

# Rubber Gloves (NEUTRAL; NEW)

INITIATION

October 18, 2012

## More catalysts needed

### Highlights

- Sector still needs more catalyst, a stronger USD or a pandemic outbreak, for an upside. Currently only one main catalyst in play, i.e. lower rubber prices.
- Global glove demand is expected to continue growing at a CAGR of 10%. Lower ASPs caused by the fall in latex prices will sustain demand growth moving forward.
- A rubber glove glut is possible if global glove demand growth falls below 10% in the next three years.
- Latex (natural rubber and synthetic) prices likely to be capped on the backdrop of the global auto industry slowdown.
- The migration from natural rubber gloves to nitrile gloves will allow glove players to mitigate risks and better manage cost.

### Catalysts

- Surge in demand in the event of a disease outbreak
- Appreciation of the USD against the MYR
- More stringent requirements and increased spending in the healthcare sector in emerging countries will sustain global glove demand growth.
- Lower rubber prices to boost profitability and increase demand for gloves.

### Risks

Downside risks –

- Uptick in natural and/or synthetic latex prices will inevitably erode profitability.
- Depreciation of USD against MYR.
- Price undercutting

### Rating

**Neutral**

- Positives –
  - Latex prices have fallen significantly.
  - Production efficiency to continue improving.
  - Production shift to nitrile gloves from NR gloves will lead to better cost management.
- Negatives –
  - USD dollar is slightly weaker against the MYR compared to a year ago.

### Valuation

- We are initiating coverage on
  - 1) Hartalega (Buy, TP RM5.16) pegged to a 15.5x FY03/14 EPS.
  - 2) Top Glove (Hold at TP RM5.47) pegged to a 14x FY08/13 EPS.
  - 3) Kossan (Hold at TP RM3.19) pegged to a 8.5x FY12/13 EPS.

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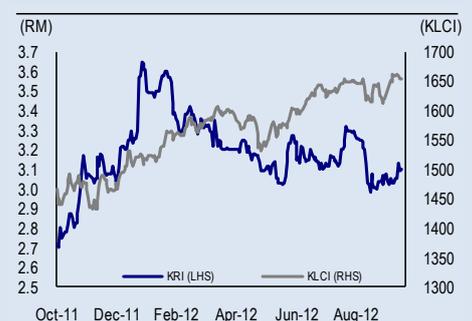
### Hartalega TP: RM5.16 BUY



### Top Glove TP: RM5.47 HOLD



### Kossan TP: RM3.19 HOLD



## INVESTMENT SUMMARY

### More catalysts needed

The rubber glove sector is driven by three main catalysts:

- 1) A steep fall in rubber prices;
- 2) A stronger USD against the MYR; and
- 3) A surge in rubber glove demand caused by a pandemic outbreak.

Currently, the sector has only one main catalyst in play, i.e. low rubber prices. We have a **Neutral** recommendation on the sector because we believe the steep fall in latex prices since last year has already been recognized by the market and factored into valuations of rubber glove companies.

Natural rubber latex prices were on a downtrend after hitting an all-time high of RM10.93 in April 2011. It reached a 33-month low of RM5.27/kg in Aug 2012 and have since rebounded to about RM6.20/kg.

However, the USD is currently trading at a rate of 3.05 against the MYR, about 2% lower compared to 3.10 a year ago. There are also no strong signs of a pandemic outbreak that will lead to a global surge in demand for rubber gloves.

Without the sector's two other main catalysts, we believe most rubber glove stocks will continue to trade around their average historical valuations.

The most recent scenario when all three catalysts were in play was during the H1N1 pandemic outbreak in 2009-2010. Rubber glove stocks were then trading at their highest valuations, due to the market's optimism in their earnings growth. However, valuations soon eroded after supply exceeded demand, rubber prices rose, and the USD weakened.

### Global glove demand outlook and supply-demand situation

We expect global demand for rubber gloves to resume growing at its historical CAGR of 10% (in line with the industry's expectations) for the next three years. On this assumption, we believe there will be enough demand to absorb the additional output coming from the expanded capacity of glove players. However, if demand growth falls short of 10%, a potential oversupply situation may hog the sector's earnings.

### Sustainable earnings growth

We expect glove players to experience decent earnings growth over the next three years mainly due to the following reasons:

- 1) We expect latex prices to only gradually increase from current levels;
- 2) Sales would grow in line with global demand; and
- 3) The switch from natural rubber gloves to nitrile gloves will lead to better cost management and risk mitigation.

### Valuation and Recommendation

We are initiating coverage on the rubber glove sector with a **Neutral** recommendation, as we believe the sector still needs more major catalysts in order to spark a significant upside.

We do not believe the sector's current valuation matrix, which uses Top Glove as a benchmark, applies anymore. We believe Hartalega is the sector's new benchmark due to its superior net margins over Top Glove and other glove companies.

We have a BUY on Hartalega with a TP RM5.16 pegged to a 15.5x FY03/14 EPS, a Hold on Top Glove with TP RM5.47 pegged to a 14x FY08/13 EPS, and a Hold on Kossan with a TP RM3.19 pegged to a 8.5x FY12/13 EPS.

**We believe the market has already taken into account low rubber prices and this has been factored into valuations of rubber glove companies**

**Sector needs more catalysts for an upside re-rating**

**Rubber glove global demand expected to grow at a CAGR of 10%**

**Decent earnings growth seen over next three years**

**We believe Hartalega is the sector's new benchmark**

# GLOBAL RUBBER GLOVE DEMAND OUTLOOK

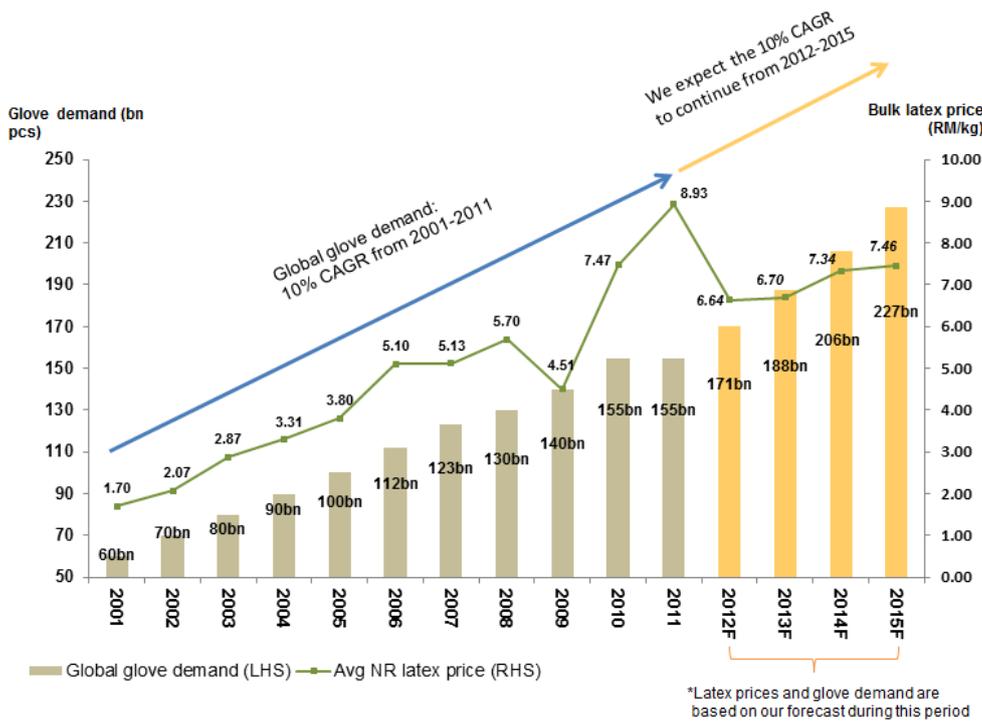
As seen in Figure 1, demand for rubber gloves grew from 60bn pieces in 2001 to 155bn pieces in 2011, representing a CAGR of 10%.

There was flat growth in demand from 2010 to 2011, due to high ASPs caused by a spike in latex prices, leading to a cut back in orders.

However, NR latex is now trading about RM6.20/kg, 43% lower than its all-time of RM10.93/kg in April 2011. As a result, ASPs have also fallen in tandem (see Figure 2) and orders for rubber gloves have picked up this year, with most glove players reporting oversold positions of 3-months or more.

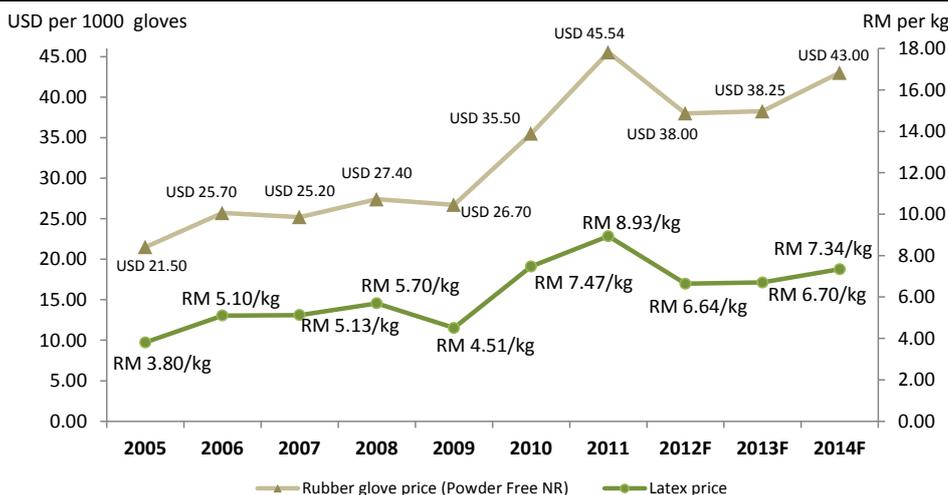
As will be discussed in later sections, we do not expect a significant rise in latex prices from 2012 to 2015, and hence believe that demand for rubber gloves will continue growing at an annual rate of 10% in the next three years.

