



Overweight ◀▶ Rubber Glove

Still Attractive

Recent quarter earnings had shown stability where earnings of all players under our coverage came in within expectations. Despite experiencing the impact of minimum wage rate policy beginning January 2013, Top Glove's 2QFY13 result remains intact. We made no changes in our FY13 and FY14 earnings forecast. At current price, valuations for most remain attractive and still offer some upside potential. We maintain **OVERWEIGHT** on the sector and maintain **BUY** recommendations on Top Glove (TP: RM6.43), Kossan (TP: RM4.18) and Supermax (TP: RM2.28). We downgraded Hartalega (TP: RM5.08) to **NEUTRAL** as the stock price has approached our fair value.

Earnings inline. Earnings from the recent quarter were all within our expectations. Hartalega, Kossan, Supermax and Top Glove are all well inline.

Impact of minimum wage rate seen. Impact of the minimum wage rate is already felt in Top Glove's recent quarter reporting, which saw lower QoQ earnings; and we expect the same for other players for 2013. We believe Hartalega will be the least affected given the highest level of automation and lowest number of labour amongst our big glove players. Nonetheless, we believe the glove players should be able to pass on the additional cost to their customers in the longer term.

Increasing automation to reduce labour cost. Most glove players will take further cost cutting measures by increasing automation on existing and new production lines which reduces the dependence on unskilled workers thus enhancing overall efficiencies.

Stabilised latex price. Latex price has stabilised to between RM6.00/kg and RM6.20/kg over the past 2 months as we anticipated earlier and believe it should stay around this level for the next few months.

Stable earnings in the coming quarters. We are maintaining our FY13 and FY14 earnings as we do not foresee any major changes in the industry other than impacts from the minimum wage policy which we have already factored into our forecasts. Moreover, latex price has also stabilised (50% of production cost), hence, we do not expect any nasty surprises in the coming quarters.

Maintain OVERWEIGHT. At current price, valuations for most gloves players remain attractive and offer some upside potential. We maintain **OVERWEIGHT** on the sector and **BUY** recommendations on **Top Glove (TP: RM6.43)** and **Kossan (TP: RM4.18)** and **Supermax (TP: RM2.28)**. We downgraded Hartalega (TP: RM5.08) to **NEUTRAL** as the target price has been attained. We switched our **sector top pick** from Top Glove to **Kossan** as the stock presently offers the most attractive valuation.

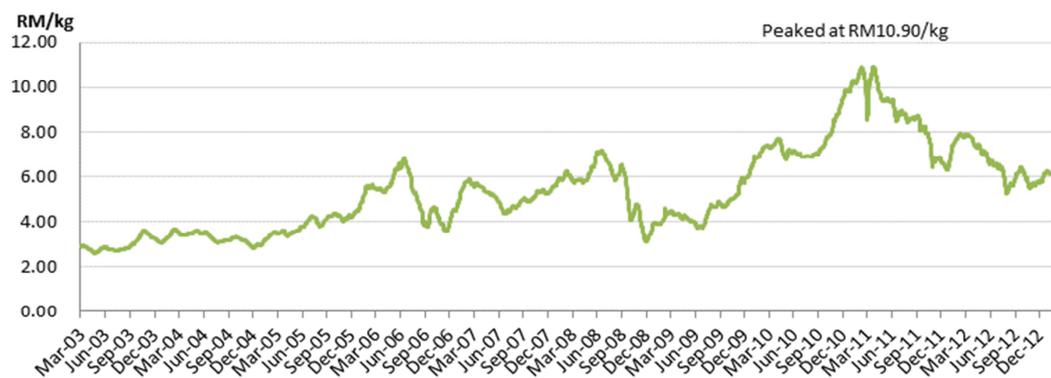
Thong Pak Leng
pakleng.thong@bimbsec.com.my
03-26918887 ext 186

Earnings Summary

	Hartalega	Kossan	Supermax	Top Glove
Recommendation	NEUTRAL ▼	BUY ◀▶	BUY ◀▶	BUY ◀▶
Market Cap as at 19 Mar 2013 (RMm)	3,531.0	1,112.7	1,285.5	3,385.6
Price as at 19 Mar 2013	4.83	3.48	1.89	5.47
Target Price	5.08	4.18	2.28	6.43
Potential Upside	5.2%	20.1%	20.5%	17.5%
Potential Upside + Div. yield	8.1%	23.3%	23.1%	20.8%
Valuation methodology: 5-year average PER Band	15x	11x	12x	18x
Revenue (RMm)				
CY13	1,054.9	1,530.1	1,215.9	2,470.6
CY14	1,184.3	1,710.9	1,377.6	2,630.2
EBITDA (RMm)				
CY13	361.2	215.5	161.0	338.8
CY14	383.0	234.5	175.6	362.2
Core Net Earnings (RMm)				
CY13	247.6	121.5	129.1	220.9
CY14	260.9	132.9	138.6	236.6
EPS (sen)				
CY13	33.9	38.0	19.0	35.7
CY14	35.7	41.6	20.4	38.2
PER				
CY13	14.3	9.2	10.0	15.3
CY14	13.5	8.4	9.3	14.3
BV per share (RM)				
CY13	1.19	2.19	1.43	2.26
CY14	1.41	2.50	1.58	2.46
P/BV				
CY13	4.3	1.9	1.6	2.8
CY14	3.6	1.7	1.4	2.6
Dividend per share				
CY13	13.5	11.0	5.0	17.0
CY14	14.0	11.0	5.0	18.0
Dividend yield				
CY13	2.8%	3.2%	2.6%	3.1%
CY14	2.9%	3.2%	2.6%	3.3%
ROE (%)				
CY13	31.2%	18.5%	14.0%	16.5%
CY14	27.6%	17.7%	13.5%	16.2%

