

**17 June 2013**
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**Stocks under coverage**

Company	Bloomberg Ticker	Call	TP (RM)
Hartalega	HART MK	Buy	6.80
Top Glove	TOPG MK	Neutral	5.90
Kossan	KRI MK	Buy	4.85
Supermax	SUCB MK	Neutral	2.04

# Glove

# Sector Update

## Overweight

## Impressive demand growth in 1QCY13

The glove sector delivered mixed results in 1QCY13. Among 4 stocks under coverage, one beat estimates, two disappointed while another met expectations. Overall, demand growth was strong (+17.7% y-o-y) during the quarter, which we attribute to global influenza trend since Nov 2012. On the flip side, NR glove segment performed weaker than expected as nitrile glove migration wave continue to gain strength due to widening cost advantage. This led to Top Glove and Supermax missing consensus estimates. Going into 2H2013, we remain positive on the glove sector as we anticipate (1) soft and stable latex price, (2) strong USD against Ringgit, and (3) improving supply and demand dynamics. As such, we reiterate our OVERWEIGHT call on the sector with Hartalega (Buy, TP: RM6.80) and Kossan (Buy, TP: RM4.85) being our top picks.

### 1QCY13 results mixed, nitrile migration wave gaining strength again

- In 1QCY13, glove companies delivered mixed results. Among 4 stocks under coverage, one beat estimates, two disappointed while another met expectations.
- Kossan, our top pick, delivered impressive 1QCY13 results (+51.3% y-o-y, +11.9% q-o-q), mainly driven by sales volume and margin improvement due to improved product mix.
- Our medium-to-long term top pick, Hartalega maintains its superior profitability (3x higher than peers) and met consensus expectations during the same quarter. Top Glove and Supermax missed market estimates due to minimum wage policy and price competition, particularly the natural rubber (NR) glove segment.
- Among the four companies under coverage, Kossan registered the highest sales volume growth (+29.0% y-o-y, +2.0% q-o-q) in 1QCY13, followed by Top Glove (18.7% y-o-y, +2.4% q-o-q) and Hartalega (+17.3% y-o-y, +2.3% q-o-q). Supermax was the weakest performer again as it recorded volume growth of 8.7% y-o-y and 1.0% q-o-q.
- Going into 2H2013, we remain positive on the glove sector as we foresee (1) latex cost to remain stable between RM5.50/kg to RM6.50/kg due to supply surplus, (2) strong USD against Ringgit as global market returns to risk-off mode due to the winding down of quantitative easing (QE) which could lead to capital flight back to US, and (3) moderate capacity expansion over the next 12 months driven by M&A, which will ease overcapacity concern in the industry.
- In terms of demand, we anticipate global glove demand to stabilise (10-15% growth y-o-y) in 2H2013, after a strong growth (more than 15% y-o-y) in 1HCY13 due to global influenza trend which has peaked in 1QCY13. Based on the latest indicators from World Health Organization (WHO), the global influenza trend, particularly in the high-glove-consumption countries such as US and EU, has already eased in 2QCY13.

### Reiterate OVERWEIGHT call on the sector, top picks are Hartalega & Kossan

- We reiterate our OVERWEIGHT recommendation for the sector, with Hartalega (Buy, TP: RM6.80) and Kossan (Buy, TP: RM4.85) being our top picks for the sector. We like Hartalega as a medium to long term investment (1-3 years), as we are convinced that it will emerge as the industry's game-changer in 2 years' time, once its NGC plants kick start in Aug 2014.
- Over the short term (12 months), we continue to favour Kossan although its share price has already outperformed over the past 6 months. We believe that Kossan is still trading at an attractive valuation (less than 10x P/E for CY14), as it moves up its value chain and improve its profitability.
- Lastly, we retain our NEUTRAL call on both Top Glove (TP: RM5.90) and Supermax (TP: RM2.04), as we believe that strong nitrile migration wave could put them in a less favourable position (i.e. margin compression), as both companies have less than 40% nitrile glove capacity now.



## 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 (%)	
					CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Hartalega	Buy	6.80	6.39	4,690.1	16.5	6.6	17.7	16.6	5.0	4.1	28.0	24.8	2.4	2.7
Top Glove	Neutral	5.90	6.08	3,769.0	3.4	15.4	17.8	15.4	2.7	2.5	15.1	16.1	2.8	3.2
Kossan	Buy	4.85	4.30	1,370.1	32.8	13.4	10.3	9.1	1.9	1.7	18.9	18.5	2.3	2.8
Supermax	Neutral	2.04	1.92	1,304.0	8.1	11.5	9.9	8.8	1.4	1.3	14.4	14.4	3.4	3.6
Average					14.0	12.1	14.9	13.3	3.4	2.9	20.9	19.8	2.6	3.0

Source: Alliance Research, Bloomberg

Share price date: 14 Jun 2013

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	6.08	-4.70	7.99	-3.49	12.38	9.16	30.47
Hartalega	6.39	15.76	34.53	10.94	33.12	31.75	65.54
Supermax	1.92	-6.80	-0.52	-4.95	-0.52	-2.04	4.35
Kossan	4.30	-0.92	27.98	5.13	22.86	30.70	36.94
Sector average		0.84	17.49	1.91	16.96	17.39	34.33
FBMKLCI	1,762.19	-0.40	4.34	-1.47	7.40	6.67	12.17

Source: Bloomberg

## Nitrile wave gaining strength again

### 1QCY13 results mixed

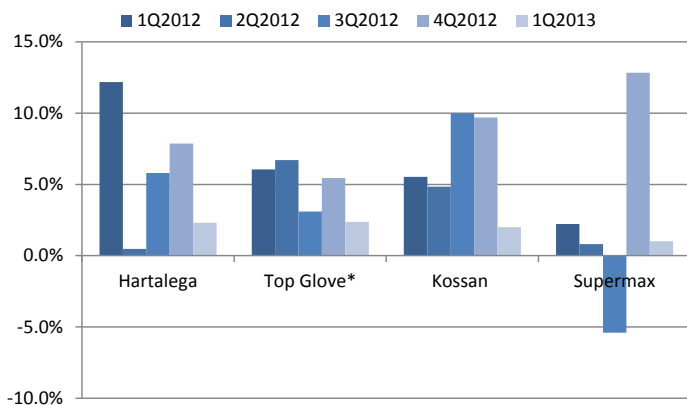
#### Mixed results in 1QCY13

In 1QCY13, glove companies delivered mixed results. Among 4 stocks under coverage, one beat estimates, two disappointed while another met expectations. Kossan, our top pick, delivered impressive 1QCY13 results (+51.3% y-o-y, +11.9% q-o-q), mainly driven by sales volume and margin improvement due to improved product mix. This indicates that the group is on the right track to move up its value chain. Our medium-to-long term top pick, Hartalega maintains its superior profitability (3x higher than peers) and met consensus expectations during the same quarter. On the other hand, Top Glove and Supermax missed market estimates due to minimum wage policy and price competition, particularly the natural rubber (NR) glove segment.

#### Kossan was the best performer while Supermax was the weakest

In general, the industry (based on the top 4 glove manufacturers) sees healthy demand (+17.7% y-o-y, +2.0% q-o-q) in 1QCY13, which led to improving capacity utilisation rate during the quarter. Among the four companies that under our coverage, Kossan registered the highest sales volume growth (+29.0% y-o-y, +2.0% q-o-q) in 1QCY13, followed by Top Glove (18.7% y-o-y, +2.4% q-o-q) and Hartalega (+17.3% y-o-y, +2.3% q-o-q). Supermax was the weakest performer again as it recorded volume growth of 8.7% y-o-y and 1.0% q-o-q. In terms of profitability, Kossan and Hartalega registered improving absolute PBT per thousand gloves during the quarter, while Top Glove and Supermax continue to see price competition in NR glove segment which hurts their profitability.