**Figure 1: Estimated Global Rubber Glove Demand, Average Latex Price**



Estimates from Companies and Malaysian Rubber Glove Manufacturers Association (MARGMA), HLIB

**Figure 2: NR Gloves vs Avg NR Latex Prices**



Companies, HLIB

Lower ASP to increase glove demand

Glove demand to resume growing at 10%.

Gradual increase in NR latex prices.

Demand for NR gloves fell in 2011 due to high ASPs caused by a spike in NR latex prices

## SUPPLY-DEMAND SITUATION

Figure 3 shows that if the capacity expansion plans of the world's top five largest glove makers (who control about a 41% global market share based on their output in 2011) goes as planned, there will be just enough growth in demand to absorb the additional supply coming from their expanded capacity.

However, this is on the assumption that demand will continue growing at a 10% pace. We illustrated that if demand were to grow at 9%, an oversupply of gloves is likely.

Our output projection of the five glove makers was based on their capacity expansion plans and our estimates of their average utilization rates. For other glove manufacturers, we assumed that their output would grow at the average growth rate of the five glove makers.

**Rubber glove glut likely if demand growth falls below 10%**

**Figure 3: Global rubber glove supply and demand forecast**

Est. effective capacity (bn pieces)	2011	2012F	2013F	2014F	2015F
<b>Top Glove</b>	<b>35.3</b>	<b>38.5</b>	<b>41.9</b>	<b>43.7</b>	<b>46.8</b>
Growth (%)		9.1	8.8	4.3	7.0
Output @ 75% utilisation	26.5	28.9	31.4	32.8	35.1
<b>Hartalega</b>	<b>9.8</b>	<b>11.0</b>	<b>13.7</b>	<b>15.7</b>	<b>20.5</b>
Growth (%)		12.2	24.5	14.6	30.6
Output @ 85% utilisation	8.3	9.4	11.6	13.3	17.4
<b>Kossan</b>	<b>10.0</b>	<b>11.1</b>	<b>11.6</b>	<b>12.2</b>	<b>12.8</b>
Growth (%)		10.6	5.0	5.0	5.0
Output @ 85% utilisation	8.0	9.4	9.9	10.4	10.9
<b>Supermax</b>	<b>17.6</b>	<b>19.0</b>	<b>20.0</b>	<b>21.6</b>	<b>23.0</b>
Growth (%)		8.0	5.3	8.0	6.5
Output @ 80% utilisation	14.1	15.2	16.0	17.3	18.4
<b>Latexx Partners</b>	<b>9.0</b>	<b>9.0</b>	<b>10.0</b>	<b>11.0</b>	<b>12.0</b>
Growth (%)		0.0	11.1	10.0	9.1
Output @ 70% utilisation	6.3	6.3	7.0	7.7	8.4
<b>Total output (bn pcs)</b>	<b>63.2</b>	<b>69.1</b>	<b>75.9</b>	<b>81.5</b>	<b>90.2</b>
Increase in output		5.9	6.8	5.5	8.7
Growth (%)		9.4	9.9	7.3	10.7
<b>Estimated output from other glove companies</b>	<b>91.8</b>	<b>100.4</b>	<b>110.3</b>	<b>118.4</b>	<b>131.0</b>
Assumed growth (%)		9.4	9.9	7.3	10.7
<b>Total estimated global glove output</b>	<b>155.0</b>	<b>169.6</b>	<b>186.3</b>	<b>199.8</b>	<b>221.2</b>
<b>Estimated global glove demand @ 10% growth</b>	<b>155.0</b>	<b>170.5</b>	<b>187.6</b>	<b>206.3</b>	<b>226.9</b>
<b>Estimated global glove demand @ 9% growth</b>	<b>155.0</b>	<b>169.0</b>	<b>184.2</b>	<b>200.7</b>	<b>218.8</b>

Estimates from Companies and MARGMA, HLIB

## RAW MATERIAL PRICING AND TREND

Latex (natural and synthetic) plays a key role in the profitability of rubber glove companies as it is their largest cost component, accounting for 50%-60% of their total cost (see Figure 5).

We believe the performance of glove companies will be largely determined on where latex prices are headed. Natural rubber latex and nitrile (synthetic) latex prices will be mainly driven by the tire manufacturing industry, which accounts for more than 70% of global rubber demand.

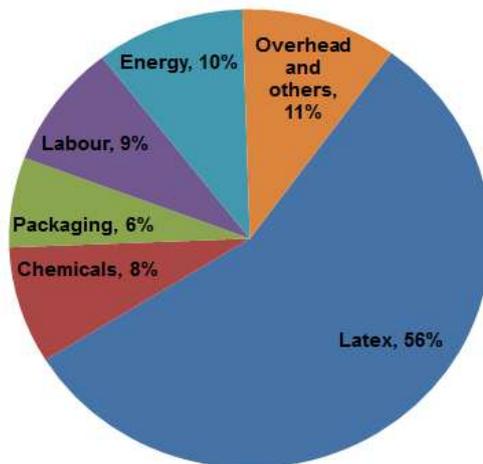
**Figure 4: Earnings sensitivity analysis on latex price changes**

Change in NR Latex price	+ 50 sen	Base	- 50 sen
<b>Hartalega (FY13) RMm</b>	228.2	229.9	231.6
% impact on net profit	-0.7	0	0.7
<b>Top Glove (FY13) RMm</b>	188.1	241.6	295.2
% impact on net profit	-22.2	0	22.2
<b>Kossan (FY13) RMm</b>	104.3	119.9	135.5
% impact on net profit	-13.0	0	13.0

Change in Nitrile Latex Price	+ 50 US cents	Base	- 50 US cents
<b>Hartalega (FY13) RMm</b>	154.4	229.9	305.4
% impact on net profit	-32.8	0	32.8
<b>Top Glove (FY13) RMm</b>	201.0	241.6	282.2
% impact on net profit	-16.8	0	16.8
<b>Kossan (FY13) RMm</b>	88.7	119.9	151.0
% impact on net profit	-26.0	0	26.0

HLIB

**Figure 5: Average cost breakdown of rubber glove companies**



Companies, HLIB

## Natural Rubber Latex

Due to a slowdown of growth in the global automotive industry in 2011, demand for tires was sluggish causing NR latex prices to fall sharply after the commodity peaked at its all-time high in April 2011 (see Figures 6, 7, 8 and 9). NR latex reached a 33-month low of RM5.30/kg on 16 Aug and is currently about RM6.20/kg.

The slower growth in the auto sector was notable in China, the world's largest producer and consumer of rubber products, with the tire sector making up more than half of total sales and exports. China accounts for 33% of total global NR consumption followed by the EU and US who consumed about 11.1% and 9.4% of total global consumption, respectively.

**Performance of glove companies would be largely dependent on latex prices**

**Tire industry will dictate latex price movement**

**Global auto industry growth slowdown drove latex prices down**

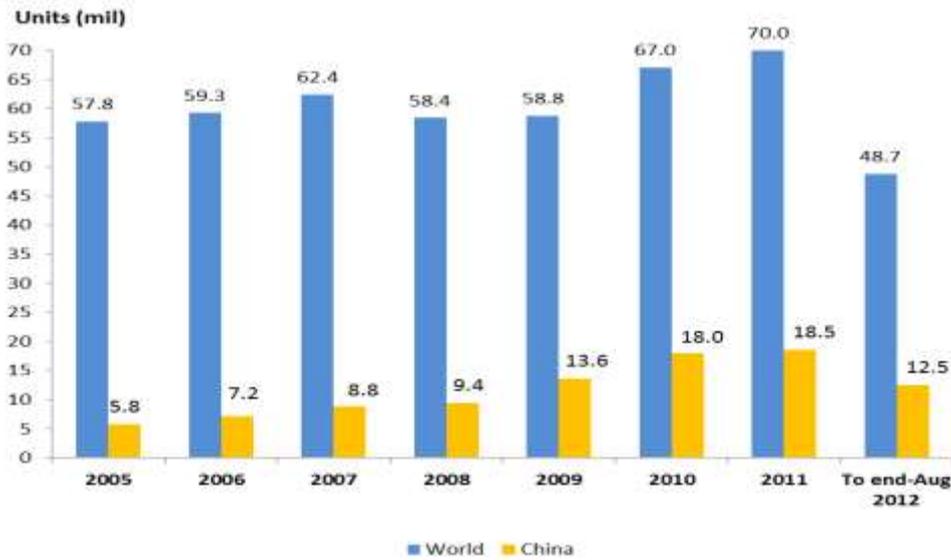
**The slower expansion was noticeable in China, the world fastest growing auto industry**

