MALAYSIA
SINGAPORE
INDONESIA
THAILAND
CHINA, HONG KONG

RUBBER GLOVES

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OVERWEIGHT
TRADING SELL	**NEUTRAL**
	UNDERWEIGHT

Notes from the Field

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"The switching from natural rubber to nitrile gloves in Europe is strong and global demand for nitrile gloves will rise by 30% in 2011. Yet, more and more glovemakers are switching to nitrile. Coupled with higher nitrile input prices and volatile foreign exchange rates, challenging times are ahead for the glove manufacturing industry."

— Hartalega Holdings Berhad
2QFY2/12 results
(8 Nov 2011)

Highlighted Companies

Hartalega

FY12 will be special for Hartalega. It will complete Plant-6, upgrade old lines and make a push into China. Nitrile's competitive edge underpins our 2-year EPS CAGR of 18%. Hartalega is our top pick and boasts the best fundamentals in the sector.

Supermax

Its established distribution and own-brand model will enable it to emerge unscathed from the next 1-3 years of overcapacity. It is also diversifying revenues by expanding into the surgical market where it is already a contract manufacturer.

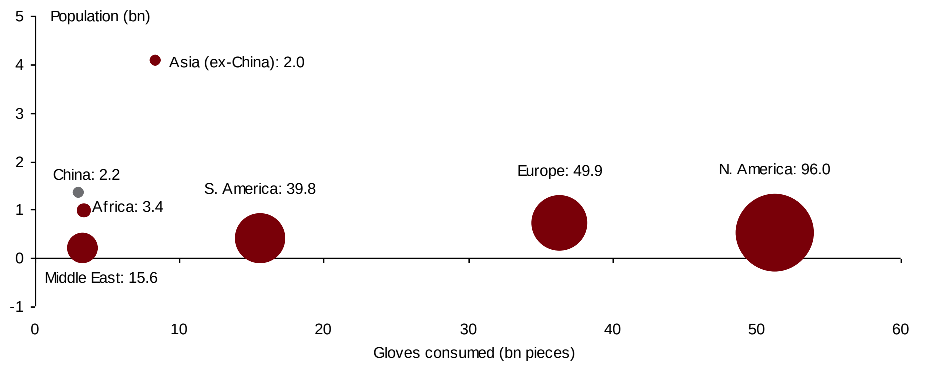
Kossan

Kossan's ideal mix of NR and nitrile will mitigate the impact of volatile commodity cycles. We expect a 2-year core EPS CAGR of 20% due to stable demand, product diversification and contribution from China.

Ready to leap the great wall

Glovemakers have set their sights on China, a market that is worth up to RM11.3bn and 139bn gloves annually. Hartalega has a head start having set up a distribution arm there in 2011. To realise this potential, the sector must first overcome higher costs and competitive pressures.

Figure 1: Growth potential in China (gloves consumed per person p.a.)



SOURCES: CIMB, COMPANY REPORTS

We remain Neutral on the rubber glove sector. Glovemakers are a hedge against slower economic growth due to stable demand for gloves. This is balanced by the risks of higher material costs and overcapacity for gloves. Hartalega remains our top pick in the sector.

China, the next frontier

We expect the gloves to come off in the fight for the China market, which is the next frontier for Malaysian glovemakers. The Chinese currently use only two gloves per person p.a. compared to 50 in Europe and 96 in North America. As incomes and health standards rise, we believe that China could take up 50bn-139bn gloves p.a. or RM4.5bn-12.5bn p.a. in total sales. This would be 2.3-6.3x of Top Glove's RM2bn annual revenue.

Nitrile turns popular

Top Glove could add c.14.5bn nitrile gloves p.a. over the next few years, 1.5x Hartalega's capacity. This will raise competition for low end gloves. But Hartalega will be less affected due to its well-established brand and reputation for higher quality products. Note that nitrile's cost of production is 18% lower than natural rubber (NR). Also, nitrile's price is more stable as it is quoted monthly, not daily and glovemakers can pass on nitrile costs more effectively.

Rubber set to bounce?

Glovemakers' main risk is higher NR prices, which makes up 65-70% of total production costs. The Thai government has already set up a THB10bn (US$300m) fund to prop up rubber prices and is encouraging exporters to limit sales.

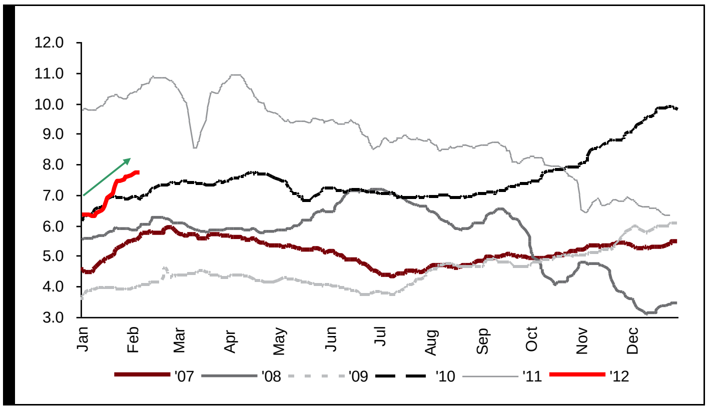
Hartalega is our top pick

Our top pick is Hartalega, the sector's nitrile specialist with the best margins and returns. Investors with higher risk appetite should accumulate Supermax as the company is aggressively building surgical glove capacity where it is enjoying strong OBM and growing OEM sales. Our top sell is Top Glove due to its over reliance on NR glove sales and exposure to weak demand.

KEY CHARTS

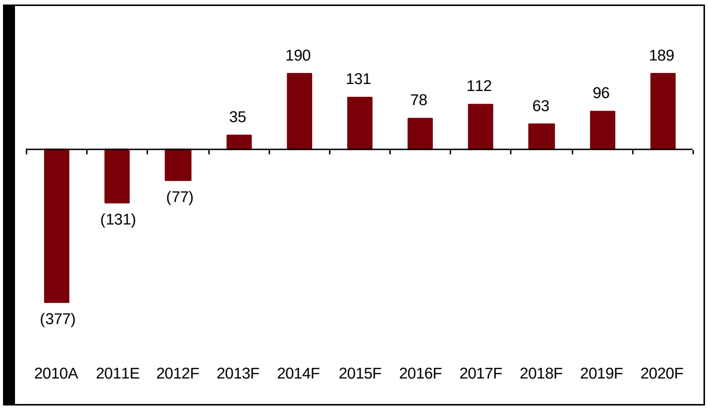
NR prices start 2012 on the uptrend (RM/kg)

NR latex price peaked at RM11/kg in early mid-Feb 11. It then plunged briefly in Mar after the Japan earthquake, recovered and then went on a gradual decline due to the cautious economic outlook in the US and the EU. Rubber prices have started 2012 on an uptrend, rising 20% since end Dec 2011 due to a stabilising US economy, the Federal Reserve's accommodative monetary stance, positive de-leveraging in the EU and Thailand's commitment to supporting rubber prices. Our average NR latex price forecast for 2012 remains unchanged at RM8.30/kg (spot on 13 Feb 2012: RM7.75/kg)



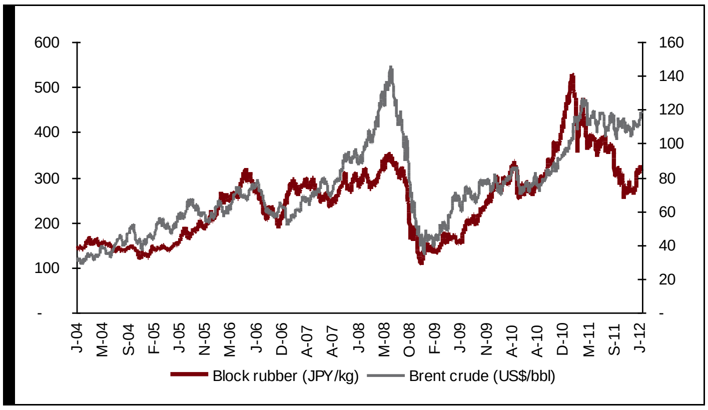
NR deficit expected until 2013 ('000 mt)

The most recent data in Dec 2011 from the International Rubber Study Group (IRSG) suggest that there will be a deficit of 77k mt of NR in 2012. While the think tank predicts that the supply-demand balance will turn positive in 2013, we note that the IRSG's estimates are now more bullish for rubber prices than they were in June 2010. We expect the supply-demand of NR to remain tight for the next two years and NR prices to remain volatile.



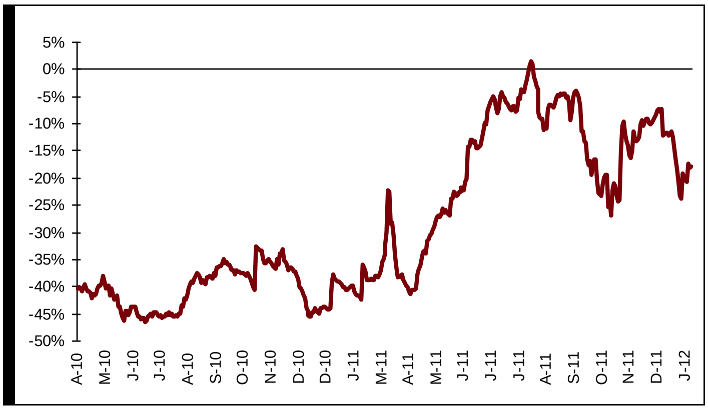
Oil and NR prices are closely linked

NR and oil prices tend to follow one another as synthetic rubber and NR are used to produce tyres. Each passenger car tyre typically consists of 27% synthetic rubber and 14% NR. The typical substitution between natural and synthetic is c. 10%. Also, both commodities are driven by similar variables such as US economic activity, Chinese GDP growth, inflation and monetary policy.



Cash cost for nitrile is 20% lower than NR

Nitrile's lower cost of production is primarily a function of i) nitrile gloves being 30% lighter and ii) the inflated price of NR. Unlike NR which is actively traded in Japan, Shanghai and Singapore, nitrile is not. As a result, the price patterns of nitrile are more stable. This enables companies such as Hartalega to better manage their costs, selling prices and margins. The overall result is a more stable cash flow profile, more secure dividends and higher shareholder returns.



SOURCE: CIMB, COMPANY REPORTS

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY2011	CY2012		CY2011	CY2012	CY2011	CY2012	CY2013	CY2011	CY2012	CY2011	CY2012
Astra Agro Lestari	AALI IJ	Neutral	22,300	24,300	3,896	13.0	15.4	10.0%	4.41	4.14	36.1%	28.0%	30.0%	8.3	9.6	3.8%	3.8%
BW Plantation	BWPT IJ	Outperform	1,400	2,000	628	17.6	17.3	23.9%	3.96	3.30	24.7%	21.3%	27.0%	12.0	11.2	0.4%	0.5%
Genting Plantations	GENP MK	Underperform	9.49	8.53	2,381	15.7	17.4	12.8%	2.24	2.06	15.6%	12.0%	12.0%	11.7	12.5	1.7%	1.7%
Hap Seng Plantations	HAPL MK	Trading Buy	3.04	3.27	804	9.1	10.9	13.6%	1.30	1.24	15.3%	11.3%	11.6%	6.2	7.1	6.6%	5.5%
London Sumatra	LSIP IJ	Outperform	2,725	3,300	2,063	10.7	13.0	22.0%	3.22	2.94	32.6%	24.5%	27.4%	6.9	8.2	1.9%	2.8%
Sampoerna Agro	SGRO IJ	Outperform	3,350	4,200	702	11.8	11.5	13.5%	2.46	2.10	22.8%	19.8%	20.0%	7.0	6.6	1.0%	1.2%
Plantation (upstream)						**12.6**	**14.5**	**14.4%**	**2.90**	**2.63**	**24.6%**	**18.9%**	**20.3%**	**8.4**	**9.4**	**2.7%**	**2.9%**
Golden Agri-Resources	GGR SP	Trading Buy	0.78	0.81	7,505	11.8	13.3	18.9%	1.02	0.96	9.0%	7.4%	8.1%	8.1	8.8	1.8%	1.5%
Indofood Agri Resources	IFAR SP	Trading Buy	1.58	1.80	1,808	11.8	10.8	16.8%	1.12	1.03	11.2%	9.8%	10.2%	5.0	4.4	0.6%	1.3%
IOI Corporation	IOI MK	Underperform	5.50	5.04	11,681	17.7	16.5	11.3%	2.91	2.74	16.8%	17.0%	17.3%	11.9	11.4	2.9%	3.0%
Kuala Lumpur Kepong	KLK MK	Underperform	25.98	19.36	9,169	20.0	19.8	13.7%	3.89	3.71	21.2%	18.8%	19.0%	12.7	13.7	3.1%	2.7%
Sime Darby Bhd	SIME MK	Trading Buy	9.61	10.90	19,092	15.2	14.2	12.6%	2.32	2.16	15.9%	15.8%	15.7%	9.0	8.4	3.3%	3.5%
Wilmar International	WIL SP	Outperform	5.71	6.20	29,160	17.0	13.9	34.1%	2.22	1.97	13.7%	15.0%	14.4%	17.3	13.4	1.2%	1.4%
Plantation (integrated)						**16.0**	**14.7**	**20.1%**	**2.13**	**1.96**	**14.0%**	**13.9%**	**13.9%**	**11.9**	**10.7**	**2.2%**	**2.3%**
Mewah International	MII SP	Underperform	0.59	0.38	709	18.8	14.8	-18.4%	1.36	1.26	7.3%	8.8%	9.0%	12.9	9.9	1.1%	1.4%
Noble Group	NOBL SP	Underperform	1.47	0.99	7,492	20.9	12.0	25.5%	1.59	1.38	8.0%	12.3%	14.1%	11.6	8.5	1.5%	2.7%
Olam International	OLAM SP	Outperform	2.60	3.17	5,066	16.1	13.1	34.7%	2.53	2.30	16.0%	18.4%	19.6%	11.5	10.0	1.3%	1.9%
Supply chain managers						**18.8**	**12.5**	**24.0%**	**1.82**	**1.62**	**10.1%**	**13.7%**	**15.2%**	**11.6**	**9.1**	**1.4%**	**2.3%**
Sri Trang Agro-Industry	STA TB	Trading Buy	21.40	27.63	889	15.4	7.8	15.8%	1.45	1.25	12.3%	17.3%	17.9%	19.3	11.6	5.8%	2.1%
Rubber processor						**15.4**	**7.8**	**15.8%**	**1.45**	**1.25**	**12.3%**	**17.3%**	**17.9%**	**19.3**	**11.6**	**5.8%**	**2.1%**
Adventa	ADV MK	Underperform	1.66	1.49	84	20.8	12.2	-7.0%	0.95	0.80	4.9%	7.2%	7.2%	10.4	9.3	0.8%	2.5%
Hartalega Holdings	HART MK	Outperform	8.29	9.35	999	15.6	13.6	16.1%	5.24	4.33	37.0%	34.7%	33.9%	10.6	9.0	2.8%	3.3%
Kossan Rubber Industries	KRI MK	Outperform	3.57	3.84	377	12.2	10.0	6.2%	2.19	1.86	19.4%	20.1%	20.1%	6.9	5.5	2.1%	2.5%
Latexx Partners	LTX MK	Neutral	1.91	2.05	141	7.3	6.6	26.6%	1.49	1.25	22.6%	20.5%	19.6%	5.0	4.3	2.7%	3.0%
Supermax Corp	SUCB MK	Outperform	2.09	2.43	470	11.3	10.1	1.4%	1.59	1.41	15.5%	14.4%	15.7%	5.0	4.2	2.9%	2.0%
Top Glove Corporation	TOPG MK	Underperform	5.07	3.61	1,037	26.0	21.8	-3.4%	2.70	2.46	10.5%	11.9%	12.8%	13.4	11.3	2.2%	2.2%
Glove manufacturers						**15.7**	**13.5**	**6.2%**	**2.58**	**2.24**	**17.4%**	**17.7%**	**18.3%**	**9.2**	**7.7**	**2.5%**	**2.6%**
Average (all)						**15.9**	**14.2**	**19.4%**	**2.14**	**1.96**	**14.3%**	**14.4%**	**14.7%**	**11.5**	**10.2**	**2.2%**	**2.4%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Notes from the Field

"The slowing economic environment, specifically the zero or negative growth in the EU is a concern. Hospitals and healthcare services may be required to spend less as budgets may be cut."

