24 October 2011

Produced by: KAF-Seagroatt & Campbell Securities Sdn Bhd

Health Care Supplies

Turning more positive

We have upgraded the Malaysian gloves sector to Neutral from Underweight, as we believe most of the negatives have been priced in. However, the sector lacks meaningful rerating catalysts at this juncture and expectations on Top Glove remain relatively high. We upgrade Supermax to Hold and Kossan to Buy.

Table 1 : Key recommendations and forecasts

	Reuters	Year end	Recom	Price	Target price	EPS 1fcst	PE 1fcst
Top Glove[1]	TPGC.KL	Aug 2012	Sell	RM4.03	RM3.20	0.22	18.08
Supermax[1]	SUPM.KL	Dec 2011	Hold	RM2.85	RM3.00	0.32	8.98
Kossan Rubber[1]	KRIB.KL	Dec 2011	Buy	RM2.70	RM3.30	0.32	8.47

Priced at close 18 Oct 2011.
1. Normalised EPS - Post-goodwill amortisation and pre-exceptional items
Source: Company data, KAF forecasts

Sector performance

	(1M)	(3M)	(12M)
Absolute	-1.7	-47.9	-50.7
Absolute (%)	-0.5	-11.8	-12.4
Rel market (%)	0.8	-1.2	n/a

Kuala Lumpur Composite: 122.38
BBG AP Health: 356.93
Source: Bloomberg

Status update

In our last report, *Health Care Supplies – Valuations still look stretched* dated 12 August 2011, we highlighted four reasons that could change our negative view. We believe the first two have occurred – share prices have declined 27%, underperforming the KLCI by 20% ytd, and Bloomberg consensus FY12F earnings have been revised down 27-46% since initial forecasts in 2010. However, a sustainable fall in latex prices and strengthening of the US dollar, coupled with pricing power increases have yet to materialise.

Shifts to premium products

From our company visits, it appears that demand remains weak, especially for lower-end powdered latex gloves. Demand is stronger for powder-free latex and nitrile gloves. Oversupply is also affecting pricing power. The glove makers have increased production of higher-margin nitrile and surgical gloves to cater to this shift in demand, which resulted from persistently high latex prices increasing the average selling price (ASP) for latex gloves.

Volatile macro trends

The latex price is currently RM7.95/kg, which we think is still relatively high, although it has eased from the record high of RM10.93/kg in April 2011. With unfavourable weather conditions in Thailand and the onset of the wintering season from February to April, we think latex prices will remain high going into 2012. The RM/USD exchange rate had been on a declining trend until the recent spike in late September. It is now at RM3.14/USD and has remained volatile.

What is priced in?

To determine what return levels are priced in, we apply the P/B multiple of 1.8x at which the sector is currently trading to the Gordon growth formula (P/B = (ROE-g)/(COE-g)), assuming COE of 10.75% and a growth rate of 4.5%. Solving for ROE, we estimate the market is pricing in a sustainable ROE of 15.4% versus the historical average of 22% (in 2004-08) and extraordinary 25% over 2009-10. Similar analysis reveals that the market is pricing in an ROE of 17.6% for Top Glove, 12.4% for Supermax and 15.1% for Kossan. These do not look excessively high to us, but a further DuPont analysis indicates that Top Glove's net margin needs to revert to 9.2% versus the historical average of 8.8%. Supermax is pricing in margins around the historical averages, while the implied margins for Kossan are now below the historical average, which appears too conservative to us.

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Turning more positive

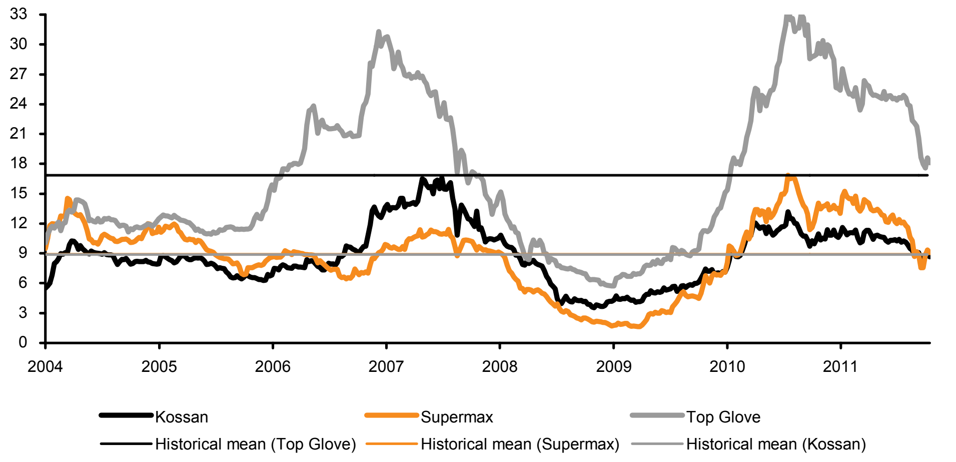
We have upgraded the gloves sector from Underweight to Neutral because share prices have declined 27% ytd, underperforming the KLCI by 20%, and earnings have been further downgraded post-2Q11 results to what we consider to be more reasonable levels.

We think that most negatives are priced into the shares at current levels, except for Top Glove, where valuations remain high

In *Health Care Supplies – Valuations still look stretched*, we highlighted four reasons that could change our negative view on the sector: 1) sustained share-price declines to below our target prices; 2) further earnings downgrades post-2Q11 results for Supermax and Kossan; 3) macro uncertainties causing the latex price to fall and a strengthening of the US dollar giving an upside bias to our earnings forecasts; and 4) an increase in the pricing power of glove makers because margins are now below historical averages.

We believe that the first two have occurred – share prices have declined by 27% ytd, underperforming the KLCI by 20%, and earnings have been further downgraded, with Bloomberg consensus FY12 forecasts being reduced by 27-46% (since 2010) and FY13 forecasts by 21-29% (since 2011). However, latex prices have remained relatively high and the RM/USD exchange rate has been rather volatile. From our company visits, we sense no increase in pricing power given the current oversupply.

Chart 1 : Valuations are slightly above historical means



Source: Bloomberg, company data, KAF forecasts

Based on one-year rolling forward PER, we find that Top Glove is trading at 18.1x PER, 8% above its historical mean of 16.8x. Similarly, Supermax is trading at 9.1x, 2% above its historical mean of 8.9x, while Kossan is trading at 8.7x, 3% below its historical mean of 8.9x.

We upgrade our sector view to Neutral (from Underweight) and we maintain Sell on Top Glove but upgrade Supermax to Hold and Kossan to Buy

We believe most negatives have been priced in at these levels except for Top Glove, whose valuations we find to be unreasonably high. Furthermore, it has the highest exposure to powdered latex gloves at 55%, which is currently facing weak demand and is affected by high latex prices.

Because there is now slight upside to our target price for Supermax, we upgrade the stock to a Hold (from Sell). We move Kossan to a Buy (from Hold) as we project higher earnings of 9-10% over FY12-13 driven by higher sales volumes, compared to flattish earnings of 1-3% previously. We maintain our Sell rating on Top Glove. We upgrade our sector view from Underweight to Neutral.

We think expectations are now more reasonable, but the sector lacks meaningful re-rating catalysts. These could come in the form of a sustainable fall in latex prices and strengthening of the US dollar, and an increase in pricing power that would give upside bias to our margin forecasts.

What is priced in?

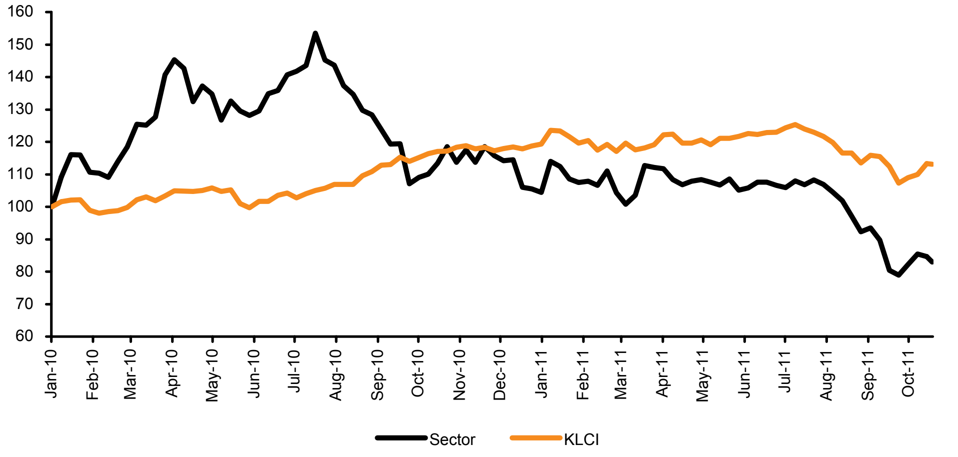
From our analysis, the market is pricing in an ROE of 15.4% – low compared to the historical averages of 21% (in 2004-08) and extraordinary 25% achieved over 2009-10. However, on a company-specific level, we think expectations on Top Glove remain high.

Share price performance

After the impressive share price performance over 2009 to 1H2010, the sector has declined 27% and underperformed the KLCI by 20% ytd

The gloves sector had an impressive 347% run-up from the beginning of 2009 to its peak in July 2010**,** driven by: 1) low latex prices; 2) a strong US dollar; 3) high pricing power due to the surge in demand from the H1N1 pandemic; and 4) a tight supply situation. The reversal of these positive trends over 2010 resulted in margin pressure and earnings disappointments exacerbated by high consensus expectations. The sector has declined 27% and underperformed the KLCI by 20% ytd. Individually, Top Glove has declined 26%, Supermax by 36% and Kossan by 19% ytd.