**Figure 6: Natural rubber latex price**



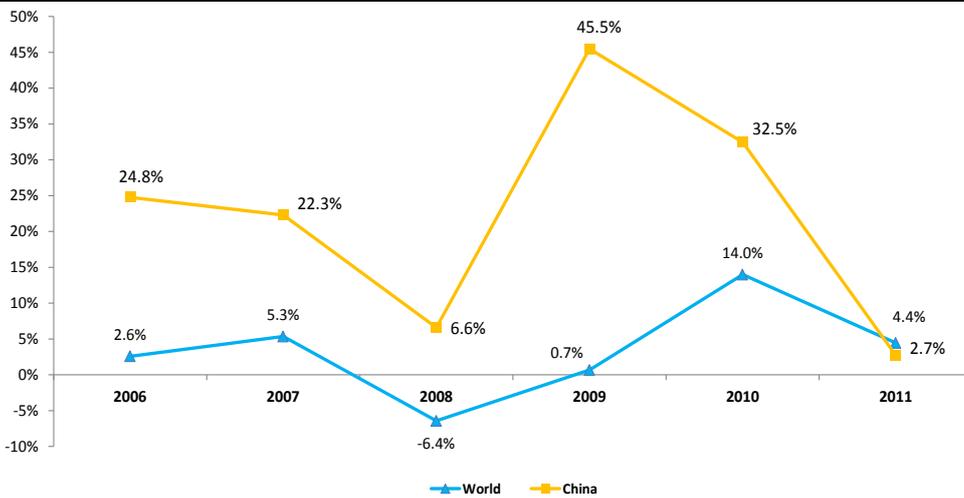
Bloomberg, HLIB

**Figure 7: Vehicle Sales: Global and China**



Bloomberg, HLIB

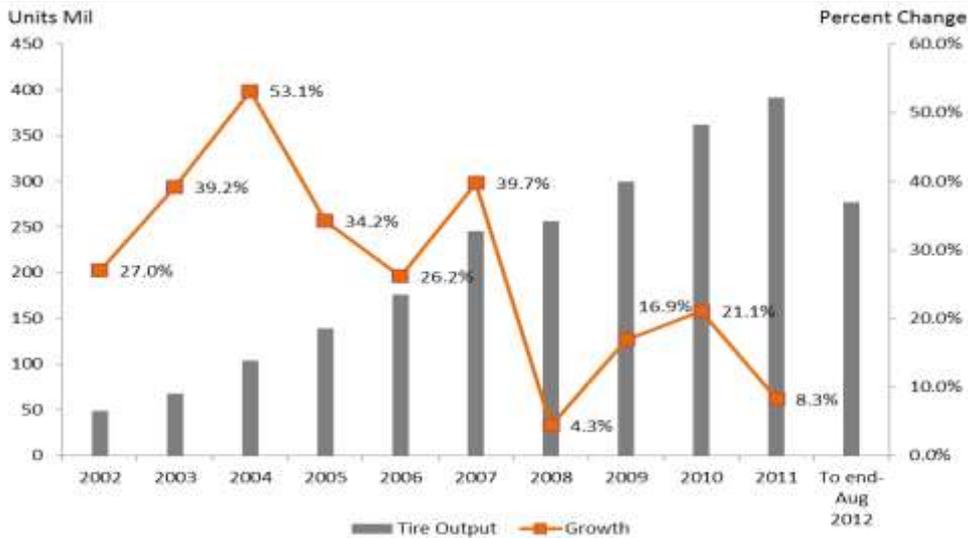
**Figure 8: Vehicle Sales Growth: Global and China**



Bloomberg, HLIB

Increased vehicle sales but slower growth

**Figure 9: China's Radial Tire Output**



Bloomberg, HLIB

Due to China being the highest consumer of rubber, we believe the level of activity in the country's auto sector will be the main driver of NR prices moving forward. After 10 years of high-speed growth, we believe China's auto industry is entering an adjustment period and hence expect slower demand growth for new tires in the near term. We also expect tire demand from the replacement market (which account for about 75% of total tire sales) to slowdown as customers defer their purchases on poor sentiment.

On the backdrop of the ongoing economic uncertainties in Europe, we expect a slowdown in the global auto industry as well.

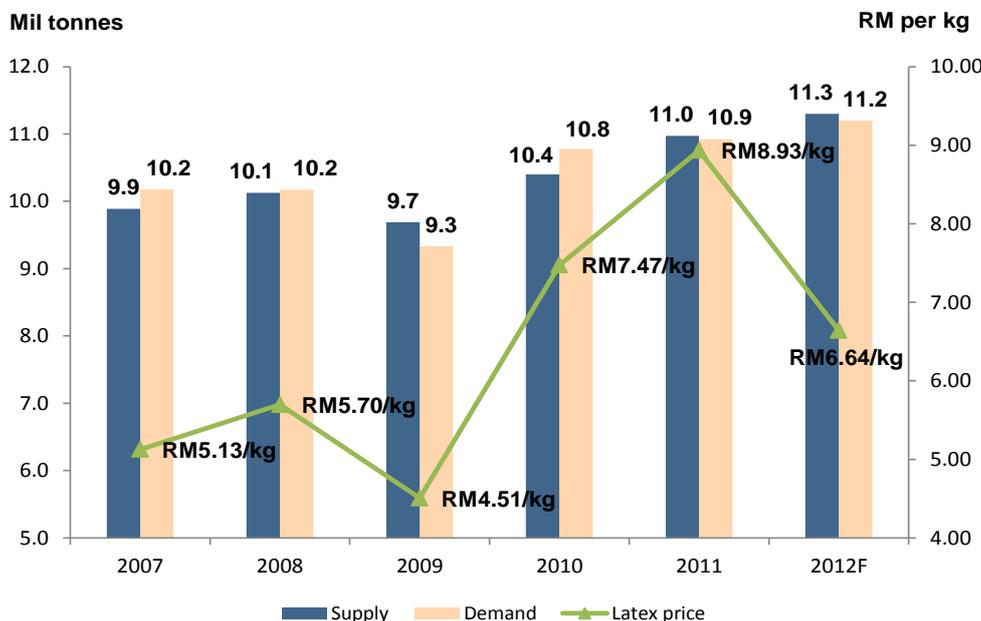
As such, we expect NR latex to remain in a small surplus in 2012 (see Figure 10) and do not expect prices to rise sharply from 2012-2015.

Our assumption is for NR latex to average at RM6.64 per kg in 2012 (-26% yoy), RM6.70 in 2013 (+1% yoy), RM7.34 in 2014 (+9.6% yoy), and RM7.46 in 2015 (-2% yoy). The 9.6% jump in growth in 2014 is due to our expectations of an improvement in the global economy, which should increase demand for rubber.

**We believe the slowdown in the auto industry will continue and this will keep rubber prices in check**

**Small surplus in NR due to slower demand growth from tire industry.**

**Figure 10: Demand and Supply of NR, Average NR latex price**



International Rubber Study Group (IRSG), HLIB

## Interventions to support NR prices

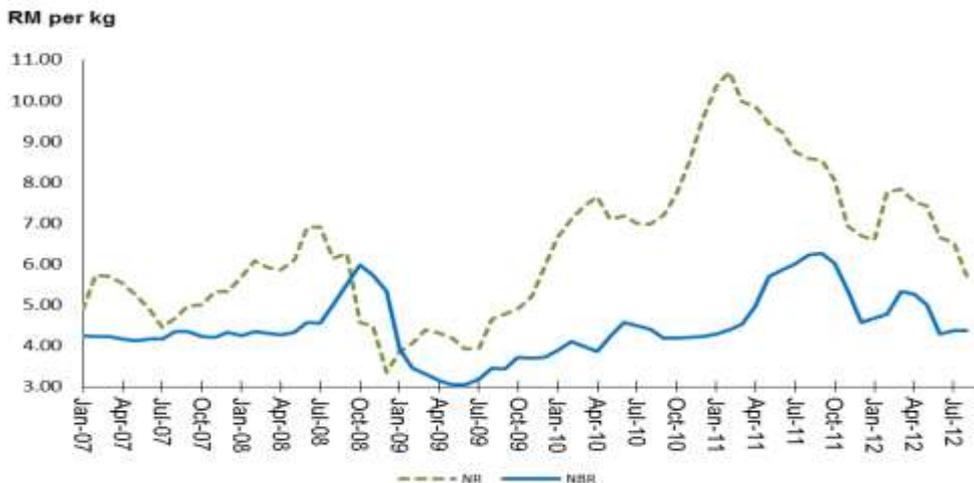
There have been interventions by the Thai government to support falling NR prices recently and in the past. This year, the Thai government approved two rubber market intervention plans amounting to 40bn baht (RM4bn) with the aim of buying up to 400,000 tonnes of rubber. Thailand, Indonesia and Malaysia (which account for about 70% of the global rubber production) had also agreed to cut natural rubber exports by a total of 300,000 tonnes to support prices.

We believe the interventions will only have a minimal and short term impact on NR prices, as the interventions, if fully implemented, will only affect less than 10% of the estimated total rubber supply in 2012. We believe demand from the auto industry will be the more pertinent driver of rubber prices.

## Synthetic Rubber Latex

The type of synthetic rubber (SR) latex used by rubber glove manufacturers is known as acrylonitrile butadiene rubber (NBR) latex, or better known as nitrile latex. As NBR latex can partially substitute NR latex, there is a positive correlation between their prices. Since 2007, nitrile latex has mostly been cheaper and less volatile than NR latex. (see Figure 11)

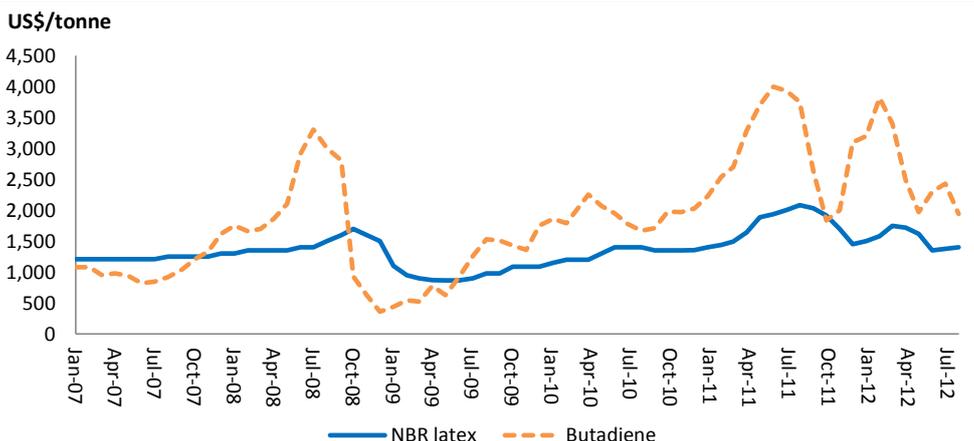
**Figure 11: NR and NBR latex prices**



Companies, HLIB

Unlike NR latex, prices for NBR latex are not readily available as it is not a traded commodity. However, the price of NBR as well as other SRs is tied to the price of their main feedstock, butadiene – a globally traded chemical (see Figure 12).

