

20 March 2013
Analyst
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Stocks under coverage

Company	Bloomberg Ticker	Call	TP (RM)
Top Glove	TOPG MK	T. Buy	6.13
Hartalega	HART MK	Buy	5.54
Supermax	SUCB MK	T. Buy	2.31
Kossan	KRI MK	Buy	4.35

Blue sky ahead

With the exception of Supermax, most of the top 4 glove makers reported 4QCY12 results within expectation amid stable latex costs as well as the pick-up in demand. Going forward, we foresee, (1) stable latex price due to rubber supply surplus in 2013 and 2014, (2) strong USD due to improving US economy, and (3) improved supply and demand dynamic. We also anticipate the glove industry to further consolidate in 2013, eliminating small and inefficient players that could further enhance the dominant players' market share and profitability. As such, we reiterate our Overweight rating on the sector, with Kossan (Buy, TP RM4.35) being our top pick.

4QCY12 results met expectation, further consolidation expected in 2013

- 3 of the 4 glove makers under our coverage (except Supermax which missed by 5%) met our 4QCY12 results expectation amid stable latex costs as well as pick-up in demand.
- Among the four companies, Kossan registered the highest sales volume growth (+44.7% y-o-y, +18.9% q-o-q) in 4QCY12, followed by Hartalega (+28.6% y-o-y, +7.9% q-o-q) and Top Glove (23.4% y-o-y, 5.8% q-o-q). Supermax still lag behind its peers in terms of y-o-y volume growth (+10.0%), though it has achieved sequential improvement at +12.8% q-o-q as compared to -5.7% q-o-q in 3QCY12.
- In terms of profitability, most companies registered better absolute PBT per thousand gloves in 4QCY12, except for Kossan (-10.7% y-o-y, -18.8% q-o-q) due to higher proportion of low-margin powder gloves in its sales mix, which is not likely to repeat in 2013. On a full year basis, Hartalega remains as the market leader in terms of profitability as it achieved 3x higher absolute PBT/k glove, as compared to its peers.
- In 2012, the top 4 glove makers achieved total volume growth of 20%, outperforming Malaysia's total export volume growth of 15%. This implies that dominant players continue to grow market share at the expense of small and inefficient glove makers which will see further consolidation.

All 3 key earnings drivers remain favourable to glove makers

- Going forward, we foresee Malaysian glove makers to remain competitive globally and continue to lead and dominate the global glove market, underpinned by (1) better production technology, and (2) weaker Ringgit against competitors' currency. As such, we believe Malaysian glove makers will be able to mitigate the effect of labour cost increase as well as any potential fuel cost increase in future.
- Furthermore, we anticipate all 3 key earnings drivers to remain favourable to glove makers i.e. (1) stable latex price, (2) strong USD due to improving US economy, and (3) improved supply and demand dynamic. As such, we view the glove sector as a safe haven for investors in the run up to 13GE, as it is an industry that is least affected by 13GE due to its export-oriented business.

Reiterate our OVERWEIGHT rating for the sector, top pick is Kossan

- We reiterate our Overweight call for the sector, with Kossan (Buy, TP RM4.35) being our top pick due to its cheap FY13 P/E valuation of 9.1x as compared to peers at 12.3x.
- Over the medium-term (1-3 years), we continue to like Hartalega (Buy, TP: RM5.54) as we view it as the industry's game-changer over the next 3 years, once its Next Generation Integrated Glove Manufacturing Complex (NGC), which could yield 6% extra margin due to better efficiency, commence operations in late 2014.
- On the other hand, we have Trading Buy calls on both Supermax and Top Glove with an unchanged TP of RM2.29 and RM6.13, based on 11x and 16x 12-month forward P/E.

Key risks

- Key investment risks include (1) sudden surge in latex price due to strong economic recovery in China in 2013, (2) sharp Ringgit appreciation against USD, and (3) aggressive capacity expansion by major glove makers.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Hartalega	Buy	5.54	4.83	3,541.0	16.8	15.0	13.6	11.8	4.1	3.5	30.3	29.2	3.3	3.8
Top Glove	Trading Buy	6.13	5.47	3,387.6	10.1	8.5	14.4	13.3	2.4	2.2	16.7	16.7	3.6	3.9
Supermax	Trading Buy	2.31	1.89	1,283.6	15.0	8.4	9.2	8.5	1.3	1.2	14.4	14.1	3.4	3.7
Kossan	Buy	4.35	3.48	1,108.8	17.0	13.4	9.1	8.0	1.6	1.4	17.3	17.2	2.9	3.4
Average					14.7	11.3	12.3	11.0	2.8	2.4	21.6	21.2	3.4	3.8

Source: Alliance Research, Bloomberg

Share price date: 19 Mar 2013

Figure 2 : Share price performance

Company	Share price RM	Month-to-date %	Year-to-date %	30-day %	90-day %	180-day %	365-day %
Top Glove	5.47	-0.36	-2.84	-0.55	-4.54	3.80	13.25
Hartalega	4.83	1.47	1.68	1.47	-1.43	9.52	21.82
Supermax	1.89	3.28	-2.07	-1.56	-4.06	-5.50	-3.08
Kossan	3.48	4.19	3.57	4.50	6.10	14.47	3.88
Sector average		2.14	0.09	0.97	-0.98	5.57	8.97
FBMKLCI	1,625.46	-0.74	-3.76	0.64	-2.41	-1.25	3.30

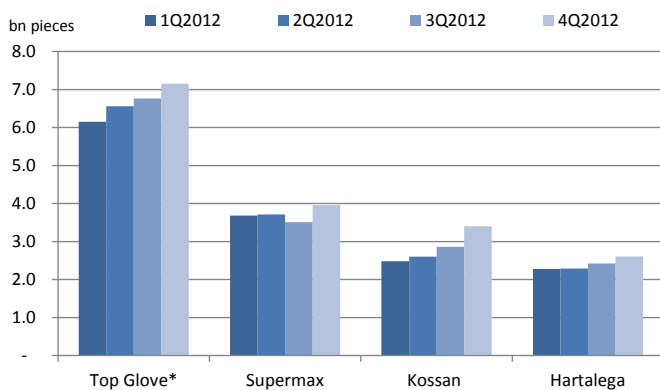
Source: Bloomberg

Decent performance in 4QCY12

Three of the four glove companies' 4QCY12 results meet expectation, except Supermax

In summary, three (Top Glove, Hartalega and Kossan) out of four glove companies' 4QCY12 meet our expectation amid resilient demand growth and stable latex costs. Among the four companies, Kossan registered the highest sales volume growth (+44.7% y-o-y, +18.9% q-o-q) in 4Q12, followed by Hartalega (+28.6% y-o-y, +7.9% q-o-q) and Top Glove (23.4% y-o-y, 5.8% q-o-q). Supermax still lag behind its peers in terms of y-o-y volume growth (+10.0%), though it has achieved sequential improvement of +12.8% q-o-q as compared to -5.7% q-o-q volume contraction in 3Q12. On a full year basis, Kossan's outperformed the rest with +31.9% y-o-y sales volume growth, followed by Hartalega (+23.4% y-o-y), Top Glove (+19.3% y-o-y), and Supermax (+10.6% y-o-y).