- Adventa Bhd, 3QFY10/11 results (30 Dec 2011)

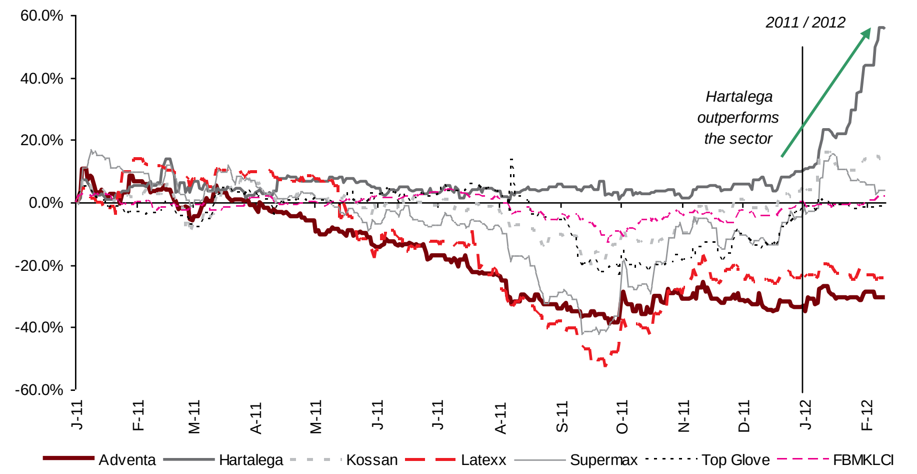
Ready to leap the great wall

1. LOOKING BACK AT 2011

1.1 Share price performance

Hartalega is up 49.3% since 3 Jan 2011, outperforming the sector. Kossan has risen 14.6% while Supermax (+3.9%) and Top Glove (+0.8%) are flattish. The two small-cap glovemakers, Adventa and Latexx have fallen 30% and 24%, respectively, indicating investors' preference for larger caps. Adventa's plunge is because of its focus on surgical gloves where nitrile cannot be used. Latexx, meanwhile, failed to seal the M&A transactions that investors were hoping for.

Figure 3: YTD relative performance since 3 Jan 2011 (% change)



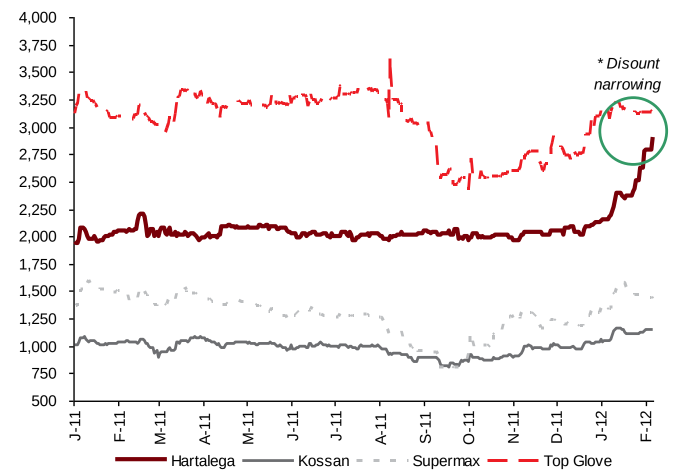
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Hartalega's market cap of RM3.0bn is now marginally lower (3.6%) than Top Glove's. This compares to a 40% discount in Jan 2011. Amazingly, Hartalega's equity value is up by RM0.9bn since our Corporate Day conference in Jan 2012.

Figure 4: Market cap of Latexx and Adventa YTD 2012 (RM m)

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 5: Market cap of the Big-4 glovemakers YTD 2012 (RM m)

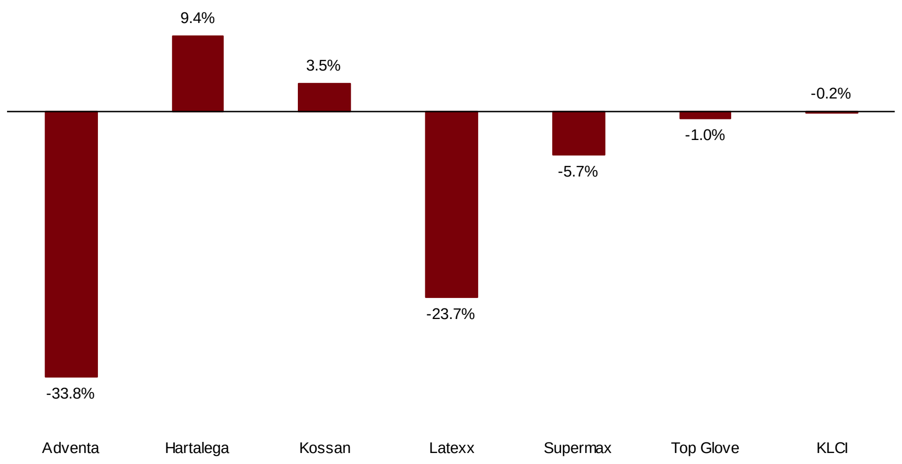


SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

1.2 Looking back at our 2011 predictions

We started 2011 with Outperforms on all the glove stocks under our coverage and an Overweight on the glove sector. Looking back and assuming no change to our recommendations during the course of the year, only our Hartalega call was right (+9.4%).

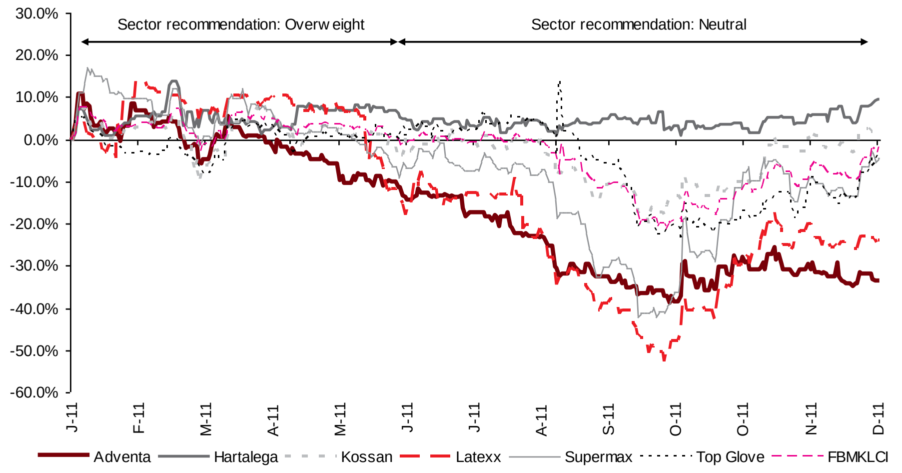
Figure 6: Relative performance of the glove sector in 2011 (% change)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Adventa (-33.8%) and Latexx (-23.7%) disappointed while Kossan (+3.5%), Supermax (-5.7%) and Top Glove (-1.0%) made only marginal movements in value in 2011.

Figure 7: Performance of the glove sector in 2011 (% change)

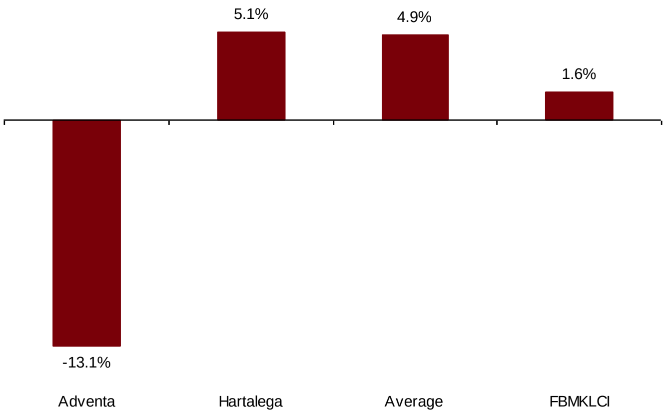


SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

From Jan-May our sector recommendation was Overweight, which proved to be too bullish. During this period, sector's returns ranged from -13.1% (Adventa) to +5.1% (Hartalega) while the sector's overall returns averaged +4.9%. The FBMKLCI by comparison returned +1.6% implying the glove sector outperformed the broader market by only 3.3% pts (Figure 8).

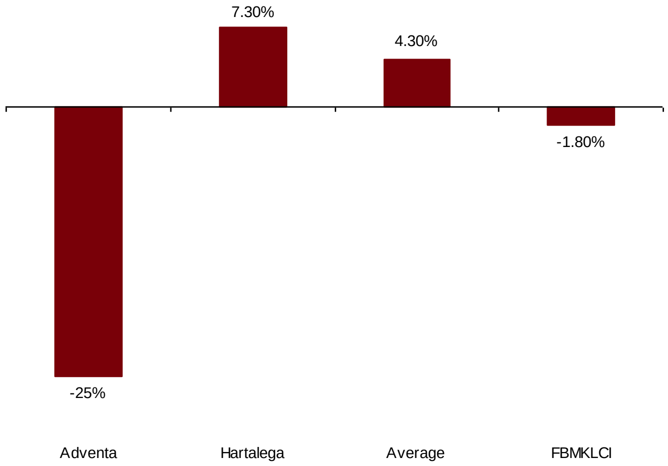
In May after the Malaysian government raised gas and electricity prices, we downgraded the sector from Overweight to Neutral. From May to Dec 2011, returns for the sector ranged from -25.0% (Adventa) to +7.3% (Hartalega). The overall the sector returned a -4.3%. The FBMKLCI by comparison returned -1.8%, implying the glove sector underperformed the boarder market by 2.5% pts (Figure 9).

Figure 8: Glove stock returns, Jan to May 2011 (% change)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 9: Glove stock returns, May to Dec 2011 (% change)

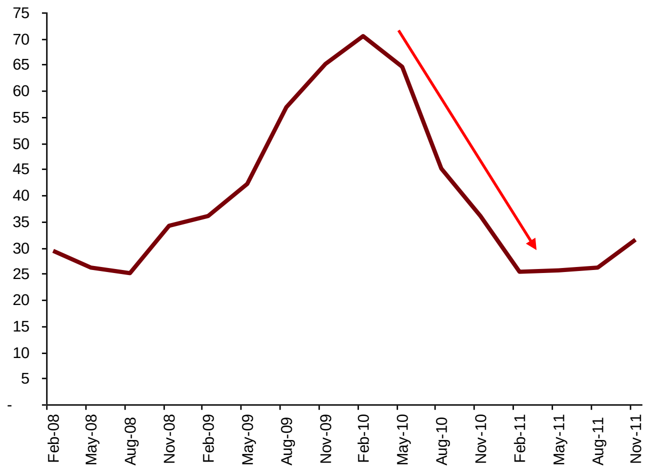


SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

On sector themes, we said in our 2011 outlook that it would be a year when nitrile loves gain prominence due to their superior cost structure. This outlook turned out right as Hartalega's profits accelerated even as its peers' profits plunged due to higher NR prices (Figures 10 and 11).

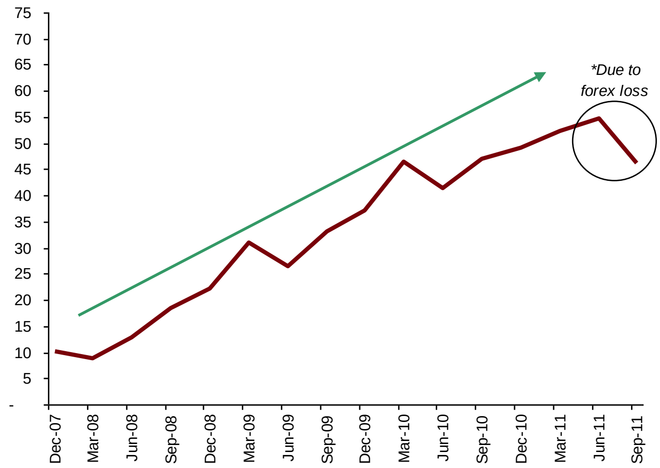
This trend was positive for Hartalega as it resulted in increased interest in the company. After lagging Top Glove for many years, Hartalega's market cap is now on par with Top Glove's (only a 3.6% discount versus 40% in 2011) and its trading volume is increasing. While NR prices fell in late 2011, they are on the uptrend again. 2012 could be the year that Hartalega overtakes Top Glove as the world's most valuable glovemaker.

Figure 10: Top Glove's quarterly net profit trend (RM m)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 11: Hartalega's quarterly net profit trend (RM m)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

While our bullish call on Hartalega has turned out right, our call on Top Glove was too bearish. Despite our downgrade from Outperform to Neutral (14 Mar 2011) and Neutral to Underperform (31 May 2011), the company's share price appreciated on the back of lower NR prices and a stronger US$. Our Underperform recommendation was based on Top Glove's high valuations and the company's over emphasis in the NR glove segment. We underestimated the Top Glove's ability to arrest the downtrend in its earnings as NR prices moderated and the US$ strengthened in the 2H11 (Figure 12). From a low of RM2.4bn in Sept 2011, Top Glove's market cap has risen by 29% as at 13 Feb 2012.

Figure 12: Forex trends 2011-YTD (RM/US$ cross rate)

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Appendix 1 charts in more detail the target and share prices for all six glovemakers under our coverage.

1.3 Failed mergers and acquisitions

From the time the Edge Financial Daily reported that Latexx would be taken private on 27 Jan 2011, the company received two major M&A offers. The first was in late Jan when private equity firm Navis Capital offered to buy Latexx's glove business for RM852m. The deal was aborted on 16 May when the parties failed to agree on its valuation. Two days later, Latexx received another proposal in the form of a merger with privately-held YTY Group, the world's second largest nitrile glovemaker. This proposed RM1.25bn deal fell through on 22 Jul. From 27 Jan to 22 Jul 2011, Latexx's share price lost 14% of its value.

1.4 Natural disasters

In mid-Mar 2011 Japanese Prime Minister Naoto Kan confirmed that all four nuclear reactors at the Fukushima Daiichi nuclear power plant facility were leaking radioactive material in a way that could affect human life. At the time, the NR price was already down c.20% from its peak in late Feb 2011. While glovemakers said that thick examination rubber gloves would protect against radiation, a specialist glovemaker told us that only specific rubber gloves made for radiation protection would be useful. After the earthquake, Japanese clients began asking for their April orders to be brought forward to March. This caused a temporary spike in demand but had no impact on the long-term demand trend.

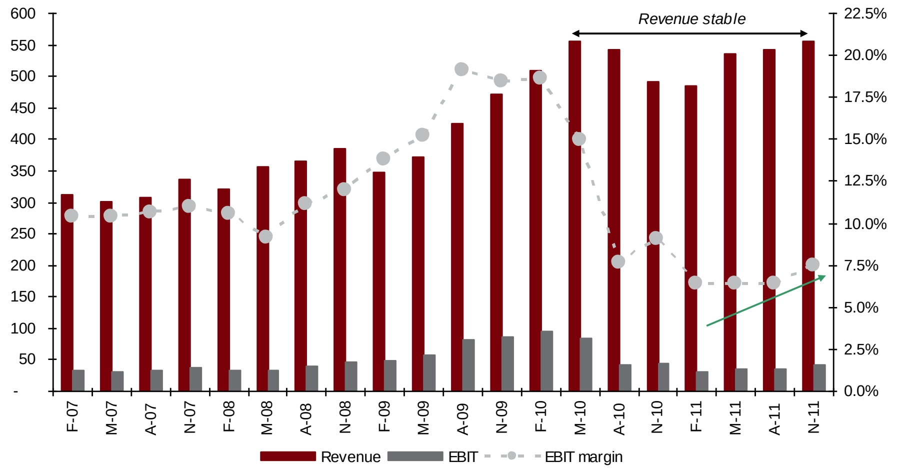
1.5 Hike in energy prices

In May 2011, Tenaga Nasional Berhad announced a rise in electricity tariffs to cover the additional cost resulting from Petronas's 28% increase in the natural gas price to RM13.70/mmbtu. The higher rates took effect on 1 June 2011. Overall, Tenaga raised its power rates by 7.12% and the industrial rate by 6-10%. Bloomberg also reported that the energy minister Datuk Seri Peter Chin said that gas prices for the industrial sector would be increased by 17% to RM18.00/mmbtu. Electricity accounts for 2-4% of glovemaker's total operating costs while natural gas makes up 3-9% of total operating costs. As a result, we raised our electricity cost assumptions by 10% and our gas price by 17%. This caused our FY12 EPS for the sector to fall by 3-9%. The biggest losers were Supermax (-9.2%) and Adventa (-9.4%). Least affected was Hartalega (-3.2%).

1.6 Earnings recovery is cost-led

Despite the higher energy prices, Malaysia controls 60% of the world's glove supply and glovemakers worked together to pass on costs. Also, energy costs comprise only 5-10% of total costs. This pales in comparison to latex (NR and nitrile), which makes up 65-70% of glovemakers' cost base. As a result, as rubber prices fell in 2011, glovemakers' earnings started to recover (Figure 13).

