

# Rubber Gloves

**OVERWEIGHT**

Maintained

*Radiating rubber*

Terence Wong CFA +60(3) 20849689 - [terence.wong@cimb.com](mailto:terence.wong@cimb.com)

## Possible short-term demand spike

Japan's nuclear crisis will not change the demand fundamentals for the glove sector though we do expect higher glove demand over the next 1-3 months. Typically, glove demand spikes 1-3 weeks after a natural disaster. But we note that normal medical examination gloves will not protect against radiation and that the only glovemakers which makes radiation protection gloves is the unlisted WRP. We sense that the bigger impact on the listed glovemakers is the c.20% drop in rubber latex prices, which will enable the companies to claw back profits in 2H11. We maintain our OVERWEIGHT rating on the glove sector with two Neutrals and four Outperforms. Potential re-rating catalyst include 1) falling rubber prices, 2) sticky selling prices, and 3) higher short-term demand. Hartalega remains our top pick.

## The news – Fears of nuclear meltdown

Japanese Prime Minister Naoto Kan confirmed on Tuesday that all four nuclear reactors at the Fukushima Daiichi nuclear power plant facility are leaking radioactive material in a way that will affect human life. He said that the risk of ensuing leaks is imminently very high and urged residents living within a 30km radius of the nuclear complex to stay indoors. Meanwhile, the French embassy warned in an advisory note on Tuesday morning that a low level of radioactive wind could reach Tokyo within 10 hours. The embassy has also begun to evacuate nationals, starting with 280 women and children.

## Comments

**Mixed views on use of examination gloves against radiation.** While some glovemakers believe that thick examination rubber gloves protect against radiation, a top glovemakers said that only specialised rubber gloves made for radiation protection would be useful. We gather that the only Malaysian glovemakers that manufactures radiation protective gloves is WRP Sdn Bhd, an unlisted company whose RadiaXon gloves sell for US\$20-23 per pair and protect against scattered and secondary radiation. The glove is used primarily by surgeons in the US, EU, Japan, Korea, and India. WRP claims to be the only manufacturer of such gloves due to its technological advantage.

**Figure 1: Estimated glovemakers' exports to Japan (% of capacity)**

Glovesmaker	Exports to Japan	Comments / Remarks
Hartalega	9%	Has not seen a pick up in demand
Kossan	10%	Nitrile suppliers (Nippon Zeon) in Japan not affected
Latexx	1%	Asia Pacific including Australia accounts for 3%
Supermax	3%	Expects spike in short term (2-3 months) demand
Top Glove	1%	Takes 1-3weeks after disaster for demand to spike

Source: Company, CIMB Research

**What are radiation protection gloves?** Radiation protection gloves are unique in that they protect against radiation, which even the donning of multiple medical examination gloves cannot do. Radiation protection gloves contain a compound called

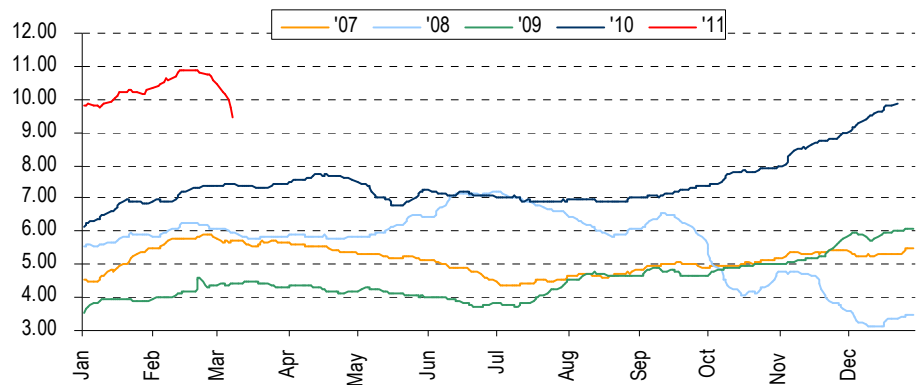
Please read carefully the important disclosures at the end of this publication.

bismuth oxide, which is a by-product of the smelting of copper and lead ores. Being a by-product of lead, bismuth oxide has a similar molecular structure and protects against radiation.