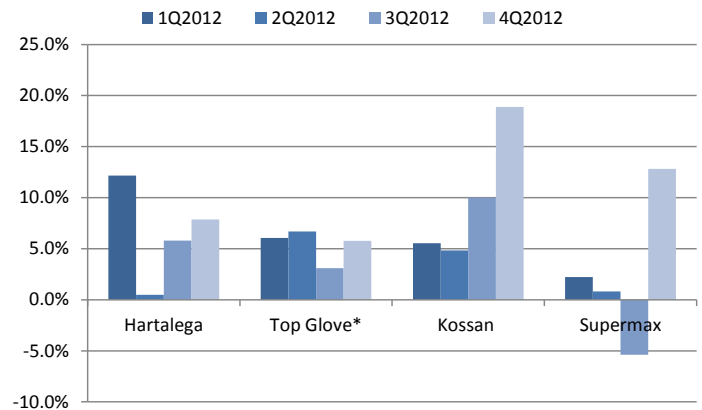
Figure 3 : Quarterly sales volume by company



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

Source: Alliance Research

Figure 4 : Q-o-q sales volume growth by company

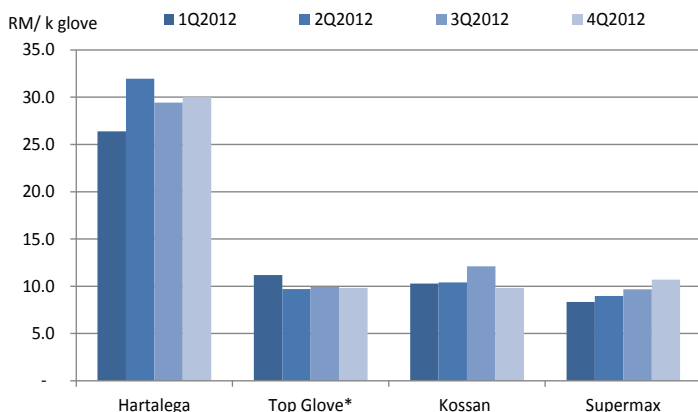


Source: Alliance Research

In terms of profitability, most of them registered better absolute PBT per thousand gloves in 4Q12, except for Kossan

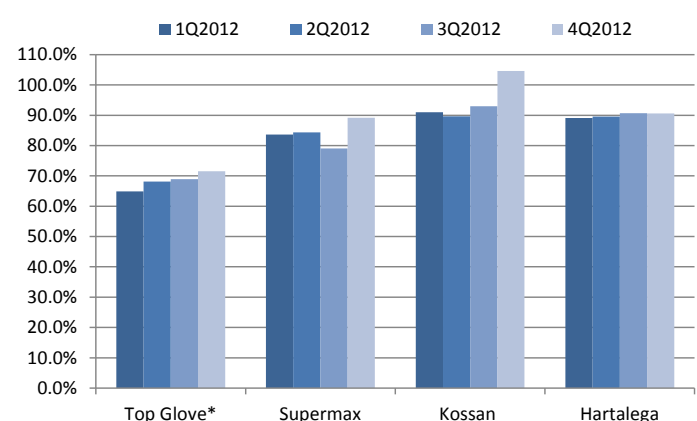
In terms of profitability, most companies registered better absolute PBT per thousand gloves in 4QCY12, except for Kossan (-10.7% y-o-y, -18.8% q-o-q). According to Kossan's management, the lower absolute PBT achieved during the quarter was mainly due to higher contribution from lower-margin powder gloves, which is not expected to continue in 2013. Going forward, Kossan expects margin to improve with higher contribution from high-end products such as cleanroom gloves. On a full year basis, Hartalega remains the market leader in terms of profitability as it achieved 3x higher of absolute PBT/k glove, as compared to its peers. Again, we attribute its superior profitability to (1) consistently high utilisation rate thanks to higher automation level and lesser downtime as many of its production lines are designated for single product, (2) high contribution (>90%) from better-margin nitrile gloves, and (3) a slight premium in ASP as compared to its peers due to consistently low defect rate.

Figure 5 : Absolute PBT per thousand gloves by company



Source: Alliance Research

Figure 6 : Capacity utilisation rate by company



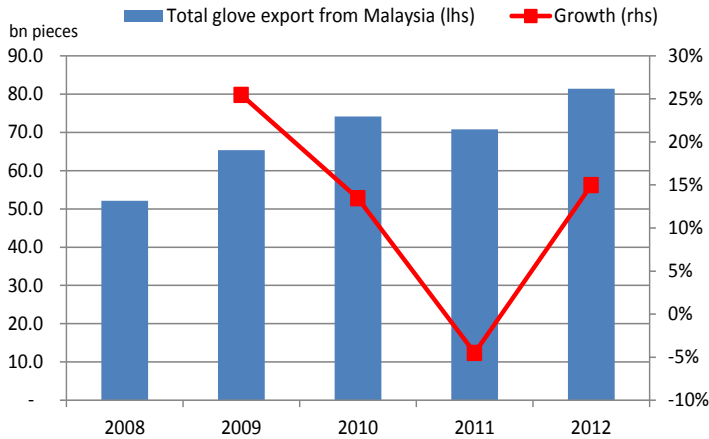
Source: Alliance Research

Big boys are gaining market share from small players in 2012

Top 4 glove makers achieved volume growth of 20% in 2012, outperforming Malaysia total glove export growth of 15%

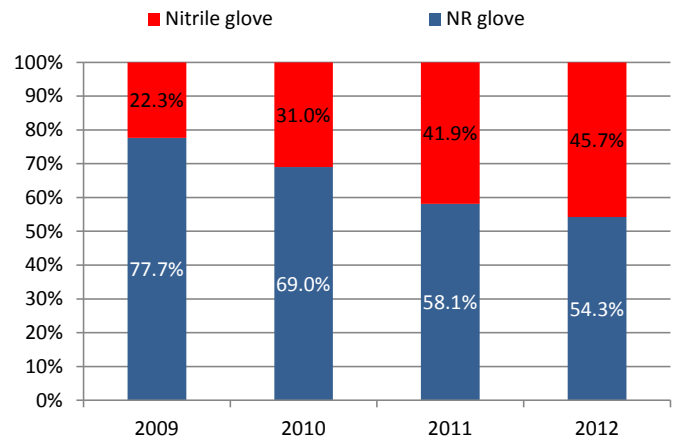
In 2012, Malaysian gloves export grew by 15% y-o-y, of which 54.3% was contributed by NR glove. During the year, 3 of the 4 glove makers (except Supermax) under our coverage achieved above industry volume growth rate, indicating further industry consolidation with small and inefficient glove makers losing market share to big players. During the year, the top 4 glove makers in Malaysia command 76.7% of the country's glove exports, which was an improvement from 73.6% in 2011. Over the past 5 years, Hartalega emerged as the biggest winner in expanding market share from 6.7% in 2008 to 11.8% in 2012, thanks to the strong nitrile migration wave since 2010.

Figure 7 : Total glove export from Malaysia



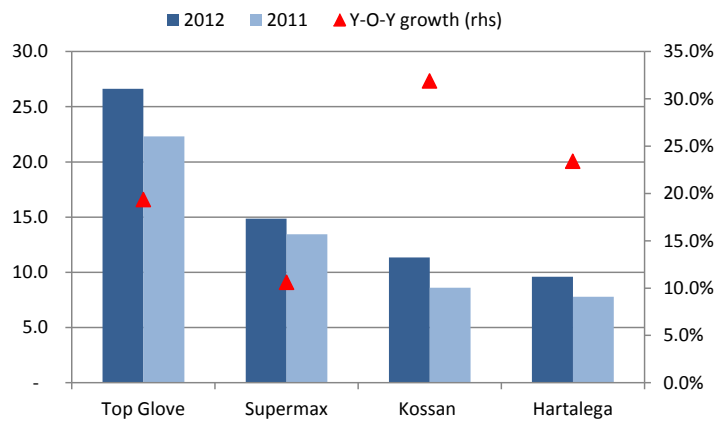
Source: MREPC

Figure 8 : Malaysia glove export by products



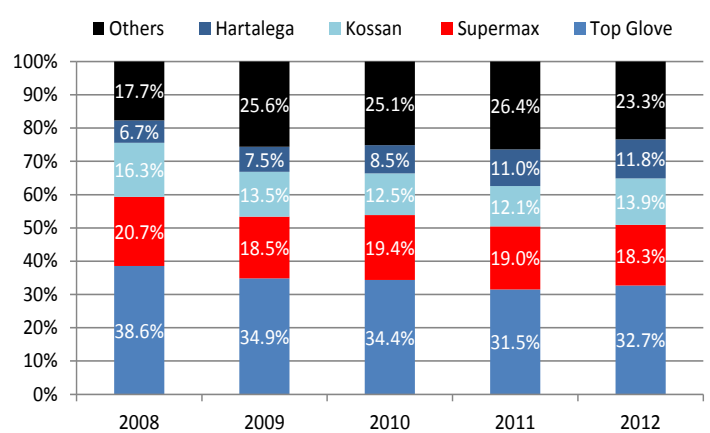
Source: MREPC

Figure 9 : Sales volume growth by company



Source: Company data

Figure 10 : Malaysia glove export shares by company



Source: MREPC

Nitrile glove demand will remain stronger than NR glove, thanks to its lower latex requirement

