UPGRADE

MALAYSIA

RUBBER GLOVES

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

Notes from the Field

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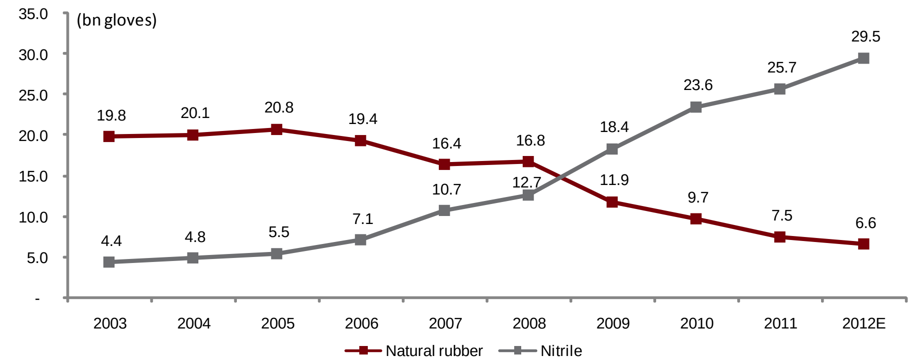
"The medical glove industry is a growth area and it is still an exciting market to participate in. The overall market is growing by 5-7% p.a. and our focus is to expand into Asia. Malaysia is a good place to produce gloves."

— Thomas Fahnemann,
Chairman of Semperit AG Holdings

Nitrile tightens its grip

We are more positive about the sector because of stable demand and the industry's ability to pass on labour and energy costs. Also general elections are at hand and glove stocks tend to be election neutral because revenue and costs are less dependent on domestic politics.

Figure 1: US glove imports



SOURCES: CIMB, COMPANY REPORTS, US IMPORT DATA

Glove stocks outperformed the KLCI in 2012, beating the index by 7.1%. We think Malaysia's OEM glove manufacturers can repeat in 2013 and we upgrade the sector to Overweight. We believe glove stocks would be rerated this year by its defensive qualities, the start of LNG imports in 2H13, stable demand for gloves and higher selling prices as costs are passed through. Our top pick remains Hartalega.

Nitrile boom time

10 years ago, nitrile formed only 18% of total US glove imports and lagged behind natural rubber which was the dominant product in the US. Today, the tables have turned, with nitrile making up 82% of US glove imports, the mirror image of the numbers a decade ago. The dramatic change has primarily come from the absence of allergy problems with synthetics. Also, nitrile gloves are 30% lighter than natural rubber equivalents, leading to lower input and transport costs. Advancements in technology have also enhanced the look and feel of synthetic gloves.

Costs are less cyclical

We believe that operating costs for glovemakers will become less cyclical. Due to the lower demand for wet natural rubber used mainly in the glovemaking space, wet latex now lags behind dry natural rubber prices. This is positive because it enables glovemakers to better control costs and pass them through to the end user. Nitrile is also a relatively stable input because it is not a traded commodity and is denominated in US$. Both make it easy for OEM manufacturers to hedge this input.

Minimum impact

Under the most bearish assumptions, the minimum wage will dent FY13 core EPS by 1-7%. This assumes zero cost pass-through, which is unlikely. OEM glovemakers in Malaysia control 50-60% of the world's supply and a coordinated increase in selling prices is not out of the question. Also, wages account for 5-10% of COGS and are not the dominant cost item.

Highlighted Companies

Hartalega (Outperform, TP: RM5.66)

The world's largest synthetic glovemaker aims to spend RM1.5bn to triple capacity to 30bn gloves p.a. by 2022. FCF is most stable among its peers as FX and nitrile are naturally hedged in US$. High margins also insulate it from cost inflation.

Supermax (Outperform, TP: RM2.64)

The company has ambitious plans to expand its distribution presence in the US and set up a manufacturing base in South America. The latter will help it bypass punitive import taxes that aim to give local companies an edge.

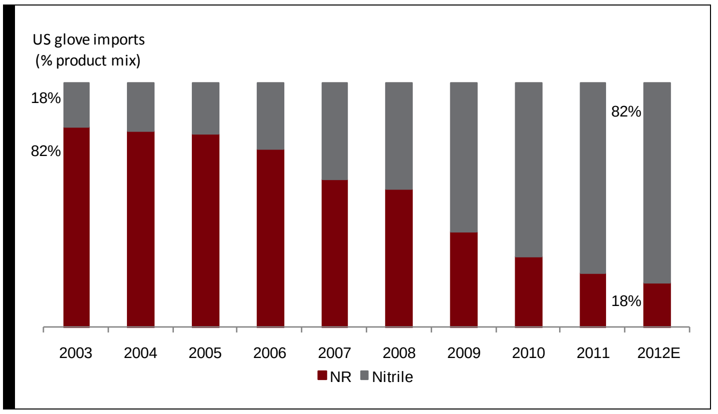
Top Glove (Neutral, TP: RM5.97)

The largest glovemaker by capacity in the world is playing catch-up in the nitrile sector. While it has gained ground and demand has rebounded, margins remain low. As a result, it is most leveraged to latex and labour cost fluctuations.

KEY CHARTS

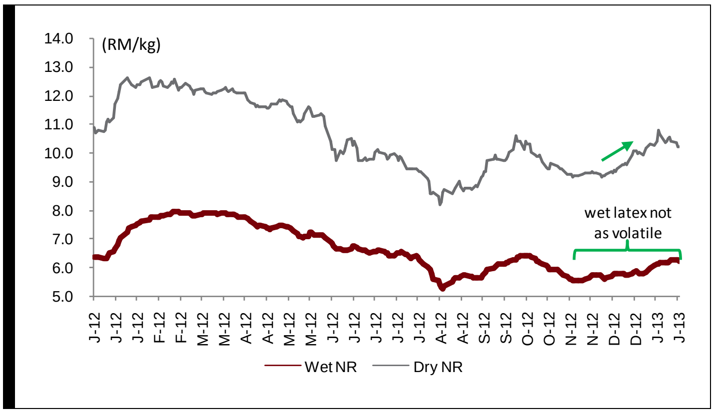
Glove demand trends

We estimate that US glove imports in 2012 was 82% nitrile and 18% NR, almost the mirror image of 2003's figures (see right). Nitrile gloves have gained popularity because end users want to avoid natural rubber protein allergies and nitrile gloves are 30% cheaper than NR equivalents due to weight and synthetic technology. This helps all parties to save on input and transport costs.



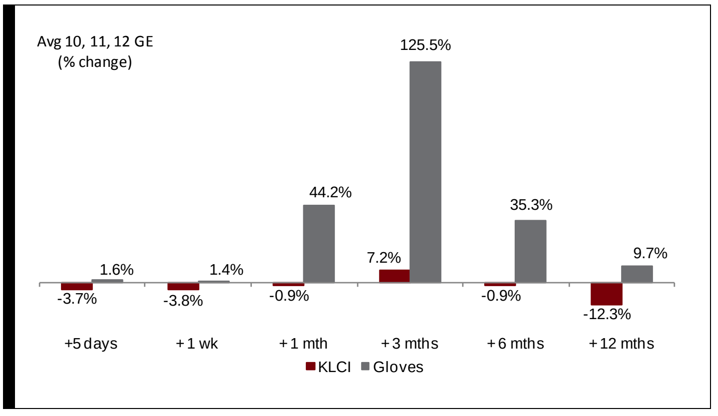
Divergence of wet and dry NR prices

One impact of the rise of nitrile gloves is the divergence in the correlation of dry and wet natural rubber prices. Dating back to 2007, the correlation was 1.0x. In May 2012, the link decoupled and fell to 0.7x. The decoupling continued and by Dec 2012 the correlation was negative. We believe this change could be due to the lower demand for wet latex, which is used mainly for dipped goods such as gloves. This trend is in its early stages and it is unclear whether this is permanent. If it is secular in nature, this is positive for glove stocks because it suggests that cost trends are more stable and a pass through more certain. This could help re-rate risk premiums and valuations.