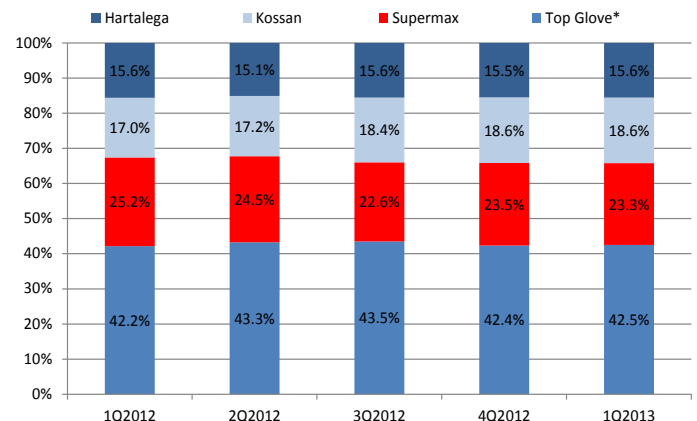
Figure 3 : Q-o-q sales volume growth by company



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

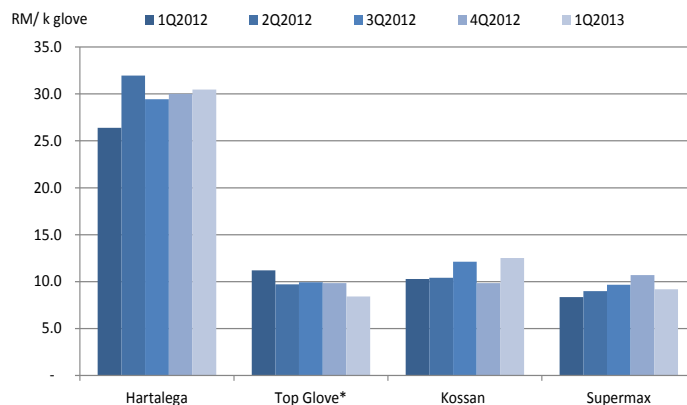
Source: Alliance Research

Figure 4 : Market share by company



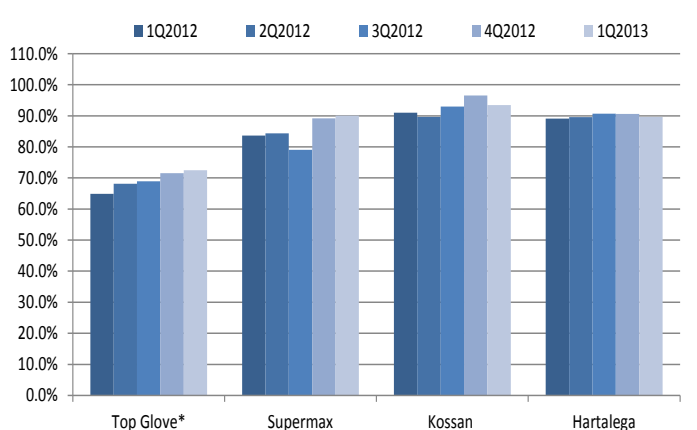
Source: Alliance Research

Figure 5 : Absolute PBT per thousand gloves by company



Source: Alliance Research

Figure 6 : Capacity utilisation rate by company



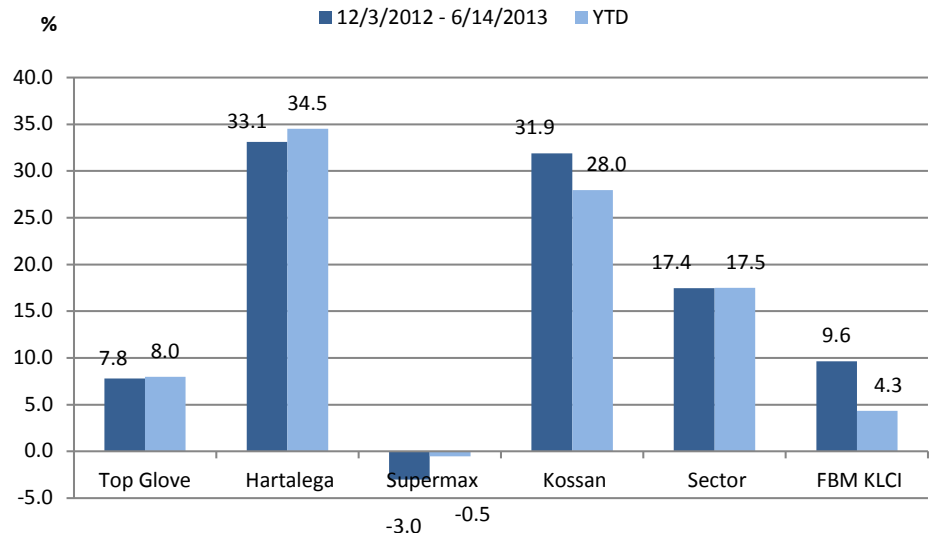
Source: Alliance Research

## Our call for the sector inflection point was proven right

*Our sector upgrade on 3 Dec 2012  
proven to be right as well as our  
top picks*

To recap, we upgraded the glove sector from neutral to OVERWEIGHT on 3 Dec 2012, as we foresee (1) latex cost to stabilise between RM5.50/kg to RM6.50/kg due to weak global demand, (2) strong USD against Ringgit in the run up to the 13<sup>th</sup> General Election (13GE), and (3) improving supply and demand dynamics. Since then, the sector appreciated by 17.4%, outperforming the FBMKLCI by 7.8 percentage points. Among our top picks, Kossan and Hartalega outperformed both Top Glove and Supermax, generating a handsome profit of 31.9% and 33.1% respectively since 3 Dec 2012.

**Figure 7 : YTD share price performances against FBMKLCI**



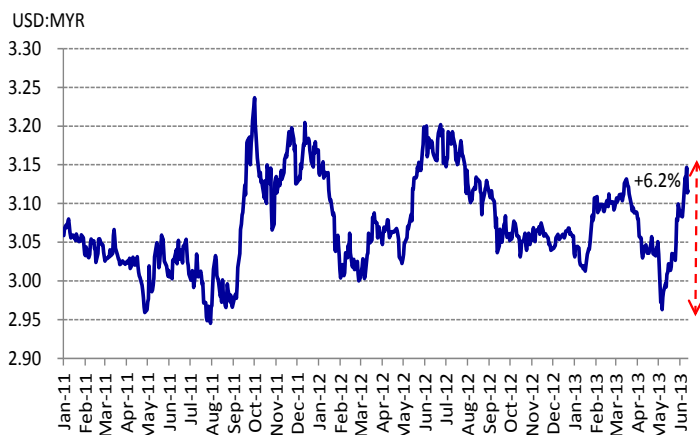
Source: Bloomberg data

## Operating environment remains favourable in 2H2013

*Favourable latex cost, USD  
exchange rate and moderate  
overcapacity concern going into  
2H2013*