**Figure 12: NBR latex and Butadiene prices**



Bloomberg, Companies, HLIB

**Interventions should only have minor impact and short term impact**

**NBR has been mostly cheaper and less volatile than NR**

**NBR latex price tied to butadiene**

Butadiene is produced as a by-product of ethylene and propylene production from steam crackers – a petrochemical plant that uses steam to “crack” naphtha (petroleum) or natural gas into ethylene, propylene, and other chemical raw materials.

Due to tightening supplies, butadiene prices have mostly been on an upward trend since 2009. (see Figure 12) This was a result of steam crackers switching from using heavier feedstocks (mainly naphtha derived from crude oil) to lighter feedstocks (mainly ethane derived from natural gas), which yields significantly less butadiene (see Figure 13).

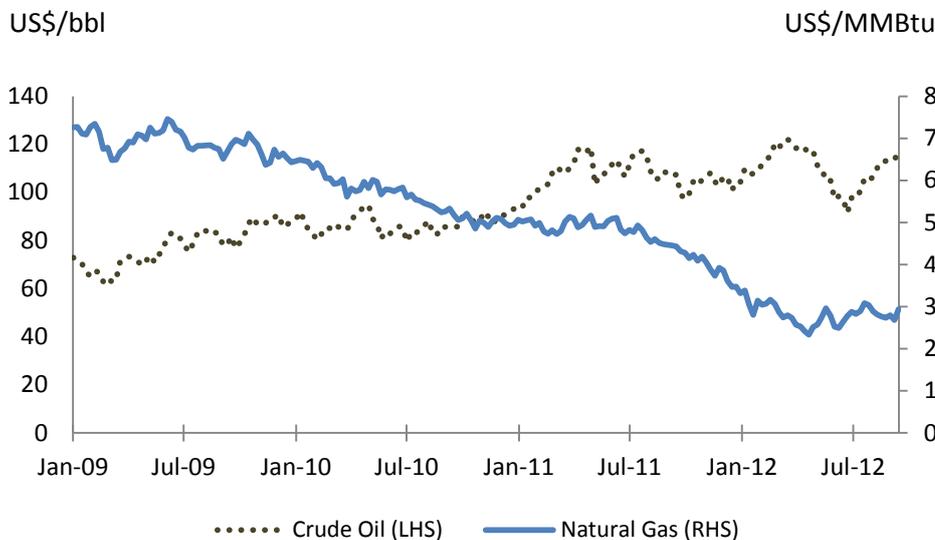
**Figure 13: Butadiene yields from Ethane and Naphtha feedstock**

	Ethane (Derived from Natural Gas)	Naphtha (Derived from Crude Oil)
Ethylene yield (wt%)	80–8	29–34
Propylene yield (wt%)	1–1.6	13–16
<b>Butadiene yield (wt%)</b>	<b>1–1.4</b>	<b>4–5</b>

Oil and gas journals, HLIB

In the past, naphtha was predominantly used by steam crackers as it was the most cost effective feedstock to produce ethylene. However, the abundance of shale oil in the US have caused prices of natural gas to decouple and trend lower than crude oil (see Figure 14), pushing steam crackers to use more ethane instead of naphtha.

**Figure 14: Natural Gas vs Crude Oil Prices**



Bloomberg, HLIB

Since 2007, butadiene prices have averaged about US\$1900/tonne. There were two significant price spikes since the start of 2011. One was when prices shot to a peak of US\$4500/tonne in July 2011. Another was when it reached a peak of US\$3920 in Feb 2012. However, prices have now eased to around US\$2000/tonne. (see Figure 12)

Despite tighter supplies, we believe butadiene prices will continue at current levels around US\$2000/tonne, due to reduced demand from the automotive industry. As such, we are not expecting a significant rise in nitrile latex prices.

Our view is supported by Yule Catto (the world’s largest producer of nitrile latex) which, in its 2Q12 financial notes announced in Aug, said that the nitrile market has become extremely challenging, with excess capacity and aggressive competitive behaviour. This caused the UK based company’s operating profit in Asia and rest of world in 1H12 to decline 42.1%, on lower volumes which was down by 4.2% against the comparative prior year period. Yule Catto said it does not see any meaningful recovery in the nitrile trading environment in the next 12 to 18 months.

Currently, nitrile latex prices are about US\$1.33/kg. We expect nitrile latex to

**Butadiene supplies tightening due to switch in feedstocks**

**We expect NBR prices to remain in check**

**Challenging nitrile latex market should keep prices around current levels**

average at US\$1.56/kg in 2012 (-11.7% yoy), US\$1.63/kg in 2013 (+4.1% yoy), US\$1.70 in 2014 (+4.6% yoy) and US\$1.70 (0% yoy) in 2015.

## MIGRATION TO NITRILE GLOVES

Rubber glove companies have been increasing their nitrile glove output by upgrading and installing newer production lines that are capable of producing nitrile and NR gloves interchangeably (see Figure 15). The migration to nitrile gloves, we believe, will be beneficial for glove players for the following reasons:

**Switch to nitrile gloves will benefit glove players**

- 1) Nitrile gloves uses less latex compared to NR gloves. Coupled with the lower cost input of nitrile latex, glove players should see an improvement in margins;
- 2) Nitrile latex is less volatile than NR latex, which results in better cost management;
- 3) Nitrile latex, being USD denominated, acts as a natural forex hedge for rubber glove companies, whose sales are more than 95% transacted in the greenback; and
- 4) Demand for nitrile gloves is increasing from developed nations, where more companies and institutions are banning NR latex gloves to eliminate any potential problems with latex protein allergy reactions.

**Figure 15: Nitrile glove output as percentage of total glove output**

Company	FY09	FY10	FY11	FY12F	FY13F	FY14F	FY15F
Hartalega	81.0	82.2	90.2	94.2	95.0	95.0	95.0
Kossan	27.0	37.0	42.0	50.0	50.0	50.0	50.0
Top Glove	6.5	6.6	12.0	15.2	18.4	21.4	24.0

HLIB estimates

## US DOLLAR OUTLOOK

More than 95% of glove companies sales are transacted in the USD. Currently the USD/MYR rate is 3.05, about 2% lower compared to a year ago. Our house economist forecasts an end-year USD/MYR rate of 3.12 and 3.10 for 2013.

We believe that several fundamental shifts have occurred recently that will cap the performance of MYR vs. USD. For one, trade surplus will be shrinking going forward due to high imports for construction and O&G projects. BNM reserves are also tapering off and we expect this trend to continue. The high level of foreign shareholding of debt securities represents another vulnerability for MYR.

**Figure 16: USD/MYR rate**



Bloomberg, HLIB

**Figure 17: Earnings sensitivity analysis on USD changes**

Change in USD	+ 1%	Base	- 1%
<b>Hartalega (FY13) RMm</b>	241.4	229.9	218.4
% impact on net profit	5.0	0	-5.0
<b>Top Glove (FY13) RMm</b>	258.1	241.6	225.3
% impact on net profit	6.8	0	-6.8
<b>Kossan (FY13) RMm</b>	128.5	119.9	111.3
% impact on net profit	7.2	0	-7.2

HLIB

## MINIMUM WAGE AND NATURAL GAS PRICE HIKES

We do not expect the minimum wage policy of RM900 for Peninsular Malaysia which is expected to take effect from January 2013, to have a major impact on rubber glove companies under our coverage.

We understand that entry-level factory workers in the glove manufacturing sector are paid around RM600. The policy would then increase their salaries by close to 50%. We gathered that about 50% of rubber glove players' labour costs (accounting for 8%-10% of operating expenses) are attributed to entry-level factory workers. Based on this, the policy would increase labour costs by about 25% and raise total operating expenses by 2–2.5 percentage points.

As for natural gas and electricity, price hikes are set to be in 2013. Energy costs for rubber glove companies are around 8% of operating cost. Natural gas prices could increase by about 40% in 2013, while electricity prices could rise by 10%. This would potentially increase energy costs of glove players by 25% and raise total operating cost by 2 percentage points.

As we expect demand for gloves to be firm in the next few years, we believe glove players could pass down most of these cost increases. Glove players are also in the process of fully automating the manufacturing processes. Although most of their production processes are already highly automated, automation is still lacking in the areas of stripping, stacking and packaging.

## VALUATION AND RECOMMENDATION

We initiate coverage on the rubber glove sector with a NEUTRAL recommendation, as we believe the sector still needs more major catalysts to justify a re-rating. We believe the pullback in latex prices has been factored into valuations.

We do not believe the sector's valuation matrix of using Top Glove as a benchmark applies anymore. This is mainly due to sector's migration from NR gloves to nitrile gloves.

We believe Hartalega is the sector's new benchmark due its dominant position in the nitrile glove market which allows it to deliver superior net profit margins. Hartalega's manufacturing processes are also the most efficient in the sector. Based on our forecast, Hartalega will continue to deliver higher net margins than Top Glove (see Figure 18).

Top Glove's valuations have always been at a premium to other glove manufacturers as it has been the sector's leader in terms of market share, revenue, and earnings. However, based on their latest FYs, Hartalega's earnings was almost equivalent to Top Glove's, despite its revenue being 60% less (see Figure 20).