Chart 2 : Relative performance of gloves sector versus KLCI (indexed at 2010)



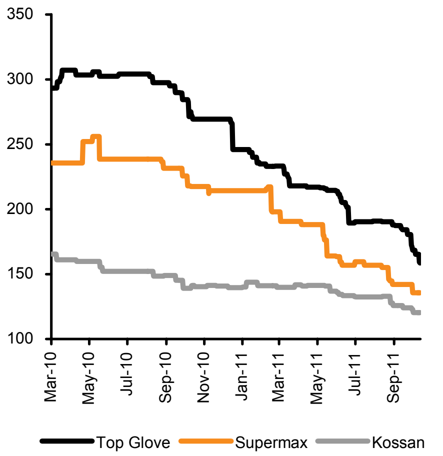
Source: Bloomberg

Cycle of earnings downgrades not quite over, in our view

The worst is probably over, but there could be further earnings downgrades next year

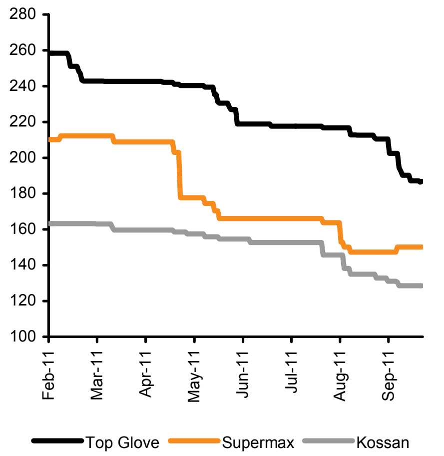
As we had expected, there were further earnings downgrades by Bloomberg consensus post-2Q11 results that disappointed. Bloomberg FY12 forecasts for Top Glove have been cut by 46%, Supermax by 42% and Kossan by 27% since initial forecasts in 2010 (Chart 3). As for FY13, Top Glove's forecasts have been cut by 29%, Supermax by 28% and Kossan by 21% since initial forecasts in 2011 (Chart 4).

Chart 3 : FY12F consensus downgrades



Source: Bloomberg

Chart 4 : FY13F consensus downgrades



Source: Bloomberg

Our margin assumptions are below consensus and historical averages

We believe that there could be further downgrades, especially for next year, although the worst is probably over. Consensus expects Top Glove's earnings to increase by 38% in FY12, while management is guiding for 10% and our estimates imply an increase of 22%. As for Supermax, consensus forecasts growth of 21% in FY12 versus management's guidance of 15-20% and our relatively conservative forecast of 5%. For Kossan, consensus expects 14% growth versus management's guidance of 10-15% and ours of 10%. Hence, we believe that earnings expectations are still particularly high for Top Glove.

We think we differ from consensus in our assumption that average latex prices will remain relatively high at RM8.40-8.50/kg and the exchange rate will be RM2.90-3.00/USD through FY12. Our FY12 margin assumptions are therefore below consensus and the respective historical averages (Table 2) – except those for Supermax, for which our EBITDA and EBIT margin assumptions are slightly higher than consensus.

Table 2 : FY12F margin assumptions versus consensus and historical averages

	Top Glove			Supermax			Kossan		
	Consensus	KAF	Historical average	Consensus	KAF	Historical average	Consensus	KAF	Historical average
EBITDA margin	11.6%	11.0%	13.9%	12.9%	13.3%	14.3%	14.8%	11.8%	13.9%
EBIT margin	8.9%	7.8%	10.6%	9.9%	10.3%	11.0%	11.8%	9.0%	10.1%
Net margin	6.8%	6.3%	8.5%	11.2%	10.8%	11.2%	8.7%	7.1%	7.6%

Source: Bloomberg, company data, KAF forecasts

What is the market pricing in?

The market is pricing in a sector ROE of 15.4%, implying that EBIT and net margins would need to revert to 10% and 8.6% over the medium term

To sense what return levels are priced in currently, we apply the P/B multiple of 1.8x at which the sector is currently trading to the Gordon growth formula (P/B = (ROE-g)/(COE-g)). We assume a cost of equity of 10.75% and long-term growth rate of 4.5% in our analysis. By solving for ROE, we estimate that the market is currently pricing in a sustainable ROE of 15.4%. This compares to the historical average of 22% (in 2004-08) and extraordinary 25% achieved over 2009-10. A similar analysis reveals that the market is pricing in an ROE of 17.6% for Top Glove, 12.4% for Supermax and 15.1% for Kossan.

Table 3 : Market-implied ROE

	Sector (FY12F)	Top Glove	Supermax	Kossan
Market capitalisation (RMm)	4,325	-	-	-
Estimated shareholders' equity (RMm)	2,471	-	-	-
Current price (RM)	**-**	**4.03**	**2.85**	**2.70**
End FY11F BVPS (RM) *	-	1.9	2.3	1.6
Implied P/B (x)	1.8	2.1	1.3	1.7
Cost of equity (%)	10.75	10.75	10.75	10.75
Long-term growth (%)	4.5	4.5	4.5	4.5
Market-implied ROE	**15.4%**	**17.6%**	**12.4%**	**15.1%**

* Top Glove – used FY12F BVPS (FYE: August)
Source: Bloomberg, KAF forecasts. Priced as at 18 October 2011

The ROE expectations do not look overly excessive, but we perform a DuPont analysis to assess the drivers of ROE (Table 4). From this perspective, we find that ROE increased from 24% in 2004 to 25% in 2005, driven by higher leverage. ROE then declined between 2005 and 2008, due to the combination of net margin compression, lower asset turnover and lower leverage. ROE then increased again in 2009 and 2010, driven by the sharp increases in net margins and despite notable reductions in leverage. This was attributable to the favourable operating environment and strong demand from the H1N1 pandemic.

We forecast ROE will decline to 13.6% in 2011, driven by lower net margins, asset turnover and leverage, followed by an improvement to 14.0% in 2012 and 14.3% in 2013 due to some normalisation in margins. Based on the market-implied ROE of 15.4%, we estimate that EBIT and net margins need to revert to 10% and 8.6%, respectively, over the medium term, assuming the asset turnover and leverage are as per our forecasts. This is broadly in line with the levels seen prior to the period of super normal profits in 2009 and 2010.

Table 4 : Sector DuPont analysis

DuPont	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F	Market implied
EBIT margin	**11.6%**	**10.9%**	**10.5%**	**10.0%**	**10.3%**	**16.0%**	**13.5%**	**8.4%**	**8.9%**	**9.4%**	**10.0%**
Associates	1.0%	1.1%	0.9%	0.7%	0.6%	1.2%	1.0%	0.7%	0.7%	0.7%	0.7%
Others	-2.7%	-2.8%	-2.6%	-2.6%	-2.9%	-4.3%	-2.9%	-1.9%	-2.0%	-2.1%	-2.1%
Net margin	**9.9%**	**9.3%**	**8.8%**	**8.1%**	**8.0%**	**12.9%**	**11.6%**	**7.2%**	**7.6%**	**8.0%**	**8.6%**
Asset turnover	1.27	1.25	1.28	1.19	1.21	1.21	1.35	1.32	1.31	1.30	1.30
Leverage	1.88	2.16	2.22	2.03	1.92	1.70	1.49	1.43	1.41	1.38	1.38
ROE	**23.6%**	**25.0%**	**24.9%**	**19.7%**	**18.6%**	**26.6%**	**23.3%**	**13.6%**	**14.0%**	**14.3%**	**15.4%**

Source: Companies, KAF forecasts

We also perform a DuPont analysis on the individual companies. For Top Glove, based on the market implied ROE of 17.6%, EBIT margin would need to revert to 11.2% over the medium term (versus consensus forecast of 8.9%, our forecast of 7.8% and the historical average of 10.6%). Similarly, net margin would need to revert to 9.2% (versus 6.8%, 6.3% and 8.5%, respectively). Hence, we believe that expectations remain high on Top Glove and the stock has not corrected enough to reflect an appropriate level of profitability and more reasonable valuations.

Table 5 : Top Glove's DuPont analysis

DuPont	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F	Market implied
EBIT margin	**11.2%**	**11.0%**	**10.2%**	**10.6%**	**10.3%**	**15.0%**	**14.5%**	**6.8%**	**7.8%**	**8.8%**	**9.8%**	**11.2%**
Associates	0.0%	0.0%	0.0%	0.0%	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	-1.8%	-1.9%	-1.7%	-3.3%	-2.3%	-3.9%	-2.7%	-1.4%	-1.6%	-1.8%	-2.0%	-2.0%
Net margin	**9.5%**	**9.1%**	**8.5%**	**7.3%**	**8.0%**	**11.1%**	**11.8%**	**5.5%**	**6.3%**	**7.0%**	**7.8%**	**9.2%**
Asset turnover	1.51	1.56	1.56	1.35	1.27	1.36	1.66	1.48	1.53	1.55	1.56	1.56
Leverage	1.89	2.18	2.55	2.01	1.68	1.50	1.31	1.25	1.24	1.23	1.23	1.23
ROE	**27.1%**	**30.9%**	**33.9%**	**19.9%**	**17.1%**	**22.7%**	**25.6%**	**10.2%**	**11.9%**	**13.3%**	**14.9%**	**17.6%**

Source: Company, KAF forecasts

A similar analysis indicates that Supermax's EBIT margin would need to revert to 10.4% (versus consensus 9.9%, our 10.3% and the historical average of 11%). Net margin priced in is 10.6% (versus 11.2%, 10.8% and 11.2%, respectively). Thus, it now appears that expectations are relatively conservative.

Table 6 : Supermax's DuPont analysis

DuPont	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F	Market implied
EBIT margin	**12.7%**	**12.1%**	**11.9%**	**9.6%**	**8.6%**	**17.1%**	**15.9%**	**10.5%**	**10.3%**	**10.7%**	**10.4%**
Associates	4.6%	5.7%	4.8%	3.2%	2.3%	5.2%	4.3%	3.2%	3.1%	3.1%	3.1%
Others	-3.4%	-5.1%	-5.0%	-3.0%	-3.1%	-5.8%	-3.9%	-2.8%	-2.7%	-3.0%	-3.0%
Net margin	**13.8%**	**12.7%**	**11.8%**	**9.7%**	**7.8%**	**16.4%**	**16.3%**	**10.9%**	**10.8%**	**10.9%**	**10.6%**
Asset turnover	0.9	0.8	0.8	0.8	0.9	0.8	1.0	0.9	0.8	0.82	0.82
Leverage	1.9	2.2	2.2	2.2	2.3	1.9	1.6	1.5	1.5	1.43	1.43
ROE	**24.1%**	**21.1%**	**21.2%**	**17.9%**	**15.9%**	**27.1%**	**25.4%**	**14.1%**	**13.3%**	**12.8%**	**12.4%**

Source: Company, KAF forecasts

As for Kossan, EBIT margin would need to revert to 8% (versus consensus 11.8%, our 9% and historical average of 10.1%). Net margin priced in is 6.3% (versus 8.7%, 7.1% and 7.6%, respectively). From this analysis, it is clear that the market has quite low expectations on Kossan because margins being priced in appear to be significantly below historical averages and both our and consensus forecasts.

