20.4
Datin Seri Tan Bee Geok, Cheryl		15.0
Lembaga Tabung Haji		10.0

Per share data

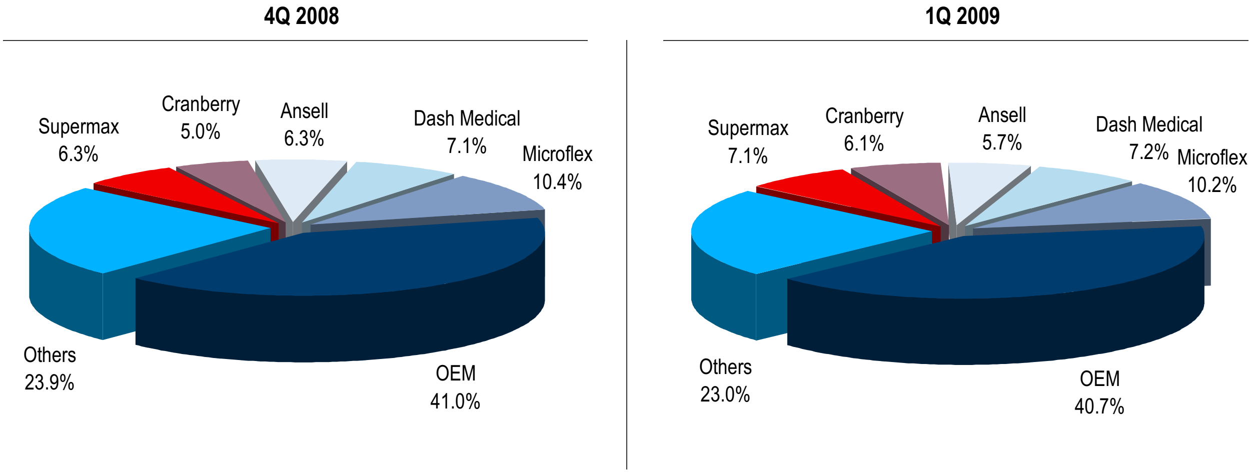
FYE Dec	**2006**	**2007**	**2008**	**2009F**
Book Value (RM)	1.1	0.9	1.5	1.5
Cash Flow (sen)	13.2	26.4	37.4	39.0
Earnings (sen)	18.0	21.1	17.7	34.9
Dividend (sen)	4.5	4.9	3.2	7.0
Payout Ratio (%)	18.1	17.0	13.4	15.0
P/E (x)	12.6	10.8	12.8	6.5
P/Cash Flow (x)	17.2	8.6	6.1	5.8
P/Book Value (x)	2.0	2.4	1.6	1.5
Dividend Yield (%)	2.0	2.2	1.4	3.1
ROE (%)	17.7	22.6	19.1	21.8
Net Gearing (%)	76.3	57.0	70.9	51.1

Source: Company, CIMB estimates, Bloomberg

Recent developments

Increasing market share in the US. Supermax's global brand and products remain synonymous with quality and reliability in the global marketplace and continue to gain market share every year. It is currently the third biggest glove brand in the US dental market. As reported in Strategic Dental Marketing, Supermax's share increased from 6.3% in 4Q08 to 7.1% in 1Q09. We gathered that this was driven largely by the group's ongoing efforts to penetrate into the US market by participating in international trade shows and exhibitions.