Other glove companies are also following Hartalega by increasing their nitrile glove production in order to replicate its profitability.

### Hartalega (TP: RM5.16, BUY)

We like Hartalega for its high net profit margins, high ROE, and dominant position in

**No major impact seen from price hikes**

**We believe Hartalega is the sector's leader and valuations will be pegged to the company**

the profitable nitrile glove market. We initiate coverage on Hartalega with a BUY rating at a TP of RM5.16 pegged to 15.5x FY03/14 EPS, circa 11% premium to Top Glove's valuation.

The 15.5x FY03/13 PER multiple was also around Top Glove's average FD PER from FY08/07 to FY08/11, a period when the glove sector experienced various ins and outs of major catalysts, and hence we believe it is a good representation of how Hartalega's valuations as the sector's new benchmark would be over the next few years.

We believe the premium in Hartalega's valuation over Top Glove is justifiable due to Hartalega's higher ROE and net profit margins.

### Top Glove (TP: RM5.47, Hold)

We believe Top Glove, being the market leader in NR gloves, will benefit the most from the huge decline in NR latex prices. However, its product mix consisting largely of powdered NR gloves will weigh down its profit margins.

Currently Top Glove is trading at a 13.6x FD PER. We believe Top Glove should be trading at its historical 5-yr FD PER of about 14x. We have a HOLD rating on the company at a TP of RM5.47 pegged to a 14x FY08/13 EPS.

### Kossan (TP: RM3.19, Hold)

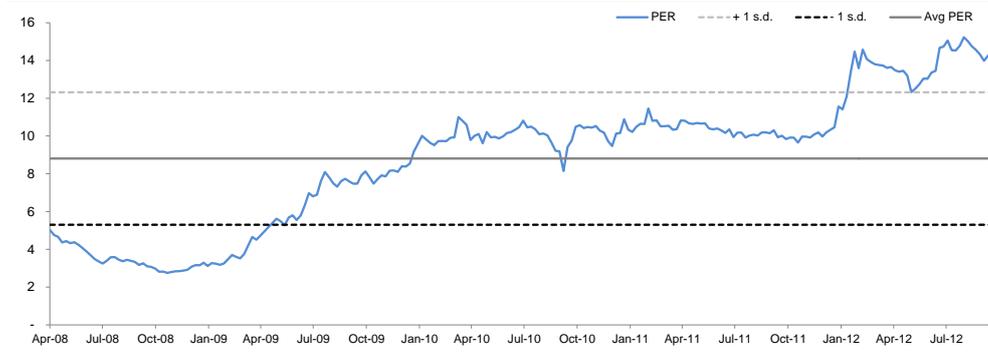
We like Kossan for its balanced nitrile and NR gloves product mix, which will enable it to balance the cost volatility coming from either NR or nitrile latex. However without a product mix leaning more towards nitrile gloves, we do not see a spurt in net margins over the next three years. We have a HOLD on Kossan at a TP of RM3.15 pegged to FY12/13 EPS of 8.5x, largely in line with its 5-year historical FD EPS of 8.2x.

**Figure 18: Comparison between Hartalega, Top Glove, and Kossan**

Hartalega	FYE Mar	2008A	2009A	2010A	2011A	2012A	2013F	2014F	2015F
Revenue		257.6	443.2	571.9	734.9	931.1	1023.7	1288.2	1509.5
Growth (%)		6.9	72.1	29.0	28.5	26.7	9.9	25.8	17.2
Net Profit		69.6	84.5	142.9	190.3	201.4	229.9	268.1	298.1
Growth (%)		87.7	21.5	69.1	33.2	5.8	14.2	16.6	11.2
NP margin (%)		27.0	19.1	25.0	25.9	21.6	22.5	20.8	19.7
ROE (%)		21.9	33.2	40.4	38.5	32.5	30.2	24.9	21.6
Top Glove	FYE Aug	2008A	2009A	2010A	2011A	2012A	2013F	2014F	2015F
Revenue		1377.9	1529.1	2079.4	2053.9	2314.4	2442.4	2795.8	3127.1
Growth (%)		12.1	11.0	36.0	-1.2	12.7	5.5	14.5	11.8
Net Profit		110.1	169.1	245.2	113.1	202.2	241.6	257.2	287.9
Growth (%)		22.9	53.7	45.0	-53.9	78.8	19.5	6.5	11.9
NP margin (%)		8.0	11.1	11.8	5.5	8.7	9.9	9.2	9.2
ROE (%)		16.0	20.0	22.4	10.1	16.1	17.5	17.0	17.2
Kossan	FYE Dec	2008A	2009A	2010A	2011A	2012F	2013F	2014F	
Revenue		897.2	842.1	1046.9	1090.0	1193.5	1244.9	1395.1	
Growth (%)		27.7	-6.1	24.3	4.1	9.5	4.3	12.1	
Net Profit		58.6	66.7	113.4	89.7	108.2	119.9	144.6	
Growth (%)		6.5	13.7	70.0	-20.9	20.6	10.8	20.6	
NP margin (%)		6.5	7.9	10.8	8.2	9.1	9.6	10.4	
ROE (%)		19.6	18.7	25.6	18.1	18.7	18.0	18.6	

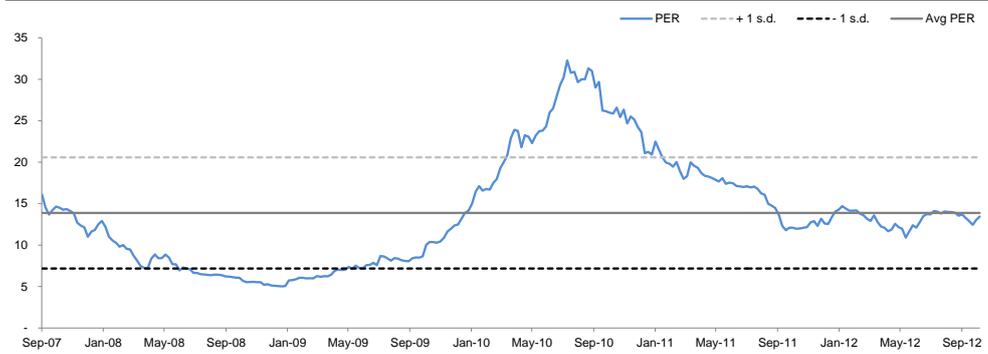
HLIB

**Figure 19: Hartalega Rolling 1-Year Forward PER**



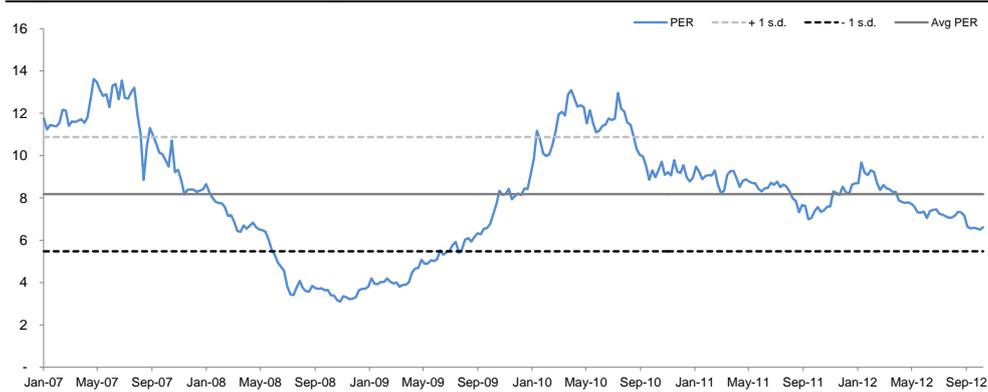
Bloomberg, HLIB

**Figure 20: Top Glove Rolling 1-Year Forward PER**



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**Figure 21: Kossan Rolling 1-Year Forward PER**



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**Figure 22: Peer valuations**

Company	FYE	Price (RM)	Market Cap (RM m)	Recom	TP (RM)	P/E (x)		P/B (x)		ROE (%)		EV/EBITDA (x)		DY (%)
						2012	2013	2012	2013	2012	2013	2012	2013	
Supernax	Dec	2.04	1,387.5	NR	N/A	10.5	9.2	1.5	1.4	15.2	15.1	11.0	9.7	2.7
Latexx	Dec	2.26	503.6	NR	N/A	11.9	9.8	N/A	N/A	14.1	14.8	6.9	5.8	1.7
Hartalega	Mar	4.60	3,366.1	Buy	5.16	18.4	16.1	5.4	4.4	32.5	30.2	11.2	10.1	3.2
Top Glove	Aug	5.31	3,286.6	Hold	5.47	16.3	13.6	2.6	2.3	16.1	17.5	11.5	9.7	3.8
Kossan	Dec	3.09	988.0	Hold	3.19	9.1	8.2	1.7	1.5	18.7	18.0	5.3	4.7	
Average						13.2	11.4	2.8	2.4	19.3	19.1	9.2	8.0	2.9

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# HLIB Research

PP 9484/12/2012 (031413)

## Hartalega Holdings (BUY; NEW)

INITIATION

INDUSTRY: NEUTRAL

October 18, 2012

Price Target: RM5.16

Share price: RM4.60

### Sector's new benchmark

#### Highlights

- Consistent net profit margins of about 20% is highest in sector. We expect margins to continue around 20%.
- High margins will shield earnings in the event of increased price competition. Also in a safe position to lower ASPs in order to gain market share.
- Most efficient glove maker with lines capable of speeds up to 42k gloves per hour vs. industry average of 22k. Other manufacturing processes such as stripping and packaging also highly automated.
- First mover advantage in nitrile glove market. World's largest nitrile glove maker, nitrile gloves accounts for 95% of output.
- Better cost management, as nitrile latex has been lower than NR latex since 2009. Nitrile which is sold in USD also acts a natural forex hedge.
- With its upcoming NGC project, Hartalega's capacity growth will be highest over the next 8 years, increasing from 13.7bn in FY15 to 38.1bn in FY20, representing a 23% CAGR.