Table 7 : Kossan's DuPont analysis

DuPont	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F	Market implied
EBIT margin	**11.6%**	**10.4%**	**9.7%**	**9.6%**	**9.2%**	**17.6%**	**14.1%**	**8.8%**	**9.0%**	**8.9%**	**8.0%**
Associate cont	0%	0%	0%	0%	0%	0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	-4%	-3%	-2%	-2%	-3%	-5%	-3.2%	-2.0%	-1.9%	-1.7%	-1.7%
Net margin	**8.0%**	**7.6%**	**8.1%**	**7.8%**	**6.5%**	**13%**	**10.9%**	**6.8%**	**7.1%**	**7.2%**	**6.3%**
Asset turnover	1.23	1.35	1.52	1.44	1.51	1.25	1.43	1.65	1.57	1.51	1.51
Leverage	1.75	1.91	2.06	2.13	2.16	2.05	1.83	1.74	1.68	1.60	1.60
ROE	**17.1%**	**19.6%**	**25.4%**	**24.1%**	**21.3%**	**32.8%**	**28.4%**	**19.4%**	**18.5%**	**17.4%**	**15.1%**

Source: Company, KAF forecasts

Summary of findings

At current prices, the market is pricing in relatively low ROE expectations of 15.4% versus the historical average of 22% (2004-08) and the excessively high 25% achieved over 2009-10. Margin expectations on the sector are also not as excessive as before, given the slew of earnings downgrades.

The market is pricing in above historical average margins for Top Glove, but below averages for Supermax and Kossan

On a company-specific level, our observations are as follows.

- **Top Glove** – there is still 21% potential downside to our target price of RM3.20. Our target price assumes a sustainable ROE of 14.9%, COE of 10.75% and long-term growth of 4.5%. The market seems to pricing in a sustainable ROE of 17.6%, which implies both EBIT and net margins need to be above historical averages. Although this is not impossible, we think that it will be harder for Top Glove to achieve this relative to peers, given its high exposure to powdered latex gloves and a larger equity base.
- **Supermax** – there is a slight 5% potential upside to our target price of RM3.00. Our target price assumes a sustainable ROE of 12.8%, while the market is pricing in an ROE of 12.4%. Implied margins are also slightly below historical averages. Hence, we believe most negatives are reflected in Supermax's current share price.
- **Kossan** – there is 22% potential upside to our revised target price of RM3.30, which assumes a sustainable ROE of 17.4%. The market is pricing in an ROE of 15.1%, with implied margins significantly below historical averages. Thus, there is now actually some room for upside surprises. Furthermore, Kossan has the most exposure to higher-margin nitrile and powder-free latex gloves, while margins have proven to be more resilient than peers.

Industry updates

Our visits to the glove companies indicate that the shift to higher-margin products, mainly nitrile and surgical gloves, remains. Most of the glove players are expanding capacity in these segments and are guiding for about 10-20% earnings growth in 2012.

Shifts to premium products

Demand remains weak especially for powdered latex gloves, while the oversupply situation has affected pricing power

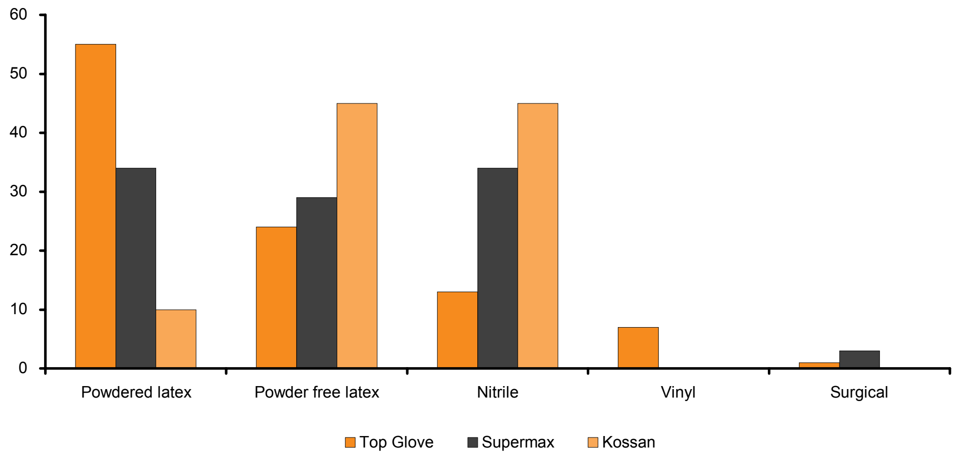
From our visits to the glove companies under our coverage, it appears that demand remains weak, coupled with oversupply that has affected pricing power. The volatility in latex prices and the US dollar continue to adversely affect earnings as well. We summarise key takeaways from the company visits below.

- Generally, demand remains soft due to distributors holding lower inventory of about one to two months versus the usual three to four months because they expect latex prices to decline, which would translate to cheaper glove prices. To give some perspective, during the height of the H1N1 pandemic, distributors' inventory levels range from six to seven months to cater to the extraordinary surge in demand.
- The shift in consumer preference to the higher-end nitrile and powder-free latex gloves remains apparent, as demand for powdered latex gloves remain weak. This is due to the record high latex prices causing a narrowing price gap between nitrile and latex gloves.
- According to Top Glove, over 1HFY11, the ASP for powdered latex gloves was US$38 (per 1,000 pieces) and powder-free latex gloves was US$42, compared to nitrile at US$32-33. Currently, the ASP for powdered latex gloves has declined to US$33, powder-free latex to US$37 and nitrile to US$38. The gap has narrowed, but the companies see no shifts back to powdered latex gloves currently.

New capacity expansions are focused on nitrile and surgical gloves, which command higher margins

- To meet market demand, the glove-makers have increased production of nitrile gloves. Top Glove's nitrile gloves composition has increased to 13% (3QFY11) from 7% (1QFY11). Similarly, Supermax's nitrile composition is now 33% (2Q11) versus 19% (1Q10). As for Kossan, its nitrile composition is about 45% from 40% in 2010. Management plans to increase this further, to 60% by 2012.

Chart 5 : Product composition (2011)



Source: Company data

- All three companies are guiding for capacity expansions next year, mainly focused in the higher-margin segments of nitrile and surgical gloves. However, most of the new production lines are interchangeable, ie, able to switch from nitrile to latex gloves, in the event of changes in market demand.
- Based on managements' guidance, Top Glove is expected to increase production capacity to 41.6bn pieces in 2012, Supermax to 20.4bn pieces and Kossan to 15bn pieces. These would indicate an increase of 18% from 2011 from the three biggest players, which command about 43% of global market share (based on production capacity as at 2011). We think the additional

supply exceeds the general 8-10% pa growth in demand and could exacerbate the oversupply currently faced. However, based on past trends, the manufacturers do slow expansion plans according to market conditions to mitigate these risks.

Table 8 : Capacity expansion plans

	2008	2009	2010	2011E	2012F
Top Glove	30.0	31.5	33.8	35.3	41.6
Supermax	14.5	14.5	17.6	17.8	20.4
Kossan	9.3	9.3	10.2	12.0	15.0
Total	**53.8**	**55.3**	**61.5**	**65.0**	**77.0**
Growth rate (%)		*3%*	*11%*	*6%*	*18%*

Source: Company data

- Earnings over the next two quarters are expected to be flattish, according to management. This was evident from Top Glove's recent 4QFY11 (FYE August) result released on 12 October, in which revenue and operating profit each increased 1% qoq, while net profit rose 2%. Any meaningful pickup in earnings is expected in 2012, driven by expansion in higher-margin segments. Top Glove is guiding for 10% earnings growth in FY12, while Supermax is guiding for 15-20% growth and Kossan expects 10-15% growth.

Volatility persists

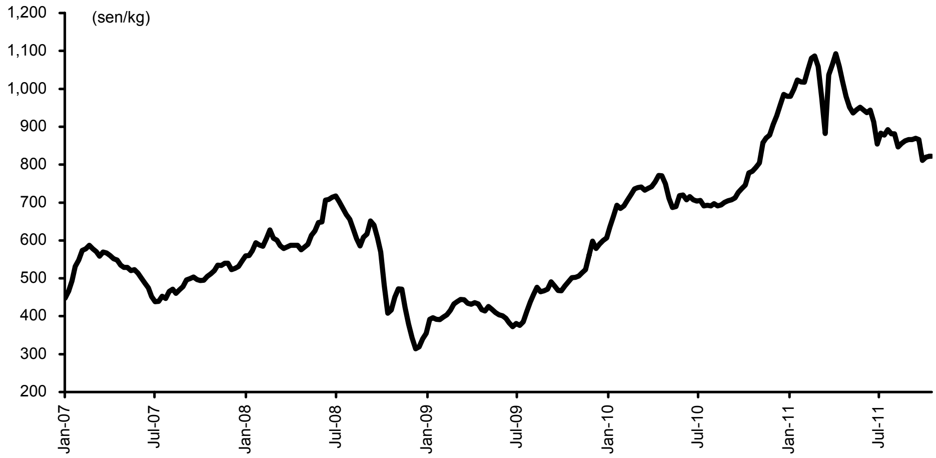
Latex prices have remained relatively high despite coming off their peak in April this year. The volatility in both latex and RM/USD movements adversely affect glove makers due to time lags in passing through costs.

Volatile macro trends

Latex prices have eased off record highs in April, but remains volatile. Any sharp and sustainable fall could be a key catalyst

The latex price is currently RM7.95/kg, which we think is still relatively high, although it has eased from the record high of RM10.93/kg in April 2011. Most of the glove makers expect latex prices to ease to RM7.00-7.50/kg within the next three to six months, which compares to the average price of RM4.50/kg in 2009 and RM7.50/kg in 2010. Latex constitutes over 60% of total operating costs and any sharp and sustainable fall could be a key catalyst, due to the time lag in passing through cost savings. However, with unfavourable weather conditions in Thailand (the largest rubber producer) and onset of the next wintering season, which occurs from February to April annually, we believe latex prices would be kept relatively high.

Chart 6 : Latex price trends



Source: Bloomberg

The RM/USD exchange rate had been on a declining trend until the recent spike and is now RM3.14/USD from a low of around RM2.95/USD. Any strengthening of the US dollar would bode well for the glove makers being exporters.