Going forward, we believe nitrile glove demand will remain stronger than natural rubber (NR) glove, given the former's cost advantage as it requires less nitrile latex due to thinner structure. Based on our estimate, nitrile glove still enjoys latex cost advantage of more than 50% over the NR glove as of March 2013. After taking into account the higher fuel cost for nitrile glove, we believe NR glove will only be able to regain its price competitiveness, if latex price falls below RM5.00/kg, which we think it is unlikely over the next 12 months.

Figure 11 : Nitrile glove is still much cheaper than NR glove, unless NR fell to less than RM5.00/kg

Formula		Mar-13	
		Nitrile	NR
a	Raw latex cost (RM/kg)	4.60	6.15
b	Latex adjustment ratio	45%	60%
c = a/b	Adjusted latex cost (RM/kg)	10.22	10.25
d	Thinnest product that are widely accepted by market (g)	3.20	5.00
e = c/d	Latex cost per thousand gloves	32.7	51.3

Summary: Natural latex cost is 57% more expensive than nitrile latex.

Source: Alliance Research

With M&A activities heating up in the glove industry, further industry consolidation is expected in 2013 and 2014

Furthermore, we have observed that merger and acquisition activities in the glove industry have been heating up in 2012. We view this trend positively as we believe further industry consolidation will help to reduce supply risk as bigger players could also grow by acquiring smaller players instead of building new capacity organically that could lead to unnecessary capacity glut. One good example is Latexx Partner being taken over by Semperit AG Holding, the largest non-Malaysia based glove maker in the world which aims to double its capacity from 11bn pieces of gloves in 2011 to 22 bn by 2014. Post the acquisition of Latexx Partner which has a capacity of 11 bn pieces of glove as at 2011, Semperit has achieved its target and emerged as the second largest glove manufacturer in the world after Top Glove, in terms of capacity.

Figure 12 : World top 5 glove manufacturers production capacity

Production capacity (bn pieces)	2010	2011	2012	2013F	2014F	2015F
1 Top Glove	33.8	35.6	38.7	42.8	47.5	47.9
2 Sempermed (include Latexx Partner)*	16.0	20.0	25.0	25.0	25.0	25.0
3 Supermax	17.6	17.6	17.8	20.4	23.1	23.1
4 Kossan	10.2	10.2	11.6	14.0	16.0	17.0
5 Hartalega	8.8	9.6	10.7	12.2	14.7	15.6
Top 5 glove makers	86.4	93.0	103.7	114.4	126.3	128.6

Capacity growth	2010	2011	2012	2013F	2014F	2015F
1 Top Glove	7.3%	5.3%	8.7%	10.5%	11.1%	0.8%
2 Sempermed (include Latexx Partner)*	10.3%	25.0%	25.0%	0.0%	0.0%	0.0%
3 Supermax	21.3%	0.1%	0.9%	15.1%	13.1%	0.0%
4 Kossan	7.4%	0.0%	13.7%	20.7%	14.3%	6.3%
5 Hartalega	48.2%	8.8%	11.5%	14.0%	20.1%	6.5%
Total growth	13.8%	7.6%	11.6%	10.3%	10.4%	1.9%

* Sempermed capacity growth is Alliance Research's estimates.

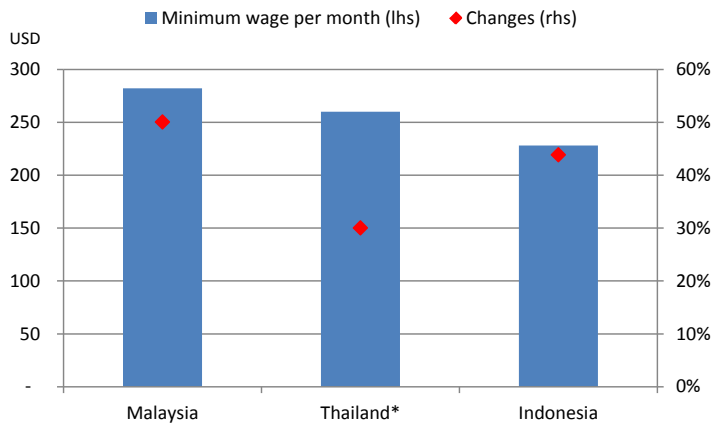
Source: Alliance Research

Malaysian glove makers will continue to sustain its competitive edge

Malaysian glove makers still have an upper hand, mainly due to its production innovation as well as strong competitor's currency

While it seems that foreign glove makers (particularly Thailand and Indonesia) have beefed up their muscles and closing the gap to Malaysian glove makers over the years, we remain convinced that Malaysian glove makers would remain competitive and continue to lead and dominate the global glove market, even with the recent implementation of minimum wage policy (MWP) and potential natural gas price hike post 13GE. This is simply because Malaysian glove makers are still way ahead of its competitors, in terms of production innovation. Furthermore, minimum wage policy is a regional trend, where we have seen both Indonesia and Thailand implemented their respective MWP in 2013. Last but not least, we believe Thai Bath and Indonesia Rupiah's long term currency strength against USD is stronger as compared to Ringgit, which is an added advantage to Malaysian glove. As such, we foresee Malaysian glove makers would be able to mitigate the effect of labour cost increase as well as any potential fuel cost increase in future, which collectively makes up 20% (10% each) of total production cost.

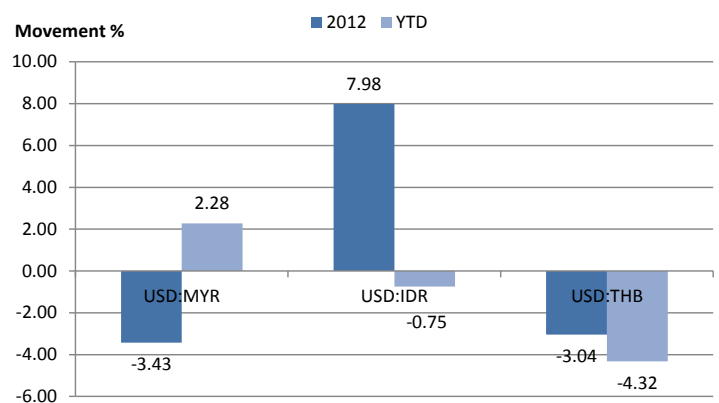
Figure 13 : 2013 minimum wage by country



*Thailand's minimum wage is based on 26 working days x USD10/day.

