

3 December 2012

Analyst
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Stocks under coverage

Company	Bloomberg Ticker	Call	TP (RM)
Top Glove	TOPG MK	Neutral	5.62
Hartalega	HART MK	T. Buy	5.26
Supermax	SUCB MK	T. Buy	2.29
Kossan	KRI MK	T. Buy	4.09

Glove

Sector Update

Overweight↑

Put your glove on for protection

The glove sector delivered better than expected results in 3Q12, due to easing latex costs as well as the pick-up in demand. This was further boosted by slower capacity expansion in 2H12. Fundamentals are improving going into 2013, as we foresee, (1) soft latex price due to weak global demand, (2) limited downside of USD against Ringgit due to potential capital flight ahead of the 13GE, and (3) moderate capacity expansion. We also anticipate the glove sector to emerge as a good flight to safety play ahead of the 13GE given resilient demand for glove. As such, we upgrade our sector recommendation from neutral to **OVERWEIGHT**, with Kossan (Trading Buy, TP: RM4.09) being our top pick.

3Q12 results beat expectation, multiple re-rating catalysts in the making

- Three of the four glove companies under our coverage (except Supermax which came inline) delivered better than expected results in 3Q12, due to easing latex costs as well as pick-up in demand. This was further boosted by slower capacity expansion due to (1) delay in natural gas supply from the new regasification plant in Melaka (from the initial Sept 2012 to 2Q13), and (2) moderate capacity expansion driven by M&A, which does not add to overall industry capacity, rather than organic growth.
- Among the four companies, Kossan registered the highest sales volume growth (+30.0% y-o-y, +10.0% q-o-q) in 3Q12, followed by Hartalega (+24.1% y-o-y, +5.8% q-o-q) and Top Glove (14.9% y-o-y, 0% q-o-q). Supermax is the worst performer among the four leading glove companies in Malaysia, as it has recorded y-o-y volume growth (+5.4%) but q-o-q volume contraction (-5.7%) in 3Q12.
- Going into 2013, we are turning more positive on the glove sector as we foresee (1) latex cost to stabilise between RM5.50/kg to RM6.50/kg due to weak global demand, (2) despite fundamental strength of the Ringgit against the USD over the longer term, near term political uncertainty in the run up to the 13th General Election (13GE) may put pressure on the Ringgit due to potential capital flight which is positive for exporters like glove makers, and (3) moderate capacity expansion driven by M&A, which does not add to overall industry capacity, rather than organic growth..
- In terms of demand, we believe the glove demand in 4Q12 to remain strong if not stronger than 3Q2012, as we see leading indicators from World Health Organization (WHO) which shows the influenza in US is on a rising trend since Nov 2012.

Upgrade sector to OVERWEIGHT, top pick is Kossan

- In conclusion, we upgrade our recommendation for the sector from neutral to OVERWEIGHT, with Kossan (Trading Buy, TP: RM4.09) being our top pick due to its unreasonable cheap valuation of less than 9x P/E for FY13.
- Over the medium-term (1-3 years), we continue to like Hartalega (Trading Buy, TP: RM5.26) as we view it as the industry's game-changer over the next 3 years, once its Next Generation Integrated Glove Manufacturing Complex (NGC) kicks start in 2014 which could yield 6% extra margin due to better efficiency.
- On the other side, we retain our Trading Buy call on Supermax with an unchanged TP of RM2.29, based on 11x 12-month forward P/E. Our call on Supermax is very much from the valuation point of view, as we anticipate the stock to get re-rated in the near term, thanks to the recent privatisation deals in the industry.
- Lastly, we take the opportunity to downgrade Top Glove from trading buy to Neutral as we see limited upside after the recent share price run up (+8.3% since our upgrade on 2 Oct 2012). We keep our TP of RM5.62 unchanged, which is based on 15x 12-month forward P/E.

Key risks

- Key investment risks include (1) sudden surge in latex price due to strong economic recovery in China in 2013, (2) sharp Ringgit appreciation against USD, and (3) indiscipline capacity expansion by major glove makers.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13
Hartalega	Trading Buy	5.26	4.80	3,514.7	11.5	16.8	15.8	13.5	4.9	4.1	31.1	30.3	2.9	3.3
Top Glove	Neutral	5.62	5.64	3,491.6	50.1	10.5	16.4	14.8	2.7	2.5	16.3	16.7	3.0	3.5
Supermax	Trading Buy	2.29	1.98	1,346.7	18.9	12.5	10.5	9.3	1.6	1.4	14.9	15.0	2.9	3.2
Kossan	Trading Buy	4.09	3.26	1,042.3	13.2	17.5	10.2	8.7	1.8	1.6	17.9	18.2	2.5	3.1
Latexx [@]	N/R	N/R	2.12	473.6	-19.2	37.5	13.3	9.6	N/A	N/A	12.1	14.3	1.9	2.8
Adventa [@]	N/R	N/R	1.91	291.8	523.1	20.4	14.1	11.8	N/A	N/A	9.3	11.0	2.8	4.0
Simple Average*					23.3	15.2	14.1	12.2	2.7	2.4	20.4	20.4	2.7	3.2

@ Based on consensus

* Excludes Latexx and Adventa

Source: Alliance Research, Bloomberg

Share price date: 30 Nov 2012

Figure 2 : Share price performance

Company	Share price RM	Month-to-date %	Year-to-date %	30-day %	90-day %	180-day %	365-day %
Top Glove	5.64	5.42	12.80	5.42	6.62	26.17	22.34
Hartalega	4.80	3.00	64.38	3.00	5.96	33.70	70.52
Supermax	1.98	-1.98	3.39	-1.98	-1.98	6.45	8.49
Kossan	3.26	6.89	0.31	6.89	0.31	4.15	4.49
Latexx	2.12	-7.02	10.99	-7.02	31.68	52.52	5.47
Adventa	1.91	0.53	20.13	0.53	4.37	40.44	15.76
Sector average*		2.64	22.70	2.64	1.43	14.77	27.83
FBMKLCI	1,610.83	-3.72	5.23	-3.72	-2.14	1.91	9.42