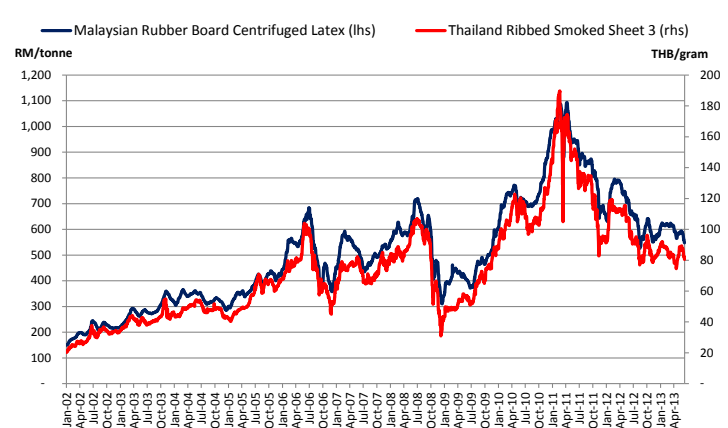
Going into 2H2013, we remain positive on the glove sector as we foresee (1) latex cost to remain stable between RM5.50/kg to RM6.50/kg due to supply surplus, (2) strong USD against Ringgit as global market returns to risk-off mode due to the winding down of quantitative easing (QE) which could lead to capital flight back to US, and (3) moderate capacity expansion over the next 12 months driven by M&A, which will ease overcapacity concern in the industry.

**Figure 8 : US dollar against Malaysian Ringgit movements**



Source: Bloomberg data, Alliance Research

**Figure 9 : Malaysian centrifuged latex vs Thailand RSS3 price**



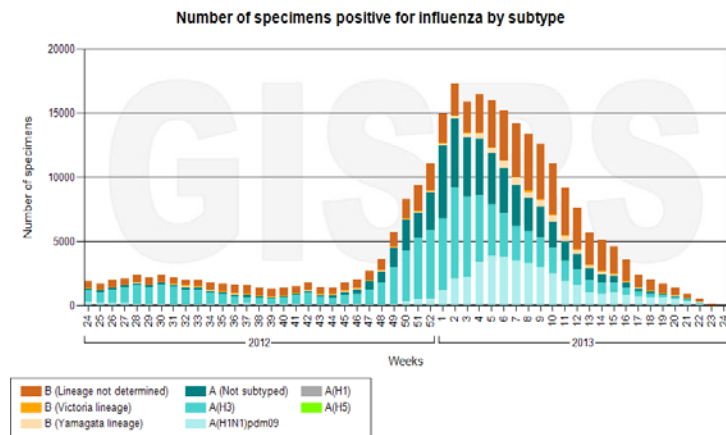
Source: Bloomberg data, Alliance Research

*2H2013 demand growth remains healthy despite influenza trend peaking in 2QCY13*

*Demand for nitrile growth will continue to remain strong*

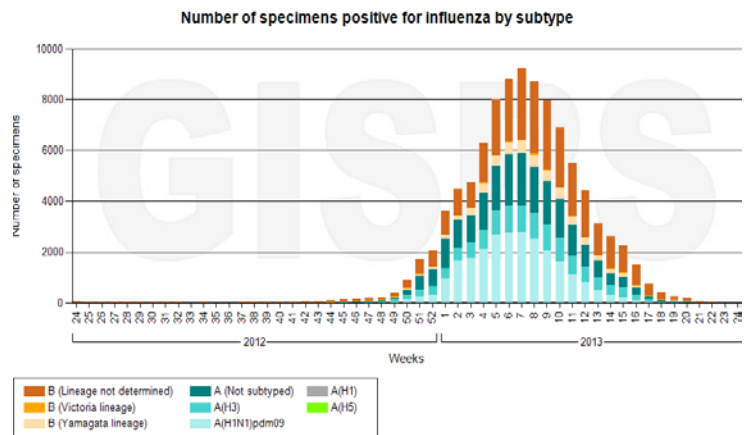
In terms of demand, we anticipate global glove demand to stabilise (10-15% growth y-o-y) in 2H2013, after a strong growth (more than 15% y-o-y) in 1HCY13 due to global influenza trend which has peaked in 1QCY13. Based on the latest indicators from World Health Organization (WHO), the global influenza trend, particularly in the high-glove-consumption countries such as US and EU, has already eased in 2QCY13. While we do not rule out the possibility of virus mutation that could result in viruses such as H7N9 turning into a global pandemic going forward, we opt to be conservative by assuming structural demand growth, which is skewing towards nitrile glove segment.