**Expect demand to pick up in 1-3 weeks...** Glovemakers indicate that they expect a short-term spike in demand from Japan, which accounts for c.3% of global glove demand. Based on past natural disasters such as Hurricane Katrina and the 2004 tsunami, glove demand typically spikes 1-3 weeks after disasters. In Japan's case, we believe the spike could come earlier as glove inventories are low due to high prices.

**...but no change to demand fundamentals.** A top glovemake told us that its Japanese clients have asked for April orders to be brought forward to March. This will cause a spike in demand, which we believe will last 2-3 months during the rebuilding period. However, no change in long-term glove demand is expected.

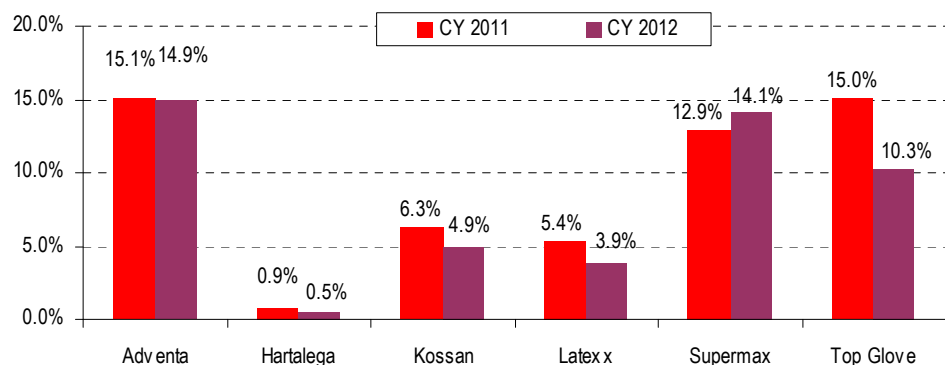
Figure 2: Rubber latex four year price cycle



Source: Company, CIMB Research, Bloomberg

**Rubber price in a downtrend.** Rubber latex price is down c.20% to RM8.60/kg from its peak in late Feb 2011 due to concerns over economic growth. A sustained drop in rubber price would enable glovemakers to claw back profits as higher selling prices would lag behind the downtrend in rubber latex price. Another plus from lower raw material costs is reduced working capital requirements, which would help companies build reserves. Assuming constant demand, our rubber latex price sensitivity analysis suggests that a 10% reduction would raise glovemakers' CY11-12 net profit by 1-15% assuming a 50% cost pass-through (Figure 3).

Figure 3: Sensitivity of net profit to lower rubber latex prices (change in net profit)



Source: Company, CIMB Research, Bloomberg

## Valuation and recommendation

**Maintain OVERWEIGHT.** Japan's nuclear meltdown will not change the demand fundamentals for the glove sector though we do expect higher glove demand over the next 1-3 months. Typically, glove demand spikes 1-3 weeks after a natural disaster. But we note that normal medical examination gloves will not protect against radiation and that the only glovemaking which makes radiation protection gloves is the unlisted WRP. We sense that the bigger impact on the listed glovemakers is the c.20% drop in rubber latex prices, which will enable the companies to claw back profits in 2H11. We maintain our OVERWEIGHT rating on the glove sector with two Neutrals and four Outperforms. Potential re-rating catalysts include 1) falling rubber prices, 2) sticky selling prices, and 3) higher short-term demand. Hartalega remains our top pick.