Note: Excludes Latexx & Adventa

Source: Bloomberg

AT INFLECTION POINT

3Q12 results beat expectation

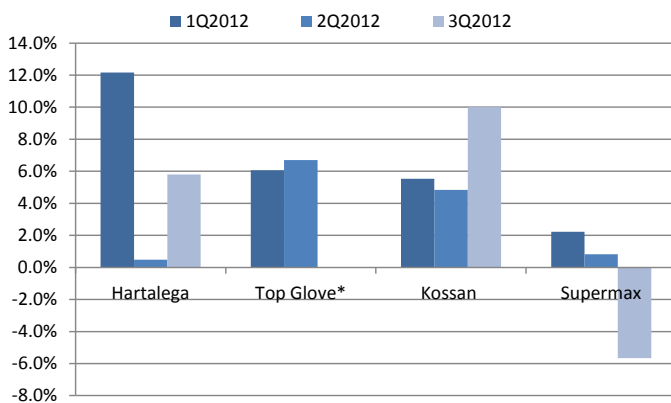
Three of the four glove companies delivered better than expected 3Q12 results

In summary, three out of four glove companies (Top Glove, Hartalega and Kossan) under our coverage delivered better than expected results in 3Q12 due to easing latex costs as well as pick-up in demand. This was further boosted by slower capacity expansion due to (1) delay in natural gas supply from the new regasification plant in Melaka (from the initial Sept 2012 to 2Q13), and (2) moderate capacity expansion driven by M&A, which does not add to overall industry capacity, rather than organic growth. Note that Semperit Group, the largest foreign glove maker, acquired Latexx Partner as part of its plan to double its production capacity (2011- 11bn pieces) in 3 year time.

Kossan was the best performer while Supermax was the worst

Among the four companies, Kossan registered the highest sales volume growth (+30.0% y-o-y, +10.0% q-o-q) in 3Q12, followed by Hartalega (+24.1% y-o-y, +5.8% q-o-q) and Top Glove (14.9% y-o-y, 0% q-o-q). Supermax is the worst performer among the four leading glove companies in Malaysia, as it recorded y-o-y volume growth (+5.4%) but q-o-q volume contraction (-5.7%) in 3Q12. On a cumulative basis (9M12), Kossan's outperformed the rest with +27.5% y-o-y sales volume growth, followed by Hartalega (+21.5% y-o-y), Top Glove (+16.7% y-o-y), and Supermax (+10.0% y-o-y). In terms of profitability, all four companies registered better absolute PBT per thousand gloves during the quarter, except Hartalega (-7.9% q-o-q). Nonetheless, we expect Hartalega to remain as the market leader in terms of profitability due to its high margin, followed by Kossan, Top Glove, and Supermax.

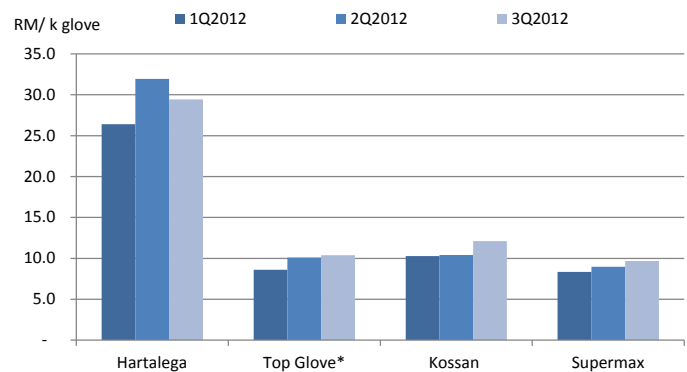
Figure 3 : Q-o-q sales volume growth by company



*Top Glove's number is one month lag due to its different month end (Aug FYE)

Source: Alliance Research

Figure 4 : Absolute PBT per thousand gloves by company



Source: Alliance Research

Our calls have been mostly right so far

We were right with the underweight call between Feb and May 2012, but half-correct on the neutral call between May and Nov 2012

To recap, we initiated coverage on the glove sector with an underweight recommendation on 8 Feb 2012, as we were concern of (1) overcapacity, (2) stubbornly high latex cost, and (3) strong Ringgit against USD, which would hurt glove makers' profitability in 2012. Our call were proven right as the glove sector has indeed underperformed the FBMKLCI by 9.8% since then, before we upgraded the sector from underweight to neutral on 3 May 2012, as we anticipate external headwinds such as high latex cost and weak USD to dissipate. Thereafter, the sector registered a return of 20.3% (largely driven by Hartalega and Top Glove), outperforming FBMKLCI which only gained 3.7% throughout the period.

Figure 5 : Companies' share price performances vs FBMKLCI since our change of recommendation

Company or Index	Share price (RM) as at			Changes in the period	
	8-Feb-12	2-May-12	30-Nov-12	8-Feb-12 to 2-May-12	2-May-12 to 30-Nov-12
Hartalega	3.87	3.81	4.80	-1.5%	25.9%
Top Glove	5.03	4.50	5.64	-10.6%	25.4%
Supermax	2.04	1.85	1.98	-9.3%	6.9%
Kossan	3.56	3.20	3.26	-10.0%	1.9%
Sector weighted average				-6.9%	20.3%
FBMKLCI	1,553.18	1,582.39	1,610.83	1.9%	1.8%
Relative performance to Index					

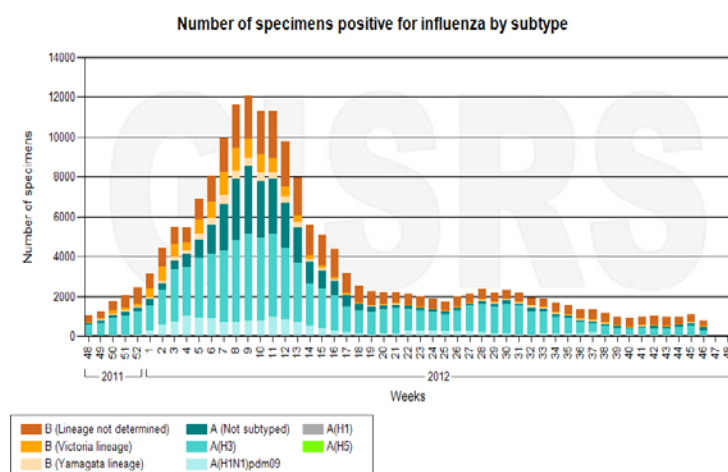
Source: Bloomberg

Fundamentals turning positive in 2013

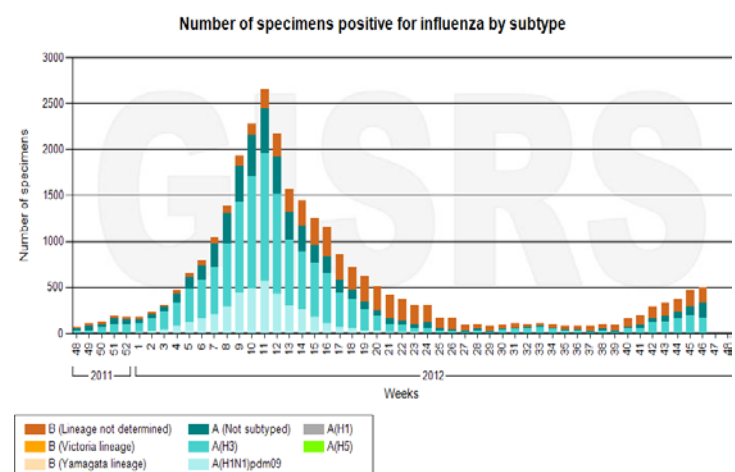
Operating environment set to improve in 2013