**Figure 10 : Global past 12 months influenza trends**



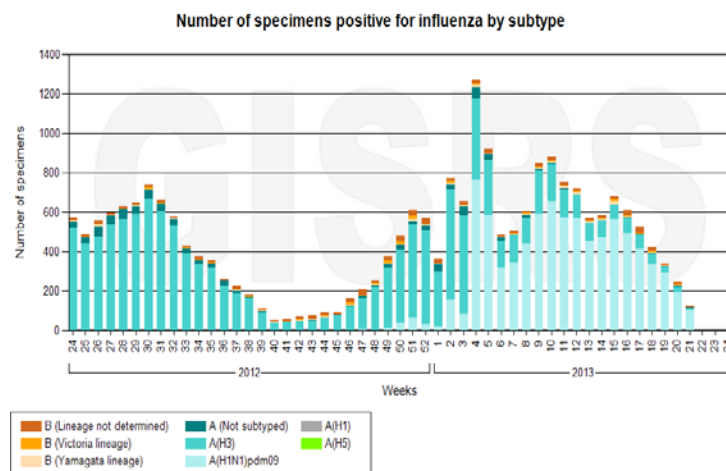
Source: WHO

**Figure 11 : European region past 12 months influenza trends**



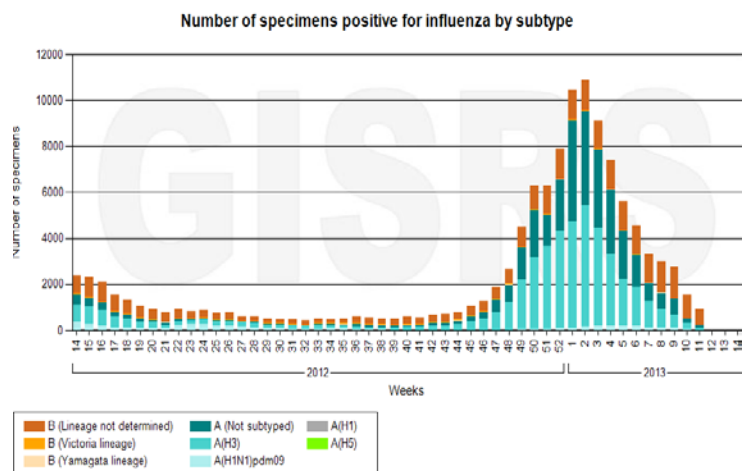
Source: WHO

**Figure 12 : China past 12 months influenza trends**



Source: WHO

**Figure 13 : USA past 12 months influenza trends**



Source: WHO

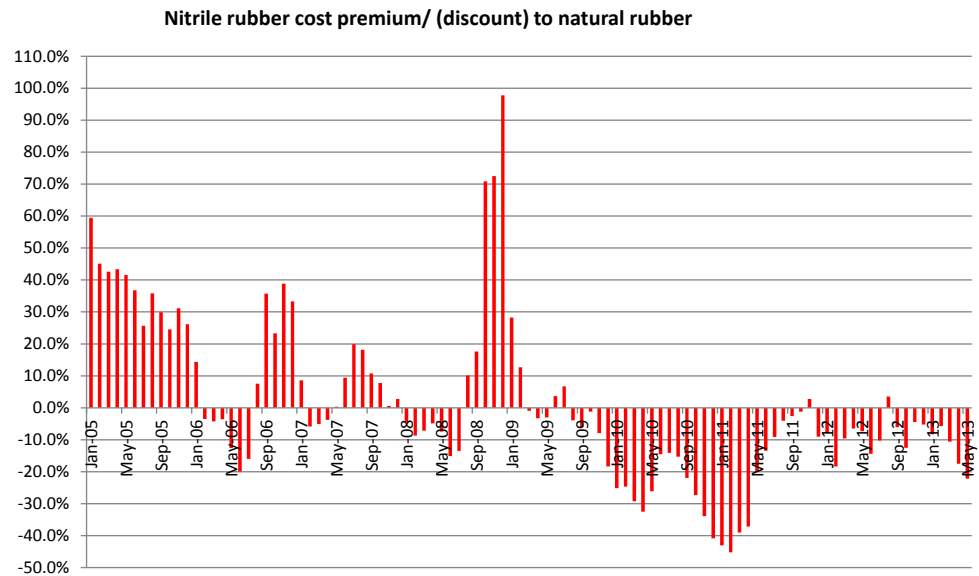
*Nitrile migration leads to margin pressure on NR gloves*

Based on Top Glove's latest quarterly results (March 2013- May 2013), demand and price remain favourable for nitrile glove as customers continue switching from NR glove to nitrile glove due to the latter's cost advantage, although the industry has been adding nitrile glove capacity aggressively over the past 2 years. We believe that the continued strong nitrile migration wave is one of the key reasons to Top Glove's weak 3QFY13 results, as it faces margin pressure for its NR glove segment by lowering ASP to prevent their existing customers switching out from NR glove to nitrile glove.

*Nitrile gloves have 20% cost advantage over NR gloves*

Based on our estimate, nitrile glove still enjoys latex cost advantage of more than 20% over the NR glove as of May 2013. After taking into account the higher fuel cost for nitrile glove, we believe NR glove will only be able to regain its price competitiveness, if latex price falls below RM4.50/kg, which we think is unlikely given the potential intervention by governments of major producing countries i.e. Thailand, Malaysia and Indonesia.

**Figure 14 : Nitrile butadiene rubber cost was 22% cheaper than natural rubber in May 2013**



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

Source: Bloomberg data, Alliance Research



## RECOMMENDATION

### Reiterate BUY recommendation on Hartalega and Kossan

We reiterate our OVERWEIGHT recommendation for the sector, with Hartalega (Buy, TP: RM6.80) and Kossan (Buy, TP: RM4.85) being our top picks for the sector.

*Hartalega is our medium-long term top pick as its NGC plants will be an industry game changer in 2 years*

Among these two, we like Hartalega as a medium to long term investment (1-3 years), as we are convinced that it will emerge as the industry's game-changer in 2-year time, once its Next Generation Integrated Glove Manufacturing Complex (NGC) kicks start in Aug 2014 which could yield 6% extra margin due to better efficiency. Again, 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 14.9% over the next 8 years. This justified the highest target P/E of 18x for the company.

*Kossan is our near term top pick due to attractive valuation for a company with potential to move up the value chain*

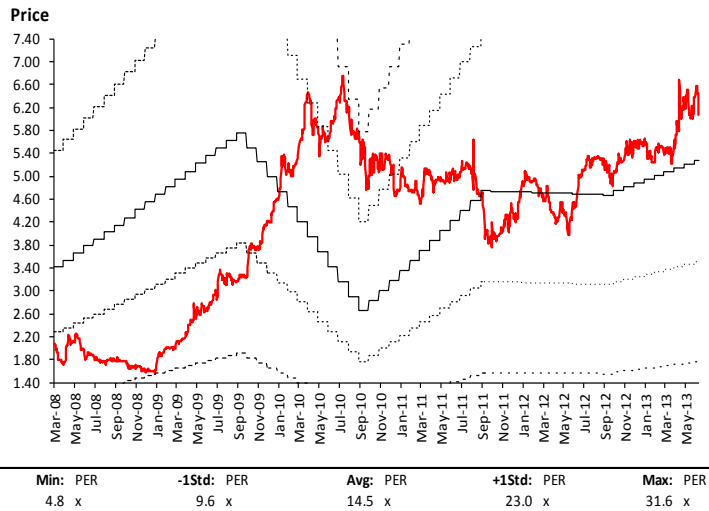
Over the near term (12 months), we continue to favour Kossan although its share price has already outperformed over the past 6 months. We believe that Kossan is still trading at an attractive valuation now (less than 10x P/E for CY14), as it moves up its value chain and improve its profitability. Currently, we value Kossan at 11x 12-month forward P/E, which is almost 40% discount to the market leader and industry game-changer, Hartalega's target P/E of 18x. The sharp discount is mainly due to its lower market cap and trading liquidity.

*Top Glove and Supermax remain neutral due to NR glove margin compression*

Lastly, we retain our NEUTRAL call on both Top Glove (TP: RM5.90) and Supermax (TP: RM2.04), as we believe that strong nitrile migration wave could put them in a less favourable position, as both of the companies have less than 40% nitrile glove capacity now. Although we anticipate stable and soft NR latex price would benefit NR glove producers like Top Glove and Supermax, we remain concern of potential NR glove margin compression as customers continue switching from NR glove to nitrile glove due to the latter's cost advantage. Currently, we peg Top Glove and Supermax's valuation to 16x and 10x 12-month forward P/E, after taken into the consideration of their respective historical average P/E and prospects going forward.