Chart 7 : RM/USD exchange rate

Source: Bloomberg

Company profiles

The following are the latest reports published on these companies:

COMPANY PROFILES

Top Glove

Still pricey

Sell

Target price
RM3.20

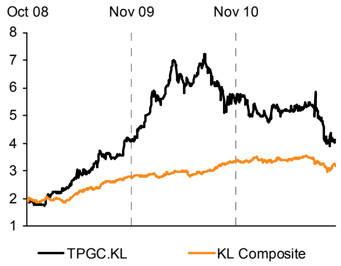
Price
RM4.03

Short term (0-60 days)
n/a

Market view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (RM)	4.15	5.34	5.49
Absolute (%)	-2.9	-24.5	-26.6
Rel market (%)	-4.2	-17.9	-23.9
Rel sector (%)	-1.4	-14.1	-16.0



Market capitalisation
RM2.49bn (US$794.39m)

Average (12M) daily turnover
RM5.38m (US$1.77m)

Sector: BBG AP Health
RIC: TPGC.KL, TOPG MK
Priced RM4.03 at close 18 Oct 2011.
Source: Bloomberg

Despite its 26% share price correction ytd, we believe its premium valuations at 18.1x FY12F PE and 2.1x P/B are unjustified. Earnings expectations on the stock remain high, in our view, given its very large exposure to powdered latex gloves, which are currently facing weak demand and are subject to volatile latex prices.

Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue (RMm)	2,079	2,054	2,203	2,356	2,540
EBITDA (RMm)	361.3	201.8	242.1	282.6	330.8
Reported net profit (RMm)	245.2	113.1	137.8	164.1	197.4
Normalised net profit (RMm)[1]	245.2	113.1	137.8	164.1	197.4
Normalised EPS	0.40	0.18	0.22	0.27	0.32
Dividend per share	0.22	0.15	0.19	0.22	0.27
Dividend yield (%)	5.51	3.79	4.61	5.49	6.60
Normalised PE (x)	10.07	22.02	18.08	15.18	12.62
EV/EBITDA (x)	6.06	11.10	9.30	7.97	6.76
Price/book value (x)	2.28	2.22	2.09	1.96	1.81
ROIC (%)	44.40	17.20	19.40	21.00	23.30

1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: IFRS
Source: Company data, KAF forecasts

year to Aug, fully diluted

Updates from management

The demand for lower-end powdered latex and vinyl gloves remains weak, while demand for powder-free latex and nitrile gloves is strong. Overall, the average utilisation rate is about 70%. Although powdered latex gloves still constitute 53% of the total product mix (as at 4QFY11), the group increased the production of nitrile gloves from 5% in FY10 to 11% in FY11. Top Glove's longer-term strategy is to have flexibility in its production lines to produce 50% natural rubber gloves and 50% nitrile gloves to cater to market demand. There is currently 10-20% overcapacity in the industry compared to demand growth of 8-10% pa. Management believes the excess capacity will be absorbed in one to three years.

Expectations are still high, in our view

We forecast 22% FY12 earnings growth to RM138m and 19% FY13F growth to RM164m. We assume an average utilisation rate of 78%, an average latex price of RM8.43/kg and an exchange rate of RM3.00/US$. We think Bloomberg consensus expectations remain high, at a 38% increase in FY12F to RM156m and a further 17% in FY13F to RM182m. According to management, FY10 margins (at extreme highs) and FY11 margins (at extreme lows) are not sustainable and guides for sustainable EBITDA margins of 14.9% (ours: 11.5%, consensus: 12.3%) and PAT margin of 9.2% (ours: 6.6%, consensus: 7.2%). Also, management expects latex to correct to RM7-7.50/kg in the next three to six months.

Valuations are expensive, in our view

Top Glove trades at 18.1x FY12F PE and 2.1x P/B, higher than its seven-year historical mean of 16.8x and higher than Supermax's and Kossan's valuations at 9x and 8.5x FY12F PE, respectively. Although it trades at premium valuations (being the world's largest producer of rubber gloves), we believe such high premiums are unjustified as it is likely the most impacted by high latex prices, with the highest exposure to powdered latex gloves (53%) compared to Supermax (34%) and Kossan (10%).

Analyst

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Income statement

RMm	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	2079	2054	2203	2356	2540
Cost of sales	-1718	-1852	-1960	-2073	-2209
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	**361.3**	**201.8**	**242.1**	**282.6**	**330.8**
DDA & Impairment (ex gw)	-59.1	-61.3	-69.3	-76.4	-82.7
EBITA	**302.3**	**140.4**	**172.9**	**206.3**	**248.1**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**302.3**	**140.4**	**172.9**	**206.3**	**248.1**
Net interest	3.65	4.05	2.71	2.50	2.68
Associates (pre-tax)	-0.95	0.92	0.93	0.94	0.94
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	-0.00	0.00	0.00	0.00
Reported PTP	**305.0**	**145.4**	**176.5**	**209.7**	**251.7**
Taxation	-54.5	-30.2	-36.7	-43.6	-52.3
Minority interests	-5.18	-2.05	-2.05	-2.05	-2.05
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	-0.00	0.00	0.00
Reported net profit	**245.2**	**113.1**	**137.8**	**164.1**	**197.4**
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	**245.2**	**113.1**	**137.8**	**164.1**	**197.4**

Source: Company data, KAF forecasts — year to Aug

Balance sheet

RMm	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	303.5	260.2	241.0	239.8	258.2
Other current assets	440.6	429.3	458.2	488.0	523.8
Tangible fixed assets	602.6	680.3	750.1	812.8	869.1
Intang assets (incl gw)	20.1	20.1	20.1	20.1	20.1
Oth non-curr assets	5.20	7.18	7.18	7.18	7.18
Total assets	**1372**	**1397**	**1477**	**1568**	**1678**
Short term debt (2)	0.54	0.23	0.23	0.23	0.23
Trade & oth current liab	217.7	203.2	210.9	218.8	228.2
Long term debt (3)	3.03	2.07	2.07	2.07	2.07
Oth non-current liab	34.4	44.4	44.4	44.4	44.4
Total liabilities	**255.6**	**249.9**	**257.6**	**265.5**	**274.9**
Total equity (incl min)	1116	1147	1219	1302	1403
Total liab & sh equity	**1372**	**1397**	**1477**	**1568**	**1678**
Net debt	-299.9	-257.9	-238.7	-237.5	-255.9

Source: Company data, KAF forecasts — year ended Aug

Cash flow statement

RMm	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	361.3	201.8	242.1	282.6	330.8
Change in working capital	-99.2	12.9	-21.3	-21.9	-26.3
Net interest (pd) / rec	-0.64	-0.24	-0.19	-0.19	-0.19
Taxes paid	-73.8	-28.1	-36.7	-43.6	-52.3
Other oper cash items	25.8	-6.15	0.93	0.94	0.94
Cash flow from ops (1)	**213.5**	**180.2**	**184.9**	**217.9**	**253.0**
Capex (2)	-88.8	-139.0	-139.0	-139.0	-139.0
Disposals/(acquisitions)	-25.0	0.00	0.00	0.00	0.00
Other investing cash flow	-3.85	-68.4	2.90	2.69	2.87
Cash flow from invest (3)	**-117.7**	**-207.4**	**-136.1**	**-136.4**	**-136.2**
Incr / (decr) in equity	31.3	1.01	0.00	0.00	0.00
Incr / (decr) in debt	-17.0	-0.56	0.00	0.00	0.00
Ordinary dividend paid	-109.1	-87.9	-68.0	-82.7	-98.5
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	81.5	0.00	0.00	0.00	0.00
Cash flow from fin (5)	**-13.2**	**-87.4**	**-68.0**	**-82.7**	**-98.5**
Forex & disc ops (6)	-5.47	0.17	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**77.1**	**-114.4**	**-19.3**	**-1.14**	**18.3**
Equity FCF (1+2+4)	124.7	41.2	45.9	78.8	113.9

Source: Company data, KAF forecasts — year to Aug

Standard ratios

Performance	Top Glove FY10A	Top Glove FY11A	Top Glove FY12F	Top Glove FY13F	Top Glove FY14F	Supermax FY11F	Supermax FY12F	Supermax FY13F	Kossan Rubber FY11F	Kossan Rubber FY12F	Kossan Rubber FY13F
Sales growth (%)	36.0	-1.23	7.24	6.95	7.81	-3.07	5.98	6.59	30.3	6.04	6.31
EBITDA growth (%)	26.2	-44.2	20.0	16.7	17.1	-30.2	4.97	10.3	-12.7	7.10	5.05
EBIT growth (%)	31.8	-53.5	23.1	19.3	20.3	-36.1	4.34	10.7	-18.9	8.54	5.88
Normalised EPS growth (%)	43.1	-54.3	21.8	19.1	20.3	-35.7	4.93	7.68	-18.8	10.4	8.59
EBITDA margin (%)	17.4	9.82	11.0	12.0	13.0	13.4	13.3	13.7	11.6	11.8	11.6
EBIT margin (%)	14.5	6.84	7.85	8.76	9.77	10.5	10.3	10.7	8.77	8.98	8.94
Net profit margin (%)	11.8	5.51	6.26	6.97	7.77	10.9	10.8	10.9	6.77	7.05	7.20
Return on avg assets (%)	19.7	8.03	9.54	10.7	12.1	10.3	9.97	9.87	11.7	11.4	11.0
Return on avg equity (%)	25.6	10.2	11.9	13.3	14.9	14.1	13.3	12.8	19.4	18.5	17.4
ROIC (%)	44.4	17.2	19.4	21.0	23.3	8.39	8.53	8.70	16.9	16.5	16.8
ROIC - WACC (%)	35.1	7.93	10.2	11.8	14.0	-0.89	-0.76	-0.59	7.63	7.22	7.55
					year to Aug			year to Dec			year to Dec
Valuation											
EV/sales (x)	1.05	1.09	1.02	0.96	0.88	1.17	1.09	1.01	0.69	0.61	0.53
EV/EBITDA (x)	6.06	11.1	9.30	7.97	6.76	8.76	8.25	7.38	5.94	5.20	4.58
EV/EBITDA @ tgt price (x)	4.64	8.53	7.18	6.16	5.21	9.16	8.63	7.72	7.15	6.33	5.66
EV/EBIT (x)	7.25	15.9	13.0	10.9	9.01	11.2	10.6	9.43	7.88	6.81	5.95
EV/invested capital (x)	2.68	2.51	2.30	2.12	1.95	1.22	1.11	1.01	1.60	1.44	1.29
Price/book value (x)	2.28	2.22	2.09	1.96	1.81	1.26	1.13	1.01	1.69	1.46	1.27
Equity FCF yield (%)	5.05	1.65	1.84	3.16	4.57	9.90	4.93	5.34	3.77	9.19	10.3
Normalised PE (x)	10.07	22.02	18.08	15.18	12.62	9.42	8.98	8.34	9.35	8.47	7.80
Norm PE @tgt price (x)	8.00	17.5	14.4	12.1	10.0	9.91	9.45	8.78	11.4	10.4	9.53
Dividend yield (%)	5.51	3.79	4.61	5.49	6.60	2.36	2.48	2.67	3.21	3.54	3.85
					year to Aug			year to Dec			year to Dec