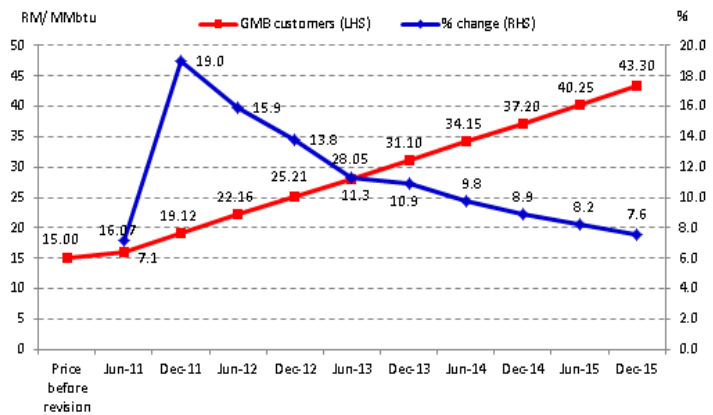
Source: Wikipedia

Figure 14 : USD strength against local currency



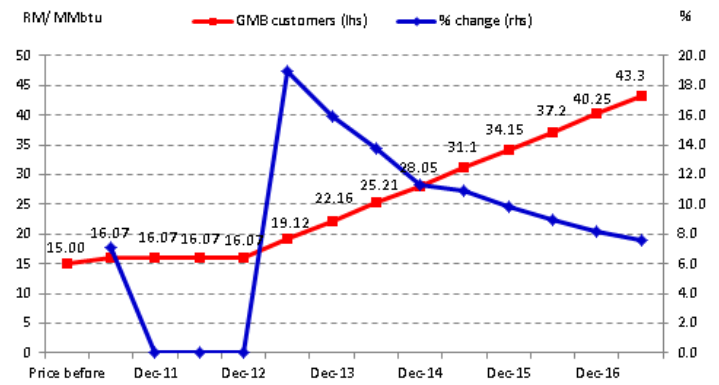
Source: Bloomberg data, Alliance Research

Figure 15 : Initial plan for natural gas price adjustment



Source: Ministry of Energy, Green Technology and Water, Alliance Research

Figure 16 : Natural gas price adjustment has been stalled since 2011



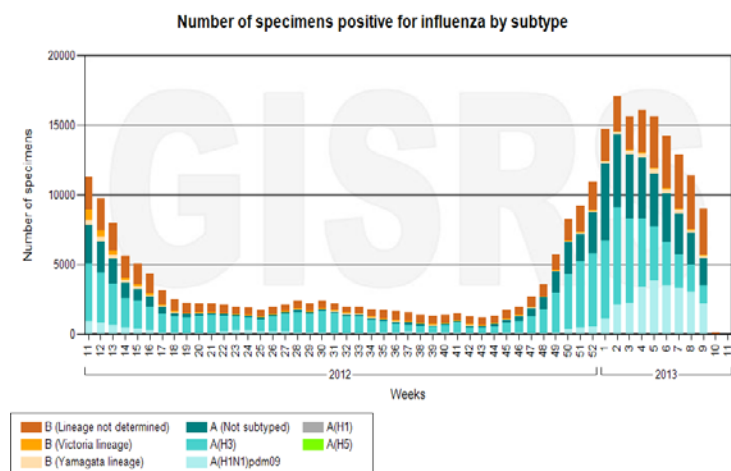
Source: Alliance Research estimates

Favourable industry dynamic ahead

Global glove demand still going strong as influenza is on a rising trend

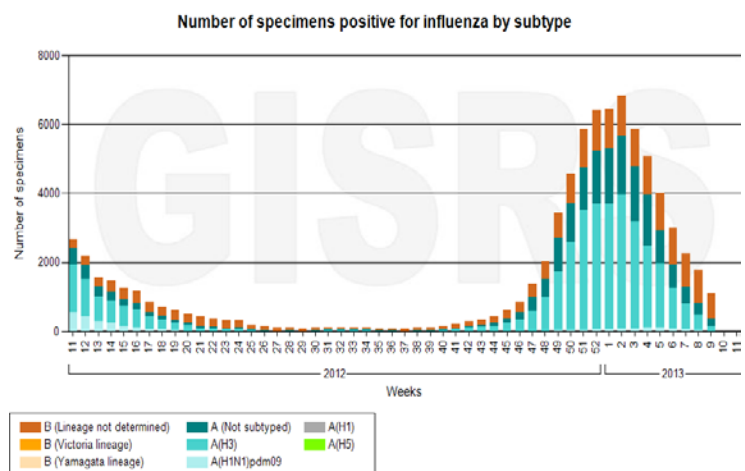
In terms of demand, we believe the glove demand in 2013 will remain strong if not stronger than 2012 (sales volume for the top 4 players grew by 20% y-o-y), taking a cue from leading indicators from World Health Organization (WHO) which shows the influenza is on a rising trend across the glove consuming regions, such as Europe and America.

Figure 17 : Global past 12 months influenza trends



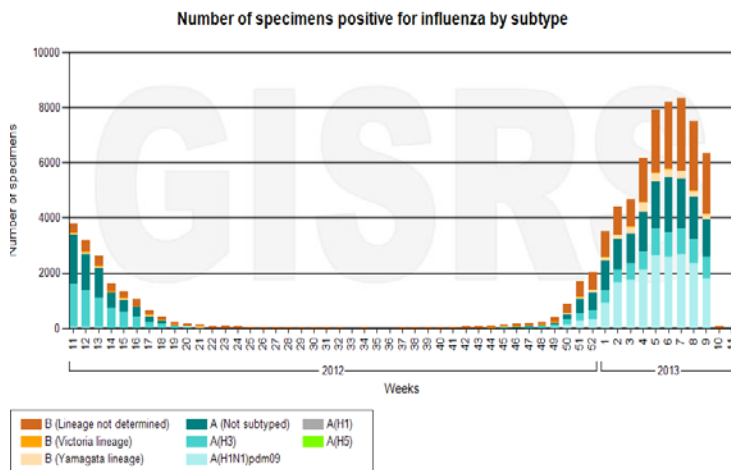
Source: WHO

Figure 18 : USA past 12 months influenza trends



Source: WHO

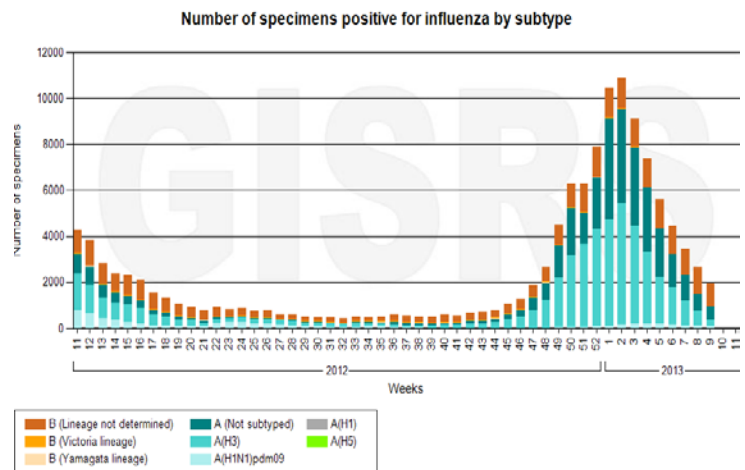
Figure 19 : Europe past 12 months influenza trends