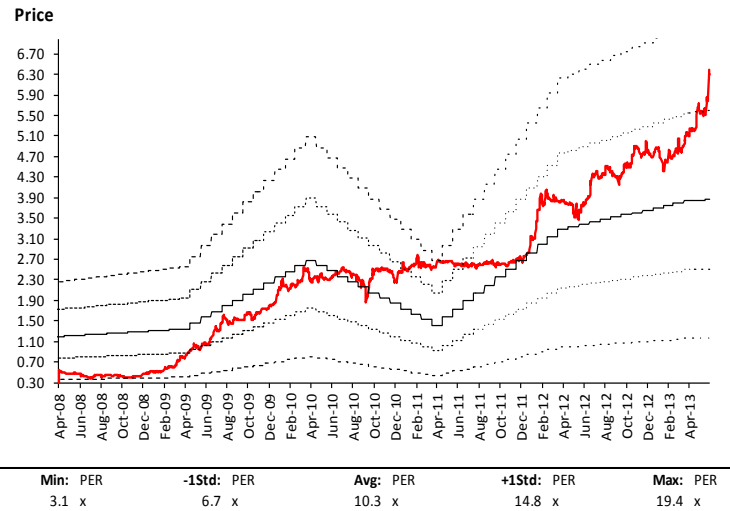
## HISTORICAL VALUATION BANDS

Figure 15 : Top Glove's 5-year historical P/E band



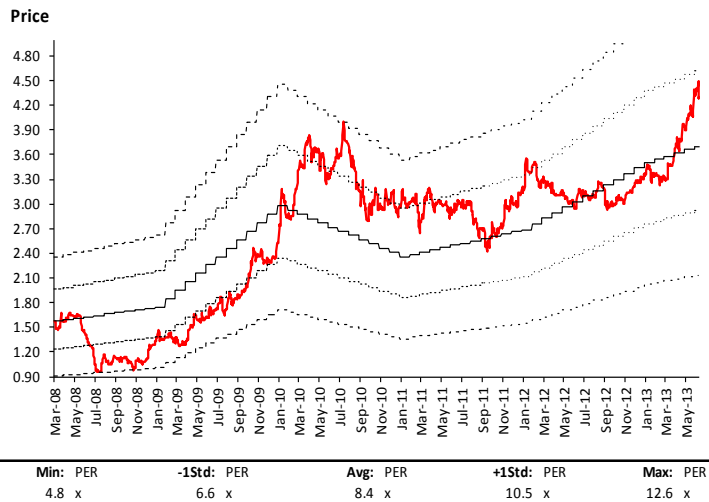
Source: Alliance Research

Figure 16 : Hartalega's 5-year historical P/E band



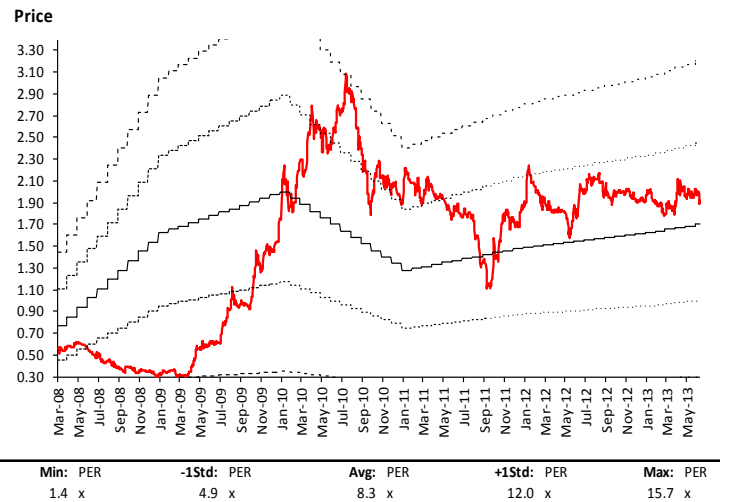
Source: Alliance Research

Figure 17 : Kossan's 5-year historical P/E band



Source: Alliance Research

Figure 18 : Supermax's 5-year historical P/B band



Source: Alliance Research



# Top Glove Corporation Berhad

## Financial Summary

Price Date: 14 June 2013

### Balance Sheet

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	660.7	734.4	912.1	1,015.7	1,061.8
Intangible Assets	-	-	-	-	-
Inventories	175.5	179.4	204.8	233.2	265.9
Receivables	266.4	293.9	284.9	327.6	376.7
Other assets	171.6	223.1	260.9	264.6	268.4
Deposit, bank and cash	148.8	167.2	120.0	93.5	137.2
<b>Total Assets</b>	<b>1,423.0</b>	<b>1,598.1</b>	<b>1,782.7</b>	<b>1,934.6</b>	<b>2,110.0</b>
LT borrowings	2.9	2.8	2.8	2.8	2.8
ST borrowings	0.2	0.2	100.0	100.0	100.0
Payables	194.6	231.5	211.3	242.0	278.7
Other liabilities	79.0	83.7	83.7	83.7	83.7
<b>Liabilities</b>	<b>276.7</b>	<b>318.2</b>	<b>397.8</b>	<b>428.5</b>	<b>465.2</b>
Share capital	309.3	309.4	309.4	309.4	309.4
Reserves	812.5	945.9	1,046.9	1,163.3	1,296.7
<b>Shareholders' equity</b>	<b>1,121.8</b>	<b>1,255.4</b>	<b>1,356.3</b>	<b>1,472.8</b>	<b>1,606.1</b>
Minority interest	24.6	24.5	28.6	33.4	38.7
<b>Total Equity</b>	<b>1,146.4</b>	<b>1,279.9</b>	<b>1,384.9</b>	<b>1,506.1</b>	<b>1,644.9</b>
<b>Total Equity and Liabilities</b>	<b>1,423.0</b>	<b>1,598.1</b>	<b>1,782.7</b>	<b>1,934.6</b>	<b>2,110.0</b>

### Cash Flow Statement

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	145.5	240.7	242.9	284.3	319.9
Depreciation & amortisation	61.6	69.2	82.6	96.6	104.1
Change in working capital	0.8	(29.1)	(36.7)	(40.4)	(45.1)
Net interest received / (paid)	(10.3)	(12.2)	(11.6)	(9.0)	(9.4)
Tax paid	(28.2)	(15.2)	(38.9)	(45.5)	(51.2)
Others	2.8	12.2	(3.1)	(6.1)	(6.1)
<b>Operating Cash Flow</b>	<b>172.1</b>	<b>265.6</b>	<b>235.3</b>	<b>280.0</b>	<b>312.3</b>
Capex	(141.3)	(145.7)	(260.0)	(200.0)	(150.0)
Others	(55.7)	(17.8)	(23.3)	11.0	11.4
<b>Investing Cash Flow</b>	<b>(196.9)</b>	<b>(163.5)</b>	<b>(283.3)</b>	<b>(189.0)</b>	<b>(138.6)</b>
Issuance of shares	1.0	1.2	-	-	-
Changes in borrowings	(0.7)	(0.2)	99.8	-	-
Dividend paid	(87.9)	(85.5)	(99.0)	(117.6)	(130.0)
Others	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>(87.5)</b>	<b>(84.5)</b>	<b>0.8</b>	<b>(117.6)</b>	<b>(130.0)</b>
Net cash flow	(112.3)	17.6	(47.2)	(26.6)	43.8
Forex	(1.8)	0.8	-	-	-
Beginning cash	262.9	148.8	167.2	120.0	93.5
<b>Ending cash</b>	<b>148.8</b>	<b>167.2</b>	<b>120.0</b>	<b>93.5</b>	<b>137.2</b>

### Income Statement

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
<b>Revenue</b>	<b>2,053.9</b>	<b>2,314.5</b>	<b>2,418.0</b>	<b>2,780.7</b>	<b>3,197.8</b>
<b>EBITDA</b>	<b>192.1</b>	<b>301.9</b>	<b>311.9</b>	<b>367.9</b>	<b>410.7</b>
Depreciation & amortisation	(61.6)	(69.2)	(82.6)	(96.6)	(104.1)
Net interest expenses	10.3	12.2	11.6	9.0	9.4
Share of associates	0.9	0.3	2.0	4.0	4.0
Exceptional items	3.7	(4.5)	-	-	-
<b>Pretax profit</b>	<b>145.5</b>	<b>240.7</b>	<b>242.9</b>	<b>284.3</b>	<b>319.9</b>
Taxation	(30.3)	(33.4)	(38.9)	(45.5)	(51.2)
Minority interest	(2.0)	(4.6)	(4.1)	(4.8)	(5.4)
<b>Net profit</b>	<b>113.1</b>	<b>202.7</b>	<b>200.0</b>	<b>234.0</b>	<b>263.4</b>
<b>Adj net profit</b>	<b>110.2</b>	<b>206.6</b>	<b>200.0</b>	<b>234.0</b>	<b>263.4</b>

### Key Statistics & Ratios

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
<b>Growth</b>					
Revenue	-1.2%	12.7%	4.5%	15.0%	15.0%
EBITDA	-46.4%	63.7%	1.0%	17.4%	14.2%
Pretax profit	-52.3%	65.5%	0.9%	17.0%	12.5%
Net profit	-53.9%	79.3%	-1.3%	17.0%	12.5%
Adj EPS	-55.3%	87.6%	-3.2%	17.0%	12.5%