Per share data	FY10A	FY11A	FY12F	FY13F	FY14F
Tot adj dil sh, ave (m)	612.8	618.2	618.2	618.2	618.2
Reported EPS	0.40	0.18	0.22	0.27	0.32
Normalised EPS	0.40	0.18	0.22	0.27	0.32
Dividend per share	0.22	0.15	0.19	0.22	0.27
Equity FCF per share	0.20	0.07	0.07	0.13	0.18
Book value per sh	1.77	1.82	1.93	2.06	2.22
					year to Aug

Solvency	FY10A	FY11A	FY12F	FY13F	FY14F
Net debt to equity (%)	-26.9	-22.5	-19.6	-18.2	-18.2
Net debt to tot ass (%)	-21.9	-18.5	-16.2	-15.1	-15.2
Net debt to EBITDA	-0.83	-1.28	-0.99	-0.84	-0.77
Current ratio (x)	3.41	3.39	3.31	3.32	3.42
Operating CF int cov (x)	450.6	861.6	1170	1381	1612
Dividend cover (x)	2.48	1.66	1.67	1.67	1.67
					year to Aug

Priced as follows: TPGC.KL - RM4.03; SUPM.KL - RM2.85; KRIB.KL - RM2.70
Source: Company data, KAF forecasts

Valuation methodology

Our RM3.20 target price for Top Glove is based on the Gordon growth formula. We use a medium-term ROE of 14.9%, a COE of 10.75% and a long-term growth rate of 4.5%. The implied P/B at fair value is 1.7x on our 2012 forecasts and the implied PE is 14.4x, both of which are reasonable, in our opinion, given volatile latex prices and exchange rate weighing on earnings.

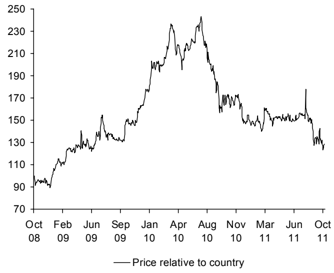
Source: KAF estimates

Company description

Sell

Top Glove is the world's largest rubber glove manufacturer. Its key products are latex powdered gloves (52%) and latex powder-free gloves (30%). Other products include vinyl, nitrile and surgical gloves. It currently has 22% of the global market share. Its key export markets are Europe and North America, followed by Latin America, Asia and the Middle East.

Price relative to country



Strategic analysis

Average SWOT company score: 4

Strengths — 5

Its focus on low-end latex powdered gloves enable it to grow its market share in developing countries, which are key growth areas due to increasing hygiene awareness.

Weaknesses — 3

In the event that there is oversupply of gloves, Top Glove will be most affected, as it typically keeps spare capacity to capture new markets.

Opportunities — 4

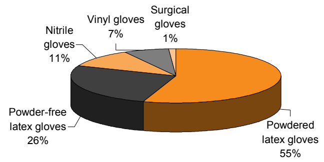
Top Glove has two latex concentrate plants and is looking to venture further upstream through a greenfield rubber plantation project. This would help to minimise production costs.

Threats — 3

Although Top Glove is able to pass through higher costs because glove demand is inelastic, sudden surges in latex prices and the weakening of the US dollar result in inefficient cost pass-through and affects margins.

Scoring range is 1-5 (high score is good)

Product mix (FY11)



Source: Company data

Market data

Headquarters
Lot 4969 Jalan Teratai, Batu 6 Off Jalan Meru, 41050 Klang, Selangor, Malaysia

Website
www.topglove.com.my

Shares in issue
618.2m

Freefloat
66%

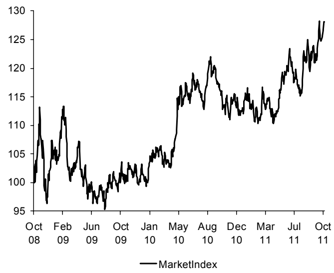
Majority shareholders
Tan Sri Dato Sri W.C. Lim (29%), Top Glove Holding Sdn Bhd (5%)

Country view: Malaysia

Malaysia outperformed the region in the 3Q as its performance was held up by strong resilience in the telecom and energy sectors. In the current volatile global macro-economic environment, we are particularly positive on Malaysia, given the low ownership of the market and its undemanding valuations. More crucially, this is not just a short-term defensive trade. Rather, the economy has commenced on the first proper investment cycle in 15 years, which we believe should support growth (relatively, at least) and provide some dynamics impetus to the stock market for many quarters ahead.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific



Competitive position

Average competitive score: 3-

Supplier power — 4-

Latex prices are driven by market forces and affected by weather conditions.

Barriers to entry — 3+

Medium barriers to entry. However, technological know-how is required in order to compete with the big players in the industry.

Customer power — 2+

As gloves demand is inelastic in the medical segment and represents a minimal portion of healthcare expenditure, customers have less bargaining power.

Substitute products — 1-

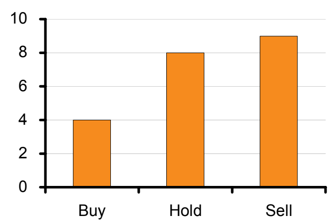
No substitute for gloves.

Rivalry — 3-

There is rivalry among key players in capturing market share.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Equity | Malaysia | Health Care Equip & Serv

24 October 2011

Produced by: KAF-Seagroatt & Campbell Securities Sdn Bhd

Supermax

Reasonably priced

Given the 36% share price decline ytd, the stock now trades at 9x FY12F PE and 1.1x PB on our conservative forecasts. Bloomberg consensus expectations also appear more reasonable following the slew of earnings downgrades ytd. We believe that most negatives have been priced in. We upgrade to Hold (from Sell).

Change of recommendation

Hold (from Sell)

Target price
RM3.00

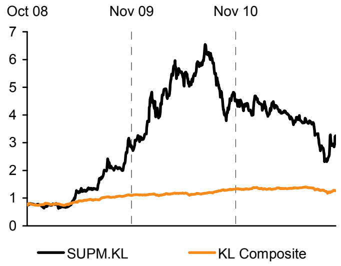
Price
RM2.85

Short term (0-60 days)
n/a

Market view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (RM)	2.36	3.69	4.51
Absolute (%)	20.8	-22.8	-36.8
Rel market (%)	19.1	-15.9	-34.5
Rel sector (%)	22.6	-12.1	-27.7



Market capitalisation
RM967.47m (US$308.50m)

Average (12M) daily turnover
RM3.96m (US$1.30m)

Sector: BBG AP Health
RIC: SUPM.KL, SUCB MK
Priced RM2.85 at close 18 Oct 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (RMm)	803.6	977.3	947.3	1,004	1,070
EBITDA (RMm)	169.0	181.5	126.7	133.0	146.7
Reported net profit (RMm)	126.6	159.0	102.9	108.0	116.3
Normalised net profit (RMm)[1]	132.0	159.0	102.9	108.0	116.3
Normalised EPS	0.40	0.47	0.30	0.32	0.34
Dividend per share	0.12	0.10	0.07	0.07	0.08
Dividend yield (%)	4.29	3.65	2.36	2.48	2.67
Normalised PE (x)	7.20	6.05	9.42	8.98	8.34
EV/EBITDA (x)	6.73	6.41	8.76	8.25	7.38
Price/book value (x)	1.71	1.40	1.26	1.13	1.01
ROIC (%)	13.20	16.00	8.39	8.53	8.70

1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: IFRS
Source: Company data, KAF forecasts

year to Dec, fully diluted

Updates from management

To meet the higher demand for nitrile gloves, Supermax has increased its nitrile gloves production from 20% (1Q10) to 34% (2Q11). According to management, its flexible production lines could be interchangeable between natural rubber and nitrile gloves to meet changes in market demand. Supermax's strategy moving forward remains its focus on own brand manufacturing (OBM), whereby sales mix has gone up to 68% (from 64%), and its focus on distribution operations in Germany, USA, Brazil and Canada. It is also adding capacity for surgical gloves, which should command higher margins, expected to be commissioned by 4Q11. Management expects latex price to fall to RM7-7.50/kg levels.

Expectations are now more reasonable

We forecast a conservative 5% sales growth in FY12 to RM108m followed by 8% growth in FY13 to RM116m. We assume an average sales volume growth of 9% over the two years, with average price of latex at RM8.51/kg and an exchange rate of RM2.90/US$. Management is guiding for 15-20% earnings growth in FY12F driven by higher sales, especially in higher-margin segments of nitrile and surgical gloves. The group also targets to capture more market share through its OBM strategy, especially for the surgical and dental markets. Bloomberg consensus is projecting a 20% growth to RM136m in FY12 and a further 10% growth to RM150m in FY13. Given its 37% FY12F earnings downgrade ytd, we think that consensus expectations are now more reasonable.

We upgrade to Hold

The stock has declined 36% ytd and trades at 9x FY12F PE and 1.1x PB on our conservative forecasts, which is close to its seven-year historical mean of 8.9x. Based on our analysis (detailed in the sector section), the market is implying an ROE of 12.4% vs 12.8% used in our target price derivation and historical average of 20% (2004-08). Hence, we believe most negatives have been priced in, and upgrade to Hold (from Sell).

Analyst

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Important disclosures can be found in the Disclosures Appendix.