Figure 13: Top Glove's quarterly revenue and EBIT trend (RM m)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

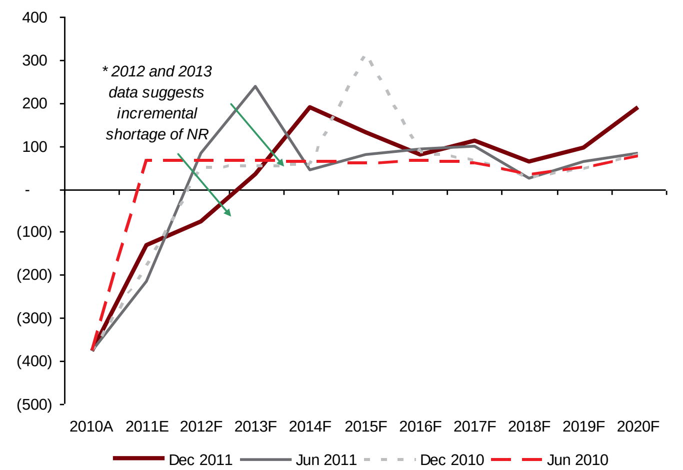
We gather that demand still remains relatively weak with inventories at 45-60 days due to the aggressive capacity addition during the 2009-2010 boom. During this period, inventories stretched as high as 90-100 days. Top Glove indicated in October 2011 that it would take up to three years for the industry to work off this glut.

2. GLOVE SECTOR OUTLOOK

2.1 NR supply and demand

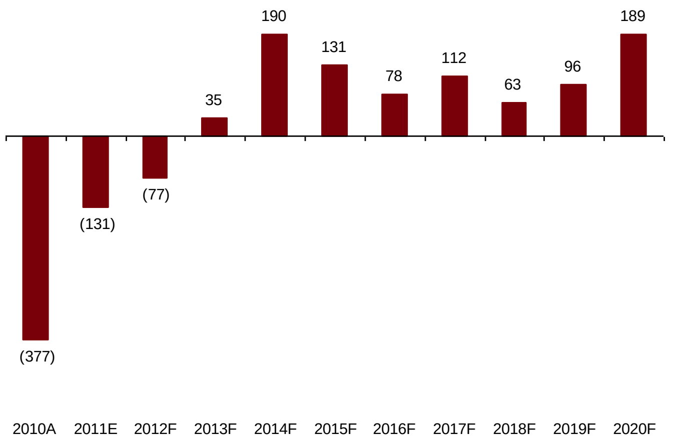
In 2012, we expect rubber prices to remain volatile as weather conditions could disrupt regular tapping activity in Southeast Asia. Also, rubber trees in the southern and northeastern regions of Thailand are entering their seasonally low production period. Given this, the Thai government's commitment to keeping unsmoked rubber prices above THB120/kg and improving US economic data, we expect rubber prices to remain high.

Figure 14: NR world surplus / (deficit) comparison ('000 mt)



SOURCES: CIMB, COMPANY REPORTS, INTERNATIONAL RUBBER STUDY GROUP

Figure 15: NR world supply / (deficit) ('000 mt)



SOURCES: CIMB, COMPANY REPORTS, INTERNATIONAL RUBBER STUDY GROUP (DEC 2011 UPDATE)

Data from the IRSG suggest a world rubber deficit of 77k mt in 2012 and a surplus of 35k mt in 2013 (Figure 14 and 15). However, the latest data from the IRSG in Dec 2011 suggest an increasing shortage of rubber. For example, the June 2011 study indicated a 238k mt rubber surplus for 2013. However, the Dec 2011 study slashed this figure by 85% to only a 35k mt surplus (Figure 16).

Figure 16: IRSG NR world surplus / (deficit) data by report date ('000 mt)

Report date	2010A	2011E	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Dec 2011	(377)	(131)	(77)	35	190	131	78	112	63	96	189
Jun 2011	(377)	(215)	82	238	45	81	91	98	25	62	84
Dec 2010	(377)	(183)	50	53	58	314	87	65	29	46	80
Jun 2010	(377)	68	67	66	62	61	65	59	35	51	75

SOURCES: CIMB, COMPANY REPORTS, INTERNATIONAL RUBBER STUDY GROUP

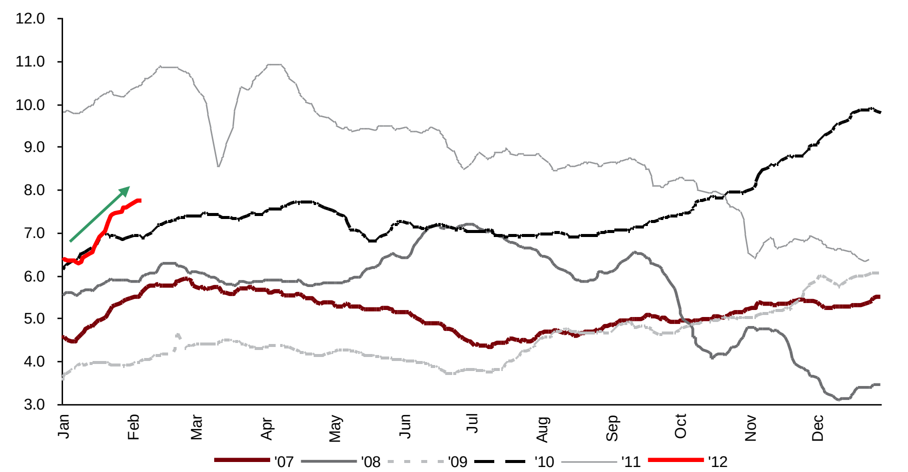
2.2 Rubber supply from non-conventional sources

While the IRSG's data serves as a base case, we also analyse potential sources of non-conventional supply. These include 1) intensified tapping to catch the high NR price, 2) impact of high-yield and short-gestation clones, and 3) postponement of replanting.

Intensified tapping

During periods of high prices, it is common for farmers to undertake short-term yield-enhancing measures to catch high prices and maximise profits. These include 1) using latex stimulants, 2) using rain guards, and 3) harvesting before sunrise. According to Rubber Asia, tapping before sunrise can increase yields by 30%. This is due to lower field coagulum and better latex preservation from the cooler temperatures. Plantation companies using this method report that workers have reacted positively as labourers enhance tapping earnings and are free to work a second job.

Figure 17: NR latex price trend, 6-year cycle (RM/kg)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

New clones

New plantings and yield profiles have been on a rising trend since 2003, indicating higher crop productivity, acreage and supply to come. While first-generation rubber clones take 6-7 years to reach maturity, new high-tech clones mature in 4½ years. In Malaysia, 50% of new plantings achieve maturity in 4½ years but agricultural authorities aim to increase this to 70% by 2015 and 100% by 2020. Also, research is being done by the Malaysian government to raise NR yields from 1,450kg per hectare p.a. to 1,750 kg per hectare p.a. by 2015 (+21%) and 2,000kg per hectare p.a. by 2010 (+38%).

Replanting postponed

At an NR latex price of RM8.00/kg (spot: RM7.75), our analysis suggests that rubber tappers earn a cash profit of c. RM5,880 per hectare annually after accounting for processing, tapping and fertiliser costs (Figure 18). The numbers imply that farmers with 10 hectares can earn a profit of c. RM58,800 p.a., which is a healthy level of earnings given that Malaysia's average per capita income is only RM25,851 p.a. (IMF Jan 2012 data at RM3.0:US$1) Also, most farmers live in rural villages where the cost of living is below average. With earnings 2.3x above the national average, we believe that farmers may postpone replanting programmes to maintain their monthly incomes.

Figure 18: Proforma annual rubber plantation cash profit (RM)

	Per hectare	Per acre	% Costs
Cash revenues:-			
NR latex yield (kg / ha)	1,500	607	-
NR latex price (RM / kg)	8.00	3.24	-
	12,000	4,858	-
Cash costs:-			
Latex processing	-2,520	-1,020	41%
Labour for tapping	-2,400	-972	39%
Fertilizer costs	-1,200	-486	20%
	-6,120	-2,478	100%
Pre tax cash profit	**5,880**	**2,381**	**-**

SOURCES: CIMB, COMPANY REPORTS, TOP GLOVE

2.3 Lessons from Thailand's intervention in the rice market

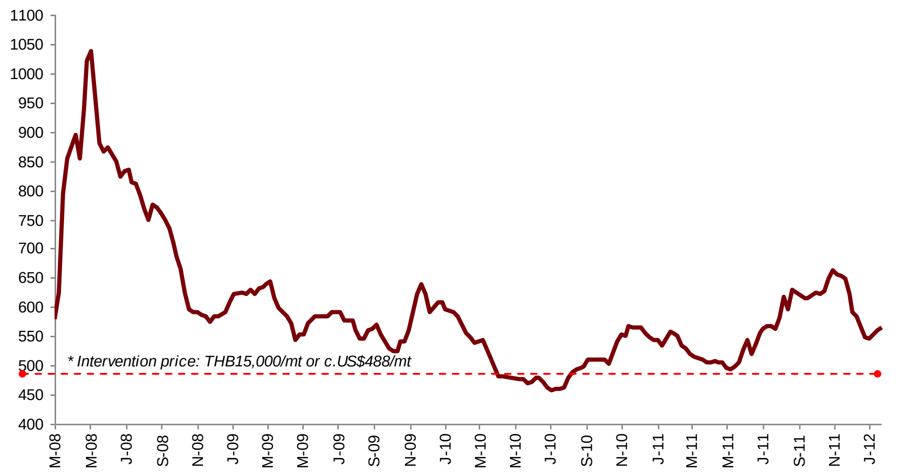
In early Feb, Thailand announced that it would extend its rice intervention scheme to the end of July 2012 and indicated that the floor price would remain THB15,000/mt (US$488/mt). Thailand started buying rice from the market in early Oct 2011 and has since bought 6m mt of paddy (its target is 10m mt).

Post intervention in Oct 2011, rice prices (benchmark 100% Grade-B white rice) rose to a three-year high of US$663/mt by mid-Nov 2011 as traders hoarded rice to sell it to the government at the intervention price (Figure 19).

However, prices have since moderated due to weak demand as buyers sought cheaper offers from Vietnam and India where rice was being sold for as low as US$435/mt or a c.10% discount to Thailand's intervention price. Currently, Thai rice trades at US$550-560/mt.

With spot prices still 12-15% above the government's intervention price, rice prices could decline further due to the weak demand. Will the government's plan for rubber be as ineffective? We do not think so for the following reasons.

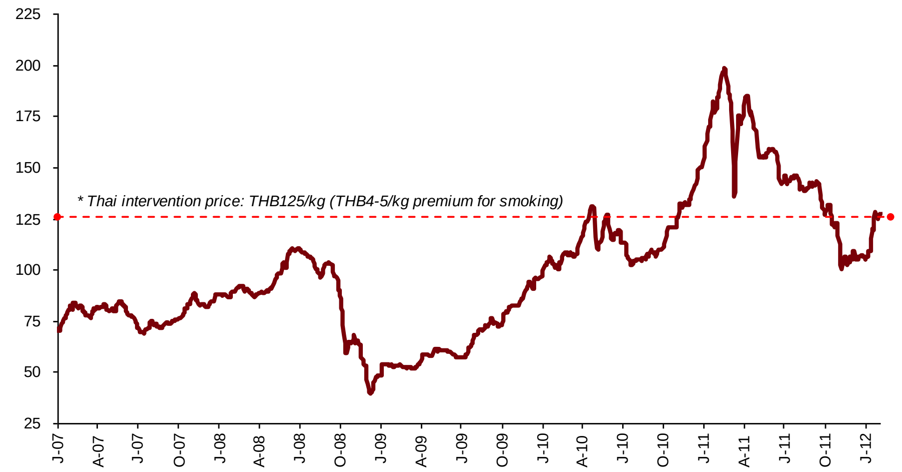
Figure 19: Thai export price for rice, 100% Grade B (US$/mt)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

- Rice spot prices were already above the intervention price (Figure 19) when Thailand decided to intervene and accumulate rice stocks. However, for rubber, spot prices were below the intervention price when the Thai government announced its commitment to keeping unsmoked rubber price above THB120/kg (Figure 20).

Figure 20: Thai NR price, ribbed smoked sheets (THB/kg)



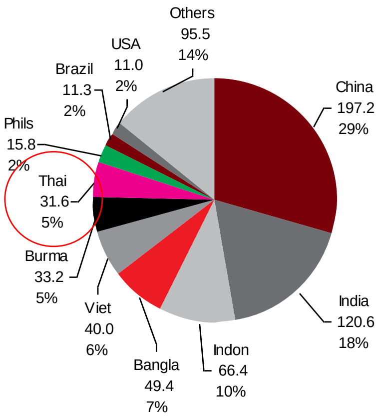
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

- Also, Thailand's grip on the rice market is as not strong as on rubber (Figure 21). Thailand is responsible for only 5% of the world's rice production in a market where China is the dominant producer (29% of world supply).

  By comparison, Thailand controls 33% of the world's rubber supply (Figure 22). Also, world rubber is concentrated among a few countries and the top three producers control 70% of the world's supply.

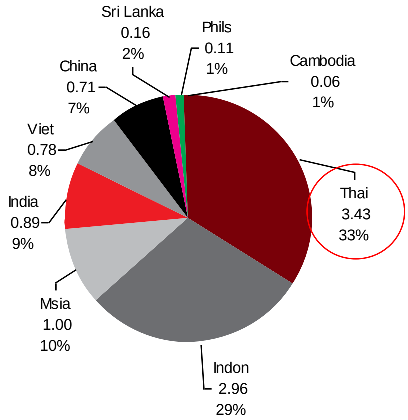
  Rice production, on the other hand, is more fragmented as the top three producers control less than 60% of the world's rice supply and the top five control 70% of the world's supply.

Figure 21: World rice production (m mt)



SOURCES: CIMB, COMPANY REPORTS, INTERNATIONAL RICE RESEARCH INSTITUTE

Figure 22: World NR production (m mt)

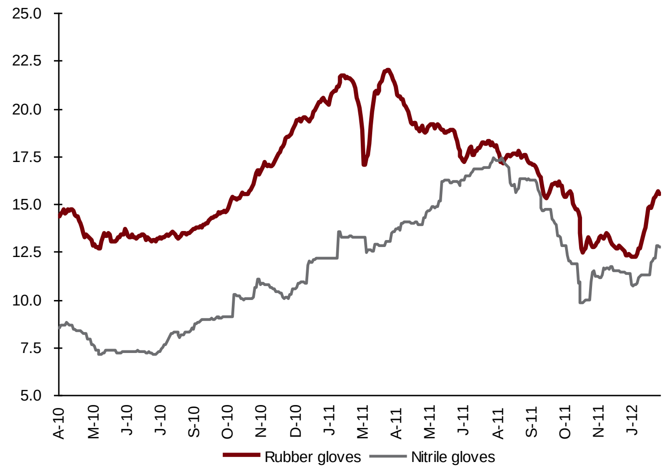


SOURCES: CIMB, COMPANY REPORTS, ASSOCIATION OF NATURAL RUBBER PRODUCING COUNTRIES

2.4 Cost of production favours nitrile

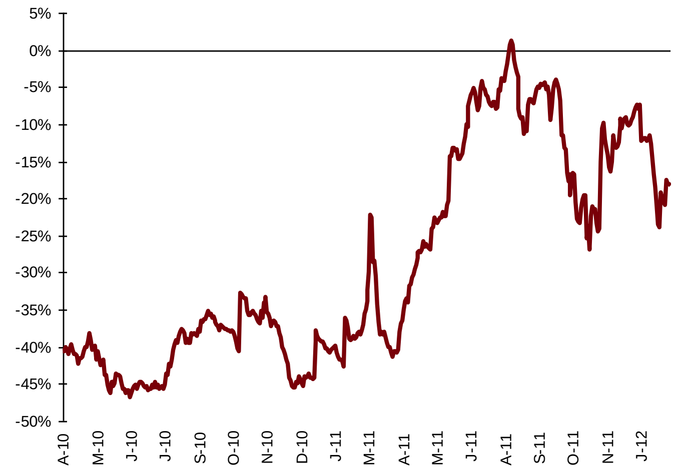
The cash cost of producing nitrile gloves is now 18% lower than that for NR gloves (Figure 23 and 24). This is primarily the result of a 22% rise in rubber price since 3 Jan 2012 due to measures by the Thai government to prop up rubber prices. Meanwhile, nitrile price has fallen by 24% since peaking in July 2011 and is now stabilising at US$1,700/mt.