### Profitability

EBITDA margin	11.4%	16.6%	16.1%	16.4%	16.3%
Net profit margin	5.5%	8.8%	8.3%	8.4%	8.2%
Effective tax rate	20.9%	13.9%	16.0%	16.0%	16.0%
Return on assets	7.9%	13.7%	11.8%	12.6%	13.0%
Return on equity	10.1%	16.1%	14.7%	15.9%	16.4%

### Leverage

Total debt / total assets (x)	0.00	0.00	0.06	0.05	0.05
Total debt / equity (x)	0.00	0.00	0.08	0.07	0.06
Net debt / equity (x)	Net Cash	Net Cash	Net Cash	0.01	Net Cash

### Key Drivers

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	22.6	25.3	30.0	34.5	39.7
Growth (%)	-12.8%	11.9%	18.7%	15.0%	15.0%
ASP (USD/ k pieces)	29.7	29.5	26.0	26.0	26.0
Growth (%)	23.9%	-0.4%	-12.0%	0.0%	0.0%

### Valuation

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
EPS (sen)	18.3	32.8	32.3	37.8	42.6
Adj EPS (sen)	17.8	33.4	32.3	37.8	42.6
P/E (x)	34.1	18.2	18.8	16.1	14.3
EV/EBITDA (x)	15.4	9.3	9.6	8.3	7.2
Net DPS (sen)	9.7	16.0	16.0	19.0	21.0
Net dividend yield	1.6%	2.6%	2.6%	3.1%	3.5%
BV per share (RM)	1.81	2.03	2.19	2.38	2.60
P/BV (x)	3.4	3.0	2.8	2.6	2.3



## Hartalega Holdings Berhad

## Financial Summary

Price Date: 14 June 2013

## Balance Sheet

FY 31 Mar (RM m)	2012A	2013A	2014F	2015F	2016F
PPE	379.7	534.9	729.4	908.0	1,073.7
Intangible Assets	0.0	6.9	6.9	6.9	6.9
Inventories	97.5	86.6	116.9	122.4	143.4
Receivables	117.1	124.7	145.4	157.5	200.3
Other assets	0.5	0.7	0.7	0.7	0.7
Deposit, bank and cash	163.2	182.4	156.3	172.9	315.1
<b>Total Assets</b>	<b>758.1</b>	<b>936.3</b>	<b>1,155.6</b>	<b>1,368.3</b>	<b>1,740.1</b>
LT borrowings	12.1	4.5	4.5	4.5	4.5
ST borrowings	12.6	7.7	-	-	-
Payables	60.4	92.8	65.0	63.6	82.1
Other liabilities	53.0	64.8	64.8	64.8	64.8
<b>Liabilities</b>	<b>138.1</b>	<b>169.8</b>	<b>134.3</b>	<b>132.9</b>	<b>151.4</b>
Share capital	182.5	366.7	378.8	384.9	403.2
Reserves	437.0	398.9	641.1	848.7	1,183.2
<b>Shareholders' equity</b>	<b>619.5</b>	<b>765.5</b>	<b>1,019.9</b>	<b>1,233.6</b>	<b>1,586.4</b>
Minority interest	0.6	1.0	1.4	1.8	2.3
<b>Total Equity</b>	<b>620.1</b>	<b>766.5</b>	<b>1,021.3</b>	<b>1,235.4</b>	<b>1,588.7</b>
<b>Total Equity and Liabilities</b>	<b>758.1</b>	<b>936.4</b>	<b>1,155.6</b>	<b>1,368.3</b>	<b>1,740.1</b>

## Cash Flow Statement

FY 31 Mar (RM m)	2012A	2013A	2014F	2015F	2016F
Pretax profit	258.4	305.9	363.7	386.8	477.2
Depreciation & amortisation	29.0	31.9	45.6	61.4	74.3
Change in working capital	(44.5)	35.7	(78.8)	(18.9)	(45.4)
Net interest received / (paid)	0.8	0.1	(0.4)	(0.6)	(1.0)
Tax paid	(48.8)	(59.2)	(84.2)	(89.6)	(110.5)
Others	1.7	(1.0)	(0.4)	(0.2)	(0.2)
<b>Operating Cash Flow</b>	<b>196.7</b>	<b>313.4</b>	<b>245.4</b>	<b>338.9</b>	<b>394.4</b>
Capex	(60.2)	(194.0)	(240.0)	(240.0)	(240.0)
Others	3.7	3.8	0.8	0.8	1.2
<b>Investing Cash Flow</b>	<b>(56.5)</b>	<b>(190.2)</b>	<b>(239.2)</b>	<b>(239.2)</b>	<b>(238.8)</b>
Issuance of shares	6.9	7.3	100.9	50.4	151.3
Changes in borrowings	(14.6)	(12.5)	(7.7)	-	-
Dividend paid	(87.4)	(98.8)	(125.6)	(133.6)	(164.8)
Others	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>(95.0)</b>	<b>(104.0)</b>	<b>(32.4)</b>	<b>(83.1)</b>	<b>(13.4)</b>
Net cash flow	45.2	19.2	(26.2)	16.6	142.2
Forex	1.0	-	-	-	-
Beginning cash	117.0	163.2	182.4	156.3	172.9
<b>Ending cash</b>	<b>163.2</b>	<b>182.4</b>	<b>156.3</b>	<b>172.9</b>	<b>315.1</b>

## Income Statement

FY 31 Mar (RM m)	2012A	2013A	2014F	2015F	2016F
<b>Revenue</b>	<b>931.1</b>	<b>1,032.0</b>	<b>1,263.5</b>	<b>1,368.6</b>	<b>1,741.1</b>
<b>EBITDA</b>	<b>288.2</b>	<b>337.9</b>	<b>408.9</b>	<b>447.6</b>	<b>550.5</b>
Depreciation & amortisation	(29.0)	(31.9)	(45.6)	(61.4)	(74.3)
Net interest expenses	(0.8)	(0.1)	0.4	0.6	1.0
Share of associates	-	-	-	-	-
Exceptional items	0.0	(0.1)	-	-	-
<b>Pretax profit</b>	<b>258.4</b>	<b>305.9</b>	<b>363.7</b>	<b>386.8</b>	<b>477.2</b>
Taxation	(57.0)	(70.8)	(84.2)	(89.6)	(110.5)
Minority interest	(0.1)	(0.3)	(0.4)	(0.4)	(0.5)
<b>Net profit</b>	<b>201.4</b>	<b>234.7</b>	<b>279.1</b>	<b>296.8</b>	<b>366.2</b>
<b>Core net profit</b>	<b>201.4</b>	<b>234.8</b>	<b>279.1</b>	<b>296.8</b>	<b>366.2</b>

## Key Statistics &amp; Ratios

FY 31 Mar	2012A	2013A	2014F	2015F	2016F
<b>Growth</b>					
Revenue	26.7%	10.8%	22.4%	8.3%	27.2%
EBITDA	8.6%	1.4%	21.0%	9.5%	23.0%
Pretax profit	6.4%	18.4%	18.9%	6.3%	23.4%
Net profit	5.8%	16.6%	18.9%	6.3%	23.4%
Core EPS	5.4%	16.1%	16.6%	3.8%	19.6%

## Profitability

EBITDA margin	31.0%	32.7%	32.4%	32.7%	31.6%
Net profit margin	21.6%	22.7%	22.1%	21.7%	21.0%
Effective tax rate	22.0%	23.2%	23.2%	23.2%	23.2%
Return on assets	26.6%	25.1%	24.2%	21.7%	21.0%
Return on equity	32.5%	30.7%	27.4%	24.1%	23.1%