Income statement

RMm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	803.6	977.3	947.3	1004	1070
Cost of sales	-634.6	-795.8	-820.6	-871.0	-923.4
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	**169.0**	**181.5**	**126.7**	**133.0**	**146.7**
DDA & Impairment (ex gw)	-31.9	-26.0	-27.3	-29.3	-32.0
EBITA	**137.1**	**155.5**	**99.4**	**103.7**	**114.8**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**137.1**	**155.5**	**99.4**	**103.7**	**114.8**
Net interest	-22.0	-13.6	-15.1	-15.2	-16.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	-5.37	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**109.7**	**141.9**	**84.3**	**88.5**	**98.3**
Taxation	-24.9	-24.9	-11.4	-12.0	-15.1
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	41.8	42.0	30.0	31.5	33.1
Reported net profit	**126.6**	**159.0**	**102.9**	**108.0**	**116.3**
Normalised Items Excl. GW	-5.37	0.00	0.00	0.00	0.00
Normalised net profit	**132.0**	**159.0**	**102.9**	**108.0**	**116.3**

Source: Company data, KAF forecasts — year to Dec

Balance sheet

RMm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	118.7	97.4	150.8	164.1	178.8
Other current assets	262.5	347.7	317.0	335.3	356.2
Tangible fixed assets	373.4	393.1	421.7	459.5	501.4
Intang assets (incl gw)	28.7	28.7	28.7	28.7	28.7
Oth non-curr assets	162.0	198.5	228.5	260.0	293.1
Total assets	**945.2**	**1065**	**1147**	**1248**	**1358**
Short term debt (2)	124.8	153.8	153.8	153.8	153.8
Trade & oth current liab	88.9	65.9	64.1	67.6	71.7
Long term debt (3)	164.8	140.0	140.0	140.0	140.0
Oth non-current liab	7.95	14.2	19.9	25.9	33.4
Total liabilities	**386.4**	**373.8**	**377.7**	**387.2**	**398.8**
Total equity (incl min)	558.8	691.5	768.9	860.4	959.3
Total liab & sh equity	**945.2**	**1065**	**1147**	**1248**	**1358**
Net debt	170.9	196.4	143.0	129.6	114.9

Source: Company data, KAF forecasts — year ended Dec

Cash flow statement

RMm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	169.0	181.5	126.7	133.0	146.7
Change in working capital	75.0	-94.9	28.9	-14.8	-16.8
Net interest (pd) / rec	0.21	0.33	2.03	2.71	3.24
Taxes paid	-13.1	-24.5	-5.72	-6.00	-7.55
Other oper cash items	-5.24	-0.14	0.00	0.00	0.00
Cash flow from ops (1)	**225.9**	**62.3**	**151.9**	**115.0**	**125.6**
Capex (2)	-17.2	-46.6	-56.0	-67.1	-73.9
Disposals/(acquisitions)	0.00	0.56	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	**-17.2**	**-46.1**	**-56.0**	**-67.1**	**-73.9**
Incr / (decr) in equity	27.0	5.73	0.00	0.00	0.00
Incr / (decr) in debt	-102.3	2.72	0.00	0.00	0.00
Ordinary dividend paid	-15.0	-31.6	-25.5	-16.5	-17.3
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-21.1	-13.9	-17.1	-17.9	-19.7
Cash flow from fin (5)	**-111.5**	**-37.0**	**-42.6**	**-34.4**	**-37.0**
Forex & disc ops (6)	0.25	0.16	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**97.4**	**-20.6**	**53.4**	**13.4**	**14.7**
Equity FCF (1+2+4)	208.6	15.7	96.0	47.8	51.7

Source: Company data, KAF forecasts — year to Dec

Standard ratios

	Supermax					Kossan Rubber			Top Glove		
Performance	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**	**FY12F**	**FY13F**	**FY14F**
Sales growth (%)	-1.01	21.6	-3.07	5.98	6.59	30.3	6.04	6.31	7.24	6.95	7.81
EBITDA growth (%)	70.6	7.38	-30.2	4.97	10.3	-12.7	7.10	5.05	20.0	16.7	17.1
EBIT growth (%)	95.6	13.4	-36.1	4.34	10.7	-18.9	8.54	5.88	23.1	19.3	20.3
Normalised EPS growth (%)	106.0	18.9	-35.7	4.93	7.68	-18.8	10.4	8.59	21.8	19.1	20.3
EBITDA margin (%)	21.0	18.6	13.4	13.3	13.7	11.6	11.8	11.6	11.0	12.0	13.0
EBIT margin (%)	17.1	15.9	10.5	10.3	10.7	8.77	8.98	8.94	7.85	8.76	9.77
Net profit margin (%)	16.4	16.3	10.9	10.8	10.9	6.77	7.05	7.20	6.26	6.97	7.77
Return on avg assets (%)	15.7	16.8	10.3	9.97	9.87	11.7	11.4	11.0	9.54	10.7	12.1
Return on avg equity (%)	27.1	25.4	14.1	13.3	12.8	19.4	18.5	17.4	11.9	13.3	14.9
ROIC (%)	13.2	16.0	8.39	8.53	8.70	16.9	16.5	16.8	19.4	21.0	23.3
ROIC - WACC (%)	3.96	6.69	-0.89	-0.76	-0.59	7.63	7.22	7.55	10.2	11.8	14.0
					year to Dec			year to Dec			year to Aug
Valuation											
EV/sales (x)	1.42	1.19	1.17	1.09	1.01	0.69	0.61	0.53	1.02	0.96	0.88
EV/EBITDA (x)	6.73	6.41	8.76	8.25	7.38	5.94	5.20	4.58	9.30	7.97	6.76
EV/EBITDA @ tgt price (x)	7.04	6.69	9.16	8.63	7.72	7.15	6.33	5.66	7.18	6.16	5.21
EV/EBIT (x)	8.30	7.49	11.2	10.6	9.43	7.88	6.81	5.95	13.0	10.9	9.01
EV/invested capital (x)	1.56	1.31	1.22	1.11	1.01	1.60	1.44	1.29	2.30	2.12	1.95
Price/book value (x)	1.71	1.40	1.26	1.13	1.01	1.69	1.46	1.27	2.09	1.96	1.81
Equity FCF yield (%)	22.0	1.63	9.90	4.93	5.34	3.77	9.19	10.3	1.84	3.16	4.57
Normalised PE (x)	7.20	6.05	9.42	8.98	8.34	9.35	8.47	7.80	18.08	15.18	12.62
Norm PE @tgt price (x)	7.58	6.37	9.91	9.45	8.78	11.4	10.4	9.53	14.4	12.1	10.0
Dividend yield (%)	4.29	3.65	2.36	2.48	2.67	3.21	3.54	3.85	4.61	5.49	6.60
					year to Dec			year to Dec			year to Aug

Per share data	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tot adj dil sh, ave (m)	333.5	337.7	340.1	340.1	340.1
Reported EPS	0.38	0.47	0.30	0.32	0.34
Normalised EPS	0.40	0.47	0.30	0.32	0.34
Dividend per share	0.12	0.10	0.07	0.07	0.08
Equity FCF per share	0.63	0.05	0.28	0.14	0.15
Book value per sh	1.67	2.03	2.26	2.53	2.82
					year to Dec

Solvency	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Net debt to equity (%)	30.6	28.4	18.6	15.1	12.0
Net debt to tot ass (%)	18.1	18.4	12.5	10.4	8.46
Net debt to EBITDA	1.01	1.08	1.13	0.97	0.78
Current ratio (x)	1.78	2.03	2.15	2.26	2.37
Operating CF int cov (x)	-1132	-259.6	-76.6	-43.7	-40.0
Dividend cover (x)	4.47	6.24	6.24	6.24	6.24
					year to Dec

Priced as follows: SUPM.KL - RM2.85; KRIB.KL - RM2.70; TPGC.KL - RM4.03
Source: Company data, KAF forecasts

Valuation methodology

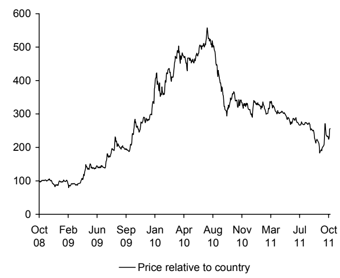
Our RM3.00 target price for Supermax is based on the Gordon growth formula. We use a medium-term ROE of 12.8%, a COE of 10.75% and a long-term growth rate of 4.5%. The implied PB at fair value is 1.2x on our 2012 forecasts and the implied PE is 9.4x, both of which are reasonable, in our opinion, given volatile latex prices and exchange rate weighing on earnings.

Source: KAF estimates

Company description — Hold

Supermax Corporation, through its subsidiaries, manufactures and distributes rubber gloves, mainly for the medical and dental markets. 60% of its sales are OBM (own brand manufacturing) and 40% are OEM (original equipment manufacturing). Its key markets are North America and Europe.

Price relative to country



Strategic analysis — Average SWOT company score: 4

Strengths — 4

Differentiates itself through OBM manufacturing and a network of distribution centres. This enables it to command higher margins.

Weaknesses — 3

In the event of oversupply of gloves, its aggressive expansion strategy may result in pricing pressure.

Opportunities — 3

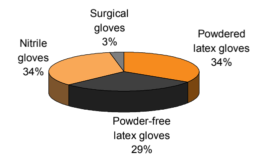
The group intends to extend its network of distribution centres, which will strengthen its brand names.

Threats — 4

Margin pressure from weakening US dollar and high latex prices.

Scoring range is 1-5 (high score is good)

Product mix (2Q11)



Source: Company data

Market data

Headquarters
Lot 38, Putra Industrial Park, Bukit Rahman Putra, 47000 Sungai Buloh, Selangor Darul Ehsan, Malaysia.

Website
www.supergloves.com

Shares in issue
339.5m

Freefloat
47%

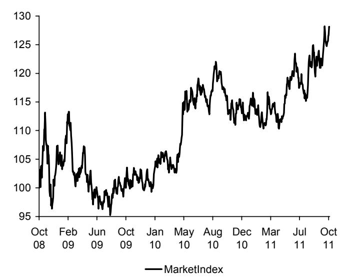
Majority shareholders
Datuk Seri Stanley Thai (20%), Datin Seri Cheryl Tan (15%)

Country view: Malaysia

Malaysia outperformed the region in the 3Q as its performance was held up by strong resilience in the telecom and energy sectors. In the current volatile global macro-economic environment, we are particularly positive on Malaysia, given the low ownership of the market and its undemanding valuations. More crucially, this is not just a short-term defensive trade. Rather, the economy has commenced on the first proper investment cycle in 15 years, which we believe should support growth (relatively, at least) and provide some dynamics impetus to the stock market for many quarters ahead.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific



Competitive position — Average competitive score: 3-

Supplier power — 4-

Latex prices are driven by market forces and impacted by weather conditions.

Barriers to entry — 3+

Medium barriers to entry. However, technological know-how is required in order to compete with the big players in the industry.

Customer power — 2+

Gloves demand is inelastic in the medical segment. It also represents a minimal portion of healthcare expenditure. Hence, customers have less bargaining power.

Substitute products — 1-

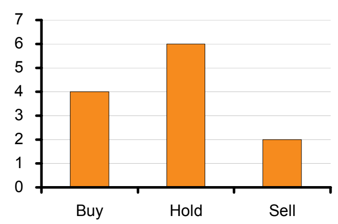
No substitute for rubber gloves.

Rivalry — 3-

Rivalry among key players to capture market share.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations



Source: Bloomberg

24 October 2011

Produced by: KAF-Seagroatt & Campbell Securities Sdn Bhd

Kossan Rubber

Value emerging

We believe market expectations for Kossan are relatively low; trading at 8.5x FY12F PE, below its historical mean of 8.9x. It is heavily exposed to in-demand nitrile and powder-free latex gloves, while its low equity base offers a sector-leading ROE, putting it in a better position relative to peers. Upgrade to Buy.