Source: WHO

Lastly, latex price is expected to remain stable due to supply surplus

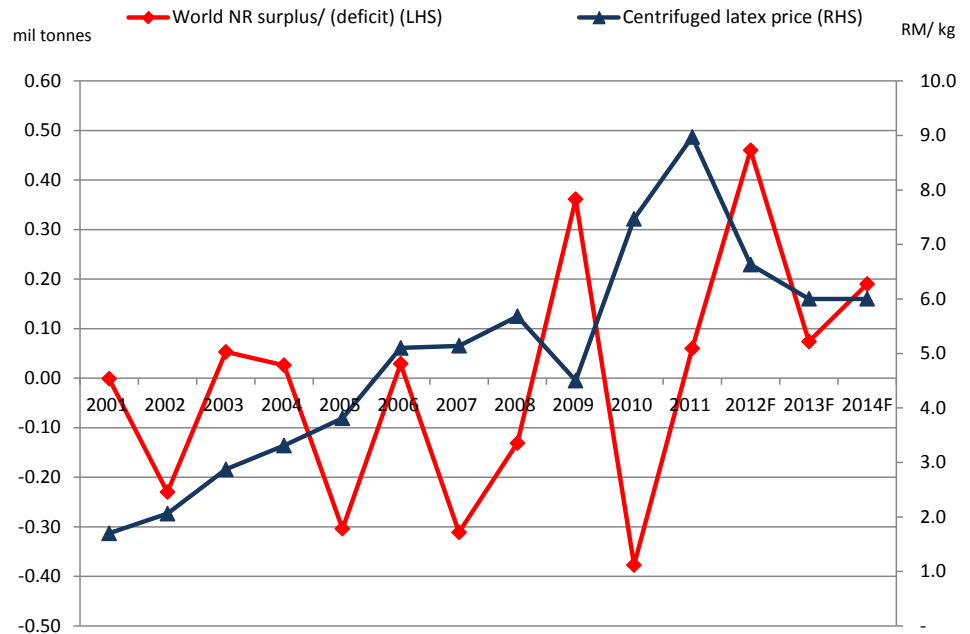
Figure 20 : America past 12 months influenza trends



Source: WHO

Lastly, we anticipate NR latex price to remain stable in 2013 (trading between RM5.50/kg to RM6.50/kg) as global NR supply is expected to remain in surplus over the next 2 years (although with a reduced surplus in 2013), based on the International Rubber Study Group (IRSG) estimates in Jan 2013. As for synthetic rubber, we foresee nitrile butadiene rubber (NBR) price to remain equally stable in 2013 as major nitrile material suppliers have expanded their capacity by at least 2-fold since 2010, which led to industry utilization rate hovering between 65% and 75%, according to industry players.

Figure 21 : World NR supply surplus/ (deficit) vs centrifuged latex price



Source: IRSG, Bloomberg data, Alliance Research forecasts



RECOMMENDATION

A safe haven in the run up to 13GE

*Reiterate our OVERWEIGHT stance,
with Kossan being our top pick*

In conclusion, we remain positive on the glove sector in 2013 as we anticipate all 3 key earnings drivers to remain favourable to glove makers, such as (1) stable latex price, (2) strong USD due to improving US economic, and (3) improved supply and demand dynamic. As such, we view the glove sector as a safe haven for investors in the run up to 13GE, as it is an industry that is least affected by 13GE due to its export-oriented business.

*Kossan is still trading cheap at less
than 10x P/E*

Hence, we reiterate our Overweight recommendation for the sector, with Kossan (Buy, TP: RM4.35) being our top pick due to its cheap FY13 P/E valuation of 9.1x. We value Kossan at 11x 12-month forward P/E, which is 27% discount to the target P/E of 16-15x that we assigned for both Top Glove and Hartalega due to their market leading positions.

*Continue to like Hartalega as a
medium term top pick given its
game-changing NGC plant*

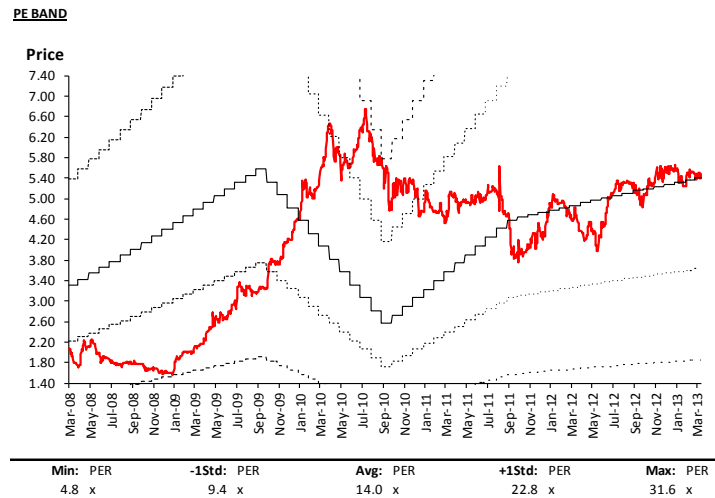
Apart from that, we advocate investors who have a longer investment horizon (1-3 years) to accumulate Hartalega (Buy, TP: RM5.54) as we continue to view it as the industry's game-changer over the next 3 years, once its Next Generation Integrated Glove Manufacturing Complex (NGC), which could yield 6% extra margin due to better efficiency, commences operation in late 2014. We believe this is a formidable edge for the company to grow its market share and bottom line as it has the capacity to lower selling prices vis-à-vis its competitors who have significantly lower margins. In addition, the company has the strongest capacity CAGR of 15.7% over the next 8 years.

*Supermax and Top Glove remain as
a Trading Buy*

On the other hand, we retain our Trading Buy calls on both Supermax and Top Glove with an unchanged TP of RM2.29 and RM6.13, based on 11x and 16x 12-month forward P/E respectively. Our TP implies 22% and 12% capital appreciation upside respectively.