Going into 2013, we are turning more positive on the glove sector as we foresee (1) latex cost to stabilise between RM5.50/kg to RM6.50/kg due to weak global demand, (2) despite fundamental strength of the Ringgit against the USD over the longer term, near term political uncertainty in the run up to the 13th General Election (13GE) may put pressure on the Ringgit due to potential capital flight which is positive for exporters like glove makers, and (3) moderate capacity expansion driven by M&A, which does not add to overall industry capacity, rather than organic growth.

In terms of demand, we believe the glove demand in 4Q12 to remain strong if not stronger than 3Q2012, as we see leading indicators from World Health Organization (WHO) which shows the influenza in US is on a rising trend since Nov 2012

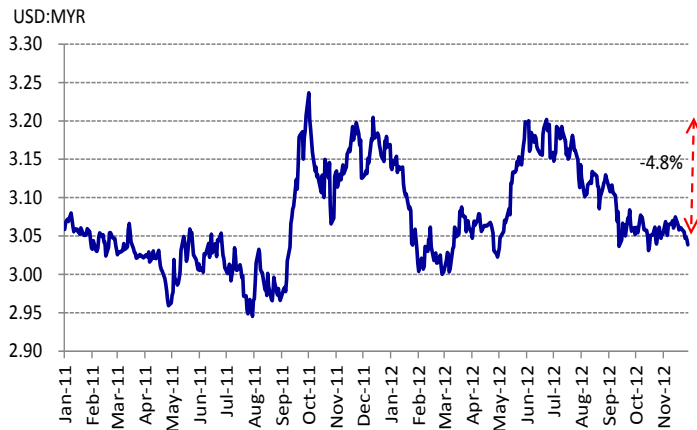
Figure 6 : Global past 12 months influenza trends


Source: WHO

Figure 7 : USA past 12 months influenza trends


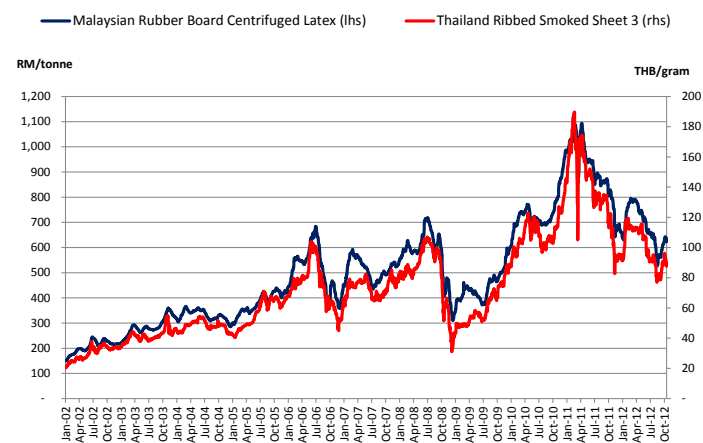
Source: WHO

Figure 8 : US dollar against Malaysian Ringgit movements



Source: Bloomberg data, Alliance Research

Figure 9 : Malaysian centrifuged latex vs Thailand RSS3 price



Source: Bloomberg data, Alliance Research

Glove sector is defensive and should outperform amid 13GE uncertainty

We anticipate glove sector to emerge as a good flight-to-safety play amid economic uncertainty and 13GE

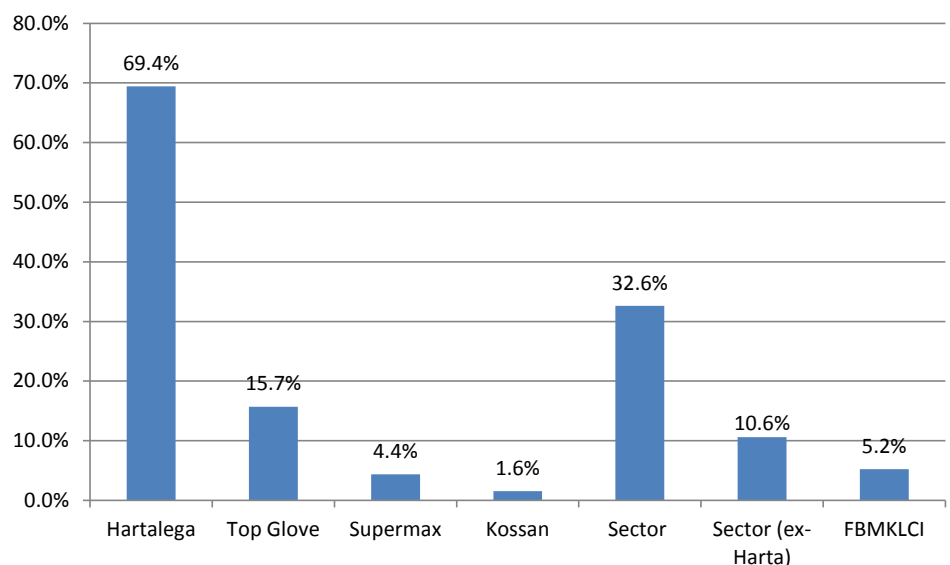
Glove sector valuation is undemanding

Kossan and Supermax to benefit from investors switching from soon-to-be privatised Adventa and Latexx

Apart from improving fundamentals, we anticipate the glove sector to emerge as a good flight-to-safety play in 1Q13 as global demand for glove is resilient even during times of economic uncertainty. Furthermore, given that glove sector is essentially export driven, it will also be least affected by the upcoming 13GE, in our view.

Unlike many defensive sectors such as telco, consumer and REIT sectors which have run up significantly in 2012 with rich valuation now, valuation of the glove sector remains undemanding. As such, we see limited downsides on the glove sector, particularly Kossan (+1.6% YTD) and Supermax (+4.4% YTD) which have underperformed the glove sector and FBMKLCI in 2012. Furthermore, we anticipate the re-rating catalyst on Kossan and Supermax to crystalize in Dec 2012, as we believe shareholders who get their investment proceeds return from the privatisation deals (Adventa and Latexx) in Dec 2012 to switch to these two companies which have larger scale and stronger fundamentals but trading at less than 10x FY13 P/E. To recap, Adventa and Latexx were offered to be taken private at a valuation of 11-13x P/E.