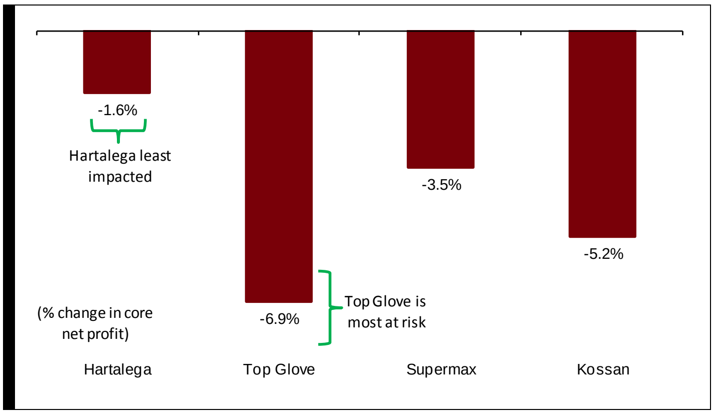
Looking back at past general elections

Data from the 10th, 11th and 12th general elections show little correlation between glovemakers' share price performance and election results. This is because demand is driven by healthcare consumption in the US and Europe. Also, 60% of costs are linked to the price of natural and synthetic rubber, which is bought at market prices and not necessarily affected by domestic policy. While energy prices could rise post elections, we believe the impact will be muted. Natural gas and electricity costs account for 7-10% of total costs and we expect glovemakers to be successful in passing on this cost increase.



Managing the minimum wage

Wages for low-skilled labour rose by 50% to RM900/month in Jan 2013. Our analysis suggests a 1-7% drop in FY13 core EPS from this policy change. To mitigate this, glovemakers intend to pass on the cost and restructure wage scales. We believe that a coordinated pass-through is likely as Malaysian OEM manufacturers control 50-60% of the world's supply. As a result, our analysis is probably a conservative scenario. Rewriting employment contracts may be more difficult but we believe the more innovative glovemakers will succeed in this adjustment.



SOURCE: CIMB, COMPANY REPORTS, GLOVE MANUFACTURERS, BLOOMBERG

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY2012	Core P/E (x) CY2013	3-year EPS CAGR (%)	P/BV (x) CY2012	P/BV (x) CY2013	Recurring ROE (%) CY2012	Recurring ROE (%) CY2013	Recurring ROE (%) CY2014	EV/EBITDA (x) CY2012	EV/EBITDA (x) CY2013	Dividend Yield (%) CY2012	Dividend Yield (%) CY2013
Hartalega Holdings	HART MK	Outperform	4.74	5.66	1,144	15.3	13.5	14.7%	4.89	4.08	34.9%	32.9%	32.2%	10.4	9.0	3.9%	4.4%
Kossan Rubber Industries	KRI MK	Outperform	3.29	3.69	345	10.0	8.2	15.6%	1.74	1.49	18.7%	19.6%	20.2%	5.3	4.1	2.4%	2.5%
Supermax Corp	SUCB MK	Outperform	1.97	2.64	441	9.5	7.9	24.9%	1.33	1.16	14.8%	15.7%	15.9%	3.9	2.6	2.1%	2.5%
Top Glove Corporation	TOPG MK	Neutral	5.31	5.97	1,083	15.6	13.9	22.0%	2.43	2.19	16.5%	16.5%	16.5%	9.0	7.6	3.4%	4.8%
Average						**13.5**	**11.7**	**18.7%**	**2.52**	**2.20**	**20.0%**	**20.1%**	**20.3%**	**7.9**	**6.5**	**3.3%**	**4.1%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

Nitrile tightens its grip

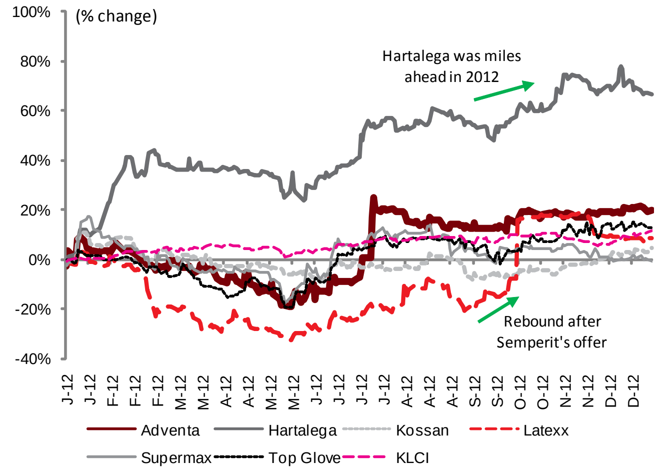
Table of Contents

1. BACKGROUND

1.1 Share price performance in 2012

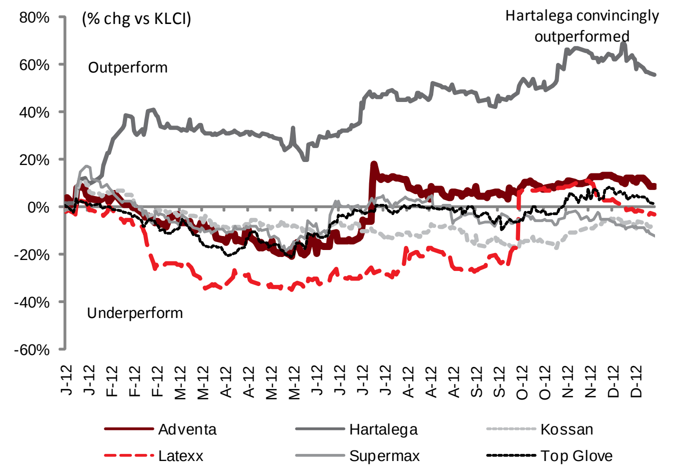
Hartalega performed well in 2012, rising 66.8% and beating the KLCI's return by 55.2%, in line with our outperform and top-pick rating on the company in 2012. The stock's outperformance was likely due to strong demand for synthetic examination gloves, successful execution of Plant-6 and improved investor relations. Also Hartalega's senior management attended CIMB's 2012 corporate day, which we believe gave the company a platform to answer investors' questions and articulate its growth plans. In mid-2012, Hartalega announced plans to triple capacity to 35bn pieces per annum (ppa) by 2020 in a project it has dubbed the "next generation integrated glove manufacturing complex" or NGC. We believe that this sent a positive signal to the market that Hartalega was focused on expanding and was willing to take on an aggressive project to enhance its franchise.

Figure 3: Glove sector's absolute performance in 2012



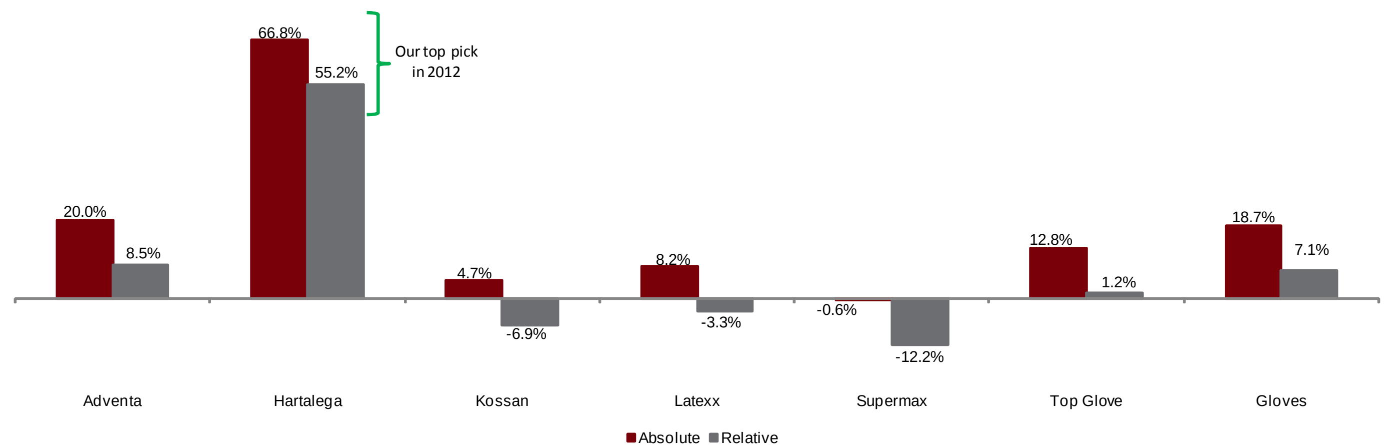
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 4: Glove sector's relative performance in 2012



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 5: Glove sector's absolute and relative performance in 2012



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

In 2012, Top Glove outperformed the KLCI by 1.2% (absolute: 12.8%) and was in line with our neutral recommendation. While its forward P/E ratio de-rated during the year, this was offset by an increase of consensus earnings estimates (Figure 8). It spent the year recovering from a poor 2011 and recalibrating its business model to accommodate the shift in demand from natural rubber to synthetic gloves. In June, management announced plans to buy a 30k ha leasehold greenfield rubber plantation in Indonesia, which we think dampened sentiment on the stock due to the capex required (+RM50m p.a.) and fears that management would be distracted by such a venture.