Figure 23: Cost of production (US$/1,000 gloves)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

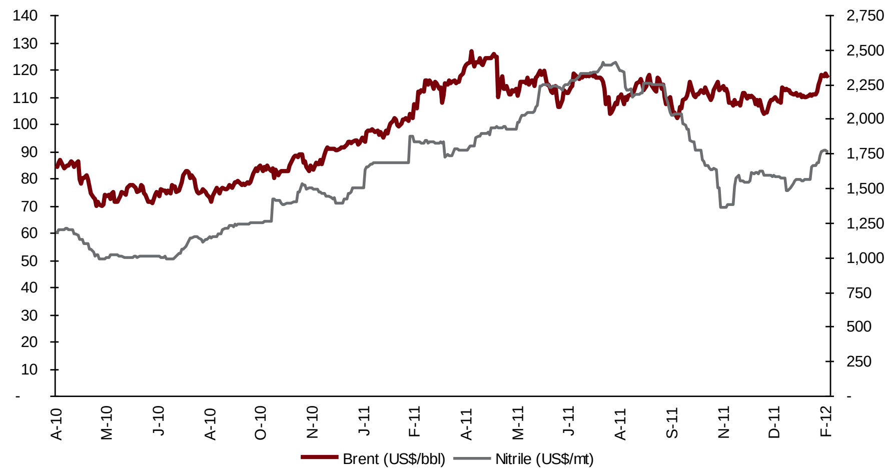
Figure 24: Cost of production, nitrile's discount to NR (%)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

More significantly, nitrile price has begun to diverge from Brent crude as Brent crude is up marginally by 2% to US$118/bbl since mid-2011 while nitrile price is down 21% to US$1,700 (Figure 25) over the same period. We believe that the divergence of oil and nitrile price is the result of the tug-of-war between weakening oil demand growth (lower prices) and supply risks due to geopolitical uncertainty (higher prices).

Figure 25: Brent crude and nitrile prices diverge from Sept 2011 onwards



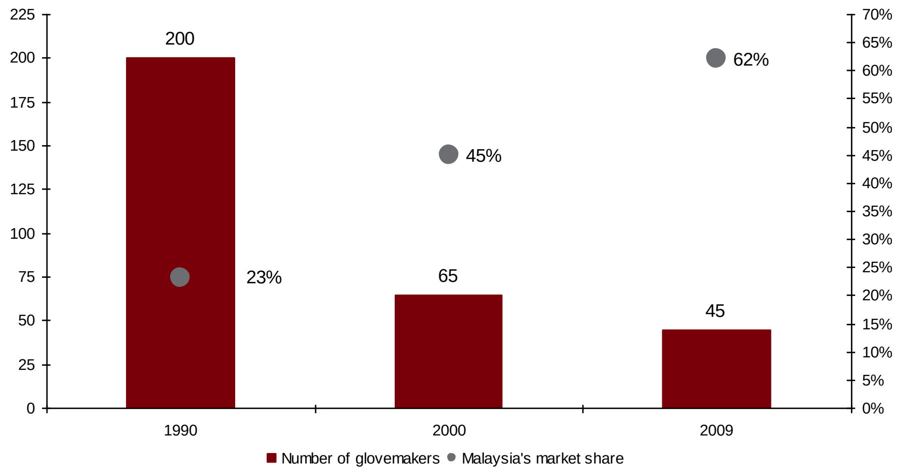
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Our analysis suggests that the interplay of these two forces has resulted in a relatively stable oil price (help up by geopolitical uncertainty) but a bigger drop in nitrile price, which appears to be driven more by weaker demand.

2.5 M&A unlikely in 2012

In 2010, Top Glove indicated that it was keen to acquire a smaller glovemaker to build capacity and raise its nitrile capacity. We gather that the company did pursue several opportunities including another listed glovemaker with a capacity of c.9bn pieces of gloves. However, valuations remained the primary stumbling block as sellers were asking for premiums above book value, which Top Glove could not justify due to the commoditised nature of the industry and the company's dominance in the sector.

Figure 26: Consolidation in the rubber glove sector (1990 to 2009)



SOURCES: CIMB, COMPANY REPORTS, SUPERMAX IR PACK

In 2011, there were three failed M&A transactions i) Navis Capital's acquisition of Latexx Partners, ii) YTY Group's attempt to sell out to private equity investors and iii) a merger between Latexx Partners and YTY Group. Looking forward to 2012, while glovemakers may talk about M&A, we do not believe that deals will be consummated. From our discussions and company visits, we sense that glovemakers will continue to build capacity as a means of controlling pricing and securing customers instead of acquiring competitors' plants at premium valuations. Also, while the process of glovemaking appears commoditised to the untrained eye, we sense that each glovemaker takes great pride in the organisation and technology of their factories. As a result, we believe that few will be willing to pay premiums for factories that are not easily synchronised with existing plants.

2.6 Vertical integration: To own or not to own the cow?

There are two philosophies now being tested in the glovemaking industry. One school of thought advocates the integration of a glovemaker's facilities with rubber plantations to rationalise costs as 60-70% of total costs are related to rubber. Top Glove falls into this category. Management is now actively working on a deal to acquire 10,000ha of rubber land in Cambodia. This is a long-term project and could take the next 10 years to complete. Eventually, Top Glove indicates that it wants to have 50% of its latex requirements supplied by internal sources. The company has also indicated that ownership of a rubber plantation would enable the company to hedge its production costs.

The other school of thought is to control the value chain from manufacturing down to the customer by strengthening the distribution network and brand. The rationale is to eliminate the middleman and shield earnings from competition, which is crucial during times of overcapacity. Supermax is pursuing this strategy. The company is working on strengthening its distribution network in Europe and recently set up a sales office and warehouse in the UK. It is also working on strengthening its presence in Brazil, where its OBM products are the most recognised in the country. The company has said on numerous occasions that one does not need to own a cow to drink milk and that Supermax does not need to own a rubber plantation to be a successful glovemaker.

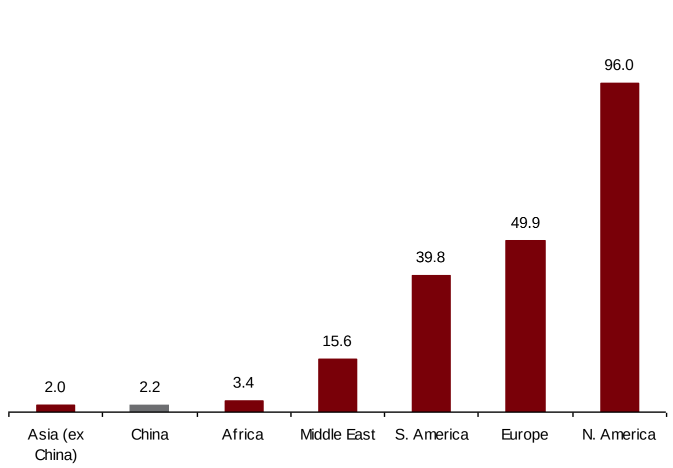
2.7 What's the right model?

We believe that vertical integration from manufacturing down to the customer is more important than the ownership of the rubber supply. Also, we think the rationale for owning a rubber plantation to hedge rubber prices is misguided. Rubber futures are traded in Tokyo, Shanghai and Singapore, which can be used to smooth out a company's cost base and earnings profile. In Top Glove's case, we think that owning a rubber plantation in Cambodia will pose logistical hurdles as its glove manufacturing facilities are located in Malaysia and transporting NR latex across the Cambodia-Thai and Thai-Malaysia boarders will be challenging.

2.8 Glovemakers sets their sights on China

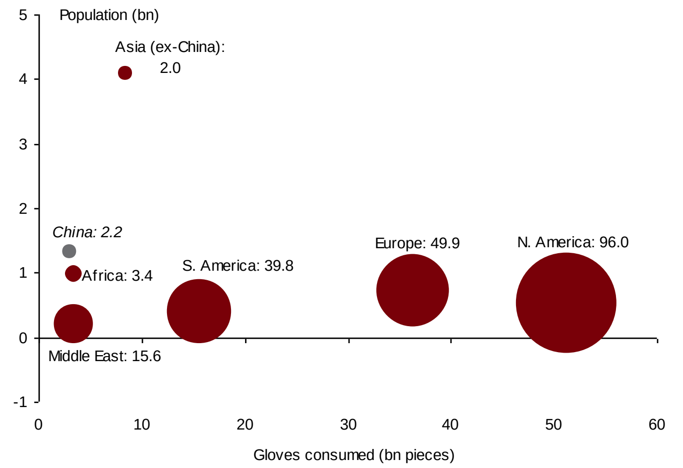
In 2012, Malaysian glovemakers will strengthen their presence in China. The Chinese use only two gloves per annum per person compared to 40 in South America, 50 in the EU and 96 in North America (Figure 27 and 28).

Figure 27: Annual glove consumption ranking (per capita p.a.)



SOURCES: CIMB, COMPANY REPORTS

Figure 28: Population and glove consumption (per capita p.a.)

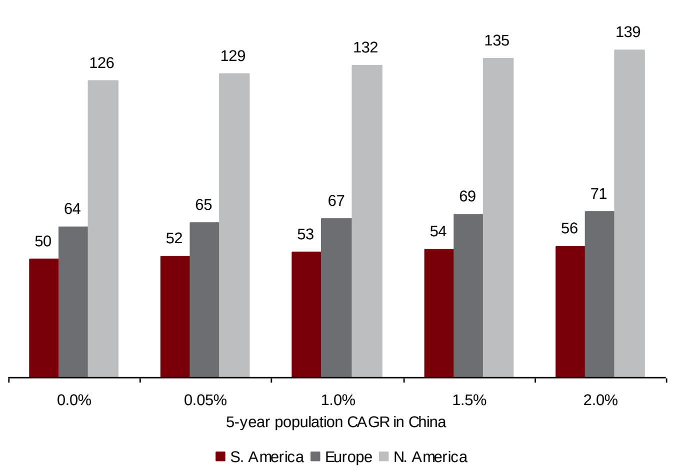


SOURCES: CIMB, COMPANY REPORTS

We believe that the gap will close as incomes rise and healthcare regulations are liberalised. Assuming zero population growth, the Chinese market could be worth an additional 50bn-126 bn gloves p.a. in five years (2010 population: 1.3 bn) if China consumes an equivalent amount of gloves as South America and North America, respectively (Figure 29).

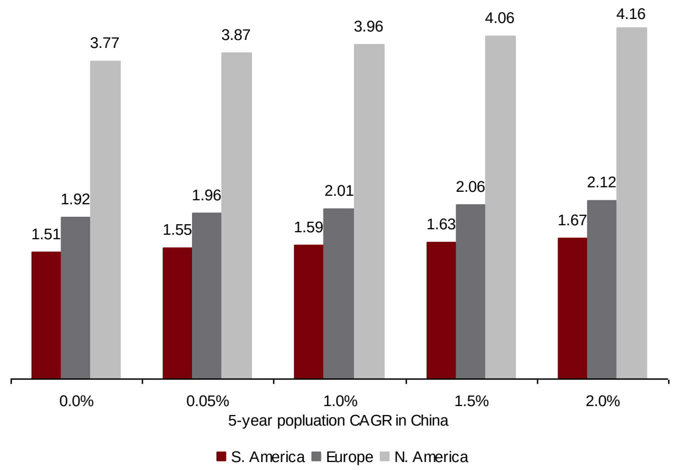
Assuming these same assumptions and an average selling price of US$30 per 1,000 gloves, annual revenues from China could be worth US$1.5bn-3.8bn or RM4.5bn-11.3bn (RM:3.0:US$1) in five years (Figure 30). For perspective, this is 2.3-5.6x higher than Top Glove's current annual revenue of RM2bn.

Figure 29: Potential of the Chinese glove market (bn gloves)



SOURCES: CIMB, COMPANY REPORTS

Figure 30: Population growth and the Chinese market (US$ bn)



SOURCES: CIMB, COMPANY REPORTS

Top Glove already has two factories that manufacture vinyl gloves in Zhangjiagang and Xinghua. In Mar 2011, Kossan acquired a 51% stake in Cleanera HK Ltd, a company based in Guangdong's Dongguan that manufactures cleanroom products such as masks, wipes and gloves. 2012 will be the first full financial year that Cleanera is under the management control of Kossan. We expect the company to boost Kossan's group net profit by RM10m (c.10% of group net profit) in FY12. Also, in Aug 2011, Hartalega set up a distribution office in Yancheng where it will seek to expand its presence.

2.9 Upcoming events in Feb 2012

Key events over the coming weeks include results for Supermax (4Q11) on 28 Feb and Hartalega (3QFY3/12) on 22 Feb. Supermax will also hold a 4Q11 analyst briefing on 1 Mar before management spends the next few weeks visiting fund managers in the US and EU.

3. RISKS AND MITIGANTS

3.1 Higher rubber prices

NR prices are up 22% YTD due to improving economic data and loose monetary posturing. We think that rubber prices will continue to trend upwards for the following reasons.

- Farmers holding back supply: Rubber growers in 14 southern provinces of Thailand have agreed to reduce the rubber supply by 25% by cutting tapping days from 20 days to 15 days.
- Thailand's intervention: In Jan 2012, the Thai government approved a THB15bn (RM1.48bn) budget plan to purchase c.200,000 mt (c.6.5% of Thai production and c.7.1% of Thai exports) of unsmoked rubber sheets at THB120/kg (spot: THB121/kg). Also, news reports at the time indicated that the government is confident of keeping the price of export-grade RSS3 above US$4.00/kg (spot: US$4.10/kg).
- Weather disruptions: Floods can uproot trees, destroy plantations and disrupt tapping schedules. This would have a drastic impact on supply as it takes 4-7 years for new crops to mature and start producing latex.

3.2 Higher energy prices

In May 2011, Tenaga Nasional Berhad raised electricity tariffs by 7.2% after Petronas increased its gas price by 28% to RM13.70/mmbtu. The tariff hike was followed by a verbal commitment from Malaysia's energy minister that the government would increase gas prices by RM3/mmbtu every six months as part of its efforts to roll back subsidies.

The most recent gas price review would have taken place on 30 Nov 2011, right smack in the middle of the Umno general assembly. However, there was no announcement on the review. Having said that, we note that the market price for gas is 3.85x higher than Malaysia's subsidised price (Figure 31). If the BN-led government intends to stick to its subsidy rationalisation plan, there is significant room to increase gas and electricity prices.

However, we believe that a tariff hike is unlikely given macro uncertainties and the prospect of a general election. Also, the government's track record in rolling back subsidies has been poor. In fact, in early Jan 2012, the government raised the sugar subsidy by 2.2x to RM567m. The annual gas subsidy is 40x higher at RM20bn. It is unlikely that the government will scale back gas subsidies when it has not been able to do the same for the much lower sugar subsidy.

Figure 31: Subsidised vs. market prices for gas in Malaysia (RM/mmbtu)

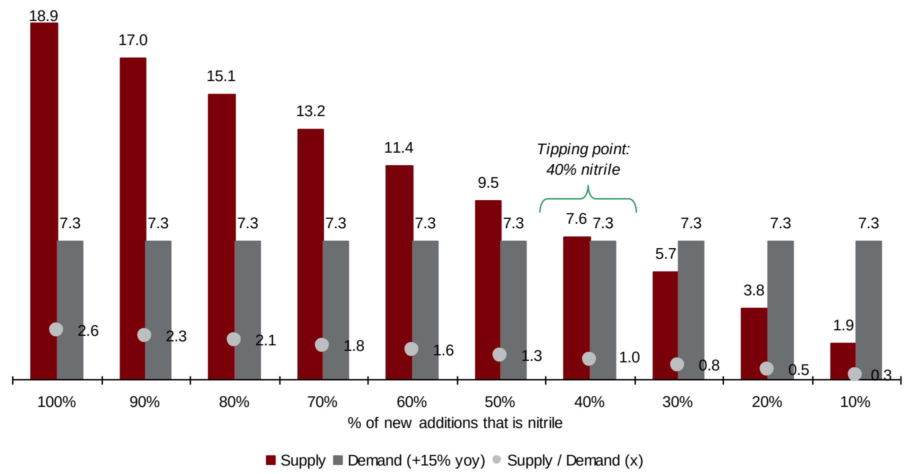
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

3.3 Competition from China

Feedback from glovemakers suggests that competition from China is heating up, specifically for nitrile gloves where synthetic feedstock is readily available. For example, industry reports indicate that c.85% of new synthetic rubber supply in 2012 will be from China, enabling Chinese glovemakers to source inputs readily (the c.15% balance will be from Korea). China also has access to low-cost, skilled labour and has a large healthcare market that is expected to be worth US$600bn p.a. in 2021.

Our analysis suggests that if 40% of the new capacity is nitrile, supply and demand will be in balance. If more than 40% of the new capacity coming onstream in 2013 is nitrile, there will be a glut of nitrile capacity (Figure 32).

Figure 32: Incremental supply and demand of nitrile gloves in 2013 (bn pieces)



SOURCES: CIMB, COMPANY REPORTS

Despite these concerns, we do not believe that Malaysian glovemakers should feel threatened. The Malaysian industry is well entrenched and, in our view, will continue to dominate the world glove industry due to 1) long-term business relationships, 2) efficient cost structures, and 3) technical expertise that is difficult to replicate.