Figure 10 : YTD share price performances against FBMKLCI



Source: Bloomberg data

RECOMMENDATION

Kossan is our top pick in the near term, but favour Hartalega as the medium-term top pick

In conclusion, we upgrade our recommendation for the sector from neutral to OVERWEIGHT, with Kossan (Trading Buy, TP: RM4.09) being our top pick due to its unreasonable cheap valuation of less than 9x P/E for FY13. We value Kossan at 11x 12-month forward P/E, which is 27% discount to the target P/E of 15x that we assigned for both Top Glove and Hartalega due to their market leading positions.

Apart from that, we advocate investors who have a longer investment horizon (1-3 years) to accumulate Hartalega (Trading Buy, TP: RM5.26) as we continue to view it as the industry's game-changer over the next 3 years, once its Next Generation Integrated Glove Manufacturing Complex (NGC) kicks start in 2014 which could yield 6% extra margin due to better efficiency. We believe this is a formidable edge for the company to grow its market share and bottom line as it has the capacity to lower selling prices vis-à-vis its competitors who have significantly lower margins. In addition, the company has the strongest capacity CAGR of 15.7% over the next 8 years.

On the other side, we retain our Trading Buy call on Supermax with an unchanged TP of RM2.29, based on 11x 12-month forward P/E. Our call on Supermax is very much from the valuation point of view, as we anticipate the stock to get re-rated in the near term, thanks to the recent privatisation deals in the industry.

Lastly, we take the opportunity to downgrade Top Glove from trading buy to Neutral as we see limited upside after the recent share price run up (+8.3% since our upgrade on 2 Oct 2012). We keep our TP of RM5.62 unchanged, which is based on 15x 12-month forward P/E.

Upgrade the sector from neutral to OVERWEIGHT, with Kossan being our top pick

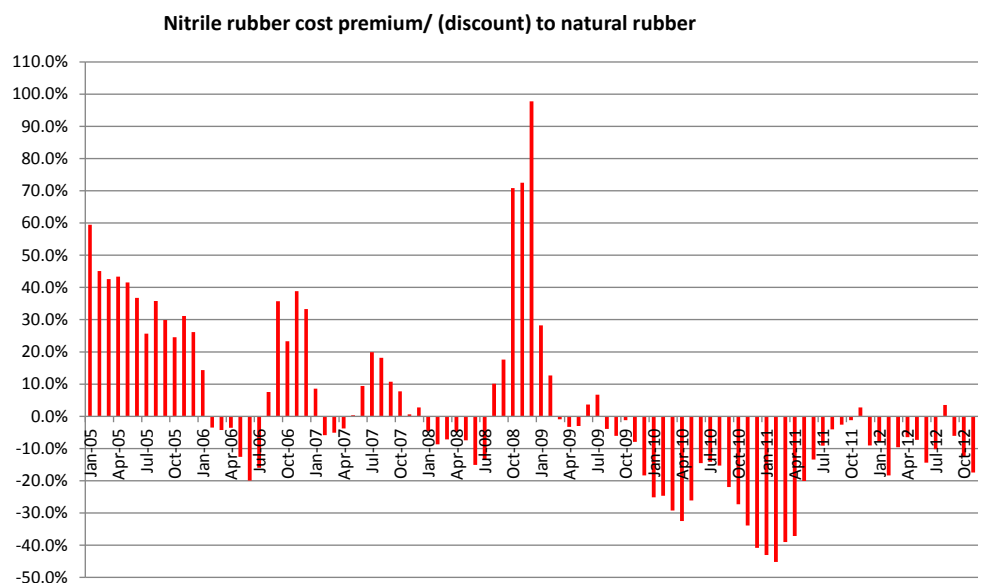
Continue to like Hartalega as a medium term top pick given its game-changing NGC plant

Supermax remains as a Trading Buy due to its cheap valuation

Downgrade Top Glove from trading buy to Neutral after the recent run up

We anticipate nitrile glove wave will sustain in 2013 as nitrile latex cost remains cheaper than natural rubber latex

Figure 11 : Nitrile butadiene rubber cost is 17% cheaper than natural rubber in Nov 2012



*Adjusted for latex content for nitrile butadiene rubber (45) and natural rubber (60).

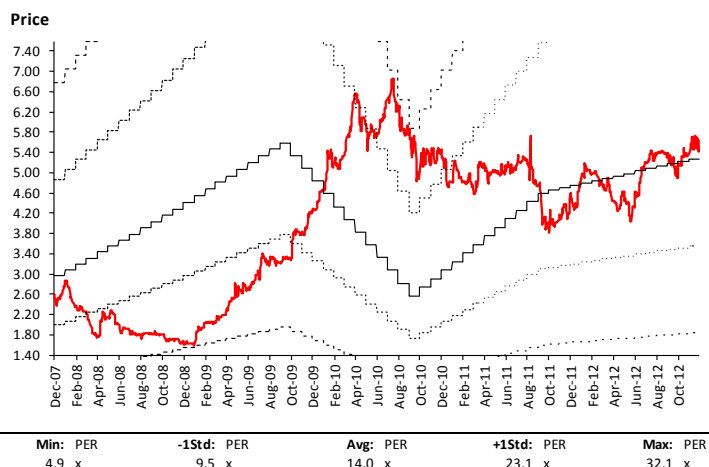
Source: Bloomberg data, Alliance Research