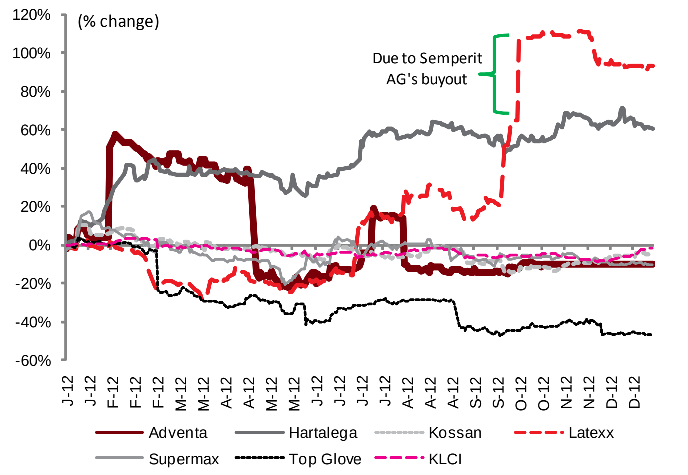
Last year, Kossan underperformed the KLCI by 6.9% (absolute: 4.7%) while Supermax trailed behind the index by 12.2% (absolute: -0.6%). We believe the underperformance is because both stocks lacked a definitive identity vis-a-vis Hartalega and Top Glove. Also, while 2012 earnings rebounded versus 2011 this was priced in by the market early in the year.

Adventa's and Latexx's share price performances were linked to their buyout offers. Adventa's glove business was bought out by the founding family while Latexx was taken over by the Semperit group in Austria.

1.2 Performance attribution

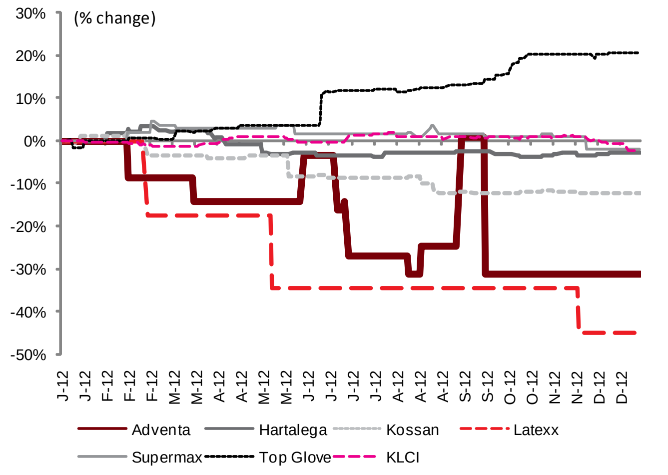
Hartalega's outperformance in 2012 was largely due to a re-rating of the stock's valuation. Its P/E ratio rose by 60.5% during the year even though consensus EPS was relatively flat (-2.8%). We believe this is because consensus had already factored in Hartalega's earnings growth while investors were relatively unfamiliar with this glove name. However with its improved investor relations efforts and consistent strong performance, its valuations rose in 2012.

Figure 6: Glove sector's PE evolution in 2012



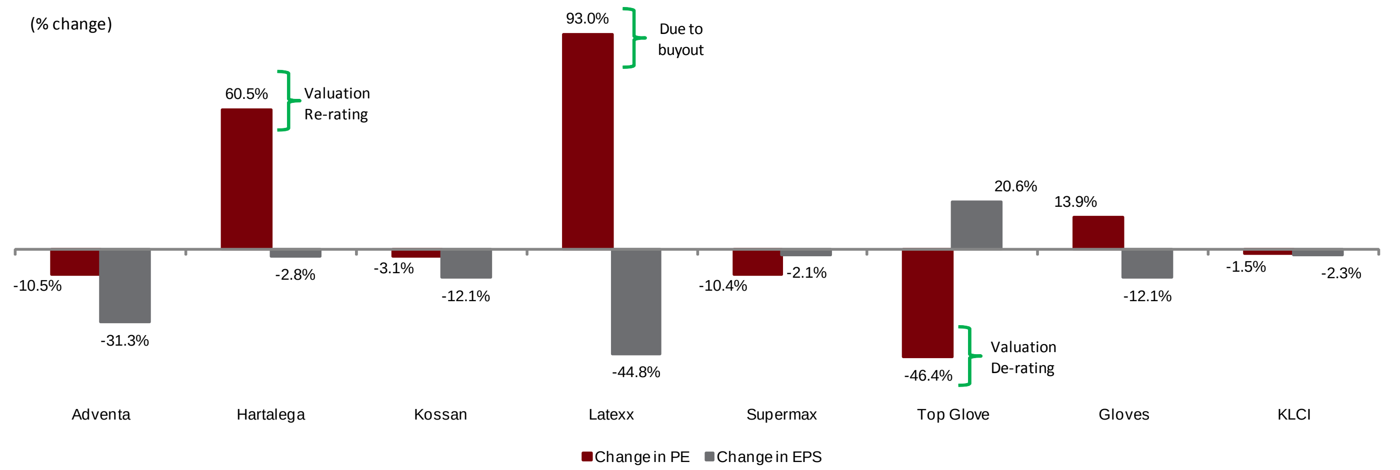
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 7: Glove sector's EPS evolution in 2012



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 8: Glove sector's change in P/E and EPS in 2012



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

In contrast, Top Glove's valuation de-rated in 2012, falling by 46.4% during the year even though its forward EPS rose by 20.6%. This may reflect the market's negative perception of Top Glove's long-term prospects.

Latexx recorded the widest divergence in the change for its P/E valuation and earnings growth. While one-year forward EPS fell by 44.8% due to weak demand for its products, its P/E valuation surged by 93% as a result of the Semperit takeover.

Although Adventa's glove business was bought out, both valuation and EPS expectations fell in 2012. This may be because Adventa will remain a listed entity but without the glove business. Instead, management intends to expand its dialysis distribution business via Adventa.

P/E valuations and EPS for Supermax and Kossan were both relatively unchanged compared to their peers. P/Es and EPS fell for both Supermax (P/E down by 10.4%, EPS down by 2.1%) and Kossan (P/E down 3.1%, EPS down 12.1%).

1.3 Buyouts materialise

After much speculation in 2010 and 2011, 2012 finally saw the buyout of the smaller glovemakers. Latexx was bought out by the Austrian rubber goods maker Semperit in Oct 2012 and Adventa's founding family took its glove business private. While positive for their targets, the sentiment did not spread to the other larger glovemakers.

1.4 A new generation of glovemakers

In Nov 2012, founder of Hartalega Kuan Kam Hon was re-designated as executive chairman and his son Kuan Mun Leong was appointed managing director. We think that the transition will go smoothly because Mun Leong had been deputy managing director and was already spending most of his time at Hartalega's factory in Ijok. This is key as it illustrates the well-managed succession of leadership at Hartalega.

While the other glovemakers have not been as vocal about their succession plans, we believe that similar processes are taking place.

1.5 Hartalega overtakes Top Glove

Having stood in the shadows of Top Glove for many years, Hartalega had its year in the sun last year. The company performed well by reporting earnings growth throughout 2012 and the market rewarded Hartalega for this strong performance. Hartalega has overtaken Top Glove as the top glovemaker by market cap in the world, illustrating the strong demand for synthetic examination gloves and the market's appreciation of this trend.

2. OUTLOOK

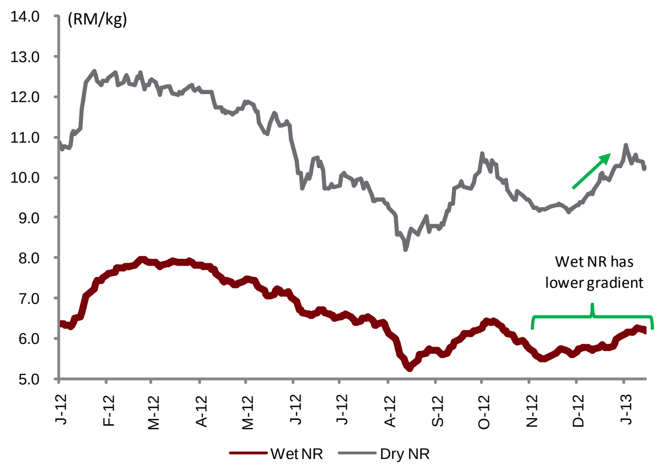
2.1 Costs are now less cyclical

The cost of rubber (natural rubber and synthetics) makes up 50-60% of a glove manufactures cost of production and historically wet and dry natural rubber prices are closely correlated. We believe this trend is beginning to decouple and the following paragraphs explain why.

While the correlation between dry and wet natural rubber prices was close to 1.0x since 2007, this link decoupled in May 2012 to 0.7x. The decoupling continued and by Dec 2012 the correlation turned negative. Recent data in 2013 shows that the negative trend continues to persist (Figure 9 and 10).