Figure 3: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)
				(Local)	(US\$ m)	CY2011	CY2012		CY2011	CY2011
Adventa	ADV MK	O	2.52	3.14	126	10.0	8.1	8.3	1.3	14.6
Hartalega	HART MK	O	5.50	8.70	653	9.5	8.2	19.8	3.3	39.2
Kossan	KRI MK	O	3.23	5.41	337	7.1	6.1	16.5	1.8	27.6
Latexx	LTX MK	N	2.80	3.10	203	6.4	5.9	26.6	1.9	33.0
Supermax	SUCB MK	O	4.39	6.68	488	8.5	7.6	7.7	1.7	21.7
Top Glove	TOPG MK	N	5.33	5.73	1,077	12.4	10.6	9.7	2.4	21.2
<b>Simple average</b>						<b>8.9</b>	<b>7.7</b>	<b>14.8</b>	<b>2.1</b>	<b>26.2</b>

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell  
Source: Company, CIMB Research

For further information, kindly contact Yeoh Yung Juen, CFA at (603) 2084 9911 or [yungjuen.yeoh@cimb.com](mailto:yungjuen.yeoh@cimb.com)

## DISCLAIMER

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the "Restrictions on Distributions" set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The term "CIMB" shall denote where applicable the relevant entity distributing the report in that particular jurisdiction where mentioned specifically below shall be a CIMB Group Sdn Bhd's affiliates, subsidiaries and related companies.

- (i) As of 15 March 2011, CIMB has a proprietary position in the following securities in this report:
  - (a) Supermax, Supermax CW.
- (ii) As of 16 March 2011, the analyst, Terence Wong who prepared this report, has / have an interest in the securities in the following company or companies covered or recommended in this report:
  - (a) -.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

**Australia:** Despite anything in this report to the contrary, this research is provided in Australia by CIMB Research Pte. Ltd. ("CIMBR") and CIMBR notifies each recipient and each recipient acknowledges that CIMBR is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwlth) in respect of financial services provided to the recipient. CIMBR is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cwlth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

**France:** Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

**Hong Kong:** This report is issued and distributed in Hong Kong by CIMB Securities (HK) Limited ("CHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB Securities (HK) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong).

**Indonesia:** This report is issued and distributed by PT CIMB Securities Indonesia ("CIMBI"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

**Malaysia:** This report is issued and distributed by CIMB Investment Bank Berhad ("CIMB"). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly

or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

**New Zealand:** In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

**Singapore:** This report is issued and distributed by CIMB Research Pte Ltd ("CIMBR"). Recipients of this report are to contact CIMBR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMBR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBR.

As of 15 March 2011 CIMB Research Pte Ltd does not have a proprietary position in the recommended securities in this report.

**Sweden:** This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

**Taiwan:** This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

**Thailand:** This report is issued and distributed by CIMB Securities (Thailand) Company Limited (CIMBS). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBS has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBS. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBS.

**United Arab Emirates:** The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

**United Kingdom:** This report is being distributed by CIMB Securities (UK) Limited only to, and is directed at selected persons on the basis that those persons are (a) persons falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the "Order") who have professional experience in investments of this type or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order, (all such persons together being referred to as "relevant persons"). A high net worth entity includes a body corporate which has (or is a member of a group which has) a called-up share capital or net assets of not less than (a) if it has (or is a subsidiary of an undertaking which has) more than 20 members, £500,000, (b) otherwise, £5 million, the trustee of a high value trust or an unincorporated association or partnership with assets of no less than £5 million. Directors, officers and employees of such entities are also included provided their responsibilities regarding those entities involve engaging in investment activity. Persons who do not have professional experience relating to investments should not rely on this document.

**United States:** This research report is distributed in the United States of America by CIMB Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB Research Pte Ltd solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors and investment professionals whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an Institutional Investor must not rely on this communication. However, the delivery of this research report to any person in the United States of America shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB Securities (USA) Inc.

**Other jurisdictions:** In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

## RECOMMENDATION FRAMEWORK #1 \*

### STOCK RECOMMENDATIONS

**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 RECOMMENDATIONS

**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.

## RECOMMENDATION FRAMEWORK #2 \*\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** Expected positive total returns of 15% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -15% and +15% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**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:** 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.

**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:** 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:** 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.