HISTORICAL VALUATION BANDS

Figure 12 : Top Glove's 5-year historical P/E band

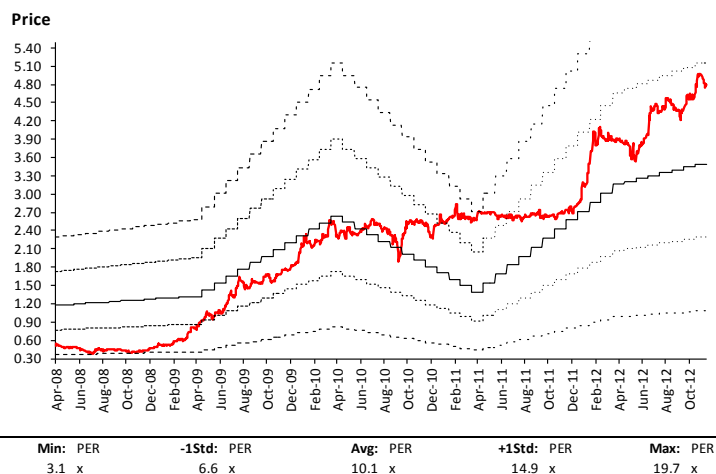
PE BAND



Source: Alliance Research

Figure 13 : Hartalega's 5-year historical P/E band

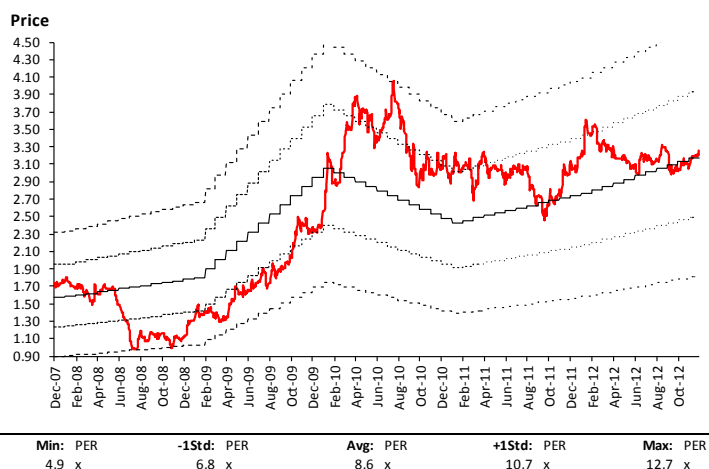
PE BAND



Source: Alliance Research

Figure 14 : Kossan's 5-year historical P/E band

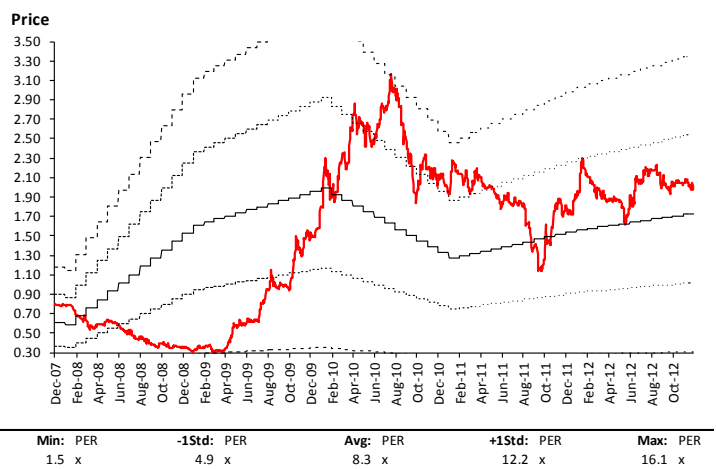
PE BAND



Source: Alliance Research

Figure 15 : Supermax's 5-year historical P/B band

PE BAND



Source: Alliance Research



Top Glove Corporation Berhad

Financial Summary

Price Date: 30 November 2012

Balance Sheet

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	660.7	741.2	861.1	969.6	1,020.1
Intangible Assets	-	-	-	-	-
Inventories	175.5	179.4	202.4	221.4	242.3
Receivables	266.4	325.2	283.3	311.6	342.8
Other assets	171.6	192.1	192.9	193.7	194.5
Deposit, bank and cash	148.8	167.2	152.0	140.8	197.1
Total Assets	1,423.0	1,605.2	1,691.7	1,837.0	1,996.8
LT borrowings	2.9	2.8	2.8	2.8	2.8
ST borrowings	0.2	0.2	-	-	-
Payables	194.6	235.7	207.2	227.8	251.4
Other liabilities	79.0	86.1	86.1	86.1	86.1
Liabilities	276.7	324.8	296.1	316.7	340.3
Share capital	309.3	309.4	309.4	309.4	309.4
Reserves	812.5	946.5	1,057.1	1,176.7	1,307.3
Shareholders' equity	1,121.8	1,255.9	1,366.5	1,486.1	1,616.7
Minority interest	24.6	24.5	29.2	34.2	39.7
Total Equity	1,146.4	1,280.4	1,395.7	1,520.4	1,656.4
Total Equity and Liabilities	1,423.0	1,605.2	1,691.7	1,837.0	1,996.8

Cash Flow Statement

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	145.5	241.2	291.1	318.3	340.3
Depreciation & amortisation	61.6	69.2	80.3	91.7	99.7
Change in working capital	0.8	(29.1)	(9.6)	(26.7)	(28.4)
Net interest received / (paid)	(10.3)	(12.2)	(13.3)	(12.7)	(13.7)
Tax paid	(28.2)	(13.5)	(58.2)	(63.7)	(68.1)
Others	2.8	20.5	(1.1)	(1.1)	(1.1)
Operating Cash Flow	172.1	276.0	289.2	305.9	328.7
Capex	(141.3)	(140.5)	(200.0)	(200.0)	(150.0)
Others	(55.7)	(31.1)	13.4	12.8	13.8
Investing Cash Flow	(196.9)	(171.6)	(186.6)	(187.2)	(136.2)
Issuance of shares	1.0	0.9	-	-	-
Changes in borrowings	(0.7)	(0.0)	(0.2)	-	-
Dividend paid	(87.9)	(85.5)	(117.6)	(130.0)	(136.2)
Others	-	-	-	-	-
Financing Cash Flow	(87.5)	(84.6)	(117.8)	(130.0)	(136.2)
Net cash flow	(112.3)	19.8	(15.2)	(11.3)	56.3
Forex	(1.8)	(1.3)	-	-	-
Beginning cash	262.9	148.8	167.2	152.0	140.8
Ending cash	148.8	167.2	152.0	140.8	197.1

Income Statement

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	2,053.9	2,314.4	2,404.6	2,645.0	2,909.5
EBITDA	192.1	301.6	357.1	396.4	425.3
Depreciation & amortisation	(61.6)	(69.2)	(80.3)	(91.7)	(99.7)
Net interest income	10.3	12.2	13.3	12.7	13.7
Share of associates	0.9	0.3	1.0	1.0	1.0
Exceptional items	3.7	(3.8)	-	-	-
Pretax profit	145.5	241.2	291.1	318.3	340.3
Taxation	(30.3)	(34.4)	(58.2)	(63.7)	(68.1)
Minority interest	(2.0)	(4.6)	(4.7)	(5.1)	(5.4)
Net profit	113.1	202.2	228.2	249.6	266.8
Adj net profit	110.2	205.4	228.2	249.6	266.8