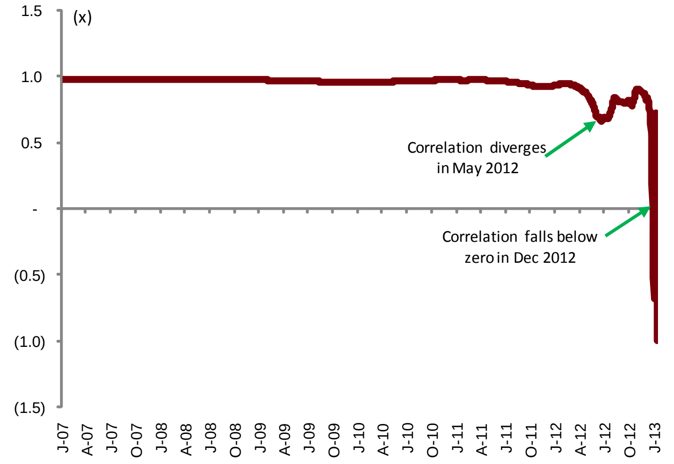
One reason for the decoupling could be the weak demand for wet latex because of the switch from natural rubber to synthetic gloves. Note that wet latex is used predominantly for dipped-goods (condoms and gloves) while dry latex is used by tyre manufacturers. The price of dry rubber has been on an uptrend recently due to the improved outlook in major auto markets such as China and the US.

Figure 9: Wet latex and dry natural rubber price trends



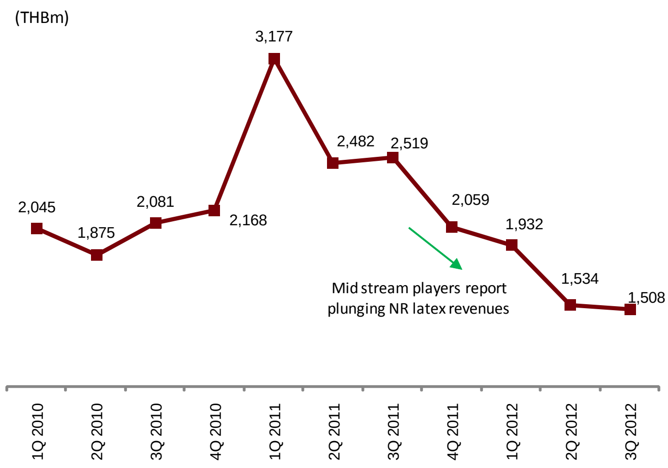
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 10: Correlation between dry natural rubber and wet latex



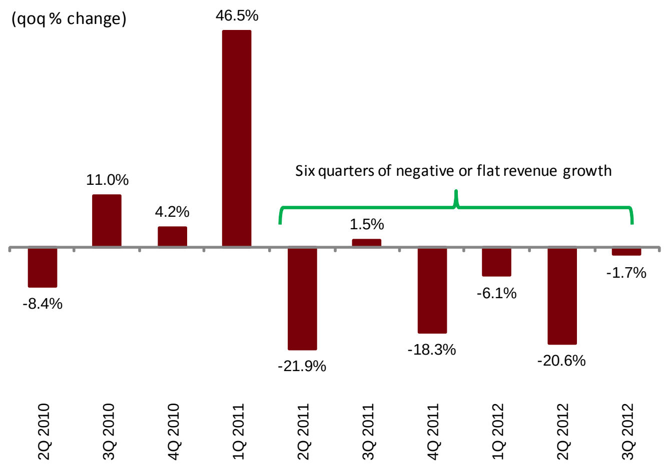
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 11: Sri Trang's NR latex revenue



SOURCES: CIMB, COMPANY REPORTS, SRI TRANG 3Q12

Figure 12: Sri Trang's NR latex revenue, qoq % change



SOURCES: CIMB, COMPANY REPORTS, SRI TRANG

The weaker demand for wet latex is depicted in Figure 11 and 12 which illustrates the plunge of Sri Trang Agro (STA TB)'s wet latex revenue since Mar 2011 (1QFY11). Since then, the company has reported six consecutive quarters of negative or flat (3Q2011) revenue growth for wet latex. From the peak in 2QFY11, Sri Trang's wet latex revenue has fallen by more than half or 52%.

This trend has only begun to emerge and it is unclear whether the change is permanent or short term due to the limited data available. If the trend is permanent, this would result in more stable earnings for glovemakers because costs will fluctuate less as economic cycles turn.

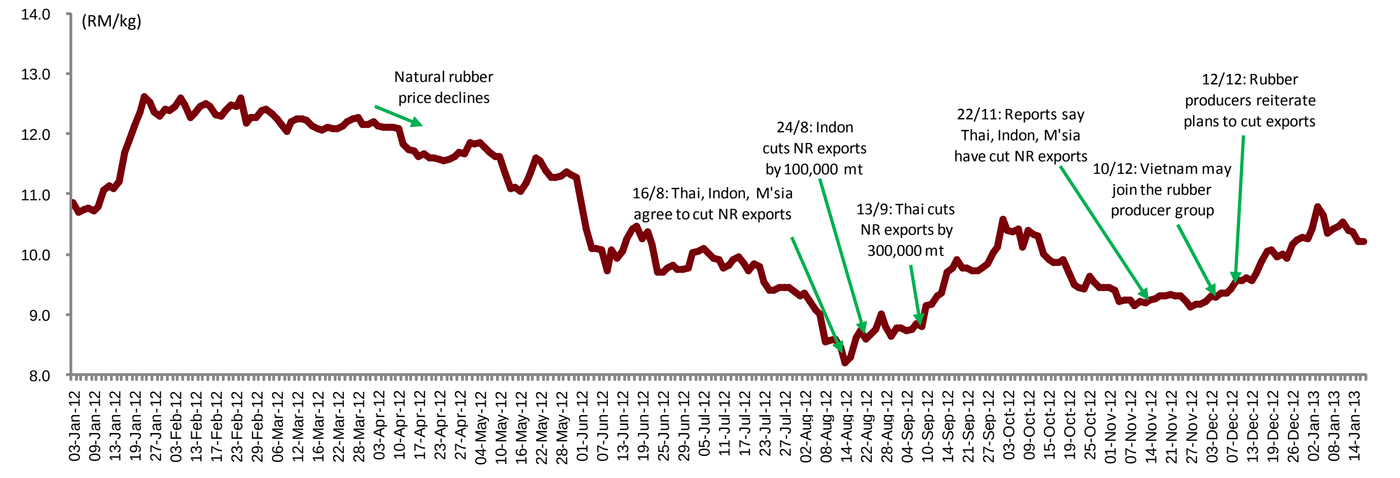
This is positive as the increased earnings stability should reduce the market risk premium for glove stocks, which will in turn enhance valuations and earnings multiples.

2.2 Looking back at past election results

We believe that the glove sector is less dependent on the outcome of Malaysia's general elections as glovemakers' revenue and costs depend more on external factors and less on domestic politics.

For example, glove demand is largely dependent on healthcare consumption in the US and Europe. Also, 60% of costs are linked to natural or synthetic rubber, which have very large and liquid markets and are difficult to control. Thailand's unsuccessful attempt last year to boost natural rubber prices by limiting exports and soaking up excess demand is testament to this (Figure 13).

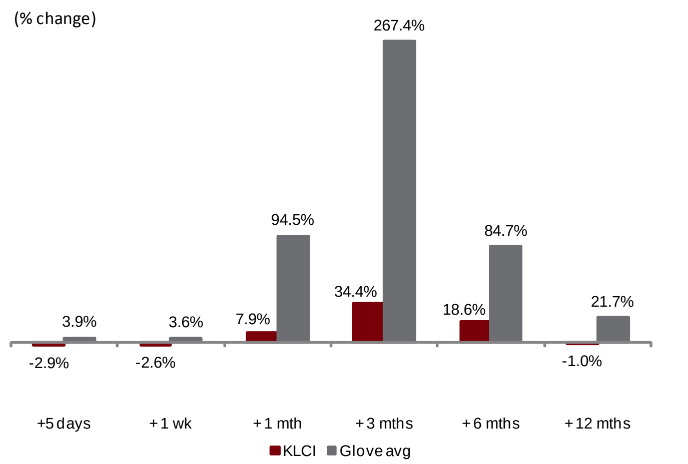
Figure 13: Dry NR price in 2012



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, NEWS REPORTS

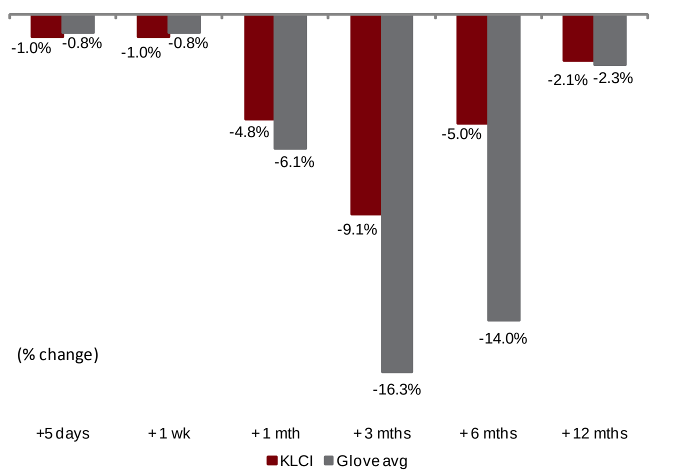
Based on the average stock price performance after the 10th, 11th and 12th general elections, glove stocks appear defensive after elections. In 1999 and 2004 when the ruling coalition Barisan Nasional won a high number of parliamentary seats, the average glove share price performance a week after the election results was in line with the KLCI. In 2008 when Barisan Nasional won fewer seats than expected, glove stocks proved defensive, falling by a lower percentage than the KLCI. Combining the data from all three elections, it is clear that the share prices of glove stocks were not linked to the general election results (Figure 17).