## Leverage

Total debt / total assets (x)	0.03	0.01	0.00	0.00	0.00
Total debt / equity (x)	0.04	0.02	0.00	0.00	0.00
Net debt / equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash

## Key Drivers

FY 31 Mar	2012A	2013A	2014F	2015F	2016F
Sales volume (bn pieces)	8.24	9.99	12.32	13.35	17.35
Growth (%)	24.8%	21.2%	23.3%	8.4%	29.9%
ASP (USD/ k pieces)	36.7	33.0	33.6	33.6	32.9
Growth (%)	4.3%	-10.0%	1.9%	0.0%	-2.1%

## Valuation

FY 31 Mar	2012A	2013A	2014F	2015F	2016F
EPS (sen)	27.6	32.1	37.4	38.9	46.5
Core EPS (sen)	27.6	32.1	37.4	38.9	46.5
P/E (x)	23.1	19.9	17.1	16.4	13.8
EV/EBITDA (x)	7.9	16.0	12.0	11.5	9.5
Net DPS (sen)	12.5	10.5	16.8	17.5	20.9
Net dividend yield	2.0%	1.6%	2.6%	2.7%	3.3%
BV per share (RM)	0.85	1.05	1.37	1.62	2.01
P/BV (x)	7.5	6.1	4.7	4.0	3.2



# Supermax Corporation Berhad

## Financial Summary

Price Date: 14 June 2013

### Balance Sheet

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	402.2	446.8	514.3	553.8	591.0
Intangible Assets	-	-	-	-	-
Inventories	223.1	233.8	184.6	202.5	222.1
Receivables	115.9	105.2	137.6	150.3	164.2
Other assets	359.7	345.3	362.5	395.9	432.6
Deposit, bank and cash	104.5	122.9	117.2	133.9	150.7
<b>Total Assets</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,316.3</b>	<b>1,436.4</b>	<b>1,560.6</b>
LT borrowings	140.5	115.2	115.2	115.2	115.2
ST borrowings	190.5	162.9	150.0	160.0	160.0
Payables	87.3	117.9	104.8	114.8	125.7
Other liabilities	18.2	24.3	24.3	24.3	24.3
<b>Liabilities</b>	<b>436.4</b>	<b>420.3</b>	<b>394.2</b>	<b>414.2</b>	<b>425.2</b>
Share capital	170.0	340.1	340.1	340.1	340.1
Reserves	599.1	494.0	582.2	682.2	795.5
<b>Shareholders' equity</b>	<b>769.1</b>	<b>834.0</b>	<b>922.2</b>	<b>1,022.3</b>	<b>1,135.6</b>
Minority interest	(0.1)	(0.3)	(0.2)	(0.2)	(0.1)
<b>Total Equity</b>	<b>769.0</b>	<b>833.8</b>	<b>922.0</b>	<b>1,022.2</b>	<b>1,135.5</b>
<b>Total Equity and Liabilities</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,316.3</b>	<b>1,436.4</b>	<b>1,560.6</b>

### Cash Flow Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	112.1	137.3	155.9	175.5	196.8
Depreciation & amortisation	24.1	24.4	27.5	30.6	32.8
Change in working capital	(48.0)	12.2	8.8	(29.5)	(32.3)
Net interest received / (paid)	12.5	8.7	7.8	7.8	7.9
Tax paid	(13.4)	(3.1)	(23.4)	(27.7)	(32.5)
Others	(43.4)	(24.6)	(30.1)	(32.3)	(34.8)
<b>Operating Cash Flow</b>	<b>43.9</b>	<b>154.8</b>	<b>146.5</b>	<b>124.3</b>	<b>137.8</b>
Capex	(38.1)	(69.2)	(95.0)	(70.0)	(70.0)
Others	0.0	-	-	-	-
<b>Investing Cash Flow</b>	<b>(38.1)</b>	<b>(69.2)</b>	<b>(95.0)</b>	<b>(70.0)</b>	<b>(70.0)</b>
Issuance of shares	-	(2.0)	-	-	-
Changes in borrowings	27.5	(53.2)	(12.9)	10.0	-
Dividend paid	(27.2)	(11.9)	(44.2)	(47.6)	(51.0)
Others	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>0.3</b>	<b>(67.2)</b>	<b>(57.1)</b>	<b>(37.6)</b>	<b>(51.0)</b>
Net cash flow	6.0	18.5	(5.7)	16.7	16.8
Forex	1.1	(0.2)	-	-	-
Beginning cash	97.4	104.5	122.9	117.2	133.9
<b>Ending cash</b>	<b>104.5</b>	<b>122.9</b>	<b>117.2</b>	<b>133.9</b>	<b>150.7</b>

### Income Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
<b>Revenue</b>	<b>1,021.4</b>	<b>997.4</b>	<b>1,168.0</b>	<b>1,276.1</b>	<b>1,394.2</b>
<b>EBITDA</b>	<b>117.9</b>	<b>148.0</b>	<b>168.9</b>	<b>189.3</b>	<b>210.5</b>
Depreciation & amortisation	(24.1)	(24.4)	(27.5)	(30.6)	(32.8)
Net interest expenses	(12.5)	(8.7)	(7.8)	(7.8)	(7.9)
Share of associates	34.8	23.4	22.3	24.5	26.9
Exceptional items	(4.0)	(0.9)	-	-	-
<b>Pretax profit</b>	<b>112.1</b>	<b>137.3</b>	<b>155.9</b>	<b>175.5</b>	<b>196.8</b>
Taxation	(8.1)	(15.9)	(23.4)	(27.7)	(32.5)
Minority interest	0.1	0.3	(0.0)	(0.0)	(0.0)
<b>Net profit</b>	<b>104.2</b>	<b>121.7</b>	<b>132.4</b>	<b>147.7</b>	<b>164.3</b>
<b>Core net profit</b>	<b>107.9</b>	<b>122.5</b>	<b>132.4</b>	<b>147.7</b>	<b>164.3</b>

### Key Statistics & Ratios

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
<b>Growth</b>					
Revenue	4.5%	-2.3%	17.1%	9.3%	9.3%
EBITDA	-38.6%	25.5%	14.1%	12.1%	11.2%
Pretax profit	-39.0%	22.5%	13.5%	12.6%	12.1%
Net profit	-34.5%	13.6%	8.1%	11.5%	11.2%
Core EPS	-33.9%	13.6%	8.1%	11.5%	11.2%

### Profitability

EBITDA margin	11.5%	14.8%	14.5%	14.8%	15.1%
Net profit margin	10.2%	12.2%	11.3%	11.6%	11.8%
Effective tax rate	7.2%	11.6%	15.0%	15.8%	16.5%
Return on assets	8.6%	9.7%	10.1%	10.3%	10.5%
Return on equity	13.5%	14.6%	14.4%	14.4%	14.5%

### Leverage

Total debt / total assets (x)	0.27	0.22	0.20	0.19	0.18
Total debt / equity (x)	0.43	0.33	0.29	0.27	0.24
Net debt / equity (x)	0.29	0.19	0.16	0.14	0.11

### Key Drivers

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	13.44	14.86	16.35	17.98	19.78
Growth (%)	-6.8%	10.6%	10.0%	10.0%	10.0%
ASP (USD/ k pieces)	24.9	23.1	23.3	23.2	23.0
Growth (%)	25.1%	-7.3%	1.3%	-0.7%	-0.7%