Key Statistics & Ratios

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	-1.2%	12.7%	3.9%	10.0%	10.0%
EBITDA	-46.4%	55.8%	13.1%	10.3%	8.1%
Pretax profit	-52.3%	65.8%	20.7%	9.4%	6.9%
Net profit	-53.9%	78.8%	12.8%	9.4%	6.9%
Adj EPS	-55.3%	86.6%	11.1%	9.4%	6.9%

Profitability

EBITDA margin	11.4%	15.8%	17.2%	17.3%	17.0%
Net profit margin	5.5%	8.7%	9.5%	9.4%	9.2%
Effective tax rate	20.9%	14.3%	20.0%	20.0%	20.0%
Return on assets	7.9%	13.6%	13.8%	14.1%	13.9%
Return on equity	10.1%	16.1%	16.7%	16.8%	16.5%

Leverage

Total debt / total assets (x)	0.00	0.00	0.00	0.00	0.00
Total debt / equity (x)	0.00	0.00	0.00	0.00	0.00
Net debt / equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Drivers

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	22.6	25.1	27.7	30.5	33.5
Growth (%)	-12.8%	11.0%	10.5%	10.0%	10.0%
ASP (USD/ k pieces)	29.7	29.8	28.0	28.0	28.0
Growth (%)	23.9%	0.4%	-6.0%	0.0%	0.0%

Valuation

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
EPS (sen)	18.3	32.7	36.9	40.3	43.1
Adj EPS (sen)	17.8	33.2	36.9	40.3	43.1
P/E (x)	29.8	16.0	14.4	13.2	12.3
EV/EBITDA (x)	14.2	9.1	8.1	7.3	6.7
Net DPS (sen)	9.7	16.0	19.0	21.0	22.0
Net dividend yield	1.8%	3.0%	3.6%	4.0%	4.1%
BV per share (RM)	1.81	2.03	2.21	2.40	2.61
P/BV (x)	2.9	2.6	2.4	2.2	2.0



Hartalega Holdings Berhad

Financial Summary

Price Date: 30 November 2012

Balance Sheet

FY 31 Mar (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	348.6	379.7	543.6	675.2	796.3
Intangible Assets	0.1	0.0	0.0	0.0	0.0
Inventories	64.7	97.5	102.0	116.3	126.5
Receivables	101.0	117.1	124.8	153.0	174.1
Other assets	3.6	0.5	0.5	0.5	0.5
Deposit, bank and cash	117.0	163.2	191.0	177.7	203.7
Total Assets	635.0	758.1	961.9	1,122.7	1,301.2
LT borrowings	24.5	12.1	112.1	112.1	112.1
ST borrowings	14.5	12.6	-	-	-
Payables	57.2	60.4	50.8	63.2	72.1
Other liabilities	44.0	53.0	53.0	53.0	53.0
Liabilities	140.2	138.1	215.8	228.3	237.2
Share capital	181.8	182.5	365.1	365.1	365.1
Reserves	312.7	437.0	380.4	528.7	698.1
Shareholders' equity	494.4	619.5	745.5	893.8	1,063.2
Minority interest	0.4	0.6	0.6	0.7	0.8
Total Equity	494.8	620.1	746.1	894.5	1,064.0
Total Equity and Liabilities	635.0	758.1	961.9	1,122.8	1,301.2

Cash Flow Statement

FY 31 Mar (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	242.8	258.4	297.4	350.3	400.1
Depreciation & amortisation	25.0	29.0	36.2	48.4	58.9
Change in working capital	(40.9)	(44.5)	(21.8)	(30.0)	(22.4)
Net interest received / (paid)	0.1	0.8	2.0	4.3	4.2
Tax paid	(47.8)	(48.8)	(68.4)	(80.6)	(92.0)
Others	3.2	1.7	(3.7)	(6.1)	(6.1)
Operating Cash Flow	182.4	196.7	241.6	286.3	342.7
Capex	(81.3)	(60.2)	(200.0)	(180.0)	(180.0)
Others	2.7	3.7	1.8	1.8	1.9
Investing Cash Flow	(78.6)	(56.5)	(198.2)	(178.2)	(178.1)
Issuance of shares	0.3	6.9	-	-	-
Changes in borrowings	(2.5)	(14.6)	87.4	-	-
Dividend paid	(56.9)	(87.4)	(103.0)	(121.3)	(138.6)
Others	-	-	-	-	-
Financing Cash Flow	(59.1)	(95.0)	(15.6)	(121.3)	(138.6)
Net cash flow	44.7	45.2	27.7	(13.2)	26.0
Forex	(2.3)	1.0	-	-	-
Beginning cash	74.6	117.0	163.2	191.0	177.7
Ending cash	117.0	163.2	191.0	177.7	203.7

Income Statement

FY 31 Mar (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	734.9	931.1	1,084.9	1,329.6	1,513.2
EBITDA	268.2	288.2	335.6	402.9	463.2
Depreciation & amortisation	(25.0)	(29.0)	(36.2)	(48.4)	(58.9)
Net interest expenses	(0.1)	(0.8)	(2.0)	(4.3)	(4.2)
Share of associates	-	-	-	-	-
Exceptional items	(0.4)	0.0	-	-	-
Pretax profit	242.8	258.4	297.4	350.3	400.1
Taxation	(52.5)	(57.0)	(68.4)	(80.6)	(92.0)
Minority interest	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	190.3	201.4	229.0	269.7	308.0
Adj net profit	190.6	201.4	229.0	269.7	308.0

Key Statistics & Ratios

FY 31 Mar	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	28.5%	26.7%	16.5%	22.6%	13.8%
EBITDA	31.2%	8.6%	15.9%	18.2%	13.1%
Pretax profit	36.6%	6.4%	15.1%	17.8%	14.2%
Net profit	33.2%	5.8%	13.7%	17.8%	14.2%
Adj EPS	33.1%	5.0%	13.7%	7.1%	14.2%
Profitability					
EBITDA margin	37.2%	31.9%	31.7%	30.6%	30.4%
Net profit margin	25.9%	21.6%	21.1%	20.3%	20.4%
Effective tax rate	21.6%	22.0%	23.0%	23.0%	23.0%
Return on assets	34.2%	28.9%	26.6%	25.9%	25.4%
Return on equity	44.9%	36.2%	33.5%	32.9%	31.5%
Leverage					
Total debt / total assets (x)	0.06	0.03	0.12	0.10	0.09
Total debt / equity (x)	0.08	0.04	0.15	0.13	0.11
Net debt / equity (x)	(0.16)	(0.22)	(0.11)	(0.07)	(0.09)