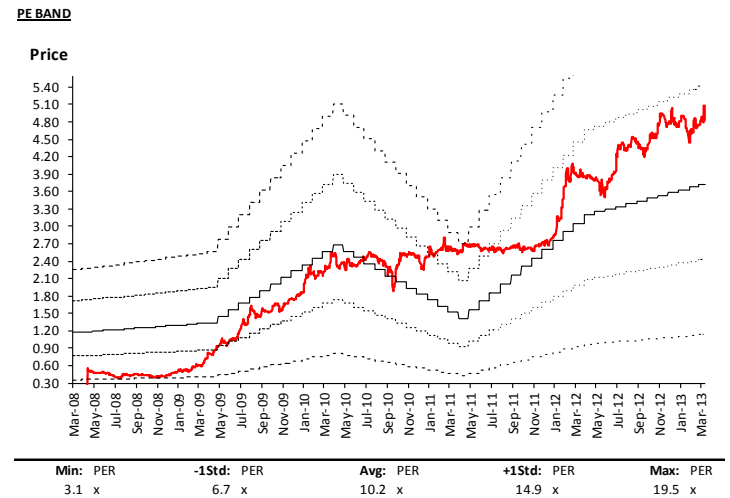
HISTORICAL VALUATION BANDS

Figure 22 : Top Glove's 5-year historical P/E band



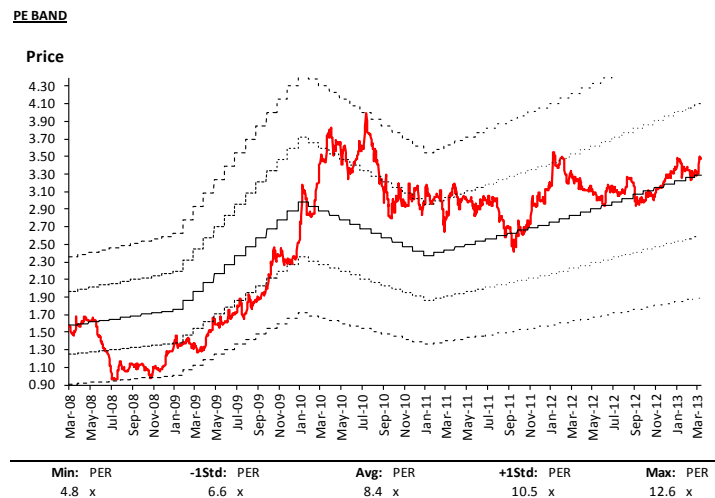
Source: Alliance Research

Figure 23 : Hartalega's 5-year historical P/E band



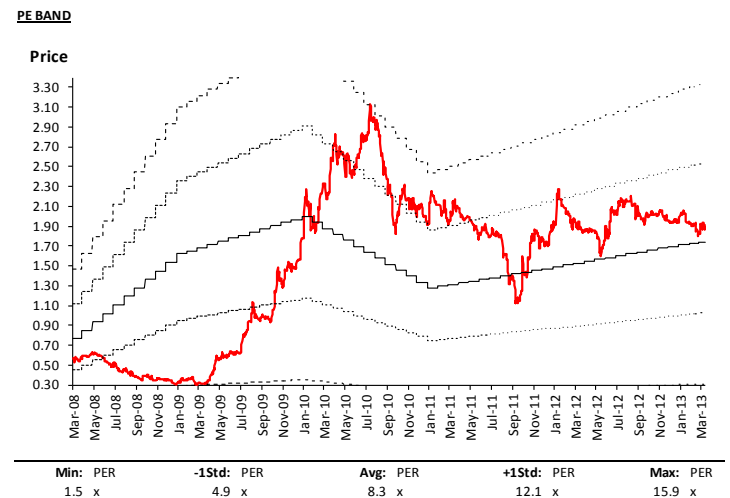
Source: Alliance Research

Figure 24 : Kossan's 5-year historical P/E band



Source: Alliance Research

Figure 25 : Supermax's 5-year historical P/E band



Source: Alliance Research



Top Glove Corporation Berhad

Financial Summary

Price Date: 19 March 2013

Balance Sheet

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	660.7	734.4	854.9	964.0	1,015.0
Intangible Assets	-	-	-	-	-
Inventories	175.5	179.4	202.4	221.4	242.3
Receivables	266.4	293.9	283.3	311.6	342.8
Other assets	171.6	223.1	223.9	225.3	226.9
Deposit, bank and cash	148.8	167.2	124.3	111.7	166.8
Total Assets	1,423.0	1,598.1	1,688.7	1,834.0	1,993.7
LT borrowings	2.9	2.8	2.8	2.8	2.8
ST borrowings	0.2	0.2	-	-	-
Payables	194.6	231.5	207.1	227.7	251.4
Other liabilities	79.0	83.7	83.7	83.7	83.7
Liabilities	276.7	318.2	293.6	314.2	337.9
Share capital	309.3	309.4	309.4	309.4	309.4
Reserves	812.5	945.9	1,056.5	1,176.1	1,306.7
Shareholders' equity	1,121.8	1,255.4	1,365.9	1,485.6	1,616.2
Minority interest	24.6	24.5	29.2	34.2	39.7
Total Equity	1,146.4	1,279.9	1,395.1	1,519.8	1,655.9
Total Equity and Liabilities	1,423.0	1,598.1	1,688.7	1,834.0	1,993.7

Cash Flow Statement

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	145.5	240.7	291.0	318.3	340.3
Depreciation & amortisation	61.6	69.2	79.7	91.2	99.2
Change in working capital	0.8	(29.1)	(36.8)	(26.7)	(28.4)
Net interest received / (paid)	(10.3)	(12.2)	(12.6)	(11.4)	(12.4)
Tax paid	(28.2)	(15.2)	(58.2)	(63.7)	(68.1)
Others	2.8	12.2	(1.1)	(1.8)	(1.9)
Operating Cash Flow	172.1	265.6	262.0	305.9	328.7
Capex	(141.3)	(145.7)	(200.0)	(200.0)	(150.0)
Others	(55.7)	(17.8)	12.8	11.5	12.5
Investing Cash Flow	(196.9)	(163.5)	(187.2)	(188.5)	(137.5)
Issuance of shares	1.0	1.2	-	-	-
Changes in borrowings	(0.7)	(0.2)	(0.2)	-	-
Dividend paid	(87.9)	(85.5)	(117.6)	(130.0)	(136.2)
Others	-	-	-	-	-
Financing Cash Flow	(87.5)	(84.5)	(117.7)	(130.0)	(136.2)
Net cash flow	(112.3)	17.6	(43.0)	(12.5)	55.1
Forex	(1.8)	0.8	-	-	-
Beginning cash	262.9	148.8	167.2	124.3	111.7
Ending cash	148.8	167.2	124.3	111.7	166.8

Income Statement

FY 31 Aug (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	2,053.9	2,314.5	2,404.6	2,645.0	2,909.5
EBITDA	192.1	301.9	357.1	396.4	425.3
Depreciation & amortisation	(61.6)	(69.2)	(79.7)	(91.2)	(99.2)
Net interest expenses	10.3	12.2	12.6	11.4	12.4
Share of associates	0.9	0.3	1.0	1.7	1.8
Exceptional items	3.7	(4.5)	-	-	-
Pretax profit	145.5	240.7	291.0	318.3	340.3
Taxation	(30.3)	(33.4)	(58.2)	(63.7)	(68.1)
Minority interest	(2.0)	(4.6)	(4.7)	(5.1)	(5.4)
Net profit	113.1	202.7	228.2	249.6	266.8
Core net profit	110.2	206.6	228.2	249.6	266.8

Key Statistics & Ratios

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	-1.2%	12.7%	3.9%	10.0%	10.0%
EBITDA	-46.4%	63.7%	7.8%	10.3%	8.1%
Pretax profit	-52.3%	65.5%	20.9%	9.4%	6.9%
Net profit	-53.9%	79.3%	12.6%	9.4%	6.9%
Adj EPS	-55.3%	87.6%	10.5%	9.4%	6.9%

Profitability

EBITDA margin	11.4%	16.6%	17.3%	17.3%	17.0%
Net profit margin	5.5%	8.8%	9.5%	9.4%	9.2%
Effective tax rate	20.9%	13.9%	20.0%	20.0%	20.0%
Return on assets	7.9%	13.7%	13.9%	14.2%	13.9%
Return on equity	10.1%	16.1%	16.7%	16.8%	16.5%

Leverage

Total debt / total assets (x)	0.00	0.00	0.00	0.00	0.00
Total debt / equity (x)	0.00	0.00	0.00	0.00	0.00
Net debt / equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Drivers

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	22.6	25.3	27.7	30.5	33.5
Growth (%)	-12.8%	11.9%	9.6%	10.0%	10.0%
ASP (USD/ k pieces)	29.7	29.5	28.0	28.0	28.0
Growth (%)	23.9%	-0.4%	-5.2%	0.0%	0.0%

Valuation

FY 31 Aug	2011A	2012A	2013F	2014F	2015F
EPS (sen)	18.3	32.8	36.9	40.3	43.1
Adj EPS (sen)	17.8	33.4	36.9	40.3	43.1
P/E (x)	30.7	16.4	14.8	13.6	12.7
EV/EBITDA (x)	13.8	8.4	7.9	7.2	6.5
Net DPS (sen)	9.7	16.0	19.0	21.0	22.0
Net dividend yield	1.8%	2.9%	3.5%	3.8%	4.0%
BV per share (RM)	1.81	2.03	2.21	2.40	2.61
P/BV (x)	3.0	2.7	2.5	2.3	2.1



Hartalega Holdings Berhad

Financial Summary

Price Date: 19 March 2013

Balance Sheet

FY 31 Mar (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	348.6	379.7	543.6	675.2	796.3
Intangible Assets	0.1	0.0	0.0	0.0	0.0
Inventories	64.7	97.5	102.0	116.3	126.5
Receivables	101.0	117.1	124.8	153.0	174.1
Other assets	3.6	0.5	0.5	0.5	0.5
Deposit, bank and cash	117.0	163.2	191.0	177.7	203.7
Total Assets	635.0	758.1	961.9	1,122.7	1,301.2
LT borrowings	24.5	12.1	112.1	112.1	112.1
ST borrowings	14.5	12.6	-	-	-
Payables	57.2	60.4	50.8	63.2	72.1
Other liabilities	44.0	53.0	53.0	53.0	53.0
Liabilities	140.2	138.1	215.8	228.3	237.2
Share capital	181.8	182.5	365.1	365.1	365.1
Reserves	312.7	437.0	380.3	528.6	698.0
Shareholders' equity	494.4	619.5	745.4	893.7	1,063.1
Minority interest	0.4	0.6	0.6	0.7	0.8
Total Equity	494.8	620.1	746.0	894.4	1,063.9
Total Equity and Liabilities	635.0	758.1	961.9	1,122.7	1,301.2