### Valuation

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
EPS (sen)	15.3	17.9	19.5	21.7	24.2
Core EPS (sen)	15.9	18.0	19.5	21.7	24.2
P/E (x)	12.1	10.7	9.9	8.8	7.9
EV/EBITDA (x)	6.2	7.3	6.7	6.2	5.7
Net DPS (sen)	4.8	5.0	6.5	7.0	7.5
Net dividend yield	2.5%	2.6%	3.4%	3.6%	3.9%
BV per share (RM)	1.13	1.23	1.36	1.50	1.67
P/BV (x)	1.7	1.6	1.4	1.3	1.1



# Kossan Rubber Industries

## Financial Summary

Price Date: 14 June 2013

### Balance Sheet

FY 30 Jun (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	433.0	514.4	505.8	498.0	490.9
Intangible Assets	4.9	4.9	4.9	4.9	4.9
Inventories	163.8	149.0	165.1	184.7	206.5
Receivables	157.6	220.3	242.0	270.5	302.4
Other assets	1.5	1.5	1.5	1.5	1.5
Deposit, bank and cash	51.6	99.8	119.5	209.9	314.3
<b>Total Assets</b>	<b>812.4</b>	<b>989.9</b>	<b>1,038.8</b>	<b>1,169.5</b>	<b>1,320.6</b>
LT borrowings	26.0	38.3	138.3	138.3	138.3
ST borrowings	134.0	160.7	-	-	-
Payables	103.5	114.6	119.9	134.5	151.3
Other liabilities	42.7	58.9	58.9	58.9	58.9
<b>Liabilities</b>	<b>306.1</b>	<b>372.5</b>	<b>317.1</b>	<b>331.7</b>	<b>348.5</b>
Share capital	159.9	159.9	159.9	159.9	159.9
Reserves	337.0	444.7	546.3	659.4	790.0
<b>Shareholders' equity</b>	<b>496.9</b>	<b>604.6</b>	<b>706.2</b>	<b>819.3</b>	<b>949.9</b>
Minority interest	9.5	12.8	15.5	18.6	22.2
<b>Total Equity</b>	<b>506.3</b>	<b>617.4</b>	<b>721.7</b>	<b>837.9</b>	<b>972.1</b>
<b>Total Equity and Liabilities</b>	<b>812.4</b>	<b>989.9</b>	<b>1,038.8</b>	<b>1,169.5</b>	<b>1,320.6</b>

### Cash Flow Statement

FY 30 Jun (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	112.3	138.5	181.7	206.0	238.7
Depreciation & amortisation	40.9	45.1	48.6	47.8	47.1
Change in working capital	(50.8)	(35.7)	(32.5)	(33.5)	(36.9)
Net interest received / (paid)	5.9	5.3	5.9	3.8	2.4
Tax paid	(21.4)	(23.7)	(45.4)	(51.5)	(59.7)
Others	(7.6)	(9.0)	(7.4)	(6.1)	(6.1)
<b>Operating Cash Flow</b>	<b>79.4</b>	<b>120.6</b>	<b>150.8</b>	<b>166.5</b>	<b>185.5</b>
Capex	(39.8)	(82.8)	(40.0)	(40.0)	(40.0)
Others	(6.0)	3.5	1.5	2.3	3.7
<b>Investing Cash Flow</b>	<b>(45.8)</b>	<b>(79.3)</b>	<b>(38.5)</b>	<b>(37.7)</b>	<b>(36.3)</b>
Issuance of shares	(0.4)	-	-	-	-
Changes in borrowings	(30.8)	33.4	(60.7)	-	-
Dividend paid	(35.0)	(28.7)	(32.0)	(38.4)	(44.8)
Others	(0.3)	-	-	-	-
<b>Financing Cash Flow</b>	<b>(66.5)</b>	<b>4.7</b>	<b>(92.7)</b>	<b>(38.4)</b>	<b>(44.8)</b>
Net cash flow	(32.9)	45.9	19.6	90.5	104.4
Forex	-	-	-	-	-
Beginning cash	80.7	47.7	93.7	113.3	203.8
<b>Ending cash</b>	<b>47.7</b>	<b>93.7</b>	<b>113.3</b>	<b>203.8</b>	<b>308.1</b>

### Income Statement

FY 30 Jun (RM m)	2011A	2012A	2013F	2014F	2015F
<b>Revenue</b>	<b>1,090.0</b>	<b>1,234.0</b>	<b>1,401.9</b>	<b>1,567.1</b>	<b>1,751.8</b>
<b>EBITDA</b>	<b>159.8</b>	<b>186.4</b>	<b>236.2</b>	<b>257.6</b>	<b>288.2</b>
Depreciation & amortisation	(40.9)	(45.1)	(48.6)	(47.8)	(47.1)
Net interest expenses	(5.9)	(5.3)	(5.9)	(3.8)	(2.4)
Share of associates	-	-	-	-	-
Exceptional items	(0.7)	2.5	-	-	-
<b>Pretax profit</b>	<b>112.3</b>	<b>138.5</b>	<b>181.7</b>	<b>206.0</b>	<b>238.7</b>
Taxation	(21.7)	(33.7)	(45.4)	(51.5)	(59.7)
Minority interest	(1.4)	(2.6)	(2.7)	(3.1)	(3.6)
<b>Net profit</b>	<b>89.2</b>	<b>102.2</b>	<b>133.6</b>	<b>151.4</b>	<b>175.4</b>
<b>Core net profit</b>	<b>89.8</b>	<b>100.3</b>	<b>133.6</b>	<b>151.4</b>	<b>175.4</b>

### Key Statistics & Ratios

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
<b>Growth</b>					
Revenue	4.1%	13.2%	13.6%	11.8%	11.8%
EBITDA	-15.1%	16.6%	26.7%	9.1%	11.9%
Pretax profit	-20.2%	23.3%	31.2%	13.4%	15.8%
Net profit	-21.3%	14.5%	30.7%	13.4%	15.8%
Core EPS	-24.9%	11.7%	33.2%	13.4%	15.8%

### Profitability

EBITDA margin	14.7%	15.1%	16.8%	16.4%	16.4%
Net profit margin	8.2%	8.3%	9.5%	9.7%	10.0%
Effective tax rate	19.3%	24.3%	25.0%	25.0%	25.0%
Return on assets	11.0%	10.3%	12.9%	12.9%	13.3%
Return on equity	18.0%	16.9%	18.9%	18.5%	18.5%

### Leverage

Total debt / total assets (x)	0.20	0.20	0.13	0.12	0.10
Total debt / equity (x)	0.32	0.32	0.19	0.17	0.14
Net debt / equity (x)	0.21	0.16	0.03	Net cash	Net cash

### Key Drivers

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	8.60	11.08	13.00	14.56	16.31
Growth (%)		28.8%	17.4%	12.0%	12.0%
ASP (USD/ k pieces)	36.0	31.7	31.0	31.0	31.0
Growth (%)		-11.8%	-2.2%	0.0%	0.0%

### Valuation

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
EPS (sen)	28.0	32.1	41.8	47.4	54.9
Core EPS (sen)	28.2	31.5	41.8	47.4	54.9
P/E (x)	15.3	13.7	10.3	9.1	7.8
EV/EBITDA (x)	9.3	7.9	5.9	5.1	4.2
Net DPS (sen)	7.0	8.0	10.0	12.0	14.0
Net dividend yield	1.6%	1.9%	2.3%	2.8%	3.3%
BV per share (RM)	1.56	1.90	2.21	2.56	2.97
P/BV (x)	2.8	2.3	1.9	1.7	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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