Key Drivers

FY 31 Mar	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	6.60	8.24	9.68	12.06	13.73
Growth (%)	24.7%	24.8%	17.5%	24.5%	13.9%
ASP (USD/ k pieces)	35.1	36.7	36.7	36.2	36.1
Growth (%)	13.5%	4.3%	0.2%	-1.6%	-0.1%

Valuation

FY 31 Mar	2011A	2012A	2013F	2014F	2015F
EPS (sen)	26.2	27.6	31.4	36.9	42.2
Adj EPS (sen)	26.2	27.6	31.4	36.9	42.2
P/E (x)	18.3	17.4	15.3	13.0	11.4
EV/EBITDA (x)	6.7	6.0	10.9	9.3	8.2
Net DPS (sen)	10.5	12.5	14.1	16.6	19.0
Net dividend yield	2.2%	2.6%	2.9%	3.5%	4.0%
BV per share (RM)	0.68	0.85	1.02	1.22	1.46
P/BV (x)	7.1	5.6	4.7	3.9	3.3



Supermax Corporation Berhad

Financial Summary

Price Date: 30 November 2012

Balance Sheet

FY 31 Dec (RM m)	2010A	2011A	2012F	2013F	2014F
PPE	388.4	402.2	427.4	468.1	506.5
Intangible Assets	-	-	-	-	-
Inventories	133.1	223.1	202.2	213.3	234.6
Receivables	120.1	115.9	129.8	138.3	152.1
Other assets	326.4	359.7	421.4	481.5	553.9
Deposit, bank and cash	97.4	104.5	47.2	63.7	49.3
Total Assets	1,065.4	1,205.4	1,228.0	1,364.9	1,496.4
LT borrowings	140.5	140.5	140.5	140.5	140.5
ST borrowings	155.1	190.5	120.0	150.0	160.0
Payables	60.3	87.3	90.5	96.4	106.7
Other liabilities	17.9	18.2	18.2	18.2	18.2
Liabilities	373.8	436.4	369.2	405.1	425.4
Share capital	170.0	170.0	340.1	340.1	340.1
Reserves	521.4	599.1	518.8	619.7	730.8
Shareholders' equity	691.5	769.1	858.9	959.8	1,070.9
Minority interest	0.1	(0.1)	(0.0)	0.0	0.1
Total Equity	691.5	769.0	858.8	959.8	1,071.0
Total Equity and Liabilities	1,065.4	1,205.4	1,228.0	1,364.9	1,496.4

Cash Flow Statement

FY 31 Dec (RM m)	2010A	2011A	2012F	2013F	2014F
Pretax profit	183.8	112.1	142.3	161.3	178.0
Depreciation & amortisation	26.0	24.1	27.0	29.1	31.7
Change in working capital	(94.9)	(48.0)	(5.2)	(20.6)	(36.1)
Net interest received / (paid)	13.6	12.5	11.5	10.7	11.5
Tax paid	(24.5)	(13.4)	(14.0)	(17.0)	(19.2)
Others	(56.0)	(43.4)	(58.1)	(64.2)	(73.0)
Operating Cash Flow	48.1	43.9	103.5	99.2	92.9
Capex	(46.6)	(38.1)	(52.2)	(69.8)	(70.0)
Others	0.9	0.0	0.3	0.3	0.3
Investing Cash Flow	(45.7)	(38.1)	(51.9)	(69.5)	(69.7)
Issuance of shares	5.7	-	-	-	-
Changes in borrowings	2.7	27.5	(70.5)	30.0	10.0
Dividend paid	(31.6)	(27.2)	(38.5)	(43.3)	(47.6)
Others	-	-	-	-	-
Financing Cash Flow	(23.1)	0.3	(108.9)	(13.3)	(37.6)
Net cash flow	(20.8)	6.0	(57.3)	16.5	(14.4)
Forex	0.2	1.1	-	-	-
Beginning cash	118.0	97.4	104.5	47.2	63.7
Ending cash	97.4	104.5	47.2	63.7	49.3

Income Statement

FY 31 Dec (RM m)	2010A	2011A	2012F	2013F	2014F
Revenue	977.3	1,021.4	1,101.7	1,174.0	1,291.4
EBITDA	181.7	117.9	134.5	147.9	160.0
Depreciation & amortisation	(26.0)	(24.1)	(27.0)	(29.1)	(31.7)
Net interest expenses	(13.6)	(12.5)	(11.5)	(10.7)	(11.5)
Share of associates	42.0	34.8	46.2	53.2	61.1
Exceptional items	(0.2)	(4.0)	-	-	-
Pretax profit	183.8	112.1	142.3	161.3	178.0
Taxation	(24.9)	(8.1)	(14.0)	(17.0)	(19.2)
Minority interest	(0.0)	0.1	(0.0)	(0.0)	(0.0)
Net profit	158.9	104.2	128.2	144.2	158.7
Adj net profit	159.1	107.9	128.2	144.2	158.7

Key Statistics & Ratios

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
Growth					
Revenue	21.6%	4.5%	7.9%	6.6%	10.0%
EBITDA	24.8%	-38.6%	10.7%	7.2%	5.6%
Pretax profit	21.4%	-39.0%	26.9%	13.3%	10.3%
Net profit	25.6%	-34.5%	23.1%	12.5%	10.1%
Adj EPS	22.3%	-33.9%	18.9%	12.5%	10.1%

Profitability

EBITDA margin	23.7%	13.9%	14.3%	14.4%	13.8%
Net profit margin	16.3%	10.2%	11.6%	12.3%	12.3%
Effective tax rate	13.5%	7.2%	9.8%	10.6%	10.8%
Return on assets	15.8%	9.5%	10.5%	11.1%	11.1%
Return on equity	23.0%	14.0%	14.9%	15.0%	14.8%

Leverage

Total debt / total assets (x)	0.28	0.27	0.21	0.21	0.20
Total debt / equity (x)	0.43	0.43	0.30	0.30	0.28
Net debt / equity (x)	0.29	0.29	0.25	0.24	0.23

Key Drivers

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
Sales volume (bn pieces)	14.42	13.44	15.05	16.56	18.21
Growth (%)	0.0%	-6.8%	12.0%	10.0%	10.0%
ASP (USD/ k pieces)	19.9	22.4	24.0	23.2	23.2
Growth (%)	0.0%	12.9%	6.9%	-3.1%	0.0%