Cash Flow Statement

FY 31 Mar (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	242.8	258.4	297.4	350.3	400.1
Depreciation & amortisation	25.0	29.0	36.2	48.4	58.9
Change in working capital	(40.9)	(44.5)	(21.8)	(30.0)	(22.4)
Net interest received / (paid)	0.1	0.8	2.0	4.3	4.2
Tax paid	(47.8)	(48.8)	(68.4)	(80.6)	(92.0)
Others	3.2	1.7	(3.7)	(6.1)	(6.1)
Operating Cash Flow	182.4	196.7	241.6	286.3	342.7
Capex	(81.3)	(60.2)	(200.0)	(180.0)	(180.0)
Others	2.7	3.7	1.8	1.8	1.9
Investing Cash Flow	(78.6)	(56.5)	(198.2)	(178.2)	(178.1)
Issuance of shares	0.3	6.9	-	-	-
Changes in borrowings	(2.5)	(14.6)	87.4	-	-
Dividend paid	(56.9)	(87.4)	(103.0)	(121.3)	(138.6)
Others	-	-	-	-	-
Financing Cash Flow	(59.1)	(95.0)	(15.6)	(121.3)	(138.6)
Net cash flow	44.7	45.2	27.7	(13.2)	26.0
Forex	(2.3)	1.0	-	-	-
Beginning cash	74.6	117.0	163.2	191.0	177.7
Ending cash	117.0	163.2	191.0	177.7	203.7

Income Statement

FY 31 Mar (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	734.9	931.1	1,084.9	1,329.6	1,513.2
EBITDA	268.2	288.2	335.6	402.9	463.2
Depreciation & amortisation	(25.0)	(29.0)	(36.2)	(48.4)	(58.9)
Net interest expenses	(0.1)	(0.8)	(2.0)	(4.3)	(4.2)
Share of associates	-	-	-	-	-
Exceptional items	(0.4)	0.0	-	-	-
Pretax profit	242.8	258.4	297.4	350.3	400.1
Taxation	(52.5)	(57.0)	(68.4)	(80.6)	(92.0)
Minority interest	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	190.3	201.4	229.0	269.7	308.0
Core net profit	190.6	201.4	229.0	269.7	308.0

Key Statistics & Ratios

FY 31 Mar	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	28.5%	26.7%	16.5%	22.6%	13.8%
EBITDA	31.2%	8.6%	15.9%	18.2%	13.1%
Pretax profit	36.6%	6.4%	15.1%	17.8%	14.2%
Net profit	33.2%	5.8%	13.7%	17.8%	14.2%
Core EPS	33.1%	5.4%	13.4%	17.8%	17.8%

Profitability

EBITDA margin	37.2%	31.9%	31.7%	30.6%	30.4%
Net profit margin	25.9%	21.6%	21.1%	20.3%	20.4%
Effective tax rate	21.6%	22.0%	23.0%	23.0%	23.0%
Return on assets	30.0%	26.6%	23.8%	24.0%	23.7%
Return on equity	38.5%	32.5%	30.7%	30.2%	29.0%

Leverage

Total debt / total assets (x)	0.06	0.03	0.12	0.10	0.09
Total debt / equity (x)	0.08	0.04	0.15	0.13	0.11
Net debt / equity (x)	(0.16)	(0.22)	(0.11)	(0.07)	(0.09)

Key Drivers

FY 31 Mar	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	6.60	8.24	9.68	12.06	13.73
Growth (%)	24.7%	24.8%	17.5%	24.5%	13.9%
ASP (USD/ k pieces)	35.1	36.7	36.7	36.2	36.1
Growth (%)	13.5%	4.3%	0.2%	-1.6%	-0.1%

Valuation

FY 31 Mar	2011A	2012A	2013F	2014F	2015F
EPS (sen)	26.2	27.6	31.4	36.9	42.2
Core EPS (sen)	26.2	27.6	31.4	36.9	42.2
P/E (x)	17.7	16.8	14.8	12.6	11.0
EV/EBITDA (x)	7.1	6.4	11.5	9.8	8.6
Net DPS (sen)	10.5	12.5	14.1	16.6	19.0
Net dividend yield	2.3%	2.7%	3.0%	3.6%	4.1%
BV per share (RM)	0.68	0.85	1.02	1.22	1.46
P/BV (x)	6.8	5.5	4.6	3.8	3.2



Supermax Corporation Berhad

Financial Summary

Price Date: 19 March 2013

Balance Sheet

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	402.2	450.5	517.9	557.3	594.5
Intangible Assets	-	-	-	-	-
Inventories	223.1	233.6	202.3	220.4	240.1
Receivables	115.9	171.8	135.0	147.5	161.1
Other assets	359.7	282.9	401.7	437.6	477.0
Deposit, bank and cash	104.5	122.3	115.0	129.6	140.9
Total Assets	1,205.4	1,261.1	1,372.0	1,492.5	1,613.7
LT borrowings	140.5	141.2	141.2	141.2	141.2
ST borrowings	190.5	142.1	150.0	160.0	160.0
Payables	87.3	57.6	64.8	71.2	78.1
Other liabilities	18.2	44.5	44.5	44.5	44.5
Liabilities	436.4	385.4	400.4	416.8	423.7
Share capital	170.0	340.1	340.1	340.1	340.1
Reserves	599.1	536.0	631.8	735.8	850.1
Shareholders' equity	769.1	876.1	971.9	1,075.9	1,190.1
Minority interest	(0.1)	(0.4)	(0.3)	(0.3)	(0.2)
Total Equity	769.0	875.7	971.5	1,075.6	1,189.9
Total Equity and Liabilities	1,205.4	1,261.1	1,372.0	1,492.5	1,613.7

Cash Flow Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	112.1	140.2	165.1	179.9	197.1
Depreciation & amortisation	24.1	24.3	27.6	30.6	32.8
Change in working capital	(48.0)	10.4	(18.9)	(32.9)	(35.9)
Net interest received / (paid)	12.5	9.9	9.3	9.6	9.7
Tax paid	(13.4)	6.4	(25.1)	(28.2)	(31.8)
Others	(43.4)	(33.3)	(34.0)	(36.7)	(39.6)
Operating Cash Flow	43.9	157.8	124.0	122.2	132.3
Capex	(38.1)	(68.1)	(95.0)	(70.0)	(70.0)
Others	0.0	-	-	-	-
Investing Cash Flow	(38.1)	(68.1)	(95.0)	(70.0)	(70.0)
Issuance of shares	-	(2.0)	-	-	-
Changes in borrowings	27.5	(57.2)	7.9	10.0	-
Dividend paid	(27.2)	(11.9)	(44.2)	(47.6)	(51.0)
Others	-	-	-	-	-
Financing Cash Flow	0.3	(71.1)	(36.3)	(37.6)	(51.0)
Net cash flow	6.0	18.6	(7.3)	14.6	11.3
Forex	1.1	(0.8)	-	-	-
Beginning cash	97.4	104.5	122.3	115.0	129.6
Ending cash	104.5	122.3	115.0	129.6	140.9

Income Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	1,021.4	1,048.4	1,145.7	1,251.6	1,367.3
EBITDA	117.9	151.0	177.3	192.9	209.8
Depreciation & amortisation	(24.1)	(24.3)	(27.6)	(30.6)	(32.8)
Net interest expenses	(12.5)	(9.9)	(9.3)	(9.6)	(9.7)
Share of associates	34.8	23.4	24.7	27.2	29.9
Exceptional items	(4.0)	-	-	-	-
Pretax profit	112.1	140.2	165.1	179.9	197.1
Taxation	(8.1)	(18.7)	(25.1)	(28.2)	(31.8)
Minority interest	0.1	0.2	(0.0)	(0.0)	(0.0)
Net profit	104.2	121.7	140.0	151.7	165.3
Core net profit	107.9	121.7	140.0	151.7	165.3