Figure 14: GE 10 ('99) and the glove sector (BN wins: 76.7%)



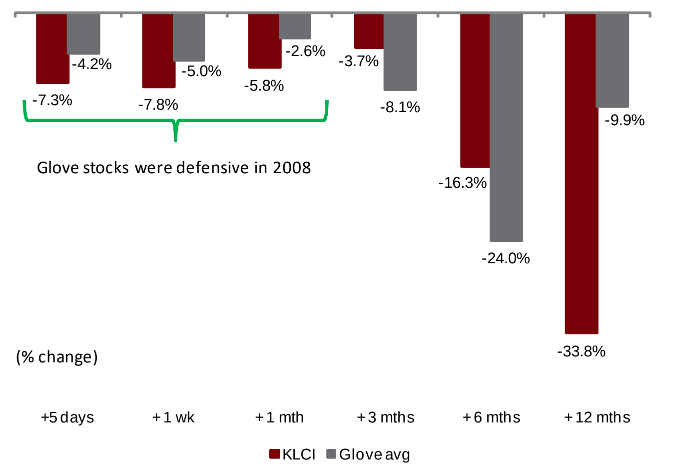
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 15: GE 11 ('04) and the glove sector (BN wins: 90.9%)



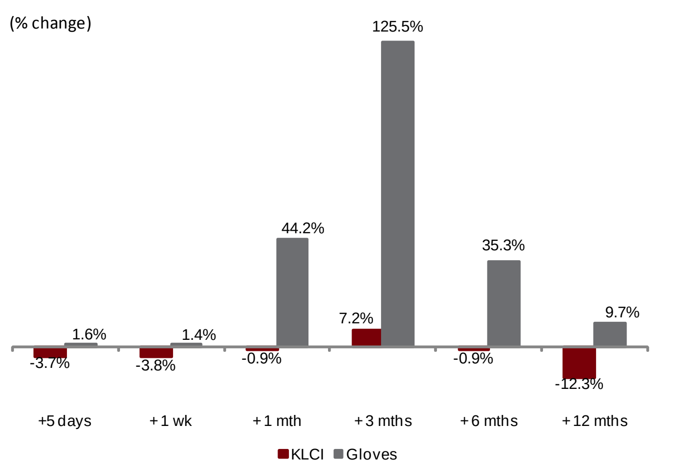
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 16: GE 12 and the glove sector (BN wins: 63.1%)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 17: Average of 10,11,12 GE and the glove sector



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

While historical data may suggest little linkage between glove stocks and the elections, we think that 2013 may be different. Energy subsidies in Malaysia are unsustainable and subsidies could be rolled back after elections. Also, the opposition has said that if it wins the next general elections it would raise the minimum wage in Peninsular Malaysia to RM1,100/month or 22% above the current level of RM900.

While this is negative for the sector, we believe glovemakers would be able to pass on the additional cost as Malaysian OEM glove manufacturers own 50-60% of the world's glove manufacturing capacity. This gives the sector significant pricing power, which can be used to offset the higher labour cost. For example, Top Glove has already told its customers that it will raise selling prices by up to 5% to accommodate the government's new minimum wage policy.

2.3 More M&As unlikely

While 2011 saw M&As for Adventa and Latexx, we think that consolidation will be a less prominent theme in 2013 as the surviving listed glovemakers are heavyweights with strong family shareholdings. We do not think that a company such as Hartalega for instance would want to exit the glove industry. The company has already laid down detailed plans to expand capacity by four fold (from 10bn to 40bn pieces annually by 2020) over the next few years and the next generation of family managers has been put in place.

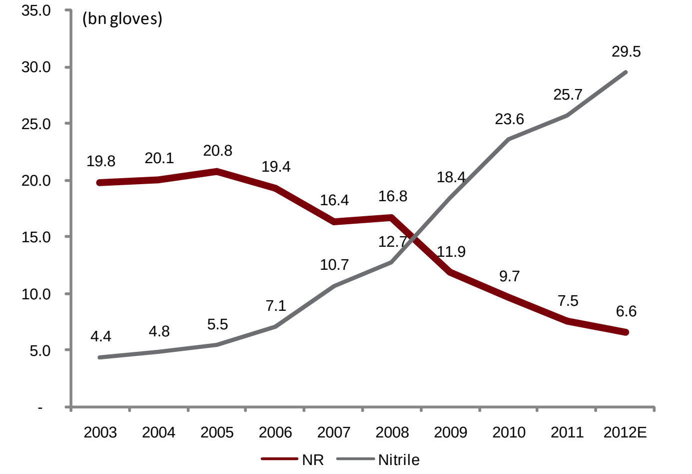
Also, a takeover of companies such as Hartalega and Top Glove would require substantial investment. For example, both currently have market caps of RM3bn each, far higher than the Adventa and Latexx takeover deals which together were worth RM920m.

2.4 Nitrile demand has come full circle

A decade ago, natural rubber accounted for more than 82% of the examination gloves imported into the US and nitrile made up only 18% of total glove imports. Today, the tables have turned, with nitrile playing a more significant role, at more than 82% of total US examination glove imports.

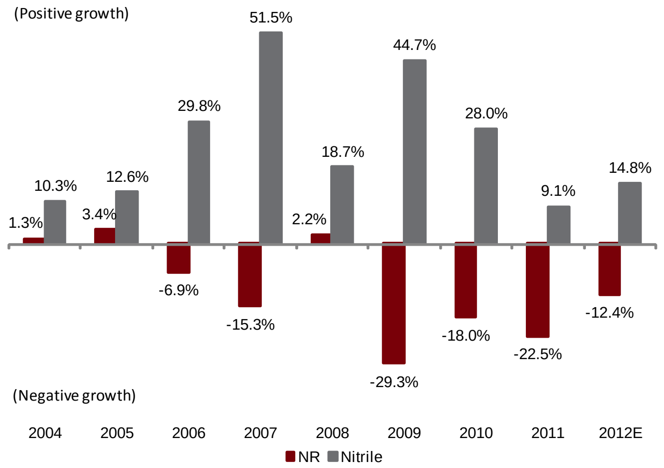
US glove imports are used as a proxy for global demand because the country is the single largest consumer of gloves and sets consumption trends due to its sophisticated healthcare sector.

Figure 18: US glove imports



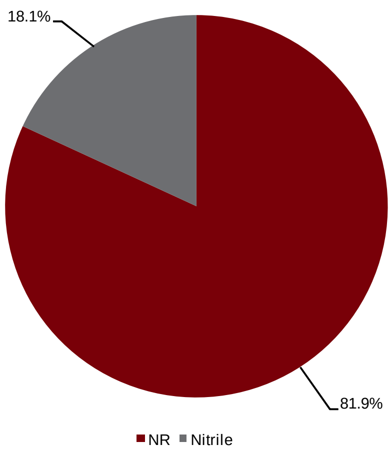
SOURCES: CIMB, COMPANY REPORTS, GLOVE MANUFACTURERS
2012E: Estimated US glove imports based on Jan-Sep 2012 stats

Figure 19: US glove imports, yoy % change



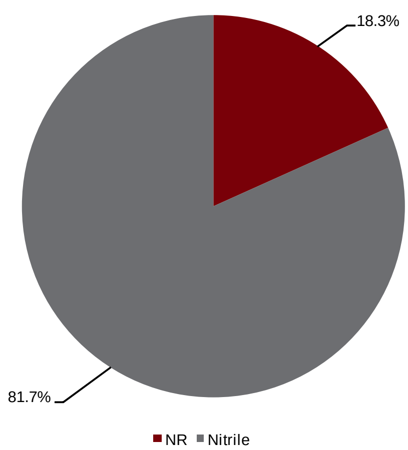
SOURCES: CIMB, COMPANY REPORTS, GLOVE MANUFACTURERS
2012E: Estimated US glove imports based on Jan-Sep 2012 stats

Figure 20: 2003 US glove imports, product mix



SOURCES: CIMB, COMPANY REPORTS, GLOVE MANUFACTURERS
2012E: Estimated US glove imports based on Jan-Sep 2012 stats

Figure 21: 2012E US glove imports, product mix



SOURCES: CIMB, COMPANY REPORTS, GLOVE MANUFACTURER
2012E: Estimated US glove imports based on Jan-Sep 2012 stats

The reasons for the change are i) a preference for synthetics due to natural rubber allergies, ii) improvements in technology which allow manufacturers to make thin synthetic gloves (30% lighter than NR), and iii) manufacturers' preference for nitrile gloves due to cost and forex advantages.