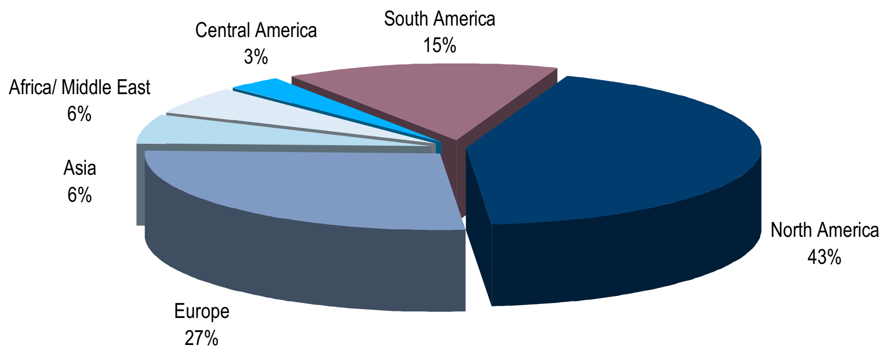
Figure 1: Dental market share in US



Source: Strategic Dental Marketing (USA) ,Company, CIMB Research

Penetrating India and Russia. 43% of Supermax sales go to the North America region, followed by Europe at 27%, South America 15%, Africa and Middle East 6%, Asia 6% and Central America 3%. Taking into account its success in emerging markets like Brazil, the group plans to penetrate new emerging markets such as India and Russia as part of its long-term expansion plans. This will be largely supported by its glove city project which is expected to kick off in 2011.

Figure 2: Sales by region



Source: Company, CIMB Research

Earnings outlook

No change to earnings. We make no changes to our earnings forecasts as we believe Supermax's prospects will continue to improve given the strong demand for the company's products. Furthermore, we believe that the company, which operates on a 55:45 OBM:OEM model, will benefit from its ability to command higher prices and expand its margins, especially in situations where demand exceeds supply like the ongoing A(H1N1) flu outbreak.

Figure 3: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	400.3	574.3	811.8	828.1
Operating Profit (EBIT)	40.8	55.4	70.2	101.5
Depreciation	(13.0)	(19.9)	(28.9)	(28.1)
Interest Expenses	(12.7)	(15.3)	(20.3)	(11.6)
Pretax Profit	47.3	58.6	52.0	108.8
Effective Tax Rate (%)	*16.0*	*4.4*	*9.6*	*15.0*
Net Profit	39.7	55.9	47.0	92.5
Operating Margin (%)	*10.2*	*9.6*	*8.7*	*12.3*
Pretax Margin (%)	*11.8*	*10.2*	*6.4*	*13.1*
Net Margin (%)	*9.9*	*9.7*	*5.8*	*11.2*

Source: Company, CIMB estimates

Recommendation

Maintain BUY. To reflect the improved outlook for the company, we are lowering our discount to our target market P/E of 15x from 50% to 30%, giving us a revised target price of RM4.02, up from RM2.87. This translates into share price upside of 77.1%. Given our new target price, we are upgrading the stock from a trading-oriented buy to an outright BUY. We are also greatly encouraged by the company's more cooperative approach with its main competitor Top Glove (TOPG MK, Outperform), which augurs well for the companies and sector in the longer term. In view of its cheapest valuations of 6.5x CY09 P/E and 5.9x CY10 P/E, steady earnings growth with 3-year EPS CAGR of 20.3% and highest dividend yield for CY09, Supermax is now one of our top picks for the sector. Potential share price triggers include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Figure 4: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	811.8	828.1	861.2	904.2
EBITDA (RM m)	75.3	99.1	129.6	138.3	156.0
EBITDA margins (%)	13.1	12.2	15.6	16.1	17.3
Pretax profit (RM m)	58.6	52.0	108.8	119.4	127.3
Net profit (RM m)	55.9	47.0	92.5	101.5	108.2
EPS (sen)	23.0	17.7	34.9	38.3	40.8
EPS growth (%)	+28%	-23%	+97%	+10%	+7%
P/E (x)	9.9	12.8	6.5	5.9	5.6
Core EPS (sen)	23.0	23.4	34.9	38.3	40.8
Core EPS growth (%)	+28%	+2%	+49%	+10%	+7%
Core P/E (x)	9.9	9.7	6.5	5.9	5.6
Gross DPS (sen)	4.9	3.2	7.0	7.7	8.2
Dividend yield (%)	2.4	1.4	3.1	3.4	3.6
P/NTA (x)	2.4	1.6	1.5	1.2	1.1
ROE (%)	22.6	14.1	21.8	21.3	19.4
Net gearing (%)	57.0	70.9	51.1	29.1	29.7
P/CF (x)	8.6	6.1	5.8	5.8	5.3
EV/EBITDA (x)	9.9	8.7	6.4	6.4	5.5
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.13	1.07	1.14

Source: Company, CIMB Research, Reuters Estimates