#### Catalysts

- Further shift in demand from NR to nitrile gloves in developed countries.
- Decline in nitrile latex prices.
- In-house research capabilities could lead to more efficient manufacturing processes.

#### Risks

- Delays in expansion plans
- Tightening of butadiene supply may cause nitrile latex prices to rise more than expected.
- Shift in demand to NR gloves, due to a spike in nitrile latex prices.
- Depreciation of USD vs MYR

#### Rating

BUY

- Positives –
  - Dominant position in nitrile glove market. High ROE and net profit margins.
  - Most efficient and profitable glove maker.
- Negatives –
  - Possibility of increased competition in nitrile glove market.

#### Valuation

- We initiate coverage on Hartalega with a BUY rating at a TP of RM5.16 pegged to a 15.5x FY03/14 EPS, which is circa 11% premium to Top Glove. The premium is due to Hartalega's high net profit margins and ROE.

#### Low Yee Huap

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KLCI	1653.5
Expected share price return	12.2%
Expected dividend return	3.7%
Expected total return	15.9%

#### Share price



#### Information

Bloomberg Ticker	HART MK
Bursa Code	5168
Issued Shares (m)	732
Market cap (RM m)	3,366
3-mth avg. volume ('000)	288

#### Price Performance

	1M	3M	12M
Absolute	4.8	3.1	68.2
Relative	4.1	2.0	46.7

#### Major shareholders

Hartalega Industries	27.6%
Franklin Resources Inc	0.6%
Deutsche Bank AG	0.4%

#### Summary Earnings Table

FYE Mar (RM m)	2012A	2013E	2014E	2015E
Turnover	931.1	1023.7	1288.2	1509.5
EBITDA	289.2	329.4	405.1	465.1
PBT	258.4	294.8	343.8	382.3
Net profit	201.4	229.9	268.1	298.1
EPS (sen)	27.5	31.4	34.7	37.0
Diluted EPS (sen)	25.0	28.6	33.3	37.0
P/E	18.4	16.1	13.8	12.4
BV/share (RM)	0.85	1.04	1.34	1.71
P/BV	5.4	4.4	3.4	2.7
Net DY (%)	2.3	3.2	3.7	4.1
ROE (%)	32.5	30.2	24.9	21.6
ROA (%)	26.6	22.8	20.0	18.1
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## Financial Projections

### Income statement

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
<b>Revenue</b>	<b>734.9</b>	<b>931.1</b>	<b>1023.7</b>	<b>1288.2</b>	<b>1509.5</b>
<b>EBITDA</b>	<b>270.3</b>	<b>289.2</b>	<b>329.4</b>	<b>405.1</b>	<b>465.1</b>
Dept. & Amort.	-24.9	-29.0	-33.3	-55.1	-77.1
Interest income	2.4	0.9	5.1	4.5	5.0
Interest expense	-2.5	-1.7	-1.2	-6.2	-5.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>242.8</b>	<b>258.4</b>	<b>294.8</b>	<b>343.8</b>	<b>382.3</b>
Taxation	-52.5	-57.0	-64.9	-75.6	-84.1
Minorities	0.03	0.05	0.05	0.05	0.05
<b>Net profit</b>	<b>190.3</b>	<b>201.4</b>	<b>229.9</b>	<b>268.1</b>	<b>298.1</b>
No. of shares (m)	731.8	731.8	731.8	771.8	805.1
<b>Basic EPS (sen)</b>	<b>26.0</b>	<b>27.5</b>	<b>31.4</b>	<b>34.7</b>	<b>37.0</b>
<b>Diluted EPS (sen)</b>	<b>23.6</b>	<b>25.0</b>	<b>28.6</b>	<b>33.3</b>	<b>37.0</b>

### Balance sheet

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Fixed assets	348.6	379.7	611.9	856.9	1029.7
Other long-term assets	0.3	0.5	0.0	0.0	0.0
Other short-term assets	3.4	0.1	0.0	0.0	0.0
<b>Working capital</b>	<b>108.5</b>	<b>154.2</b>	<b>168.9</b>	<b>213.7</b>	<b>255.1</b>
Receivables	101.0	117.1	168.3	212.5	254.1
Payables	-57.2	-60.4	-84.1	-106.2	-127.1
Inventories	64.7	97.5	84.8	107.5	128.1
<b>Net cash</b>	<b>78.0</b>	<b>138.6</b>	<b>20.8</b>	<b>47.2</b>	<b>133.9</b>
Cash	117.0	163.2	145.5	161.9	238.5
ST debt	-14.5	-12.6	-12.6	-12.6	-12.6
LT debt	-24.5	-12.1	-112.1	-102.1	-92.1
<b>Shareholder's funds</b>	<b>494.4</b>	<b>619.5</b>	<b>760.9</b>	<b>1077.0</b>	<b>1377.9</b>
Share capital	181.8	182.5	365.5	385.9	402.5
Reserves	312.7	437.0	395.4	691.1	975.4
Minorities	0.4	0.6	0.6	0.6	0.6
Other liabilities	44.0	53.0	40.1	40.2	40.2

### Assumption Metrics

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Effective capacity (bn)	8.33	9.78	11.0	13.7	15.7
Utilisation rate (%)	80	83	85	85	85
NBR latex price (USD/kg)	1.79	1.48	1.60	1.70	1.80
NR latex price (RM/kg)	8.21	8.29	6.36	6.96	7.48

### Cashflow

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
Pretax profit	242.8	258.4	294.82	343.77	382.25
Dep. and Amort.	25.0	29.0	33.3	55.1	77.1
Changes in working cap	-40.9	-44.5	-14.7	-44.8	-41.4
Net interest received/(paid)	-0.1	1.9	3.8	-1.7	-0.7
Tax paid	-47.8	-48.8	-64.9	-75.6	-84.1
Others	5.7	4.3	-3.8	1.7	0.7
<b>Operating Cash Flow</b>	<b>184.8</b>	<b>200.3</b>	<b>248.6</b>	<b>278.4</b>	<b>333.9</b>
Capex	-81.3	-60.2	-275.0	-300.0	-250.0
Others	0.3	0.1	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-81.0</b>	<b>-60.1</b>	<b>-275.0</b>	<b>-300.0</b>	<b>-250.0</b>
Div paid	-56.9	-87.4	-91.3	-120.5	-135.1
Changes in borrowings	-2.5	-14.6	100.0	-10.0	-10.0
Issuance of shares	0.3	6.9	0.0	168.5	137.9
Others	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-59.1</b>	<b>-95.0</b>	<b>8.7</b>	<b>38.0</b>	<b>-7.2</b>
Net cash flow	44.7	45.2	-17.7	16.4	76.6
Forex	-2.3	1.0	0.0	0.0	0.0
<b>Beginning cash</b>	<b>38.2</b>	<b>74.6</b>	<b>117.0</b>	<b>163.2</b>	<b>145.5</b>
<b>Ending cash</b>	<b>117.0</b>	<b>163.2</b>	<b>145.5</b>	<b>161.9</b>	<b>238.5</b>

### Valuation Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
EPS (sen)	26.0	27.5	31.4	34.7	37.0
Diluted EPS (sen)	23.6	25.0	28.6	33.3	37.0
P/E (x)	19.5	18.4	16.1	13.8	12.4
Net DPS (sen)	10.5	10.8	14.5	17.0	19.0
Net DY (%)	2.3	2.3	3.2	3.7	4.1
BV/share (RM)	0.68	0.85	1.04	1.34	1.71
P/BV (x)	6.8	5.4	4.4	3.4	2.7
FCF/share (sen)	14.2	19.2	-3.6	-2.7	10.4
FCF yield (%)	3.1	4.2	-0.8	-0.6	2.3
Market cap	3363.0	3363.0	3363.0	3703.4	3703.4
Net cash	78.0	138.6	20.8	47.2	133.9
EV	3285.0	3224.5	3342.2	3656.2	3569.5
EV/EBITDA	12.2	11.2	10.1	9.0	7.7
ROE (%)	38.5	32.5	30.2	24.9	21.6
ROA (%)	30.0	26.6	22.8	20.0	18.1

### Other Ratios

FYE 31 Mar (RMm)	2011A	2012A	2013E	2014E	2015E
<b>Growth (%)</b>					
Sales Growth	28.5	26.7	9.9	25.8	17.2
EBITDA Growth	34.5	7.0	13.9	23.0	14.8
PBT Growth	36.6	6.4	14.1	16.6	11.2
Net Profit Growth	33.2	5.8	14.2	16.6	11.2
<b>Margins (%)</b>					
EBITDA Margin	36.8	31.1	32.2	31.4	30.8
PBT Margin	33.0	27.8	28.8	26.7	25.3
Net Profit Margin	25.9	21.6	22.5	20.8	19.7



# HLIB Research

PP 9484/12/2012 (031413)

## Top Glove (Hold; **NEW**)

INITIATION

INDUSTRY: NEUTRAL

October 18, 2012

Price Target: RM5.47

Share price: RM5.31

### Low nitrile glove exposure, lower margins

#### Highlights

- World's largest NR glove producer will benefit from lower NR latex prices. However, its nitrile glove to NR glove output is significantly lower than its peers.
- We understand that 15% of output is nitrile gloves, with NR gloves making up the remaining.
- Due to its high base, revenue is only expected to grow by an average of 12% for the next three years, lower than its average 5-yr historical average growth of 16%.
- Top Glove will be adding about 1bn in capacity in the next few years. Current capacity is 38.5bn.
- Plans to increase market share from 23% currently to 30% by end-2015.
- Company had ventured upstream by acquiring rubber plantation land in Indonesia. Expected to meet 30%-40% of its latex requirements. Planting will start from 2013 to 2025. Gestation period is about 7 years

#### Catalysts

- NR latex prices are expected to remain low. If NR latex prices decline further, more demand may shift back to NR latex gloves.
- Top Glove is investing towards fully automating and upgrading its older manufacturing processes.
- Upstream venture into rubber plantations is expected to lower production cost in the long term.