Since the early 1990s, Malaysian glovemakers have consistently improved glove technology, enhancing line capacity by 260% from 5,000 pieces of gloves per hour to 18,000 pieces of gloves per hour. We also believe that Malaysia's proximity to NR domestically and in the region (Thailand and Indonesia) gives Malaysia an unmovable cost advantage as liquid latex is bulky, expensive to transport and can only be stored for about 12 months after being processed.

We note that Thailand, Indonesia and Malaysia combined account for 90% of the world's rubber supply. Also, medical gloves that are exported to the US and Europe are subject to high safety and health standards. In our view, this further impedes competition from the low-cost gloves that are manufactured in China.

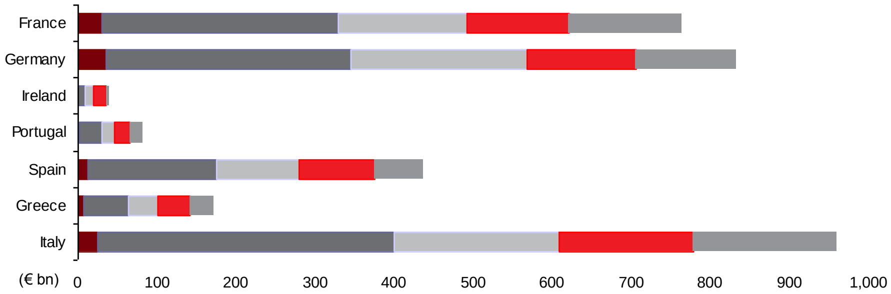
We believe that international healthcare companies have an incentive to protect their brand and image by maintaining relationships with existing contract manufacturers as switching costs are high and switching is a time-consuming process involving facility downtime, supply disruption and thorough company audits. Instead of US and European healthcare companies switching to a low-cost alternative in China, we believe that MNCs will outsource more glove production to their existing partners in Malaysia.

Also, we gather that the technologies for vinyl and nitrile gloves are vastly different. As a result, vinyl glovemakers cannot convert their manufacturing lines to produce nitrile gloves. Chinese glovemakers who want to penetrate the nitrile market would have to construct factories from scratch.

3.4 Cut in EU healthcare budgets

Glovemakers such as Adventa have indicated that lower EU healthcare budgets due to the implementation of austerity measures will affect the demand for gloves (Figure 33). In the worst-case scenario, European hospitals could cut healthcare budgets to such an extent that minimum consumable inventory levels are lowered.

Figure 33: EU sovereign debt redemption schedule



	Italy	Greece	Spain	Portugal	Ireland	Germany	France
2015	182	29	62	15	3	128	143
2014	170	41	95	20	15	139	130
2013	209	38	105	15	10	223	163
2012	376	56	162	29	10	309	298
2011	24	7	12	2	0.04	36	30

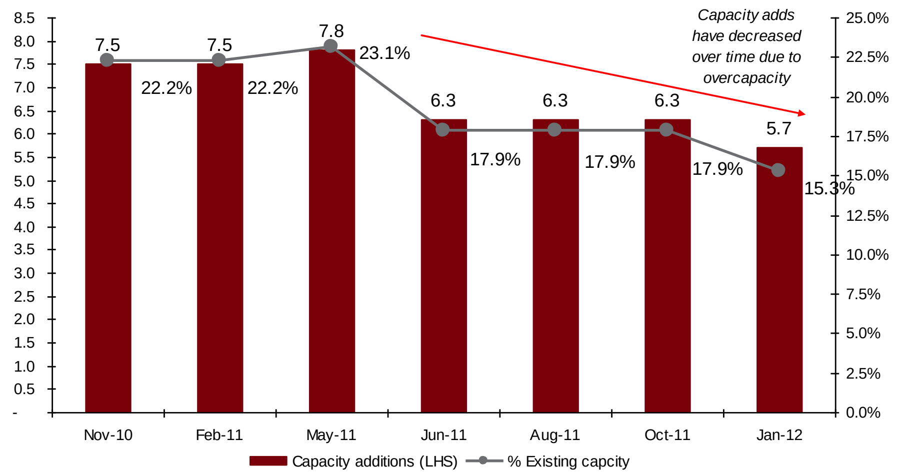
SOURCES: BLOOMBERG, CIMB RESEARCH

We believe that the cut in healthcare expenditure will have a larger impact on capital expenditure and less on the purchase of consumables such as gloves. Gloves make up a smaller percentage of total hospital costs and hospitals must maintain inventory levels to remain in compliance with international healthcare regulations.

3.5 Overcapacity in the industry

In Oct 2011, Top Glove told analysts during its 4Q11 briefing that there was a glut of gloves in the sector. Management indicated that it could take 2-3 years for demand to catch up with supply. At the time, management kept its capacity guidance. However, in Jan 2012, Top Glove lowered its capacity expansion plans by 9.5% (Figure 34).

Figure 34: Top Glove's announced capacity additions (bn pieces)



SOURCES: CIMB, COMPANY REPORTS, TOP GLOVE ANALYST BRIEFINGS

As a result of the overcapacity, smaller manufacturers such as Smart Glove Corporation Sdn Bhd in Klang are pricing its products aggressively. The company has been successful in securing key accounts at the expense of larger glovemakers. We also gather that Smart Glove may be preparing for a listing in 2012 and management could be aggressively positioning the company for this exercise.

3.6 Forex volatility

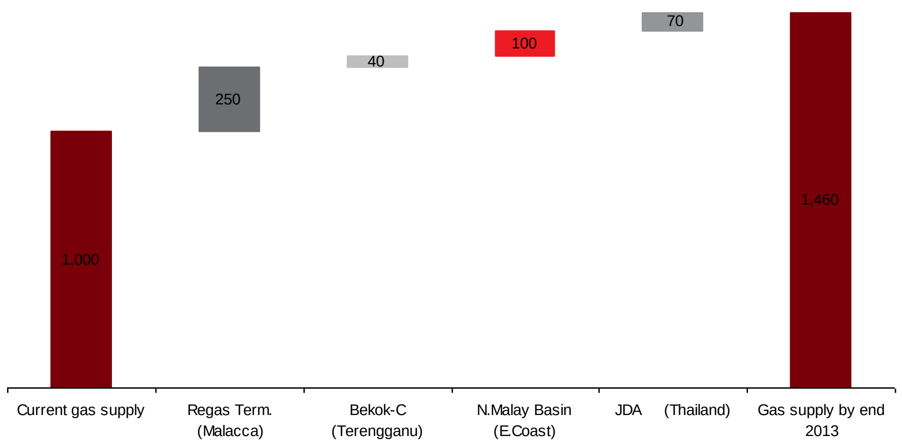
On average, 95% of the glove industry's sales are exported, with transactions priced in either US$ or €. Our end-2012 exchange rate forecasts are 3.30 for the RM/US$1 cross (spot: 3.03) and 1.27 for US$/€1 (spot: 1.32), which imply a further 8.2% depreciation of the US$ but a 3.9% appreciation of the € against the ringgit. Note that nitrile glovemakers such as Hartalega are less exposed to currency fluctuations as nitrile is quoted in US$ and is a natural hedge.

3.7 Shortage of gas supply hinders expansion plans

The shortage of gas in Malaysia has limited the ability of glovemakers to raise manufacturing capacity. While this has not been an issue over the past 12 months due to the overcapacity of gloves, this must be resolved for glovemakers to go for the next level of growth. One way that glovemakers have circumvented the shortage has been to limit capacity expansion to sites where gas is already available (Supermax). Other glovemakers have used alternative fuels such as biomass to compensate for the gas shortage (Hartalega).

We expect the regasification plant in Malacca being built by Petronas Gas Bhd (PTG MK) to mitigate the shortage by adding 250 mmscfd (500 mmscfd total) to the industrial sector. Other projects are also being planned. They include the full restoration of the Bekok-C gas field (+40 mmscfd), development of the North Malay Basin (+100 mmscfd) and extraction of more gas from the Joint Development Area in Thailand (+70mmscfd). In total, we believe that gas delivered to Tenaga Nasional Bhd (TNB MK) and the independent power producers could increase by 46% to 1,460 mmscfd by 2013 (Figure 35).

Figure 35: Potential gas supply to Tenaga and the IPPs by 2013 (mmscfd)



SOURCES: CIMB, COMPANY REPORTS

4. STRATEGIES FOR 2012

4.1 Overall 2012 sentiment appears cautious

Overall, glovemakers are cautious about 2012. The key challenges that they will face in 2012 include:

- The risk of higher NR prices as Thailand appears committed to supporting unsmoked prices above THB120/kg (spot: THB121/kg).
- Cut in EU budgets as countries implement austerity measures.
- Intensifying competition in the nitrile space. This is expected to lead to contracting margins as smaller players fight aggressively to fill up capacity.
- Overcapacity. Many glovemakers have said that demand will pick up once NR prices start to fall. NR prices are 30% off their peaks but demand has yet to pick up. We believe that this is due to overcapacity in the industry.

Adventa and Hartalega have been the most vocal about the challenges in the glove industry. Despite Hartalega's conservative stance, the company will start building Plant-6 in 2012 and add 12% to its effective capacity (total end FY13: 10.7bn).

At the other end of the spectrum is Supermax, which is aggressively expanding capacity to include surgical gloves. The company has also established a distribution and warehousing presence in the UK and will continue to build its presence in Brazil where its OBM products are market leaders.

Top Glove and Supermax have indicated they believe NR latex prices will trend lower. Top Glove indicated in early Jan 2012 that NR latex prices should stabilise at RM6/kg while Supermax said in late Feb 2012 that NR latex prices will range between RM5-6/kg. Spot NR latex prices are currently RM7.75/kg.

4.2 Hartalega

Hartalega has received the required approvals for its sixth plant on which it has begun construction. This will add 3.6bn pieces of gloves p.a., taking Hartalega's capacity to 10.7bn pieces of gloves p.a. by end-FY3/13. Plant-6 will be installed with the latest version of Hartalega's proprietary glove-stripping and glove-dipping technology. The plant will be built with manufacturing lines capable of running 36,000 pieces of gloves per hour.

The company is also actively fine-tuning its succession plan. We gather that the primary responsibility of the founder Kuan Kam Hon now is charting Hartalega's long-term strategy. Day-to-day responsibilities are being handled by the next generation of Kuan managers. Plant operations are managed by Kuan

Mun Leong while the finance and the investor relations functions are directed by Mun Keng. We like the gradual approach that the Kuan family is taking and believe that with the guidance of the senior Kuan, Mun Leong and Mun Keng will be able to guide Hartalega to its next level of growth.

Investors' main concern over Hartalega is the stock's low liquidity. Feedback from investors is that while funds may find Hartalega's stock valuation attractive and its business model fundamentally sound, it is a challenge to build meaningful positions via open market purchases. Hartalega has indicated that it is considering a bonus issue, which could enhance the stock's affordability and trading activity. The company has also indicated that at the right valuation, the Kuan family's investment holding company, Hartalega Industries Sdn. Bhd. would be open to selling down its stake to increase the stock's free float. Successful implementation of these exercises would be positive for Hartalega's share price as the higher free float and trading liquidity would help to institutionalise Hartalega's shareholder base and help to narrow Hartalega's valuation discount to Top Glove.

2012 will also see Hartalega firming its grip on the Chinese market. The company has acquired a marketing company in China and intends to put in more resources and management time to expand Hartalega's presence there.

4.3 Supermax

Supermax is at an advanced stage of expanding its surgical glove capacity from 2.5m pairs per month to 28m pairs per month. The facility is expected to be completed by the end of 2011. The company indicated that the new capacity will add US$67.2m in revenue (implied ASP: US$0.2/pair) and US$10.1m in net profit to the group in FY12.

Over the next two years, Supermax intends to build two additional plants in Meru, Klang where it has 10 acres of land adjacent to its existing facilities. By building on an existing site, it will have no problem accessing gas. The two plants will add a total of 3.9bn gloves p.a. to the group's capacity by the end of FY13. The company is also upgrading old lines to improve efficiency.

With its own distribution network, established brand and focus on the dental market, we believe that Supermax will ride out the next 1-3 years of excess capacity better than its peers. By owning the network and brand, it controls both the manufacturing and distribution portions of the value chain. Unlike Top Glove which is integrating vertically upwards by buying rubber plantation land, Supermax is investing downstream to enhance its marketing and distribution capabilities.

We are in favour of this strategy as it enables Supermax to bypass distributors and sell directly to the end-user. This means that unlike its larger rival, Supermax does not have to dance to the tune of distributors who may not have the customer's long-term interests in mind. Note that Supermax sells nearly 70% of the gloves under its own brand, which can add up to 5% pts to the company's profit margins.

Supermax will also be less affected by the industry's overcapacity because of its focus on the US dental market where it has a 9.2% market share and is the 2nd largest player. This puts it ahead of its peers for several reasons a) Supermax has built a dominant position and reputation in this market, giving it first-mover advantage, b) when the company switches customers from NR to nitrile, Supermax will not cannibalise its own products and c) by focusing on a sub-segment of the examination glove industry, Supermax faces less competition by serving a niche market.

4.4 Kossan

We like Kossan's strategy of keeping a balanced product mix of 50% nitrile and 50% NR. We believe that this will enable the company to meet demand from both emerging markets and developed markets. Consumers in emerging markets are typically more fickle in their buying behaviour and tend to make decisions that are based on economics and costs while paying less attention to product quality.

At the same time, developed markets such as the US are well entrenched in their use of nitrile gloves due to greater awareness of the allergic reactions that can develop when wearing NR gloves.

Therefore, a balanced 50/50 product mix will enable Kossan to sell its glove products to both the growing markets in Asia as well as the more stable markets in the US and EU.

Also, in an environment where commodity prices can fluctuate wildly and quickly, a balanced product mix enables the company to smooth cash flows by selling gloves in various economic environments and meet the ever-changing demand of consumers in Asia.

After a down year in 2011, we expect earnings to expand by 21.4% in FY12 and 18.1% in FY13. This will be underpinned by:

- Stable utilisation rates of at least 80% in FY12 and FY13, coming from 10% annual demand growth for synthetic gloves and a 1% contraction of NR demand as consumers switch to nitrile.
- Average capacity growth of 2bn pieces p.a. in FY12 and FY13, taking total capacity to 17bn pieces of gloves by end-2013.
- Product diversification beyond examination gloves to surgical gloves. By end-2012, we expect Kossan to have a surgical glove capacity of 0.6bn pieces p.a.
- Full-year contributions from Kossan's 51%-subsidiary Cleanera HK Ltd. We expect Cleanera to contribute c.RM10m to the group's FY12 bottomline.

4.5 Top Glove

Top Glove's primary hurdle in 2012 will be to purchase rubber land in Cambodia. Last year, the company failed to execute a purchase due to problems with its agent. Management indicated during its 1QFY8/11 results briefing in early Jan 2012 that a new agent has been appointed. The company believes that owning rubber landbank will help it hedge against rubber price volatility. However, we believe that acquisition of rubber landbank for hedging purposes is not ideal. Top Glove could hedge by purchasing financial instruments, either directly through rubber futures in Singapore, Tokyo and Shanghai or investing in other paper assets that are negatively correlated with NR, for instance, rubber plantation stocks. The company also intends to build additional capacity (+3bn pieces), taking total capacity to 41.55bn pieces of gloves.

4.6 Adventa

Adventa is positioning itself to compete better in an environment of high NR prices and in 2012 the company aims to raise its nitrile mix from 20% to 60%. To achieve this, the company is building a nitrile glove factory with a capacity of 900m pieces p.a. in Kluang and aims to commission it by 1H12. Adventa is the only glovemaker with manufacturing facilities in Latin America. The company has a glove facility in Uruguay where its products are manufactured for export to Brazil. We gather that due to difficulty in sourcing raw materials, the facility is unprofitable and Adventa is looking to exit the market.

4.7 Latexx

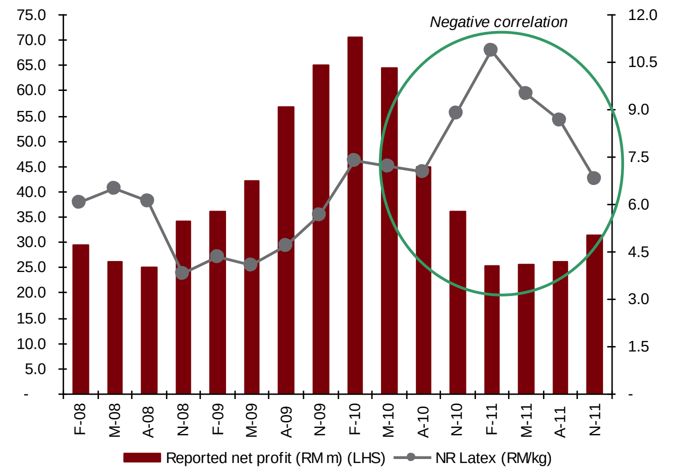
In Aug 2010, Latexx signed a JV with Budev B.V. to sell gloves with undetectable amounts of protein. 2011 was supposed to be the product's launch year, however this project is still under development. If the Budev JV takes off in 2012, this could catalyse the stock as we have not factored any earnings from the JV. Moving forward, we gather that Latexx aims to remain cautious and is taking measures to improve efficiency and lower costs. The company will also retain its focus on the nitrile segment where year-on-year demand is rising by as much as 30% compared to a contraction in some NR markets.