Change of recommendation

Buy (from Hold)

Target price
RM3.30 (from RM2.80)

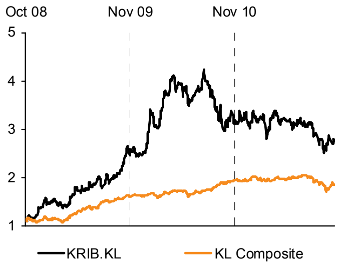
Price
RM2.70

Short term (0-60 days)
n/a

Market view
Overweight

Price performance

	(1M)	(3M)	(12M)
Price (RM)	2.57	3.05	3.18
Absolute (%)	5.1	-11.5	-15.1
Rel market (%)	3.6	-3.7	-12.0
Rel sector (%)	6.7	0.7	-2.9



Market capitalisation
RM863.28m (US$275.28m)

Average (12M) daily turnover
RM1.01m (US$0.33m)

Sector: BBG AP Health
RIC: KRIB.KL, KRI MK
Priced RM2.70 at close 18 Oct 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (RMm)	842.0	1,047	1,363	1,446	1,537
EBITDA (RMm)	181.5	181.7	158.6	169.9 ▲	178.5 ▲
Reported net profit (RMm)	66.70	113.7	92.30	101.9 ▲	110.7 ▲
Normalised net profit (RMm)[1]	119.7	113.7	92.30	101.9	110.7
Normalised EPS	0.37	0.36	0.29	0.32	0.35
Dividend per share	0.06	0.11	0.09	0.10	0.10
Dividend yield (%)	2.22	3.95	3.21	3.54	3.85
Normalised PE (x)	7.21	7.59	9.35	8.47	7.80
EV/EBITDA (x)	5.77	5.23	5.94	5.20	4.58
Price/book value (x)	2.42	1.95	1.69	1.46	1.27
ROIC (%)	22.60	20.40	16.90	16.50	16.80

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
year to Dec, fully diluted
1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: IFRS
Source: Company data, KAF forecasts

Updates from management

Kossan's strategy to focus on premium products has served the group well, given stronger demand for powder-free latex and nitrile gloves, relative to powdered latex gloves. Currently, nitrile and powder-free latex gloves each account for 45% of total product mix, with the remaining 10% powdered latex. Management aims to further increase this to 60% nitrile and 40% powder-free latex gloves by 2012, and outsource powdered latex glove production due to its low margins. Utilisation rates were about 85-90% in 3Q11 compared with 80% in 1H11.

Moving further up the value chain

We have raised our earnings forecasts by 7% for FY12 to RM102m and 15% for FY13 to RM111m, driven by higher sales volumes averaging 11% versus 4% previously. Our average latex price assumption is RM8.37/kg and exchange rate is RM2.90/US$1. Management is guiding for 10-15% earnings growth yoy in FY12, driven by increased sales of higher-margin nitrile and surgical gloves and contributions from its 51% stake in Cleanera HK Ltd, which produces cleanroom gloves. Bloomberg consensus expects 15% earnings growth in FY12 and a further 7% in FY13, which now seems more reasonable, in our view.

We upgrade the stock to Buy, with a revised target price of RM3.30 (from RM2.80)

The stock has declined 19% ytd vs a 27% decline in the sector's performance, and trades at 8.5x FY12F PE and 1.5x P/B on our revised forecasts, which is below its seven-year historical mean of 8.9x. Based on our analysis (detailed in our sector note), the market is implying an ROE of 15.1% versus the 17.4% used in our target price calculation and the historical average of 21% (2004-2008). Hence, we believe market expectations are low, giving room for upside surprises. Given the weighting of its product mix to higher-margin nitrile and powder-free gloves, Kossan's margins are more resilient and its lower equity base enables it to achieve higher ROEs relative to peers.

Analyst

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Income statement

RMm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	842.0	1047	1363	1446	1537
Cost of sales	-660.5	-864.9	-1205	-1276	-1359
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	**181.5**	**181.7**	**158.6**	**169.9**	**178.5**
DDA & Impairment (ex gw)	-33.7	-34.2	-39.0	-40.1	-41.0
EBITA	**147.9**	**147.5**	**119.6**	**129.8**	**137.5**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**147.9**	**147.5**	**119.6**	**129.8**	**137.5**
Net interest	-9.06	-6.87	-6.04	-4.38	-1.25
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	-53.0	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	-0.00	0.00	0.00	-0.00
Reported PTP	**85.8**	**140.6**	**113.6**	**125.4**	**136.2**
Taxation	-18.5	-26.9	-21.3	-23.5	-25.5
Minority interests	-0.65	0.00	0.00	0.00	0.00
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**66.7**	**113.7**	**92.3**	**101.9**	**110.7**
Normalised Items Excl. GW	-53.0	0.00	0.00	0.00	0.00
Normalised net profit	**119.7**	**113.7**	**92.3**	**101.9**	**110.7**

Source: Company data, KAF forecasts — year to Dec

Balance sheet

RMm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	23.5	91.5	98.5	157.1	222.8
Other current assets	304.4	275.2	358.2	379.8	403.7
Tangible fixed assets	359.3	409.5	420.5	430.4	438.4
Intang assets (incl gw)	0.86	0.86	0.86	0.86	0.86
Oth non-curr assets	0.55	0.25	0.25	0.25	0.25
Total assets	**688.5**	**777.3**	**878.3**	**968.4**	**1066**
Short term debt (2)	159.4	150.1	150.1	150.1	150.1
Trade & oth current liab	101.5	122.7	156.9	165.8	175.7
Long term debt (3)	47.4	27.7	27.7	27.7	27.7
Oth non-current liab	21.3	32.3	32.3	32.3	32.3
Total liabilities	**329.5**	**332.7**	**367.0**	**375.9**	**385.7**
Total equity (incl min)	359.0	444.6	511.3	592.5	680.3
Total liab & sh equity	**688.5**	**777.3**	**878.3**	**968.4**	**1066**
Net debt	183.3	86.2	79.3	20.7	-45.0

Source: Company data, KAF forecasts — year ended Dec

Cash flow statement

RMm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	181.5	181.7	158.6	169.9	178.5
Change in working capital	-51.1	-18.2	-48.7	-12.7	-14.0
Net interest (pd) / rec	-9.06	-6.87	-6.04	-4.38	-1.25
Taxes paid	-3.98	-6.42	-21.3	-23.5	-25.5
Other oper cash items	n/a	n/a	n/a	n/a	n/a
Cash flow from ops (1)	**117.4**	**150.2**	**82.6**	**129.3**	**137.7**
Capex (2)	-40.6	-85.2	-50.0	-50.0	-49.0
Disposals/(acquisitions)	0.37	0.23	0.00	0.00	0.00
Other investing cash flow	4.00	45.5	0.00	0.00	0.00
Cash flow from invest (3)	**-36.2**	**-39.4**	**-50.0**	**-50.0**	**-49.0**
Incr / (decr) in equity	n/a	n/a	n/a	n/a	n/a
Incr / (decr) in debt	-8.81	-11.4	0.00	0.00	0.00
Ordinary dividend paid	-8.19	-14.4	-25.6	-20.8	-22.9
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-22.8	-23.8	0.00	0.00	0.00
Cash flow from fin (5)	**-39.8**	**-49.6**	**-25.6**	**-20.8**	**-22.9**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**41.4**	**61.3**	**6.99**	**58.6**	**65.7**
Equity FCF (1+2+4)	76.8	65.1	32.6	79.3	88.7

Source: Company data, KAF forecasts — year to Dec

Standard ratios

Performance	Kossan Rubber FY09A	FY10A	FY11F	FY12F	FY13F	Supermax FY11F	FY12F	FY13F	Top Glove FY12F	FY13F	FY14F
Sales growth (%)	-6.15	24.3	30.3	6.04	6.31	-3.07	5.98	6.59	7.24	6.95	7.81
EBITDA growth (%)	68.3	0.11	-12.7	7.10	5.05	-30.2	4.97	10.3	20.0	16.7	17.1
EBIT growth (%)	79.8	-0.25	-18.9	8.54	5.88	-36.1	4.34	10.7	23.1	19.3	20.3
Normalised EPS growth (%)	104.1	-4.95	-18.8	10.4	8.59	-35.7	4.93	7.68	21.8	19.1	20.3
EBITDA margin (%)	21.6	17.4	11.6	11.8	11.6	13.4	13.3	13.7	11.0	12.0	13.0
EBIT margin (%)	17.6	14.1	8.77	8.98	8.94	10.5	10.3	10.7	7.85	8.76	9.77
Net profit margin (%)	14.2	10.9	6.77	7.05	7.20	10.9	10.8	10.9	6.26	6.97	7.77
Return on avg assets (%)	18.9	16.2	11.7	11.4	11.0	10.3	9.97	9.87	9.54	10.7	12.1
Return on avg equity (%)	36.5	28.4	19.4	18.5	17.4	14.1	13.3	12.8	11.9	13.3	14.9
ROIC (%)	22.6	20.4	16.9	16.5	16.8	8.39	8.53	8.70	19.4	21.0	23.3
ROIC - WACC (%)	13.4	11.1	7.63	7.22	7.55	-0.89	-0.76	-0.59	10.2	11.8	14.0
					year to Dec			year to Dec			year to Aug
Valuation											
EV/sales (x)	1.24	0.91	0.69	0.61	0.53	1.17	1.09	1.01	1.02	0.96	0.88
EV/EBITDA (x)	5.77	5.23	5.94	5.20	4.58	8.76	8.25	7.38	9.30	7.97	6.76
EV/EBITDA @ tgt price (x)	6.82	6.28	7.15	6.33	5.66	9.16	8.63	7.72	7.18	6.16	5.21
EV/EBIT (x)	7.08	6.44	7.88	6.81	5.95	11.2	10.6	9.43	13.0	10.9	9.01
EV/invested capital (x)	1.93	1.79	1.60	1.44	1.29	1.22	1.11	1.01	2.30	2.12	1.95
Price/book value (x)	2.42	1.95	1.69	1.46	1.27	1.26	1.13	1.01	2.09	1.96	1.81
Equity FCF yield (%)	8.90	7.54	3.77	9.19	10.3	9.90	4.93	5.34	1.84	3.16	4.57
Normalised PE (x)	7.21	7.59	9.35	8.47	7.80	9.42	8.98	8.34	18.08	15.18	12.62
Norm PE @tgt price (x)	8.82	9.28	11.4	10.4	9.53	9.91	9.45	8.78	14.4	12.1	10.0
Dividend yield (%)	2.22	3.95	3.21	3.54	3.85	2.36	2.48	2.67	4.61	5.49	6.60
					year to Dec			year to Dec			year to Aug