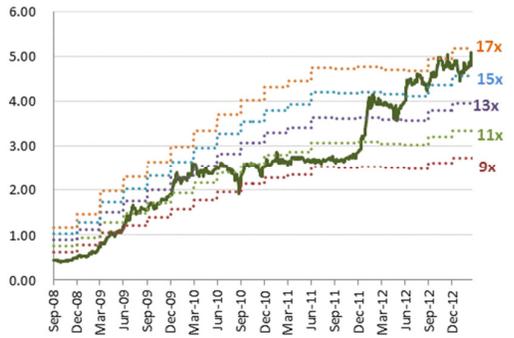
Source: BIMB Securities

Daily Latex Price



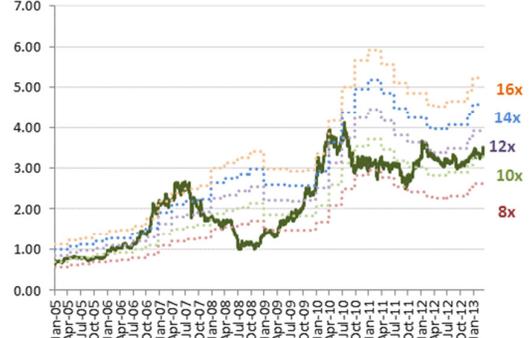
Source: BIMB Securities/ Bloomberg

Hartalega PE Band



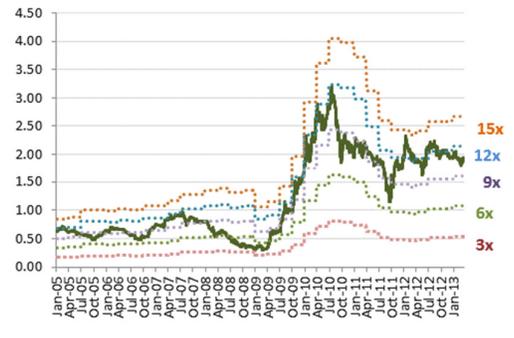
Source: BIMB Securities/ Bloomberg

Kossan PE Band



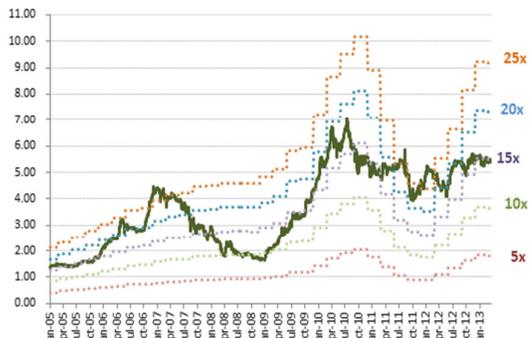
Source: BIMB Securities/ Bloomberg

Supermax PE Band



Source: BIMB Securities/ Bloomberg

Top Glove PE Band

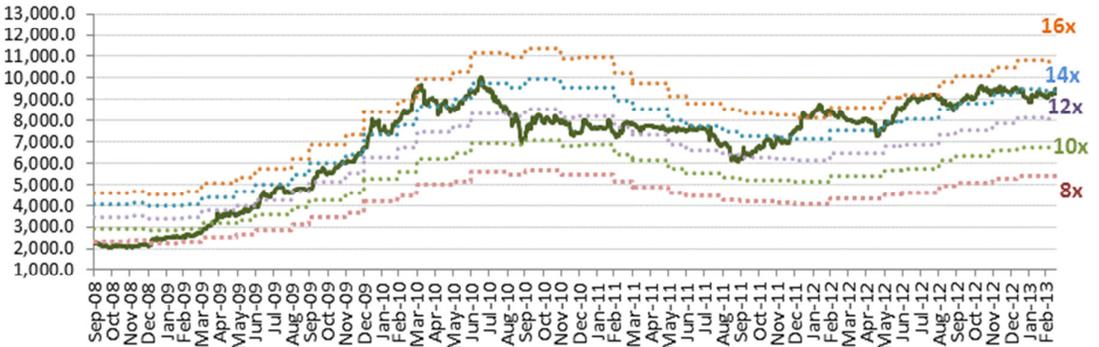


Source: BIMB Securities/ Bloomberg

Sector PE Band

Total Market Cap

RM million



Source: BIMB Securities/ Bloomberg

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
NEUTRAL	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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BIMB SECURITIES SDN BHD (290163-X)

*A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,*

*No. 8 Jalan Munshi Abdullah,
50100 Kuala Lumpur*

Tel: 03-2691 8887, Fax: 03-2691 1262

<http://www.bimbsec.com.my>

Kenny Yee
Head of Research