Key Statistics & Ratios

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	4.5%	2.6%	9.3%	9.2%	9.2%
EBITDA	-38.6%	28.1%	17.4%	8.8%	8.7%
Pretax profit	-39.0%	25.0%	17.8%	9.0%	9.6%
Net profit	-34.5%	12.8%	15.0%	8.4%	9.0%
Core EPS	-33.9%	12.8%	15.0%	8.4%	9.0%

Profitability

EBITDA margin	11.5%	14.4%	15.5%	15.4%	15.3%
Net profit margin	10.2%	11.6%	12.2%	12.1%	12.1%
Effective tax rate	7.2%	13.3%	15.2%	15.7%	16.1%
Return on assets	8.6%	9.6%	10.2%	10.2%	10.2%
Return on equity	13.5%	13.9%	14.4%	14.1%	13.9%

Leverage

Total debt / total assets (x)	0.27	0.22	0.21	0.20	0.19
Total debt / equity (x)	0.43	0.32	0.30	0.28	0.25
Net debt / equity (x)	0.29	0.18	0.18	0.16	0.13

Key Drivers

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	13.44	14.86	16.35	17.98	19.78
Growth (%)	-6.8%	10.6%	10.0%	10.0%	10.0%
ASP (USD/ k pieces)	24.9	23.1	23.0	22.8	22.7
Growth (%)	25.1%	-7.3%	-0.3%	-0.7%	-0.7%

Valuation

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
EPS (sen)	15.3	17.9	20.6	22.3	24.3
Core EPS (sen)	15.9	17.9	20.6	22.3	24.3
P/E (x)	11.9	10.6	9.2	8.5	7.8
EV/EBITDA (x)	6.1	8.2	7.3	6.9	6.4
Net DPS (sen)	4.8	5.0	6.5	7.0	7.5
Net dividend yield	2.5%	2.6%	3.4%	3.7%	4.0%
BV per share (RM)	1.13	1.29	1.43	1.58	1.75
P/BV (x)	1.7	1.5	1.3	1.2	1.1



Kossan Rubber Industries

Financial Summary

Price Date: 19 March 2013

Balance Sheet

FY 30 Jun (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	433.0	518.8	510.7	503.4	496.7
Intangible Assets	4.9	4.9	4.9	4.9	4.9
Inventories	163.8	152.2	169.6	189.7	212.2
Receivables	157.6	222.9	246.3	275.3	307.8
Other assets	1.5	0.2	0.2	0.2	0.2
Deposit, bank and cash	51.6	98.4	100.8	177.2	272.1
Total Assets	812.4	997.3	1,032.6	1,150.7	1,293.9
LT borrowings	26.0	35.0	135.0	135.0	135.0
ST borrowings	134.0	163.5	-	-	-
Payables	103.5	118.4	124.4	139.5	156.9
Other liabilities	42.7	52.9	52.9	52.9	52.9
Liabilities	306.1	369.7	312.2	327.3	344.7
Share capital	159.9	159.9	159.9	159.9	159.9
Reserves	337.0	455.6	545.8	646.1	768.5
Shareholders' equity	496.9	615.4	705.7	805.9	928.4
Minority interest	9.5	12.2	14.7	17.5	20.8
Total Equity	506.3	627.6	720.4	823.4	949.2
Total Equity and Liabilities	812.4	997.3	1,032.6	1,150.7	1,293.9

Cash Flow Statement

FY 30 Jun (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	112.9	140.9	166.3	188.5	218.8
Depreciation & amortisation	40.3	40.3	48.0	47.3	46.7
Change in working capital	(50.8)	(37.4)	(34.9)	(34.0)	(37.5)
Net interest received / (paid)	5.9	5.3	5.9	4.0	2.7
Tax paid	(21.4)	(23.5)	(41.6)	(47.1)	(54.7)
Others	(7.6)	0.1	(7.3)	(5.9)	(5.9)
Operating Cash Flow	79.4	125.5	136.5	152.7	170.1
Capex	(39.8)	(86.1)	(40.0)	(40.0)	(40.0)
Others	(6.0)	1.4	1.4	2.0	3.2
Investing Cash Flow	(45.8)	(84.7)	(38.6)	(38.0)	(36.8)
Issuance of shares	(0.4)	-	-	-	-
Changes in borrowings	(30.8)	33.3	(63.5)	-	-
Dividend paid	(35.0)	(29.7)	(32.0)	(38.4)	(38.4)
Others	(0.3)	-	-	-	-
Financing Cash Flow	(66.5)	3.7	(95.5)	(38.4)	(38.4)
Net cash flow	(32.9)	44.5	2.4	76.4	94.9
Forex	-	-	-	-	-
Beginning cash	80.7	47.7	92.3	94.7	171.1
Ending cash	47.7	92.3	94.7	171.1	266.0

Income Statement

FY 30 Jun (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	1,090.0	1,235.5	1,427.1	1,595.2	1,783.2
EBITDA	159.8	190.2	220.3	239.8	268.2
Depreciation & amortisation	(40.3)	(44.4)	(48.0)	(47.3)	(46.7)
Net interest expenses	(5.9)	(5.3)	(5.9)	(4.0)	(2.7)
Share of associates	-	-	-	-	-
Exceptional items	(0.7)	0.4	-	-	-
Pretax profit	112.9	140.9	166.3	188.5	218.8
Taxation	(21.8)	(33.7)	(41.6)	(47.1)	(54.7)
Minority interest	(1.4)	(2.7)	(2.5)	(2.8)	(3.3)
Net profit	89.7	104.5	122.3	138.6	160.8
Core net profit	90.3	104.2	122.3	138.6	160.8

Key Statistics & Ratios

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	4.1%	13.4%	15.5%	11.8%	11.8%
EBITDA	-14.9%	19.0%	15.8%	8.9%	11.8%
Pretax profit	-19.7%	24.7%	18.1%	13.4%	16.1%
Net profit	-20.9%	16.5%	17.0%	13.4%	16.1%
Core EPS	-24.4%	15.4%	17.4%	13.4%	16.1%

Profitability

EBITDA margin	14.7%	15.4%	15.4%	15.0%	15.0%
Net profit margin	8.2%	8.5%	8.6%	8.7%	9.0%
Effective tax rate	19.3%	23.9%	25.0%	25.0%	25.0%
Return on assets	11.0%	10.5%	11.8%	12.0%	12.4%
Return on equity	18.1%	17.0%	17.3%	17.2%	17.3%

Leverage

Total debt / total assets (x)	0.20	0.20	0.13	0.12	0.10
Total debt / equity (x)	0.32	0.32	0.19	0.16	0.14
Net debt / equity (x)	0.21	0.16	0.05	Net cash	Net cash

Key Drivers

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Sales volume (bn pieces)	8.60	11.34	13.00	14.56	16.31
Growth (%)		31.9%	14.6%	12.0%	12.0%
ASP (USD/ k pieces)	36.0	30.9	31.5	31.5	31.5
Growth (%)		-14.0%	1.9%	0.0%	0.0%

Valuation

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
EPS (sen)	28.1	32.8	38.2	43.3	50.3
Core EPS (sen)	28.3	32.7	38.2	43.3	50.3
P/E (x)	12.3	10.6	9.1	8.0	6.9
EV/EBITDA (x)	7.6	6.4	5.2	4.5	3.6
Net DPS (sen)	7.0	8.0	10.0	12.0	12.0
Net dividend yield	2.0%	2.3%	2.9%	3.4%	3.4%
BV per share (RM)	1.56	1.93	2.21	2.52	2.90
P/BV (x)	2.2	1.8	1.6	1.4	1.2

DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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