5. VALUATION AND RECOMMENDATION

5.1 Hedge against an economic downturn

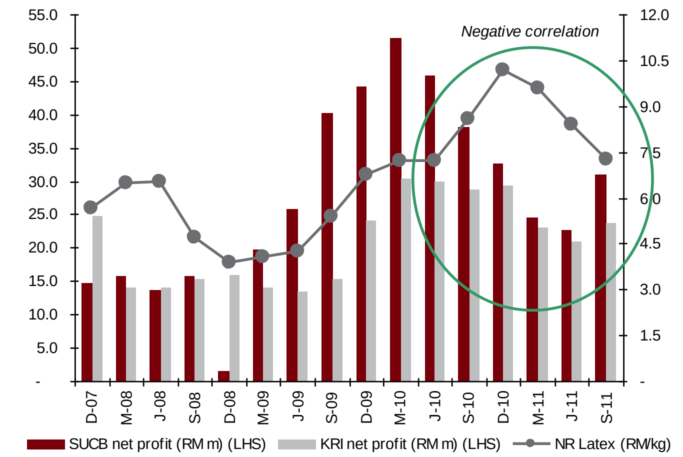
Glovemakers' earnings can be inversely correlated with world GDP as 60-70% of their cost base consists of NR or nitrile, both of which are positively correlated to economic sentiment. Figures 36 and 37 illustrate this negative correlation using the net profit figures of Top Glove, Supermax and Kossan. These glovemakers' earnings tend to exhibit more cyclicality than Hartalega due to their greater exposure to NR. Nitrile, in comparison, is a more stable raw material. As a result, Hartalega is able to maintain better stability of prices and, therefore, earnings.

Figure 36: Top Glove's net profit versus NR latex price



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 37: Supermax's and Kossan's net profit versus NR latex



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

5.2 Top Glove has run ahead of fundamentals

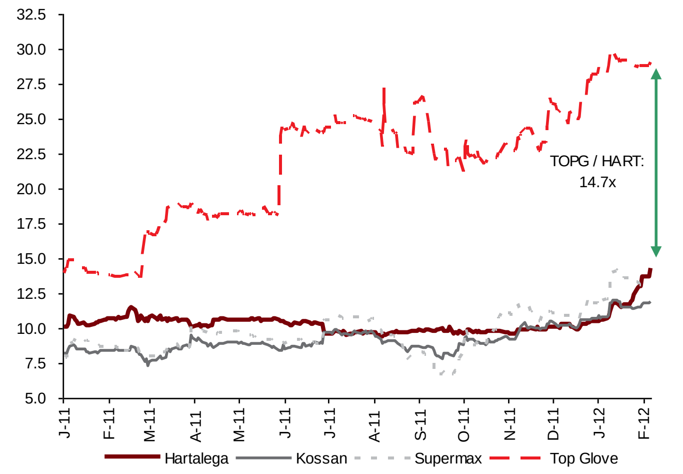
We believe that Top Glove's consensus net profit of RM157m in FY12 and RM184m in FY13 is far too bullish. Our analysis suggests that to achieve these numbers, Top Glove would need to yield a group utilisation rate of 85-90%, which we think is not achievable given the weak demand and industry glut. Also note that FY12 consensus net profit of RM157m implies a 50% qoq (compounded quarterly) rise in net profit in FY12 based on 1QFY8/12 run-rates. We believe this is excessive. Our numbers (RM134m) imply a quarterly run rate of 44% growth qoq, which we believe is more reasonable.

Figure 38: Target price comparison

Company	Bloomberg Ticker	Recom.	Current Price	Target Price	FY12 P/E ratio	Upside	FY12 div yld	Total return
			(RM/shr)	(RM/shr)	(x)	(%)	(%)	(%)
Adventa	ADV MK	Underperform	1.66	1.49	12.2	-10.1%	2.5%	-7.6%
Hartalega	HART MK	Outperform	8.29	9.35	13.6	12.8%	3.3%	16.1%
Kossan	KRI MK	Outperform	3.57	3.84	10.0	7.6%	2.5%	10.1%
Latexx	LTX MK	Neutral	1.91	2.05	6.6	7.1%	3.0%	10.1%
Supermax	SUCB MK	Outperform	2.09	2.43	10.1	16.5%	2.0%	18.5%
Top Glove	TOPG MK	Underperform	5.07	3.61	21.8	-28.8%	2.2%	-26.6%
Simple average					**13.5**		**2.6%**	

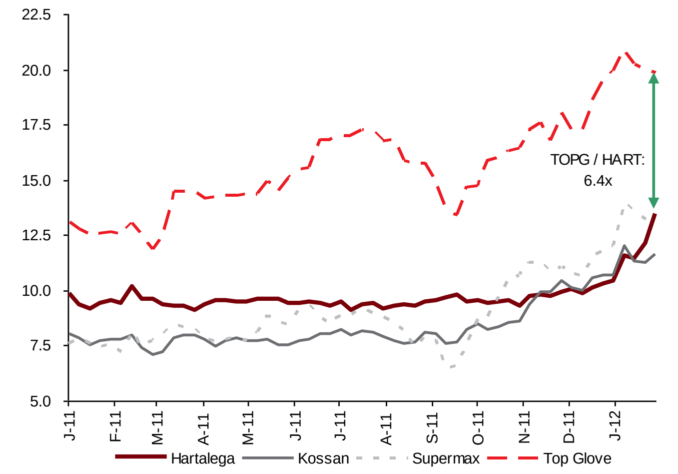
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 39: Historical P/E for the Big-4 glovemakers (x)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 40: Forward P/E for the Big-4 glovemakers (x)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Based on our numbers, Top Glove is trading at an FY12 P/E of 21.8x, which is at a 61.5% premium over the sector and, in our opinion, overprices the stock's 2-year CAGR of 18.8%. On an asset basis, Top Glove trades 2.46x FY12 P/BV despite an FY12 ROE of only 11.5% or a 9.8% premium over the glove sector.

Figure 41: Valuation trend over the past 12 months

	Forward P/E multilpes				Mkt cap	Foreign %	Free Float	5day ATV
	Current	1-yr ago	% Chg	x Chg	(RM m)	(%)	(%)	(RM '000)
Adventa	10.5x	6.8x	54.8%	3.7x	253.6	8.0%	46.3	70
Hartalega	14.6x	9.4x	55.3%	5.2x	3,022.9	5.0%	43.4	4,180
Kossan	11.6x	7.8x	48.5%	3.8x	1,141.5	9.0%	40.3	1,468
Latexx	7.3x	6.7x	9.1%	0.6x	425.6	6.6%	53.3	858
Supermax	12.7x	7.2x	76.6%	5.5x	1,421.5	18.0%	53.0	9,811
Top Glove	19.9x	12.5x	58.6%	7.3x	3,136.3	33.0%	53.9	5,125
Average	**12.8x**	**8.4x**	**50.5%**	**4.4x**	**1,566.9**	**13.1%**	**48.4**	**3,585**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 42: DuPont Analysis and ratios

	Adventa	Hartalega	Kossan	Latexx	Supermax	Top Glove
Tax burden (%)	71.1	78.4	80.6	77.9	86.5	77.7
Interest burden (%)	25.5	102.1	96.8	86.9	111.4	127.3
EBIT margin (%)	5.4	32.4	13.9	19.4	17.1	5.6
Asset turnover (x)	1.0	1.3	1.4	1.4	1.0	1.5
Financial leverage (x)	2.0	1.3	1.8	1.8	1.6	1.3
ROE (%)	1.9	44.9	28.3	32.4	25.4	10.2
5-yr avg ROE (%)	11.4	na	23.9	19.3	19.8	19.8
ROA (%)	1.0	34.2	15.5	17.9	15.8	8.1
5-yr avg ROA (%)	6.2	na	11.8	9.9	10.1	12.9
1-yr fwd PE ratio (x)	10.5	14.6	11.6	7.3	12.7	19.9
5-yr PE ratio (x)	20.8	na	11.4	11.9	11.0	16.9

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

5.3 Hartalega is our top pick

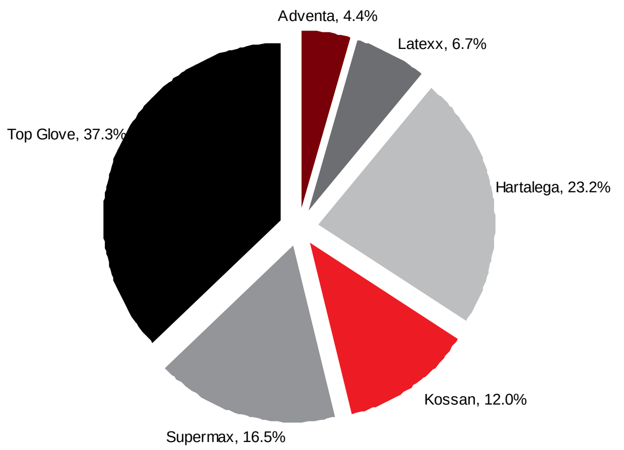
We prefer Hartalega for its better fundamentals and secure cash flow model. Because of a more consistent pricing formula for nitrile, we believe that over the long term, Hartalega, the sector's nitrile specialist, will achieve better margins and shareholder returns.

Note that glovemakers take NR prices quotes on a daily basis based on the previous month's average. The daily quotes are necessary because the commodity is widely traded. In addition to being traded on three international exchanges in Singapore, Shanghai and Tokyo, the governments of rubber-producing countries such as Malaysia, Thailand and Indonesia also quote rubber prices to farmers who do not have access to real-time prices.

Unlike NR which is quoted daily, nitrile is quoted in the middle of the month for the next month (e.g. mid-Feb 2012 for Mar 2012). This price then applies for the whole month. Therefore, the cost base of nitrile glovemakers does not fluctuate so wildly and a company such as Hartalega is able to pass on its costs more consistently. This pass-through ability is critical because even when commodity prices swing wildly, Hartalega is able to preserve its profitability and generate returns that are superior to its peers.

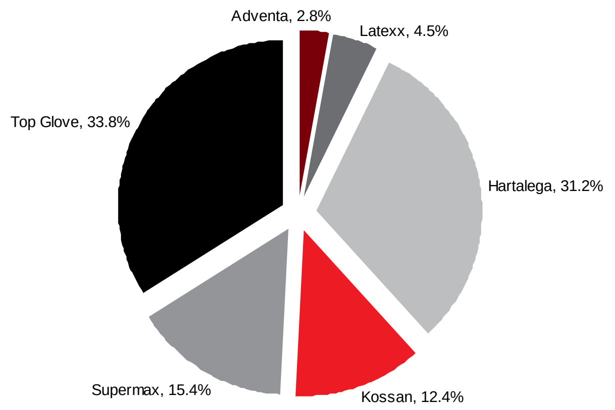
The market is beginning to appreciate Hartalega's dominance in the nitrile market and the company's superior cash flow model. Note that on 3 Jan 2011, Hartalega comprised 23.2% of the glove sector's market cap (Top Glove: 37.3%). However, by the beginning of Feb 2012, Hartalega's composition of the sector's market cap had expanded to 31.2%, only 2.6% pts behind bellwether Top Glove (Figures 43 and 44).

Figure 43: Share of market cap, Jan 2011 (%)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 44: Share of market cap, Feb 2012 (%)



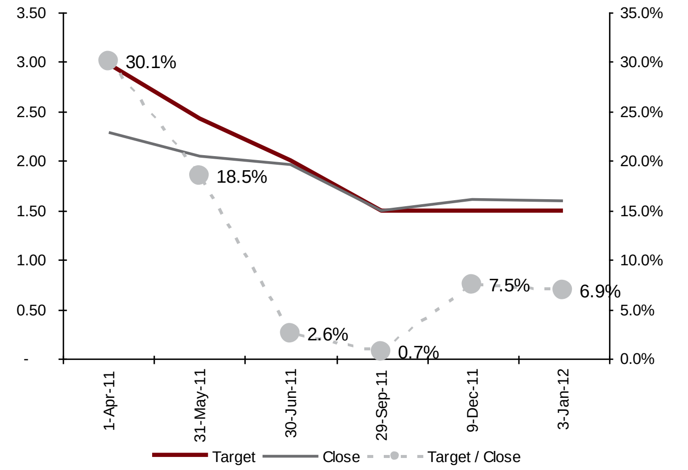
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

5.4 Supermax trades at attractive valuations

For investors with a higher appetite for risk, we recommend Supermax. The company is aggressively diversifying its product base beyond examination gloves by expanding its surgical glove capacity by tenfold. Also, the company's established distribution and own-brand model will enable it to navigate the next few years of overcapacity. Valuation-wise, we believe that Supermax offers superior trade-offs to Top Glove in terms of P/BV to ROE (FY12) and FY12 P/E to 2-year EPS CAGR.

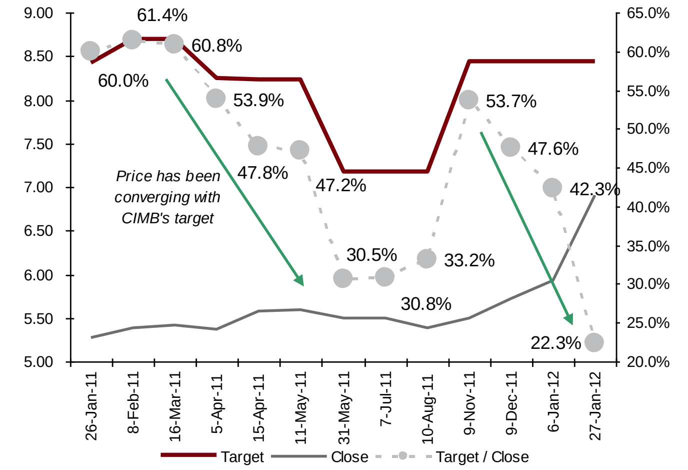
APPENDIX 1: TRACKING OUR TARGET PRICES (2011-YTD)

Figure 45: Adventa (RM/ share)



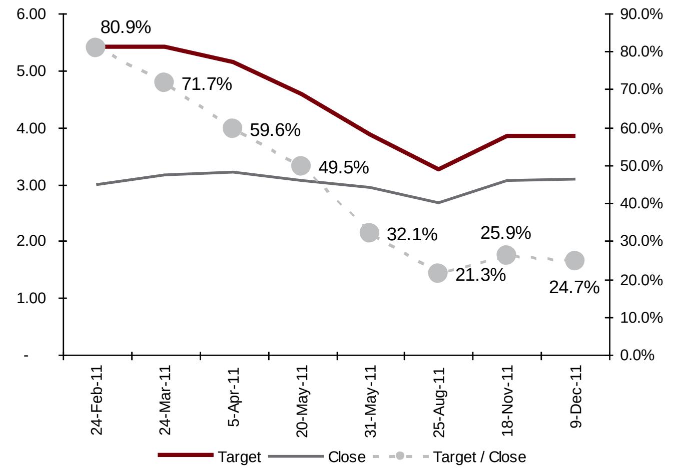
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 46: Hartalega (RM/share)



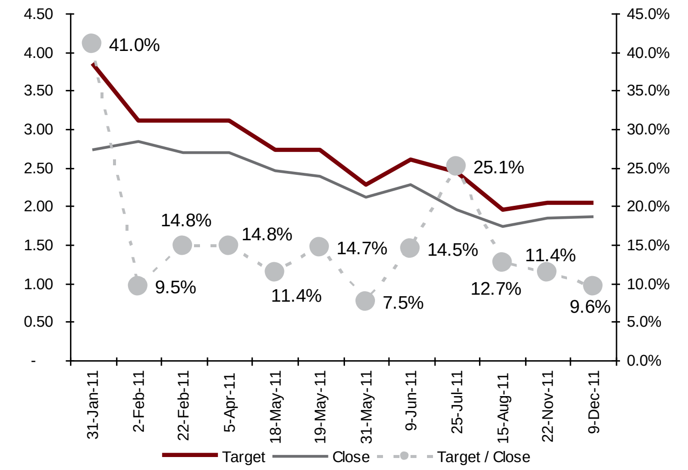
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 47: Kossan (RM/share)