#### Risks

- Depreciation of USD vs MYR
- Spike in NR latex prices
- Delays in capacity expansion plans.

#### Rating

**Neutral**

- Positives –
  - Gradual shift to nitrile gloves will benefit company in the long term.
  - Upstream diversification
  - Strong net cash position of more than RM160m.
- Negatives –
  - Will experience lower net profit margins than peers due to low exposure in nitrile latex gloves and PF NR gloves. About 54% of output in low margin powdered NR glove

#### Valuation

- We believe Top Glove should be trading at its historical 5-year average FD PER of 14x. We hence have a HOLD rating at a TP of RM5.47, pegged to a 14x FY08/13 EPS.

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KLCI	1653.5
Expected share price return	3.0%
Expected dividend return	3.8%
Expected total return	6.8%

#### Share price



#### Information

Bloomberg Ticker	TOPG MK
Bursa Code	7113
Issued Shares (m)	619
Market cap (RM m)	3,287
3-mth avg. volume ('000)	932

Price Performance	1M	3M	12M
Absolute	2.1	-2.0	29.5
Relative	1.5	-3.1	13.0

#### Major shareholders

Lim Wee Chai	28.9%
Kumpulan Wang Persaraan	6.4%
Top Glove Holding Sdn Bhd	5.2%

#### Summary Earnings Table

FYE Aug (RM m)	2012A	2013E	2014E	2015E
Turnover	2314.4	2442.4	2795.8	3127.1
EBITDA	271.5	319.6	343.8	383.3
PBT	241.2	307.8	327.2	365.6
Net profit	202.2	241.6	257.2	287.9
EPS (sen)	32.67	39.04	41.55	46.52
P/E	16.3	13.6	12.8	11.4
BV/share (RM)	2.07	2.27	2.48	2.75
P/BV	2.6	2.3	2.1	1.9
Net DY (%)	3.8	3.8	3.8	3.8
ROE (%)	16.1	17.5	17.0	17.2
ROA (%)	12.6	14.0	13.5	13.7
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## Financial Projections

### Income statement

FYE 31 Aug (RMm)	2011A	2012A	2013E	2014E	2015E
<b>Revenue</b>	<b>2053.9</b>	<b>2314.4</b>	<b>2442.4</b>	<b>2795.8</b>	<b>3127.1</b>
<b>EBITDA</b>	174.7	271.5	319.6	343.8	383.3
Dept. & Amort.	<b>61.3</b>	<b>69.2</b>	<b>77.8</b>	<b>86.5</b>	<b>95.3</b>
Interest income	10.6	12.3	5.9	6.4	6.5
Interest expense	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	145.5	241.2	307.8	327.2	365.6
Taxation	-30.3	-34.4	-61.6	-65.4	-73.1
Minorities	<b>2.0</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>
<b>Net profit</b>	113.1	202.2	241.6	257.2	287.9
No. of shares (m)	618.9	618.9	618.9	618.9	618.9
<b>Basic EPS (sen)</b>	<b>18.27</b>	<b>32.67</b>	<b>39.04</b>	<b>41.55</b>	<b>46.52</b>

### Cashflow

FYE 31 Aug (RMm)	2011A	2012A	2013E	2014E	2015E
Pretax profit	145.5	241.2	307.8	327.2	365.6
Dep. and Amort.	61.6	69.2	77.8	86.5	95.3
Changes in working cap	0.8	-29.1	-13.7	-42.8	-38.4
Net int. received/(paid)	-10.3	-12.2	-5.7	-6.3	-6.4
Tax paid	-28.2	-13.5	-61.6	-65.4	-73.1
Others	2.8	8.2	-0.1	-0.1	-0.1
<b>Operating Cash Flow</b>	<b>172.1</b>	<b>263.8</b>	<b>304.6</b>	<b>299.0</b>	<b>342.9</b>
Capex	-141.3	-140.5	-170.0	-170.0	-170.0
Others	-55.7	-31.1	0.1	-3.6	-3.5
<b>Investing Cash Flow</b>	<b>-196.9</b>	<b>-171.6</b>	<b>-169.9</b>	<b>-173.6</b>	<b>-173.5</b>
Div paid	-86.6	-80.4	-117.6	-123.8	-123.8
Changes in borrowings	-0.7	0.0	-0.2	0.0	0.0
Issuance of shares	1.0	0.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	1.0
<b>Financing Cash Flow</b>	<b>-86.2</b>	<b>-79.5</b>	<b>-117.8</b>	<b>-123.8</b>	<b>-122.8</b>
Net cash flow	-111.1	12.6	16.8	1.7	46.6
Forex	-1.8	-1.3	0.0	0.0	0.0
<b>Beginning cash</b>	<b>262.9</b>	<b>148.8</b>	<b>167.2</b>	<b>184.0</b>	<b>185.7</b>
<b>Ending cash</b>	<b>148.8</b>	<b>167.2</b>	<b>184.0</b>	<b>185.7</b>	<b>231.3</b>

### Balance sheet

FYE 31 Aug (RMm)	2011A	2012A	2013E	2014E	2015E
Fixed assets	660.7	741.2	824.2	907.7	982.4
Other long-term assets	46.9	44.4	43.8	43.3	43.3
Other short-term assets	129.0	147.7	153.0	162.5	172.0
<b>Working capital</b>	243.1	268.9	282.6	325.4	363.8
Receivables	262.1	325.2	334.6	383.0	428.4
Payables	-194.6	-235.7	-240.9	-275.7	-308.4
Inventories	175.5	179.4	188.9	218.2	243.9
<b>Net cash</b>	145.8	164.3	180.8	182.5	228.1
Cash	148.8	167.2	184.0	185.7	231.3
ST debt	-0.2	-0.2	-0.2	-0.2	-0.2
LT debt	-2.9	-2.8	-3.0	-3.0	-3.0
<b>Shareholder's funds</b>	1121.8	1255.9	1380.0	1513.3	1677.4
Share capital	309.4	309.4	309.4	309.4	309.4
Reserves	812.6	946.5	1070.5	1203.9	1368.0
Minorities	24.6	24.5	24.5	24.5	24.5
Other liabilities	79.0	86.1	80.0	83.6	87.7

### Assumption Metrics

FYE 31 Aug (RMm)	2011A	2012A	2013E	2014E	2015E
Effective capacity (bn pcs)	35.3	38.5	41.9	43.7	46.3
Utilisation rate (%)	70	75	75	77	77
NBR latex price (USD/kg)	1.66	1.59	1.63	1.70	1.70
NR latex price (RM/kg)	9.15	7.23	6.34	7.17	7.50

### Valuation Ratios

FYE 31 Aug (RMm)	2011A	2012A	2013E	2014E	2015E
EPS (sen)	18.3	32.7	39.0	41.6	46.5
Adj EPS (sen)	18.3	32.7	39.0	41.6	46.5
P/E (x)	29.1	16.3	13.6	12.8	11.4
Net DPS (sen)	16.0	20.0	20.0	20.0	20.0
Net DY (%)	3.0	3.8	3.8	3.8	3.8
BV/share (RM)	1.85	2.07	2.27	2.48	2.75
P/BV (x)	2.9	2.6	2.3	2.1	1.9
FCF/share (sen)	5.0	19.9	21.7	20.8	27.9
FCF yield (%)	0.9	3.8	4.1	3.9	5.3
Market cap	3286.3	3286.3	3286.3	3286.3	3286.3
Net cash	145.8	164.3	180.8	182.5	228.1
EV	3140.5	3122.0	3105.4	3103.7	3058.1
EV/EBITDA	18.0	11.5	9.7	9.0	8.0
ROE (%)	10.1	16.1	17.5	17.0	17.2
ROA (%)	7.9	12.6	14.0	13.5	13.7

### Other Ratios

FYE 31 Aug (RMm)	2011A	2012A	2013E	2014E	2015E
<b>Growth (%)</b>					
Sales Growth	-1.2	12.7	5.5	14.5	11.9
EBITDA Growth	-42.7	55.4	17.7	7.6	11.5
PBT Growth	-52.3	65.8	27.6	6.3	11.7
Net Profit Growth	-53.9	78.8	19.5	6.4	12.0
<b>Margins (%)</b>					
EBITDA Margin	8.5	11.7	13.1	12.3	12.3
PBT Margin	7.1	10.4	12.6	11.7	11.7
Net Profit Margin	5.5	8.7	9.9	9.2	9.2



# HLIB Research

PP 9484/12/2012 (031413)

## Kossan Rubber (Hold **NEW**)

INITIATION

INDUSTRY: NEUTRAL

October 18, 2012

Price Target: RM3.19

Share price: RM3.09

### A balanced glove player

#### Highlights

- Intends to maintain a balanced 50:50 product mix of NR and nitrile gloves, allowing it to shield itself from shifts in demand for either type of gloves.
- Has ceased production of powdered NR gloves to focus on higher margin PF NR gloves.
- Plans to diversify into a wider range of products: Surgical, cleanroom, sterilized gloves, and face-mask wipes for E&E industries. Expects to emerge as a key supplier for surgical and cleanroom gloves within two years.
- We estimate current effective capacity of 11.1bn gloves. Kossan targets to increase total capacity by around 10%-15% per annum. Plant utilisation rates have consistently been around 85%.
- More than 90% of gloves sold are in premium PF medical grade mainly consumed by developed countries which emphasize on quality – pricing more stable and less susceptible to raw material cost fluctuations.