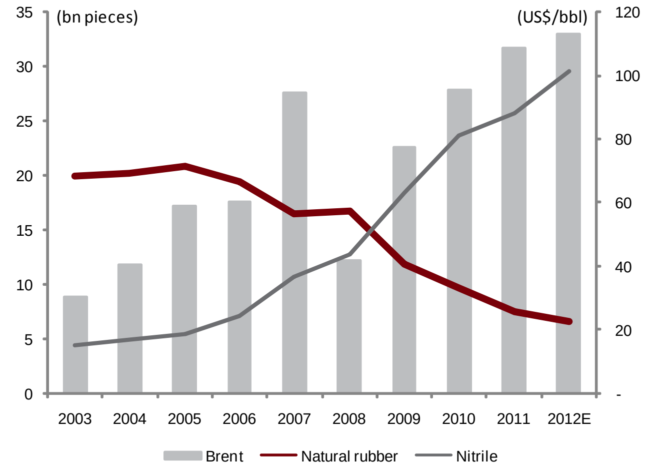
We believe that this trend is positive for synthetic glovemakers. While the incremental change from NR to nitrile over the next few years may be slower, the data illustrate the importance of the nitrile market. Glovemakers can no longer ignore consumer demand for synthetics and we have seen a change in sentiment among glovemakers.

Adventa, for example, appeared to be far behind the curve in adjusting to changes in customer preferences. New investment in nitrile technology, in our opinion, was slow, leading to a poor operating performance. The founding Lim family has since decided to take the glove business private and use the listed entity to expand its dialysis distribution business.

2.5 Demand trends appear independent of cost

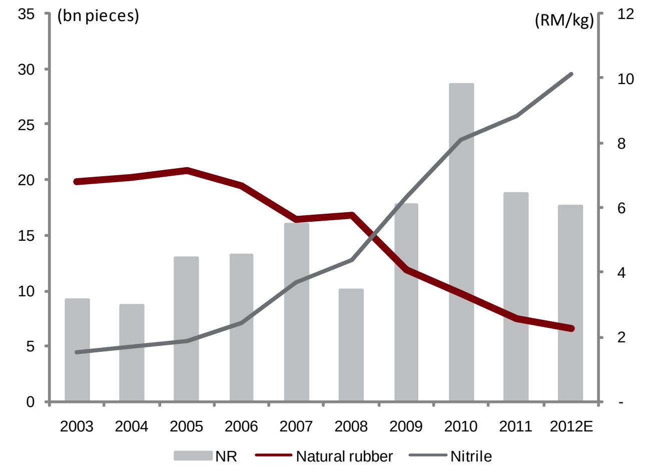
The change from NR to nitrile has been independent of cost, illustrating that the product change has been underpinned by fundamental preferences for nitrile gloves. For example, Figures 22 and 23 illustrate that while the Brent crude and natural rubber price have fluctuated over the years, the demand for nitrile gloves has continued to rise while demand for NR gloves has fallen.

Figure 22: US glove import trends versus Brent crude price



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, US TRADE DATA

Figure 23: US glove import trends versus NR price



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, US TRADE DATA

We think that one of the reasons why customers prefer nitrile is its weight. Nitrile gloves are c.30% lighter as the synthetic material enables manufacturers to produce 3.5g gloves versus 5.0g for NR. The advantage in weight gives manufacturers a cost advantage as less material is required and shipping costs are lower. Advancements in manufacturing techniques and glove technology have also enabled manufactures to make a more comfortable synthetic glove. Early adopters of nitrile gloves used to complain about the fit of the product on their hands. This problem has since been fixed.

Also, synthetic gloves eliminate the risk of natural rubber allergies which has been well documented in the US. While only a small percentage of the population are allergic to natural rubber proteins, even a small outbreak of the allergy can ruin the reputation of a doctor and hospital. As a result, end users of examination gloves have reverted to taking all precautions necessary to eliminate this risk.

2.6 New growth markets

In 2013, glovemakers will continue to expand into China and India where they intend to launch own-brand products. This is possible because these markets are greenfield and the traditional healthcare companies are not present. As a result, there will be no conflict of interest and OEM glovemakers in Malaysia do not risk outselling encroaching on the turf of their OBM partners.

Our conversations with glovemakers reveal that demand for gloves in emerging markets is robust and healthy. Official numbers by government ministries may not capture the full picture of demand as sales are often off the books and consumers can be relatively unsophisticated.

Also, while China's population is larger, the Indian healthcare market is more stable and offers a better starting point due to archaic standards in China. By comparison, the Chinese market is currently viewed as a more fertile market for industrial and clean room gloves due to its vibrant manufacturing base.

Our analysis suggests that the Chinese consume only two gloves per annum per person compared to 40 in South America, 50 in the EU and 96 in North America (Figure 24). As incomes rise in China and healthcare regulations are liberalised, we believe the gap between China and the more developed countries will close.

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 24: Total gloves consumed per capita per year[1]

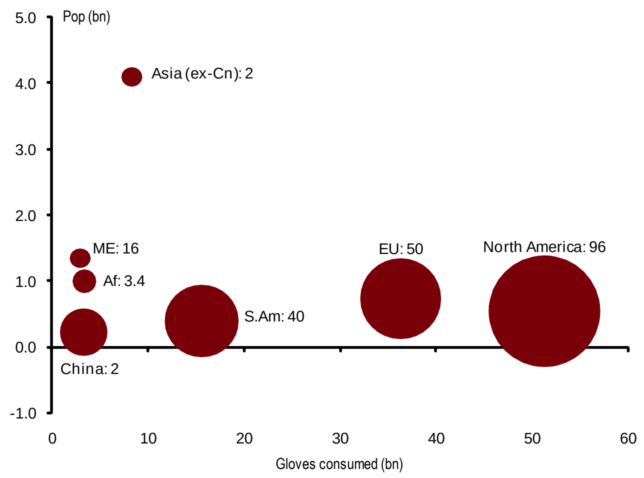
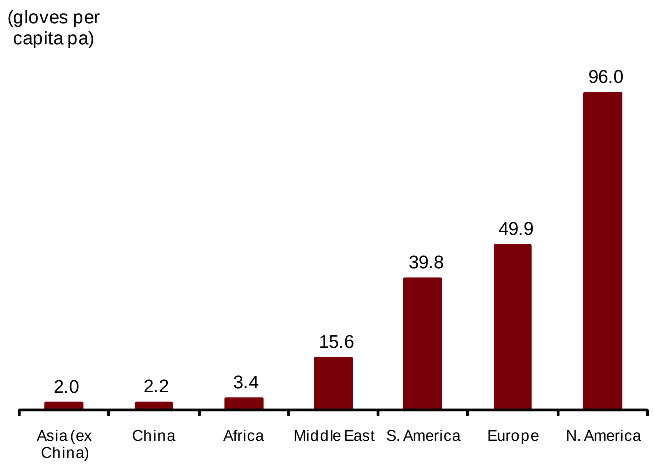


Figure 25: Glove consumption comparison[1]



SOURCES: CIMB, COMPANY REPORTS, LMC INTERNATIONAL, TRADE DATA
1. Includes both surgical and non-surgical gloves

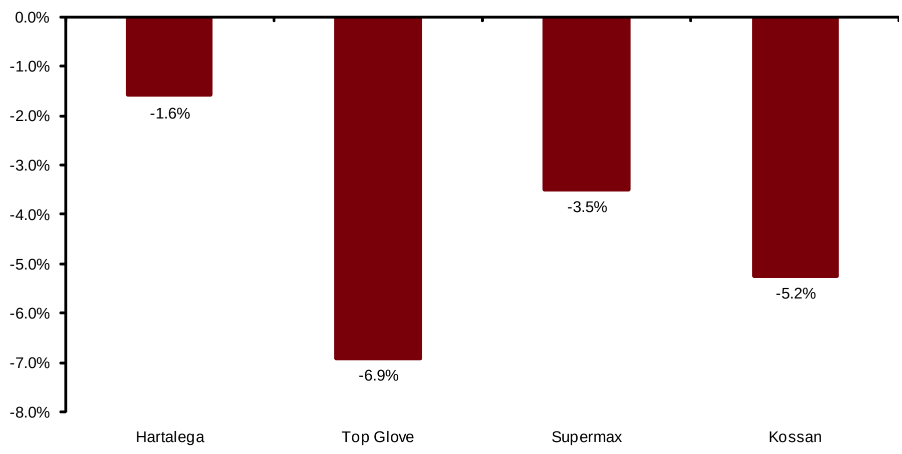
Assuming an average selling price of US$30 per 1,000 gloves, annual revenues from China could be worth US$1.5bn-3.8bn or RM4.5bn-11.3bn (RM:3.0:US$1) in five years. For perspective, this is 2.3-5.6x higher than Top Glove's current annual revenue of RM2bn.