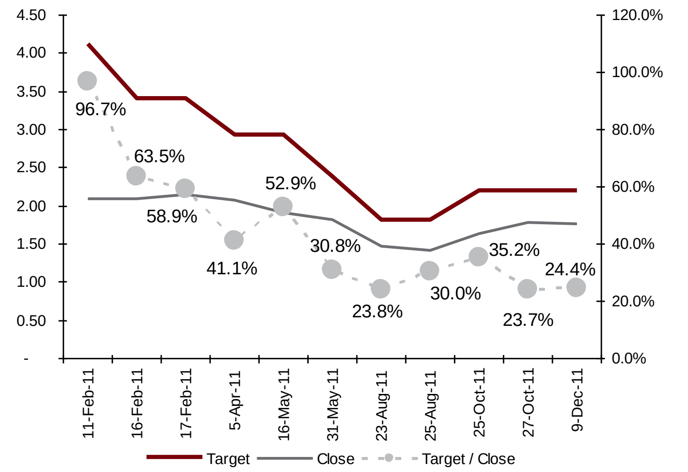
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 48: Latexx (RM/share)



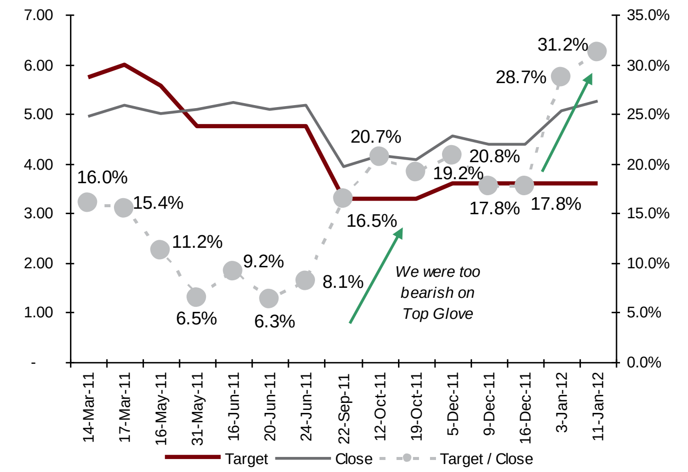
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 49: Supermax (RM/share)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 50: Top Glove (RM/share)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

CIMB

Hartalega Holdings

HART MK / HTHB.KL

Market Cap	Avg Daily Turnover	Free Float
US$999.4m	**US$0.64m**	**43.4%**
RM3,023m	RM1.98m	364.6 m shares

Current	RM8.29
Target	RM9.35
Previous Target	RM8.44
Up/downside	12.8%

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	**OUTPERFORM**
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst

Yeoh Yung-Juen CFA
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Share price info

Share price perf. (%)	1M	3M	12M
Relative	23.6	41.6	42.6
Absolute	26.2	48.0	47.2

Major shareholders	% held
Hartalega Industries Sdn Bhd	50.5
Budi Tenggara Sdn Bhd	5
Kuan Kam Hon and family	1.1

To the heart of the matter

Fears over competition are misguided as nitrile's superior cost and Hartalega's reputation will underpin demand. Also, we believe that the oncoming supply from China is overstated. Plant-6 adds 12% to capacity and is the launchpad for Hartalega's next level of growth.

Our valuation basis rises to 13.01x forward P/E as we peg Hartalega to Top Glove, i.e. we remove our 10% discount. Liquidity is improving and its market cap is on par with Top Glove. We tweak EPS after raising our dividend payout by 5% pts to 45%. Maintain Outperform.

Nitrile cash cost falling

The cash cost for nitrile gloves is now 18% lower than for natural rubber gloves. At the peak in Mar 2011, nitrile's discount was as high as 40%. The widening cost difference between nitrile and natural rubber is positive for Hartalega as its superior affordability will underpin demand for nitrile gloves. This will enable Hartalega to grab market share from natural rubber glovemakers as reduced healthcare budgets in Europe encourage hospitals to search for cheaper alternatives.

Discount is narrowing

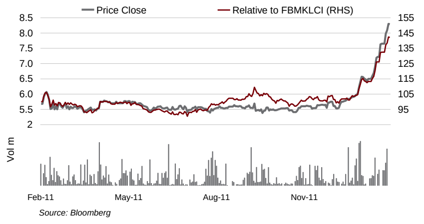
Hartalega's market cap has risen by RM0.9bn YTD on the back of increasing investor interest and stock liquidity. At RM3.0bn, the stock's market cap is only 3.6% below Top Glove's. We believe that Hartalega's liquidity and trading multiples can improve further as a bonus issue and/or a measured selldown by its major shareholder may be in the pipeline.

First-mover advantage

While intensifying competition is a risk to earnings, we believe that Hartalega's superior product quality will enable the company to fend off its competitors. Also, we gather that the ability of glovemakers to convert vinyl lines to nitrile glove lines is exaggerated. The two technologies are unique, switching is not an option and new plants are required.

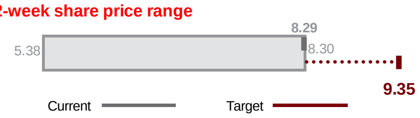
Deep-value stock

Although the stock has risen 49% over the past month, investors should continue to accumulate Hartalega as it is still undervalued. It is trading at a 37.6% discount to Top Glove's P/E despite a better 2-year EPS CAGR of 18% and an FY12 ROE of 35.3%. Its FY13 net dividend yield of 3.3% is also highest in the glove sector.



Source: Bloomberg

52-week share price range



Financial Summary

	Mar-10A	Mar-11A	Mar-12F	Mar-13F	Mar-14F
Revenue (RMm)	572	735	822	906	1,067
Operating EBITDA (RMm)	201.0	274.4	271.0	315.9	372.1
Net Profit (RMm)	141.2	189.7	195.0	228.8	271.0
Core EPS (RM)	0.40	0.52	0.54	0.63	0.75
Core EPS Growth	68.3%	32.1%	2.8%	17.3%	18.4%
FD Core P/E (x)	20.98	15.88	15.45	13.17	11.12
DPS (RM)	0.10	0.21	0.24	0.28	0.34
Dividend Yield	1.21%	2.53%	2.91%	3.42%	4.05%
EV/EBITDA (x)	14.83	10.70	10.41	8.74	7.16
P/FCFE (x)	36.37	29.85	17.62	21.48	15.05
Net Gearing	(9.4%)	(15.8%)	(32.0%)	(34.8%)	(39.9%)
P/BV (x)	8.51	6.10	5.01	4.14	3.44
Recurring ROE	47.2%	44.7%	35.6%	34.4%	33.8%
% Change In Core EPS Estimates			(0.093%)	(0.184%)	(0.242%)
CIMB/consensus EPS (x)			0.95	0.96	1.02

SOURCE: CIMB, COMPANY REPORTS

Designed by Eight, Powered by EFA

Profit & Loss

(RMm)	Mar-11A	Mar-12F	Mar-13F	Mar-14F
Revenue	735	822	906	1,067
Cost Of Sales	(461.9)	(568.1)	(610.2)	(719.3)
Gross Profit	**273.1**	**253.6**	**295.3**	**347.9**
Total Operating Costs	(27.76)	(8.05)	(8.33)	(8.33)
Operating Profit	**245.3**	**245.5**	**287.0**	**339.6**
Operating EBITDA	**274.4**	**271.0**	**315.9**	**372.1**
Depreciation And Amortisation	(29.07)	(25.47)	(28.97)	(32.47)
Operating EBIT	**245.3**	**245.5**	**287.0**	**339.6**
Net Interest Income	(2.47)	(1.69)	(0.90)	(0.81)
Exchange Gains	-	-	-	-
Other Income	-	-	-	-
Associates' Profit	-	-	-	-
Profit Before Tax (pre-EI)	242.8	243.8	286.0	338.8
Exceptional Items	0.00	0.00	0.00	0.00
Pre-tax Profit	**242.8**	**243.8**	**286.0**	**338.8**
Taxation	(53.07)	(48.77)	(57.21)	(67.76)
Profit After Tax	189.8	195.1	228.8	271.0
Minority Interests	(0.05)	(0.03)	(0.03)	(0.04)
Net Profit	**189.7**	**195.0**	**228.8**	**271.0**
Recurring Net Profit	**189.7**	**195.0**	**228.8**	**271.0**

Balance Sheet

(RMm)	Mar-11A	Mar-12F	Mar-13F	Mar-14F
Fixed Assets	348.6	384.2	443.5	484.2
Intangible Assets	-	-	-	-
Other Long Term Assets	0.26	0.18	0.18	0.18
Total Non-current Assets	**348.9**	**384.4**	**443.7**	**484.4**
Total Cash And Equivalents	117.0	208.3	259.0	354.6
Inventories	65.11	41.08	45.28	53.36
Accounts Receivable	94.2	82.2	90.6	106.7
Other Current Assets	6.10	8.22	9.06	10.67
Total Current Assets	**282.4**	**339.8**	**403.9**	**525.4**
Trade Creditors	34.05	41.08	45.28	53.36
Short-term Debt	14.53	10.04	0.14	0.14
Other Current Liabilities	26.81	26.98	28.44	31.90
Total Current Liabilities	**75.39**	**78.11**	**73.85**	**85.40**
Total Long-term Debt	24.45	5.39	5.25	5.12
Other Liabilities	-	-	-	-
Deferred Tax	36.81	38.71	40.65	42.68
Total Non-current Liabilities	**61.26**	**44.10**	**45.90**	**47.80**
Shareholders' Equity	**494.3**	**601.7**	**727.6**	**876.6**
Minority Interests	(0.37)	0.32	0.34	0.00
Preferred Shareholders Funds				
Total Equity	**493.9**	**602.0**	**727.9**	**876.6**

Cash Flow

(RMm)	Mar-11A	Mar-12F	Mar-13F	Mar-14F
Pre-tax Profit	**242.8**	**243.8**	**286.0**	**338.8**
Depreciation And Non-cash Adj.	31.53	27.16	29.87	33.28
Change In Working Capital	(41.71)	42.08	(7.13)	(13.74)
Tax Paid	(47.75)	(52.51)	(48.77)	(57.21)
Other Operating Cashflow	(0.40)	33.66	(10.01)	(1.09)
Cashflow From Operations	**184.5**	**294.2**	**250.0**	**300.0**
Capex	(81.35)	(100.00)	(100.00)	(100.00)
Disposals Of FAs/subsidiaries	0.17	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	-	-	-	-
Other Investing Cashflow	0.11	0.28	0.28	0.28
Cash Flow From Investing	**(81.08)**	**(99.72)**	**(99.72)**	**(99.72)**
Debt Raised/(repaid)	(2.50)	(23.55)	(10.04)	(0.14)
Equity Raised/(Repaid)	0.40	0.00	0.00	0.00
Dividends Paid	(56.9)	(76.1)	(87.8)	(103.0)
Net Cash Interest	-	-	-	-
Other Financing Cashflow	0.00	(1.69)	(0.90)	0.00
Cash Flow From Financing	**(59.0)**	**(101.4)**	**(98.7)**	**(103.1)**
Total Cash Generated	44.39	93.16	51.59	97.20
Change In Net Cash	46.9	116.7	61.6	97.3
Free Cashflow To Equity	100.9	171.0	140.3	200.2

Key Ratios

	Mar-11A	Mar-12F	Mar-13F	Mar-14F
Revenue Growth	28.5%	11.8%	10.2%	17.9%
Operating EBITDA Growth	36.5%	(1.2%)	16.6%	17.8%
Operating EBITDA Margin	37.3%	33.0%	34.9%	34.9%
Net Cash Per Share (RM)	0.21	0.53	0.70	0.96
BVPS (RM)	1.36	1.66	2.00	2.41
Gross Interest Cover	99.5	129.8	246.6	296.0
Tax Rate	21.9%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	40.1%	45.0%	45.0%	45.0%
Accounts Receivables Days	42.87	39.29	34.81	33.73
Inventory Days	36.82	34.21	25.83	25.03
Accounts Payables Days	22.86	24.20	25.83	25.03
ROIC (%)	45.5%	41.7%	45.7%	47.9%
ROCE (%)	52.8%	42.7%	42.5%	42.1%

Key Drivers

	Mar-11A	Mar-12F	Mar-13F	Mar-14F
ASP (% chg, main prod./serv.)	-0.6%	-0.6%	-0.1%	-0.5%
Unit sales grth (%, main prod./serv.)	26.7%	16.2%	10.3%	18.4%
Util. rate (%, main prod./serv.)	85.0%	85.0%	85.0%	85.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

Supermax Corp

SUCB MK / SUPM.KL

Market Cap	Avg Daily Turnover	Free Float
US$470.0m	**US$2.10m**	**59.4%**
RM1,422m	RM6.55m	680.2 m shares

Current	**RM2.09**
Target	**RM2.43**
Previous Target	RM2.43
Up/downside	**16.5%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	**OUTPERFORM**
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-10.7	3.3	-6.5
Absolute	-8.1	9.7	-1.9

Major shareholders	% held
Thai Kim Sim, Stanley	20.7
Tan Bee Geok, Cheryl	14.8
Koperasi Permodalan Felda	5.2

A good fit in challenging times

Supermax's established distribution and own-brand model will help it to emerge unscathed from the next 1-3 years of overcapacity. The company is also diversifying its revenue base by expanding into the surgical market where it is already a contract manufacturer.

We maintain our Outperform rating and target price basis of 9.8x forward P/E, a 25% discount to Top Glove's target valuation.

Bonus issue in Jan 2012

Supermax successfully completed its 1:1 bonus issue at the end of Jan 2012. This adds 340m shares and should enhance the stock's trading liquidity. While Top Glove is typically referenced as the bellwether of the industry due to its capacity leadership and liquidity, Supermax should not be overlooked. It is just as liquid with an average daily turnover of US$2.10m but trades at a P/E discount of 53.7% to Top Glove.

Expansion plans ahead

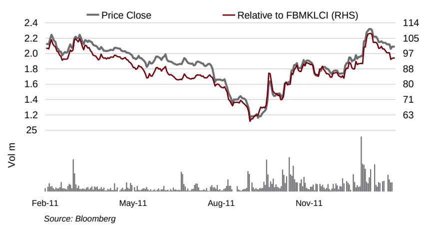
Supermax will complete its surgical glove plant by 1H12, adding 28m pairs per month of gloves and annual net profit of US$10.1m (US$0.2/pair). We believe that this venture can be successful as Supermax is already a contract manufacturer for some MNCs which sell similar gloves at prices 40% higher than what Supermax intends to charge for its new product. The company will also build two new plants in Klang that will add capacity of 3.9bn gloves p.a. by end-FY13. This will give it an annual production capacity of 25bn gloves.

Weathering the storm

Supermax is better equipped to weather the next 1-3 years of glut, thanks to its own distribution and brand. It is, therefore, able to control its manufacturing and distribution functions, bypass distributors and sell directly to end-users. Also, Supermax is focused, targeting dentists in the US (47% of group sales) where it is the No.2 player with a 9.2% market share. All of these factors set it Supermax above its peers because of a) its dominant position b) strong brand and reputation, b) limited cannibalisation when switching and c) less competition due to focus.

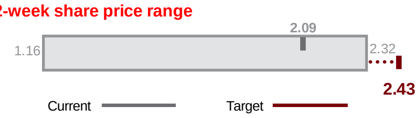
Save the date

Supermax intends to release 4Q11 results on 28 Feb and hold a briefing for analysts and investors on 1 Mar.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-09A	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue (RMm)	804	923	1,074	1,378	1,532
Operating EBITDA (RMm)	195.6	216.8	128.4	148.3	185.0
Net Profit (RMm)	153.2	156.5	113.7	126.7	152.6
Core EPS (RM)	0.26	0.26	0.19	0.21	0.25
Core EPS Growth	72.5%	(0.8%)	(27.4%)	11.4%	20.5%
FD Core P/E (x)	8.11	8.17	11.25	10.10	8.38
DPS (RM)	0.088	0.100	0.060	0.041	0.050
Dividend Yield	4.21%	4.78%	2.87%	1.98%	2.38%
EV/EBITDA (x)	6.65	5.72	9.34	7.91	5.85
P/FCFE (x)	11.20	27.97	16.21	21.79	9.66
Net Gearing	31.5%	19.5%	13.4%	10.0%	1.0%
P/BV (x)	2.29	1.79	1.59	1.41	1.23
Recurring ROE	32.4%	24.5%	15.0%	14.8%	15.7%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.16	1.06	1.18

SOURCE: CIMB, COMPANY REPORTS

IMPORTANT DISCLOSURES. INCLUDING ANY REQUIRED RESEARCH CERTIFICATIONS, ARE PROVIDED AT THE END OF THIS REPORT.