#### Catalysts

- Kossan is working towards fully automating and upgrading its older manufacturing processes.
- Focusing on higher margin products.
- Kossan is looking to venture upstream by acquiring rubber plantation land.

#### Risks

- Spike in latex prices.
- Weaker USD against the MYR.

#### Rating

Neutral

- Positives –
  - Balanced product mix, will allow it to cater to both markets and mitigate risks from sudden price hikes in either nitrile or NR latex.
- Negatives –
  - We believe Kossan has been a sector laggard due to its lack of specialization (of being a nitrile or NR glove, or OBM player)

#### Valuation

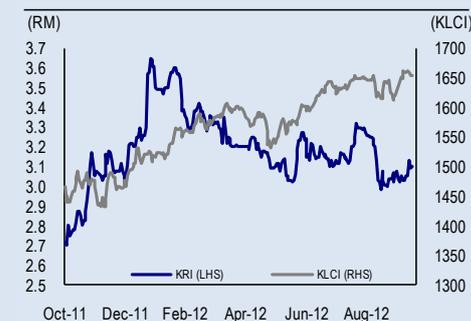
- We have a HOLD on Kossan at a TP of RM3.19 pegged to FY12/13 EPS of 8.5x, largely in line with its 5-year historical FD PER of 8.2x. Kossan is currently trading at FD PER of 8.2x..

#### Low Yee Huap

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KLCI	1653.5
Expected share price return	3.2%
Expected dividend return	3.2%
Expected total return	6.4%

#### Share price



#### Information

Bloomberg Ticker	KRI MK
Bursa Code	7153
Issued Shares (m)	320
Market cap (RM m)	988
3-mth avg. volume ('000)	236

#### Price Performance

	1M	3M	12M
Absolute	2.7	-2.2	13.6
Relative	2.0	-3.3	-0.9

#### Major shareholders

Kossan Holdings Sdn Bhd	51.8%
Kumpulan Wang Persaraan	7.6%
EPF	5.0%

#### Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E	2014E
Turnover	1090.0	1193.5	1244.9	1395.1
EBITDA	166.5	192.1	205.6	229.1
PBT	112.9	137.0	151.6	182.5
Net profit	89.7	108.2	119.9	144.6
EPS (sen)	28.1	33.9	37.5	45.2
P/E	11.0	9.1	8.2	6.8
BV/share (RM)	1.58	1.84	2.12	2.46
P/BV	2.0	1.7	1.5	1.3
Net DY (%)	2.3	3.2	3.2	3.2
ROE (%)	18.1	18.7	18.0	18.6
ROA (%)	11.0	12.4	14.1	14.8
HLIB				

## Financial Projections

### Income statement

FYE 31 Dec (RMm)	2010A	2011A	2012E	2013E	2014E
<b>Revenue</b>	<b>1046.9</b>	<b>1090.0</b>	<b>1193.5</b>	<b>1244.9</b>	<b>1395.1</b>
<b>EBITDA</b>	<b>189.7</b>	<b>166.5</b>	<b>192.1</b>	<b>205.6</b>	<b>229.1</b>
Dept. & Amort.	-34.2	-40.3	-43.3	-46.0	-46.4
Interest income	-8.0	-7.5	1.0	-5.0	-0.5
Interest expense	1.1	1.6	1.0	2.0	0.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>140.7</b>	<b>112.9</b>	<b>137.0</b>	<b>151.6</b>	<b>182.5</b>
Taxation	-26.9	-21.8	-27.4	-30.3	-36.5
Minorities	0.4	1.4	1.4	1.4	1.4
<b>Net profit</b>	<b>113.4</b>	<b>89.7</b>	<b>108.2</b>	<b>119.9</b>	<b>144.6</b>
No. of shares (m)	319.7	319.7	319.7	319.7	319.7
<b>Basic EPS (sen)</b>	<b>35.5</b>	<b>28.1</b>	<b>33.9</b>	<b>37.5</b>	<b>45.2</b>

### Cashflow

FYE 31 Dec (RMm)	2010A	2011A	2012E	2013E	2014E
Pretax profit	140.7	112.9	137.0	151.6	182.5
Dep. and Amort.	34.2	40.3	43.3	46.0	46.4
Changes in working cap	-12.9	-50.9	27.3	-37.6	-36.7
Net interest received/(paid)	-6.9	-5.9	-5.4	-3.0	0.2
Tax paid	-6.4	-21.4	-27.4	-30.3	-36.5
Others	3.6	5.8	5.4	3.0	-0.2
Div paid	-14.4	-35.0	-25.5	-32.0	-35.2
<b>Operating Cash Flow</b>	<b>137.9</b>	<b>45.9</b>	<b>154.7</b>	<b>97.6</b>	<b>120.5</b>
Capex	-85.2	-39.8	-70.0	-50.0	-50.0
Others	45.8	-7.6	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-39.4</b>	<b>-47.4</b>	<b>-70.0</b>	<b>-50.0</b>	<b>-50.0</b>
Changes in borrowings	-32.2	-30.8	-34.0	-114.0	0.0
Issuance of shares	-3.03	-0.43	0.0	0.0	0.0
Others	0.0	-0.3	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-35.2</b>	<b>-31.5</b>	<b>-34.0</b>	<b>-114.0</b>	<b>0.0</b>
Net cash flow	63.3	-33.0	50.7	-66.3	70.5
Forex	0.0	0.0	0.0	0.0	0.0
<b>Beginning cash</b>	<b>17.4</b>	<b>80.7</b>	<b>47.7</b>	<b>98.5</b>	<b>32.2</b>
<b>Ending cash</b>	<b>80.7</b>	<b>47.7</b>	<b>98.5</b>	<b>32.2</b>	<b>102.6</b>

### Balance sheet

FYE 31 Dec (RMm)	2010A	2011A	2012E	2013E	2014E
Fixed assets	409.5	433.0	459.7	463.7	467.3
Other long-term assets	1.1	5.1	0.0	0.0	0.0
Other short-term assets	1.0	1.4	0.0	0.0	0.0
<b>Working capital</b>	<b>161.0</b>	<b>217.9</b>	<b>189.1</b>	<b>226.7</b>	<b>263.4</b>
Receivables	150.5	157.6	173.3	180.8	202.6
Payables	-113.1	-103.5	-121.0	-122.8	-137.6
Inventories	123.7	163.8	136.7	168.7	198.4
<b>Net cash</b>	<b>-86.2</b>	<b>-108.3</b>	<b>-23.6</b>	<b>24.0</b>	<b>94.5</b>
Cash	91.5	51.6	102.4	36.0	106.5
ST debt	-150.1	-134.0	-114.0	0.0	0.0
LT debt	-27.7	-26.0	-12.0	-12.0	-12.0
<b>Shareholder's funds</b>	<b>442.6</b>	<b>496.9</b>	<b>579.6</b>	<b>667.5</b>	<b>776.9</b>
Share capital	159.9	159.9	159.9	159.9	159.9
Reserves	282.7	337.0	419.7	507.6	617.0
Minorities	2.0	9.5	9.5	9.5	9.5
Other liabilities	41.8	42.7	36.0	37.4	38.8

### Valuation Ratios

FYE 31 Dec (RMm)	2010A	2011A	2012E	2013E	2014E
EPS (sen)	35.5	28.1	33.9	37.5	45.2
Adj EPS (sen)	35.5	28.1	33.9	37.5	45.2
P/E (x)	8.7	11.0	9.1	8.2	6.8
Net DPS (sen)	8.00	7.00	10.00	10.00	10.00
Net DY (%)	2.6	2.3	3.2	3.2	3.2
BV/share (RM)	1.39	1.58	1.84	2.12	2.46
P/BV (x)	2.2	2.0	1.7	1.5	1.3
FCF/share (sen)	16.49	1.90	26.50	14.90	22.05
FCF yield (%)	5.3	0.6	8.6	4.8	7.1
Market cap	987.9	987.9	987.9	987.9	987.9
Net cash	-86.2	-108.3	-23.6	24.0	94.5
EV	1074.1	1096.2	1011.5	963.8	893.4
EV/EBITDA	5.7	6.6	5.3	4.7	3.9
ROE (%)	25.6	18.1	18.7	18.0	18.6
ROA (%)	14.6	11.0	12.4	14.1	14.8

### Assumption Metrics

FYE 31 Dec (RMm)	2010A	2011A	2012E	2013E	2014E
Effective capacity (bn pcs)	10.0	10.0	11.1	11.6	12.2
Utilisation rate (%)	85	85	85	85	85
NBR latex price (USD/kg)	1.34	1.77	1.56	1.63	1.70
NR latex price (RM/kg)	7.47	8.93	6.64	6.70	7.34

### Other Ratios

FYE 31 Dec (RMm)	2010A	2011A	2012E	2013E	2014E
<b>Growth (%)</b>					
Sales Growth	24.3	4.1	9.5	4.3	12.1
EBITDA Growth	37.8	-12.2	15.4	7.0	11.4
PBT Growth	63.9	-19.7	21.4	10.6	20.4
Net Profit Growth	70.0	-20.9	20.7	10.7	20.6
<b>Margins (%)</b>					
EBITDA Margin	18.1	15.3	16.1	16.5	16.4
PBT Margin	13.4	10.4	11.5	12.2	13.1
Net Profit Margin	10.8	8.2	9.1	9.6	10.4

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

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