3. RISKS

3.1 Minimum wage

Malaysia implemented a RM900/month minimum wage in Peninsular Malaysia on 1 Jan 2013. We estimate that the policy could lead to a 1-7% reduction in the FY13 net profit for the glovemakers we cover (Figure 26). This assumes zero cost pass-through, which we believe is a conservative scenario. Malaysian OEM glovemakers control 50-60% of the world's examination glove supply and we believe that the chances of at least a partial cost pass-through are high.

Figure 26: Impact of minimum wage on glove stocks (zero cost pass-through)



SOURCES: CIMB, COMPANY REPORTS

Also, while negative in the short term, we believe that the policy will be positive for the industry in the long run. It will encourage glovemakers to reduce their use of low-skilled labour and improve their manufacturing processes by using more advanced technology and methods. Also, we believe that wage inflation will make the smaller glovemakers less competitive and strengthen the positions of the large glovemakers.

In the short to medium term, the following strategies could be implemented to mitigate the impact of the minimum wage policy.

i) Pass costs through to customers: Given that the Malaysian manufacturers control c.60% of the world's supply, we believe that they can pass the cost increase to customers. However, some glovemakers noted that aggressive expansion has resulted in a glut in the sector, which will cap their cost pass-through ability.

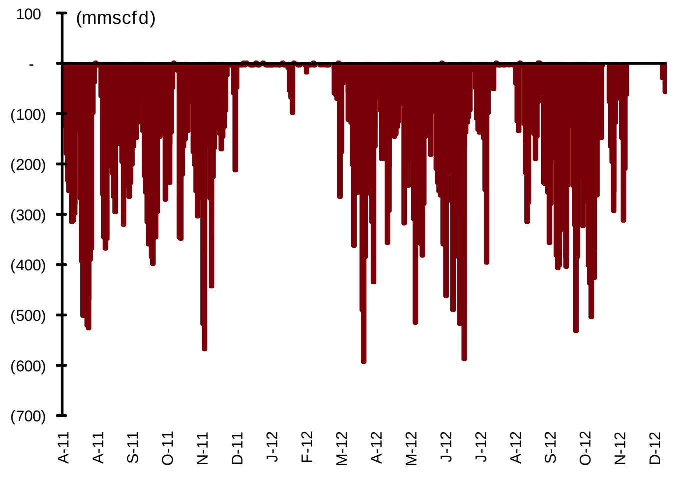
ii) Restructure wage scale: Some industrial manufacturers have talked about raising the fixed portion of the total take-home pay and lowering the ex-gratia percentage, i.e. converting more of employees' wages into basic pay, thereby limiting the impact of the minimum wage.

iii) Upgrade technology: Companies could also upgrade their technology to reduce the dependence on labour and increase efficiency. The companies would incur higher capex upfront in return for lower opex over the long term. In our universe of glove companies, Hartalega appears to be most focused on this strategy. The company is working on further automating its packaging and stripping process. It aims to raise revenue per worker by 68% over the next few years.

3.2 Gas shortage

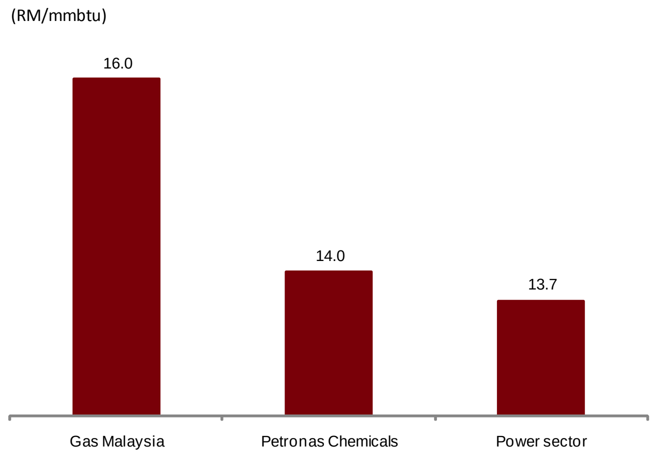
Glovemakers could face a gas shortage in 2013 if LNG imports are delayed and domestic natural gas production falls short (Figure 27). This would be slightly negative as it would limit the ability of glovemakers to expand capacity, stalling growth plans.

Figure 27: Gas shortage in Peninsular Malaysia



SOURCES: CIMB, COMPANY REPORTS, ENERGY COMMISSION

Figure 28: Gas price comparison



SOURCES: CIMB, COMPANY REPORTS

At the same time, the limitation of gas supply would help keep the demand and supply of gloves rational. This will reduce fears of oversupply in the industry, help support selling prices and enhance glovemakers' selling power. We believe that this could also be positive because it would limit smaller glovemakers' expansion plans and improve the positions of the large glovemakers.

Also, we note that because manufacturers pay the highest price for gas, Petronas is likely to give the sector priority over the power sector and Petronas Chemicals (Figure 28).

4. CORPORATE STRATEGIES FOR 2013

Glovemakers are bullish about the sector's prospects over the next few years. While the implementation of the minimum wage is a slight negative, we think that the companies can successfully manoeuvre around this hurdle. Wages account for only 5-10% of total costs and OEM glovemakers in Malaysia control 50-60% of world supply. This will help the sector pass on costs and raise selling prices. Also, the minimum wage is positive for the sector in the long term as it encourages glovemakers to upgrade technology and manufacturing methods.

4.1 Hartalega

Hartalega's key milestone in 2013 is to start the construction of its integrated glove manufacturing complex in Sepang. Utilisation rate at its current Ijok plant is 90% due to strong demand for synthetic gloves. Also, the company is eager to secure long-term supply for its customers' growth needs.

Kuan Mun Leong will start his first full year as managing director, taking over from his father Kuan Kam Hon who founded the company. We see no issues here as Mun Leong was already the deputy managing director and was responsible for Hartalega's day-to-day operations.

Management is bullish about its prospects in 2013. The company believes that fears of oversupply in the nitrile segment are overplayed as its plants are now running at 90% utilisation. We believe that this illustrates a deficit and not a glut of supply. Hartalega is also upbeat about its Sepang expansion plans. While the acquisition of land is taking time, management believes that construction will start in 2H13.

4.2 Kossan

In 2013, Kossan will continue its expansion into China (via 53% Cleanera HK Ltd), where it intends to convert exam gloves for clean room use. The glove market in China is untapped as glove usage is just two pieces p.a. versus 50 in Europe and 96 in North America.

As a start, we expect Cleanera to contribute RM6.2m net profit in FY13 based on 300m pieces. Kossan will also diversify its product mix by selling surgical gloves. Its facility which was launched in Sep 2012 has a capacity of 480m pairs. Our analysis based on an ASP of US$0.25 per pair and a 20% pretax margin suggests a 22% lift for our FY13 net profit figure. We believe that these product initiatives will help the company offset a portion of the negative impact from cost inflation.

Kossan is excited about its venture into North Asia. The company believes that this will help it diversify core US and EU earnings and give it exposure to greenfield end users. As the company gains more confidence and ramps up operations there, we think that it could use this knowledge base to gain a foothold in the untapped Chinese glove market.

4.3 Supermax

We believe that there has been a change of strategy at Supermax. Although the company has warned of a potential nitrile price war and capacity glut, we believe that it is still expanding its nitrile capacity. By FY13, we expect Supermax to have an annual nitrile capacity of 10.5bn gloves or 52% of capacity (NR capacity: 48%). This will help the company to offset the impact of higher wages as the cash cost of producing nitrile gloves is 20% lower than for NR gloves.