Valuation

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
EPS (sen)	24.0	15.3	18.9	21.2	23.3
Adj EPS (sen)	24.0	15.9	18.9	21.2	23.3
P/E (x)	8.2	12.5	10.5	9.3	8.5
EV/EBITDA (x)	3.8	6.3	9.9	9.3	9.0
Net DPS (sen)	3.8	2.4	5.7	6.4	7.0
Net dividend yield	1.9%	1.2%	2.9%	3.2%	3.5%
BV per share (RM)	1.04	1.13	1.26	1.41	1.57
P/BV (x)	1.9	1.8	1.6	1.4	1.3



Kossan Rubber Industries

Financial Summary

Price Date: 30 November 2012

Balance Sheet

FY 30 Jun (RM m)	2010A	2011A	2012F	2013F	2014F
PPE	409.5	433.0	460.5	456.9	453.7
Intangible Assets	0.9	4.9	4.9	4.9	4.9
Inventories	123.7	163.8	153.3	173.9	194.5
Receivables	150.5	157.6	190.1	209.6	234.3
Other assets	1.3	1.5	1.5	1.5	1.5
Deposit, bank and cash	91.5	51.6	82.4	57.6	135.8
Total Assets	777.3	812.4	892.8	904.6	1,024.8
LT borrowings	27.7	26.0	26.0	26.0	26.0
ST borrowings	150.1	134.0	100.0	-	-
Payables	113.1	103.5	138.7	159.5	178.9
Other liabilities	41.8	42.7	42.7	42.7	42.7
Liabilities	332.7	306.1	307.4	228.2	247.6
Share capital	159.9	159.9	159.9	159.9	159.9
Reserves	282.7	337.0	414.0	502.5	600.5
Shareholders' equity	442.6	496.9	573.8	662.4	760.3
Minority interest	2.0	9.5	11.6	14.0	16.8
Total Equity	444.6	506.3	585.4	676.4	777.1
Total Equity and Liabilities	777.3	812.4	892.8	904.6	1,024.8

Cash Flow Statement

FY 30 Jun (RM m)	2010A	2011A	2012F	2013F	2014F
Pretax profit	140.7	112.9	134.2	157.6	178.3
Depreciation & amortisation	34.2	40.3	42.4	43.6	43.3
Change in working capital	(18.2)	(50.8)	13.3	(19.4)	(25.8)
Net interest received / (paid)	6.9	5.9	4.8	1.9	(0.8)
Tax paid	(6.4)	(21.4)	(29.5)	(34.7)	(39.2)
Others	(6.0)	(7.6)	(6.1)	(3.3)	(1.1)
Operating Cash Flow	151.1	79.4	159.0	145.8	154.6
Capex	(85.2)	(39.8)	(70.0)	(40.0)	(40.0)
Others	46.9	(6.0)	1.3	1.4	1.9
Investing Cash Flow	(38.3)	(45.8)	(68.7)	(38.6)	(38.1)
Issuance of shares	(3.0)	(0.4)	-	-	-
Changes in borrowings	(32.2)	(30.8)	(34.0)	(100.0)	-
Dividend paid	(14.4)	(35.0)	(25.6)	(32.0)	(38.4)
Others	-	(0.3)	-	-	-
Financing Cash Flow	(49.6)	(66.5)	(59.5)	(132.0)	(38.4)
Net cash flow	63.3	(32.9)	30.8	(24.8)	78.2
Forex	-	-	-	-	-
Beginning cash	17.4	80.7	47.7	78.5	53.7
Ending cash	80.7	47.7	78.5	53.7	131.9

Income Statement

FY 30 Jun (RM m)	2010A	2011A	2012F	2013F	2014F
Revenue	1,046.9	1,090.0	1,261.6	1,443.6	1,613.7
EBITDA	189.8	159.8	181.4	203.1	220.8
Depreciation & amortisation	(34.2)	(40.3)	(42.4)	(43.6)	(43.3)
Net interest expenses	(6.9)	(5.9)	(4.8)	(1.9)	0.8
Share of associates	-	-	-	-	-
Exceptional items	(8.0)	(0.7)	-	-	-
Pretax profit	140.7	112.9	134.2	157.6	178.3
Taxation	(26.9)	(21.8)	(29.5)	(34.7)	(39.2)
Minority interest	(0.4)	(1.4)	(2.1)	(2.5)	(2.8)
Net profit	113.4	89.7	102.6	120.5	136.3
Adj net profit	119.9	90.3	102.6	120.5	136.3

Key Statistics & Ratios

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
Growth					
Revenue	24.3%	4.1%	15.7%	14.4%	11.8%
EBITDA	14.3%	-14.9%	15.0%	12.3%	10.0%
Pretax profit	63.9%	-19.7%	18.8%	17.5%	13.1%
Net profit	70.0%	-20.9%	14.4%	17.5%	13.1%
Adj EPS	76.6%	-24.4%	13.2%	17.5%	13.1%

Profitability

EBITDA margin	24.3%	19.9%	19.7%	19.4%	19.1%
Net profit margin	10.8%	8.2%	8.1%	8.3%	8.4%
Effective tax rate	19.1%	19.3%	22.0%	22.0%	22.0%
Return on assets	16.4%	11.4%	12.0%	13.4%	14.1%
Return on equity	27.1%	18.2%	17.9%	18.2%	17.9%

Leverage

Total debt / total assets (x)	0.23	0.20	0.14	0.03	0.03
Total debt / equity (x)	0.40	0.32	0.22	0.04	0.03
Net debt / equity (x)	0.19	0.22	0.08	Net cash	Net cash

Key Drivers

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
Sales volume (bn pieces)	9.30	8.60	10.92	12.56	14.06
Growth (%)	9.4%	-7.6%	27.0%	15.0%	12.0%
ASP (USD/ k pieces)	31.3	36.0	33.0	33.0	33.0
Growth (%)	10.7%	15.0%	-8.2%	0.0%	0.0%

Valuation

FY 31 Dec	2010A	2011A	2012F	2013F	2014F
EPS (sen)	35.5	28.1	32.1	37.7	42.6
Adj EPS (sen)	37.5	28.3	32.1	37.7	42.6
P/E (x)	8.7	11.5	10.2	8.6	7.6
EV/EBITDA (x)	5.9	7.2	6.0	5.0	4.2
Net DPS (sen)	8.0	7.0	8.0	10.0	12.0
Net dividend yield	2.5%	2.1%	2.5%	3.1%	3.7%
BV per share (RM)	1.38	1.56	1.79	2.07	2.38
P/BV (x)	2.4	2.1	1.8	1.6	1.4

DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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