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CIMB

Profit & Loss

(RMm)	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue	923	1,074	1,378	1,532
Cost Of Sales	(742)	(994)	(1,286)	(1,411)
Gross Profit	**180.9**	**80.6**	**92.2**	**120.7**
Total Operating Costs	1.8	2.1	2.8	3.1
Operating Profit	**182.7**	**82.8**	**95.0**	**123.8**
Operating EBITDA	**216.8**	**128.4**	**148.3**	**185.0**
Depreciation And Amortisation	(34.06)	(45.65)	(53.32)	(61.25)
Operating EBIT	**182.7**	**82.8**	**95.0**	**123.8**
Net Interest Income	(11.23)	(15.92)	(17.44)	(19.11)
Exchange Gains	(47.00)	0.00	0.00	0.00
Other Income	0.00	16.19	17.76	19.50
Associates' Profit	41.20	43.26	45.42	45.42
Profit Before Tax (pre-EI)	165.7	126.3	140.7	169.6
Exceptional Items	0.00	0.00	0.00	0.00
Pre-tax Profit	**165.7**	**126.3**	**140.7**	**169.6**
Taxation	(9.19)	(12.60)	(14.04)	(16.92)
Profit After Tax	156.5	113.7	126.7	152.6
Minority Interests	-	-	-	-
Net Profit	**156.5**	**113.7**	**126.7**	**152.6**
Recurring Net Profit	**156.5**	**113.7**	**126.7**	**152.6**

Balance Sheet

(RMm)	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Fixed Assets	406.3	419.3	437.8	444.5
Intangible Assets	28.72	28.72	28.72	28.72
Other Long Term Assets	189.9	198.9	208.2	218.1
Total Non-current Assets	**624.9**	**646.9**	**674.8**	**691.3**
Total Cash And Equivalents	169.1	231.2	281.0	398.2
Inventories	101.6	118.2	151.6	168.5
Accounts Receivable	138.5	161.2	206.7	229.8
Other Current Assets	71.36	72.87	75.91	77.45
Total Current Assets	**480.5**	**583.5**	**715.1**	**873.9**
Trade Creditors	41.55	48.35	62.01	68.94
Short-term Debt	134.8	147.6	161.7	177.2
Other Current Liabilities	31.83	33.76	38.84	41.03
Total Current Liabilities	**208.2**	**229.7**	**262.5**	**287.2**
Total Long-term Debt	174.0	191.2	210.1	231.0
Other Liabilities	-	-	-	-
Deferred Tax	7.24	7.61	7.99	8.39
Total Non-current Liabilities	**181.2**	**198.8**	**218.1**	**239.4**
Shareholders' Equity	**717**	**802**	**910**	**1,040**
Minority Interests	-	-	-	-
Preferred Shareholders Funds	-	-	-	-
Total Equity	**717**	**802**	**910**	**1,040**

Cash Flow

(RMm)	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Pre-tax Profit	**165.7**	**126.3**	**140.7**	**169.6**
Depreciation And Non-cash Adj.	4.10	18.31	25.35	34.95
Change In Working Capital	(59.03)	(30.99)	(62.22)	(31.57)
Tax Paid	(9.19)	(12.60)	(14.04)	(16.92)
Other Operating Cashflow	0.00	0.00	0.00	0.00
Cashflow From Operations	**101.6**	**101.0**	**89.8**	**156.0**
Capex	(70.00)	(52.20)	(64.10)	(60.00)
Disposals Of FAs/subsidiaries	-	-	-	-
Acq. Of Subsidiaries/investments	-	-	-	-
Other Investing Cashflow	0.19	0.19	0.00	0.00
Cash Flow From Investing	**(69.81)**	**(52.01)**	**(64.10)**	**(60.00)**
Debt Raised/(repaid)	14.0	29.9	33.0	36.4
Equity Raised/(Repaid)	0.00	0.00	0.00	0.00
Dividends Paid	(61.83)	(29.08)	(13.77)	(18.95)
Net Cash Interest	-	-	-	-
Other Financing Cashflow	24.89	(14.71)	(22.83)	(22.14)
Cash Flow From Financing	**(23.0)**	**(13.9)**	**(3.6)**	**(4.7)**
Total Cash Generated	8.8	35.2	22.1	91.3
Change In Net Cash	(5.2)	5.2	(10.9)	54.9
Free Cashflow To Equity	45.7	78.9	58.7	132.4

Key Ratios

	Dec-10A	Dec-11F	Dec-12F	Dec-13F
Revenue Growth	14.9%	16.4%	28.2%	11.2%
Operating EBITDA Growth	10.8%	(40.8%)	15.5%	24.8%
Operating EBITDA Margin	23.5%	12.0%	10.8%	12.1%
Net Cash Per Share (RM)	(0.23)	(0.18)	(0.15)	(0.02)
BVPS (RM)	1.17	1.31	1.49	1.70
Gross Interest Cover	15.96	5.11	5.35	6.35
Tax Rate	5.5%	10.0%	10.0%	10.0%
Net Dividend Payout Ratio	39.1%	32.3%	19.9%	19.9%
Accounts Receivables Days	43.02	50.90	48.85	52.00
Inventory Days	53.53	40.35	38.40	41.39
Accounts Payables Days	19.62	16.51	15.71	16.93
ROIC (%)	26.1%	10.2%	10.8%	13.0%
ROCE (%)	19.5%	7.7%	7.9%	9.1%

Key Drivers

	Dec-10A	Dec-11F	Dec-12F	Dec-13F
ASP (% chg, main prod./serv.)	-1.5%	2.3%	-1.0%	0.0%
Unit sales grth (%, main prod./serv.)	12.5%	9.9%	15.1%	12.0%
Util. rate (%, main prod./serv.)	85.0%	80.0%	80.0%	80.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

Top Glove Corporation

TOPG MK / TPGC.KL

Market Cap	Avg Daily Turnover	Free Float
US$1,037m	**US$1.37m**	**50.6%**
RM3,136m	RM4.30m	618.6 m shares

Current	RM5.07
Target	RM3.61
Previous Target	RM3.61
Up/downside	-28.8%

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-5.3	8.3	-2.6
Absolute	-2.7	14.7	2.0

Major shareholders	% held
Tan Sri Dato Sri Lim and family	34.2
Matthews International	10.1
Kumpulan Wang Persaraan	5.2

Rising NR has the upper hand

The cost-led earnings recovery is unsustainable as NR prices are on the uptrend again. Demand growth for NR gloves is minuscule due to a capacity glut that could take three years to digest. Though Top Glove seeks to diversify its mix, doing so could hurt the sector's profitability.

We maintain our Underperform rating and target price, which is still based on a forward P/E of 13.05x. Top Glove is most leveraged to higher NR prices, which are on the uptrend. We expect NR latex prices to average RM8.30/kg in 2012, implying a further +7% to spot.

No pick up in demand

Contrary to glovemakers' expectations, demand has failed to pick up even though NR latex price has fallen 30% from its peak. The unprecedented rise in demand during the boom encouraged overbuilding, leading to today's glut. It may take up to three years for demand to match supply.

Competitive pressures

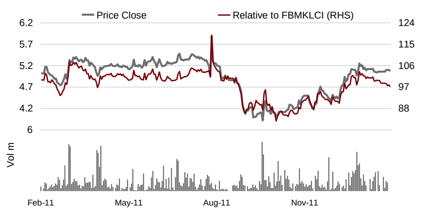
Competition and overcapacity are key concerns for Top Glove. Specifically for nitrile, the company believes that margins will contract as more capacity comes online. Already, smaller glove companies such as Klang-based Smart Glove (annual production: c.5bn gloves), which specialises in nitrile gloves has taken business from the larger and more established glove manufacturers.

New capacity will be nitrile

Top Glove intends to diversify its product mix to 50% nitrile (FY8/11: 14%) and 50% rubber. With a capacity of c.40bn pieces p.a., this implies an influx of 14.5bn gloves p.a. or 1.5x Hartalega's capacity. This could drive prices and margins south, especially for smaller glovemakers at the lower end of the industry.

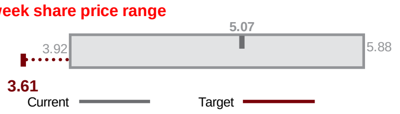
Stretched valuations

Investors should sell Top Glove and switch to Hartalega, our top pick. Top Glove trades at a FY12 P/E of 21.8x, a 61.5% premium to the glove sector. This valuation is excessive, considering the weak demand and intensifying competition. So far, the earnings recovery has been cost-led. However, this is unsustainable as NR prices are on the uptrend once again. In the sector, Top Glove is most exposed to rising NR prices due to its overdependence on NR glove sales.



Source: Bloomberg

52-week share price range



Financial Summary

	Aug-10A	Aug-11A	Aug-12F	Aug-13F	Aug-14F
Revenue (RMm)	2,079	2,054	2,114	2,276	2,341
Operating EBITDA (RMm)	365.5	206.1	229.3	261.2	314.2
Net Profit (RMm)	248.5	113.1	135.3	160.6	191.9
Core EPS (RM)	0.41	0.18	0.22	0.26	0.31
Core EPS Growth	41.5%	(55.4%)	19.6%	18.7%	19.5%
FD Core P/E (x)	12.22	27.43	23.17	19.52	16.33
DPS (RM)	0.16	0.11	0.11	0.11	0.12
Dividend Yield	3.22%	2.17%	2.17%	2.17%	2.45%
EV/EBITDA (x)	7.67	14.06	12.11	10.34	8.23
P/FCFE (x)	23.47	23.06	36.39	25.84	17.31
Net Gearing	(26.8%)	(22.2%)	(29.9%)	(32.9%)	(37.4%)
P/BV (x)	2.87	2.79	2.53	2.32	2.11
Recurring ROE	25.9%	10.2%	11.5%	12.4%	13.5%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.85	0.88	0.93

SOURCE: CIMB, COMPANY REPORTS

IMPORTANT DISCLOSURES. INCLUDING ANY REQUIRED RESEARCH CERTIFICATIONS, ARE PROVIDED AT THE END OF THIS REPORT.
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Profit & Loss

(RMm)	Aug-11A	Aug-12F	Aug-13F	Aug-14F
Revenue	2,054	2,114	2,276	2,341
Cost Of Sales	(1,819)	(1,818)	(1,940)	(1,948)
Gross Profit	**235.1**	**295.7**	**336.7**	**392.4**
Total Operating Costs	(90.4)	(127.6)	(138.6)	(142.9)
Operating Profit	**144.7**	**168.1**	**198.1**	**249.5**
Operating EBITDA	**206.1**	**229.3**	**261.2**	**314.2**
Depreciation And Amortisation	(61.34)	(61.20)	(63.06)	(64.75)
Operating EBIT	**144.7**	**168.1**	**198.1**	**249.5**
Net Interest Income	1.59	7.15	9.67	(1.50)
Exchange Gains	-	-	-	-
Other Income	-	-	-	-
Associates' Profit	(0.92)	0.96	1.01	1.06
Profit Before Tax (pre-EI)	145.4	176.2	208.8	249.0
Exceptional Items	-	-	-	-
Pre-tax Profit	**145.4**	**176.2**	**208.8**	**249.0**
Taxation	(30.20)	(38.76)	(45.93)	(54.79)
Profit After Tax	115.2	137.4	162.9	194.2
Minority Interests	(2.05)	(2.14)	(2.25)	(2.36)
Net Profit	**113.1**	**135.3**	**160.6**	**191.9**
Recurring Net Profit	**113.1**	**135.3**	**160.6**	**191.9**

Balance Sheet

(RMm)	Aug-11A	Aug-12F	Aug-13F	Aug-14F
Fixed Assets	671.0	620.7	639.5	656.4
Intangible Assets	20.11	20.11	20.11	20.11
Other Long Term Assets	16.51	17.79	17.30	17.83
Total Non-current Assets	**707.6**	**658.6**	**676.9**	**694.3**
Total Cash And Equivalents	257.3	379.9	453.5	564.7
Inventories	175.5	169.1	182.1	187.3
Accounts Receivable	224.4	253.7	273.2	280.9
Other Current Assets	32.28	31.71	34.15	35.11
Total Current Assets	**689**	**834**	**943**	**1,068**
Trade Creditors	105.7	105.7	113.8	117.0
Short-term Debt	0.23	0.65	0.72	0.79
Other Current Liabilities	97.5	93.7	102.7	107.4
Total Current Liabilities	**203.5**	**200.0**	**217.2**	**225.2**
Total Long-term Debt	2.07	3.66	4.03	4.43
Other Liabilities	-	-	-	-
Deferred Tax	44.39	37.75	39.64	41.62
Total Non-current Liabilities	**46.46**	**41.41**	**43.67**	**46.05**
Shareholders' Equity	**1,123**	**1,240**	**1,349**	**1,483**
Minority Interests	24.57	17.07	14.93	12.68
Preferred Shareholders Funds	-	-	-	-
Total Equity	**1,147**	**1,257**	**1,364**	**1,496**

Cash Flow

(RMm)	Aug-11A	Aug-12F	Aug-13F	Aug-14F
Pre-tax Profit	**145.4**	**176.2**	**208.8**	**249.0**
Depreciation And Non-cash Adj.	60.67	53.09	52.38	65.19
Change In Working Capital	(22.35)	(7.49)	(20.33)	(8.03)
Tax Paid	(55.60)	(30.34)	(38.76)	(45.93)
Other Operating Cashflow	87.44	(25.72)	(1.19)	0.38
Cashflow From Operations	**215.5**	**165.7**	**200.9**	**260.6**
Capex	(80.00)	(80.00)	(80.00)	(80.00)
Disposals Of FAs/subsidiaries	-	-	-	-
Acq. Of Subsidiaries/investments	-	-	-	-
Other Investing Cashflow	-	-	-	-
Cash Flow From Investing	**(80.00)**	**(80.00)**	**(80.00)**	**(80.00)**
Debt Raised/(repaid)	0.36	0.39	0.43	0.47
Equity Raised/(Repaid)	0.0	0.0	0.0	0.0
Dividends Paid	(98.9)	(68.0)	(68.0)	(68.0)
Net Cash Interest	-	-	-	-
Other Financing Cashflow	5.20	7.15	9.67	(1.50)
Cash Flow From Financing	**(93.35)**	**(60.46)**	**(57.90)**	**(69.03)**
Total Cash Generated	42.2	25.3	63.0	111.6
Change In Net Cash	41.8	24.9	62.5	111.1
Free Cashflow To Equity	135.9	86.1	121.3	181.1

Key Ratios

	Aug-11A	Aug-12F	Aug-13F	Aug-14F
Revenue Growth	(1.2%)	2.9%	7.7%	2.8%
Operating EBITDA Growth	(43.6%)	11.3%	13.9%	20.3%
Operating EBITDA Margin	10.0%	10.8%	11.5%	13.4%
Net Cash Per Share (RM)	0.41	0.61	0.73	0.91
BVPS (RM)	1.82	2.01	2.18	2.40
Gross Interest Cover	37.6	496.4	531.9	166.3
Tax Rate	20.8%	22.0%	22.0%	22.0%
Net Dividend Payout Ratio	60.1%	50.3%	42.3%	40.0%
Accounts Receivables Days	40.65	41.39	42.24	43.20
Inventory Days	34.53	34.69	33.04	34.60
Accounts Payables Days	21.03	21.28	20.65	21.62
ROIC (%)	11.2%	12.4%	15.4%	18.8%
ROCE (%)	13.2%	14.6%	15.8%	17.4%

Key Drivers

	Aug-11A	Aug-12F	Aug-13F	Aug-14F
ASP (% chg, main prod./serv.)	-1.5%	-10.4%	-3.1%	1.0%
Unit sales grth (%, main prod./serv.)	-9.7%	17.7%	11.2%	1.8%
Util. rate (%, main prod./serv.)	66.6%	70.0%	75.0%	75.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

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.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

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Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.	**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.
NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.	**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.	**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.	**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.	**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2010.

ADVANC - Excellent, **AMATA** - Excellent, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Very Good, **BCP** - Excellent, **BEC** - Very Good, **BECL** - Excellent, **BGH** - Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Good, **CCET** - Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Excellent, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **ITD** - Very Good, **IVL** - not available, **KBANK** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Very Good, **PSL** - Excellent, **PTT** - Excellent, **PTTAR** - Excellent, **PTTCH** - Excellent, **PTTEP** - Excellent, **QH** - Very Good, **RATCH** - Excellent, **ROBINS** - Excellent, **ROJNA** - Very Good, **SAMART** - Excellent, **SAMTEL** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Good, **STEC** - Very Good, **TASCO** - Very Good, **THAI** - Very Good, **TMB** - Excellent, TOP - Excellent, **TRUE** - Very Good, **TTA** - Excellent, **TTW** - Very Good, **TUF** - Very Good.