Per share data	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	319.7	319.7	319.7	319.7	319.7
Reported EPS	0.21	0.36	0.29	0.32	0.35
Normalised EPS	0.37	0.36	0.29	0.32	0.35
Dividend per share	0.06	0.11	0.09	0.10	0.10
Equity FCF per share	0.24	0.20	0.10	0.25	0.28
Book value per sh	1.12	1.38	1.59	1.85	2.12
					year to Dec

Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Net debt to equity (%)	51.1	19.4	15.5	3.49	-6.62
Net debt to tot ass (%)	26.6	11.1	9.02	2.14	-4.23
Net debt to EBITDA	1.01	0.47	0.50	0.12	-0.25
Current ratio (x)	1.26	1.34	1.49	1.70	1.92
Operating CF int cov (x)	14.4	23.8	18.2	35.9	131.8
Dividend cover (x)	8.32	4.45	4.45	4.45	4.45
					year to Dec

Priced as follows: KRIB.KL - RM2.70; SUPM.KL - RM2.85; TPGC.KL - RM4.03
Source: Company data, KAF forecasts

Valuation methodology

Our target price for Kossan is based on the Gordon growth formula. We use a medium-term ROE of 17.4%, a COE of 10.75% and a long-term growth rate of 4.5%. The implied P/B at fair value is 1.8x on our 2012 forecasts and the implied PE is 10.4x, both of which are reasonable, in our opinion, given volatile latex prices and exchange rate weighing on earnings.

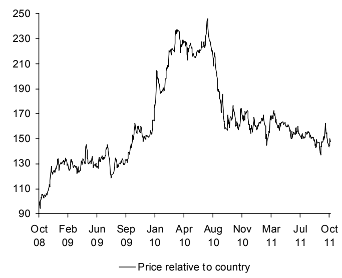
Source: KAF forecasts

Company description

Buy

Kossan Rubber Industries manufactures rubber gloves, mainly for the medical industry. Its focus is on the higher-end powder-free latex and nitrile gloves. Its key export markets are the US, Canada and Europe. It also manufactures technical rubber products.

Price relative to country



Strategic analysis

Average SWOT company score: 4

Strengths 4

Focus on higher-end products (powder-free and nitrile gloves) which command higher margins.

Weaknesses 3

Typically runs near full capacity. Hence, unable to capitalise on any uptick in demand when there are outbreaks of diseases.

Opportunities 4

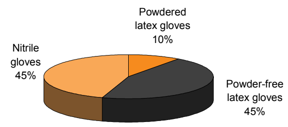
Innovative in coming up with new products, targeting the higher-end segment.

Threats 3

Less ability to pass through higher costs when there is a surge in latex prices and weakening of the US dollar.

Scoring range is 1-5 (high score is good)

Product mix (FY11F)



Source: RBS forecasts

Market data

Headquarters
Lot 782 Jalan Sungai Putus, Off Batu 3 3/4 Jalan Kapar, 42100 Klang Selangor, Malaysia

Website
www.kossan.com.my

Shares in issue
319.7m

Freefloat
42%

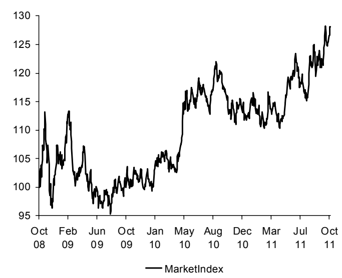
Majority shareholders
Kossan Holdings (M) Sdn Bhd (52%), Kumpulan Wang Persaraan (7%)

Country view: Malaysia

Malaysia outperformed the region in the 3Q as its performance was held up by strong resilience in the telecom and energy sectors. In the current volatile global macro-economic environment, we are particularly positive on Malaysia, given the low ownership of the market and its undemanding valuations. More crucially, this is not just a short-term defensive trade. Rather, the economy has commenced on the first proper investment cycle in 15 years, which we believe should support growth (relatively, at least) and provide some dynamics impetus to the stock market for many quarters ahead.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific



Competitive position

Average competitive score: 3-

Supplier power 4-

Latex prices are driven by market forces and affected by weather conditions.

Barriers to entry 3+

Medium barrier to entry. However, technological know-how is required to compete with the big players in the industry.

Customer power 2+

Glove demand is inelastic in the medical segment and represents a minimal portion of healthcare expenses. Customers have less bargaining power.

Substitute products 2-

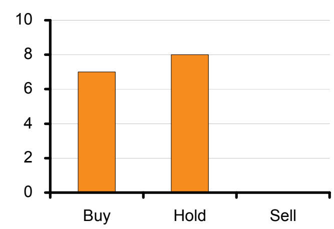
No substitutes for gloves. However, there is some substitution from rubber gloves to nitrile gloves when the price gap between both products narrows.

Rivalry 3-

Rivalry among key players to capture market share.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomber

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

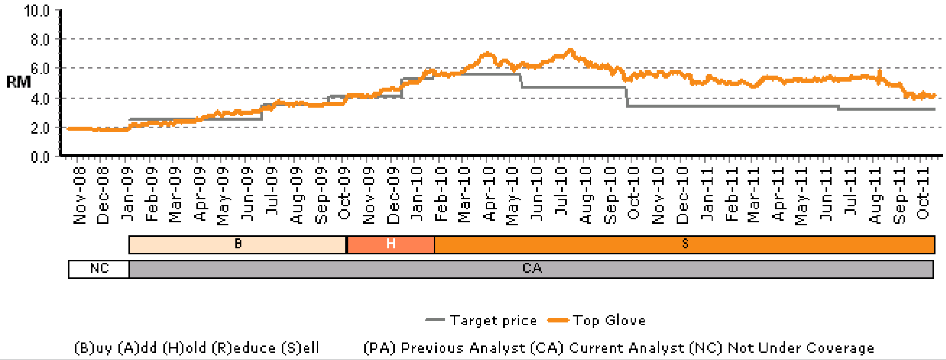
Top Glove (RIC: TPGC.KL, Rec: Sell, CP: RM4.03, TP: RM3.20): We value the company using the Gordon growth model. Risks to our target price include: 1) the ability to pass through higher costs than projected; 2) the latex price falling sharply; and 3) strengthening of the US dollar.

Supermax (RIC: SUPM.KL, Rec: Hold, CP: RM2.85, TP: RM3.00): We value the company using the Gordon growth model. Upside risks to target price include: 1) higher pricing power than expected; 2) sustainable fall in latex prices; 3) strengthening of the US dollar. Downside risks include: 1) oversupply situation causing limited pricing power, 2) unsustainable latex price declines and 3) further weakening of the US dollar.

Kossan Rubber (RIC: KRIB.KL, Rec: Buy, CP: RM2.70, TP: RM3.30): We value the company using a Gordon growth model. Key upside risks to our target price include: 1) the ability to pass through higher costs than projected, 2) latex prices falling sharply, and 3) strengthening of the US dollar. The downside risks include latex prices remaining high and the US dollar weakening more than expected.

Top Glove coverage data

Stock performance, recommendations and coverage (as at 20 Oct 2011)



Diana Teo started covering this stock on 6 Jan 09. The recommendation structure changed from October 2010. Historic coverage data prior to the change shows Buy and Outperform ratings as Buys and Sell and Underperform ratings as Sells. Source: KAF

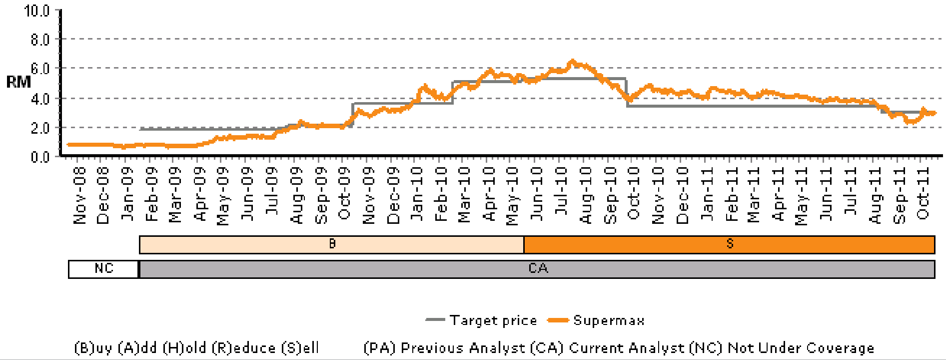
Trading recommendation history (as at 20 Oct 2011)

Date	Rec	Analyst
	n/a	

Source: KAF

Supermax coverage data

Stock performance, recommendations and coverage (as at 20 Oct 2011)



Diana Teo started covering this stock on 19 Jan 09. The recommendation structure changed from October 2010. Historic coverage data prior to the change shows Buy and Outperform ratings as Buys and Sell and Underperform ratings as Sells. Source: KAF

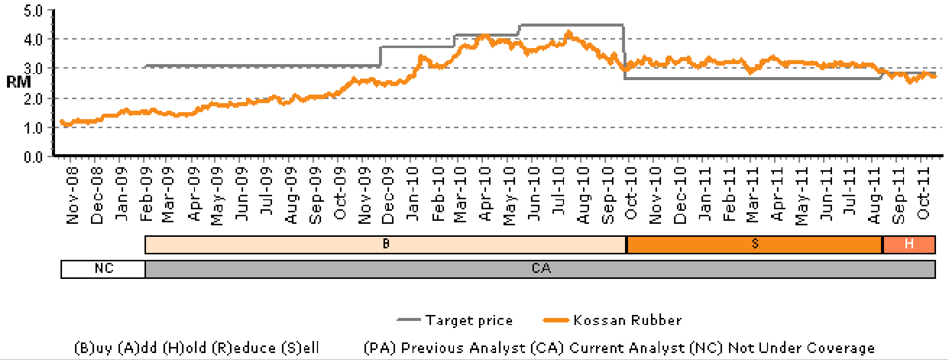
Trading recommendation history (as at 20 Oct 2011)

Date	Rec	Analyst
	n/a	

Source: KAF

Kossan Rubber coverage data

Stock performance, recommendations and coverage (as at 20 Oct 2011)



Diana Teo started covering this stock on 3 Feb 09. The recommendation structure changed from October 2010. Historic coverage data prior to the change shows Buy and Outperform ratings as Buys and Sell and Underperform ratings as Sells. Source: KAF

Trading recommendation history (as at 20 Oct 2011)

Date	Rec	Analyst
	n/a	

Source: KAF

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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)