Also, demand for nitrile gloves is rising by 30% p.a. versus 8% for NR. While competitive risks lurk, we believe that the demand for nitrile gloves is rising fast enough to accommodate new entrants. Our analysis suggests that there will be a glut of nitrile in 2013 only if more than 40% of new supply is nitrile. We believe that the industry will remain rational and the probability of an all-out price war is low.

Supermax is bullish about its expansion plans. While management has been slightly behind the curve in building its nitrile expertise, the company is well entrenched in the market and, in our view, will be able to play catch-up. This will help it diversify its products and tap into the growing nitrile glove segment.

4.4 Top Glove

To maintain its competitive position, Top Glove will spend RM33m annually on automating old lines and beefing up its R&D capabilities. The company currently has a team of five researchers with doctorates working on product development, supply chain improvement and cost reduction. Over the next few years, the number of team members is expected to double to 10. Already, the work that Top Glove has put in is paying off. The company launched six new products at the Medica trade fair in Dusseldorf Germany last Nov. This was the highest number of new products launched in Top Glove's history.

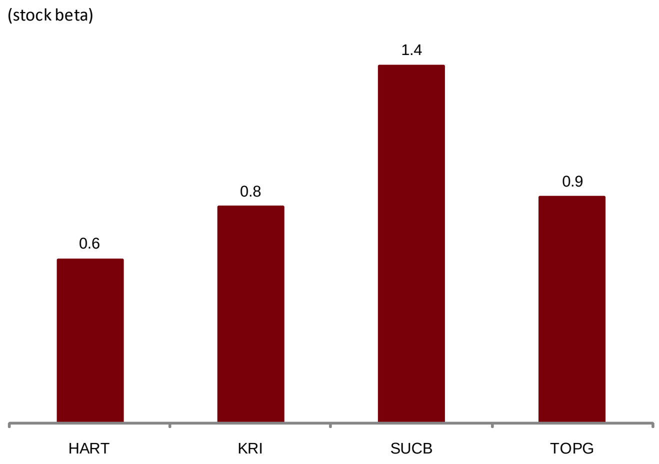
Top Glove remains optimistic about the overall demand for gloves. Although nitrile is in great demand in the US, the company believes that there is a niche market for natural rubber gloves. It is also excited about its natural rubber plantation venture, which we are less positive about. The company believes that this will help Top Glove better hedge its raw material prices as it is difficult to hedge natural rubber cycles using only derivative contracts.

5. VALUATION AND RECOMMENDATION

5.1 Upgrade to Overweight

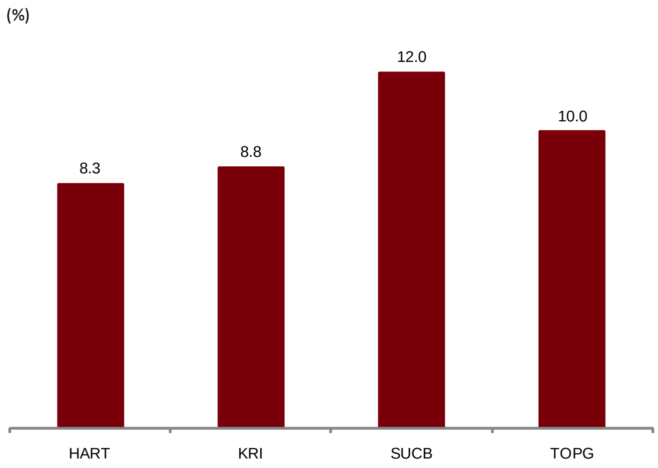
We are more positive about the outlook for Malaysian OEM glovemakers and upgrade the sector to Overweight from neutral. Glovemakers are defensive in nature with two-year stock betas all below parity except for Supermax (Figure 29). This is likely due to management's more proactive investor relations style.

Figure 29: Stock beta



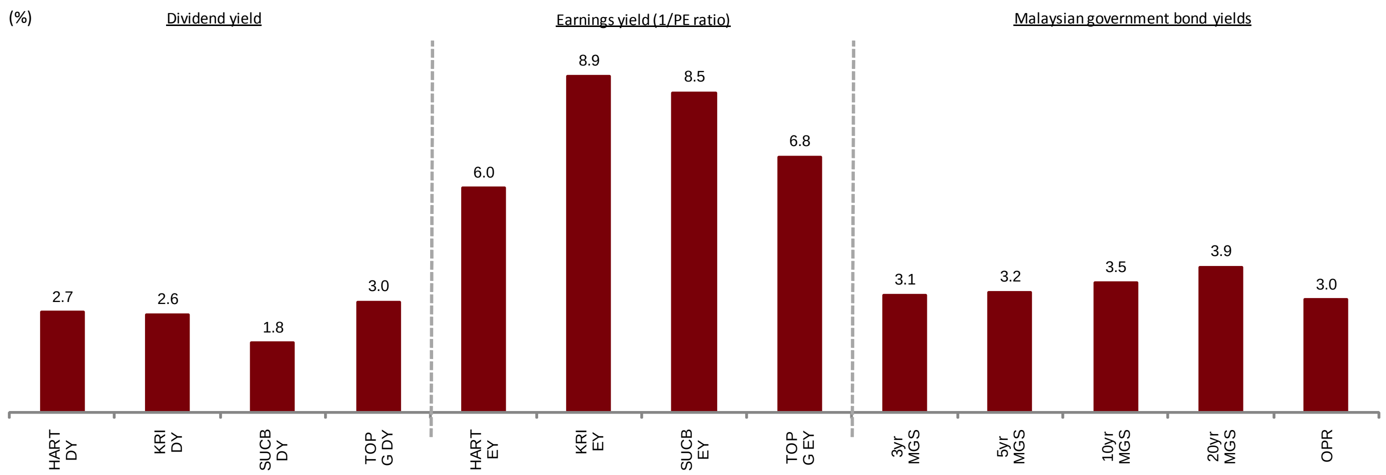
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 30: WACC



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 31: Yield comparison



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

We expect overall glove demand to remain stable, rising by 5-10% annually. This will be underpinned by consumption from traditional markets in the US and EU, reinforced by emerging market demand where consumption and the healthcare standard is low. For example, Chinese domestic consumption is only two gloves per person a year compared to 50 in Europe and 96 in North America.

Also with elections around the corner, historical data shows that glove stocks can be defensive as revenue and cost drivers are less dependent on domestic politics. In 2008 for example when Barisan Nasional won fewer parliamentary seats than expected, the glove sector was down by 4% versus 7% for the KLCI five days after the election results.

5.2 Hartalega remains our top pick

We believe that Hartalega will emerge the strongest from higher wages in Malaysia as its operations are already lean and management is working hard to further automate its manufacturing process. With the highest margins (lowest post-tax cost base), technologically advanced manufacturing process and an aggressive 8-year expansion plan, Hartalega has the most wiggle room in the sector to price gloves competitively and gain market share.

Our analysis suggests that at the minimum wage of RM900, FY13 net profit could fall by only c.2%. We believe that the higher costs can be offset by higher efficiency over the long run and gradual implementation of the policy. Management is aggressively working on further automating the stripping and packaging portions of its manufacturing process to reduce the use of low-skilled labour and optimise operating expenditure.

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 tenfold. Also, the company's established distribution and own-brand model will enable it to navigate the next few years of overcapacity.

5.3 Top Glove stays neutral

Top Glove is, in our view, the least prepared for cost inflation in Malaysia. The company has the lowest FY13 net profit margin of 7.0% and the highest post-tax cost base. As a result, assuming a RM900 monthly minimum wage, FY13 net profit could fall by 6.9%.

Also, we are less positive about Top Glove's plan to venture into rubber plantations. It recently acquired a 30,000ha greenfield rubber plantation in Indonesia but recent quotes by its managing director Lee Kim Meow suggest that Top Glove is looking to buy rubber plantation in Africa. The company said that it already exports to most African countries and management has identified several promising markets there to expand its customer base. The list includes South Africa, Nigeria, Zambia and Kenya.

We believe that capital allocated for its plantation venture could be used to enhance Top Glove's manufacturing process and brand instead. Also, the rationale for diversifying upstream is to hedge the NR price, which we believe is misguided. A less capital-intensive method would be to use the financial exchanges in Singapore and Japan.

CIMB

Hartalega Holdings

HART MK / HTHB.KL

Market Cap	Avg Daily Turnover	Free Float
US$1,153m	**US$0.33m**	**42.9%**
RM3,472m	RM1.05m	726.9 m shares

Current	RM4.74
Target	RM5.66
Previous Target	RM5.66
Up/downside	19.3%

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

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.5	5.4	38.4
Absolute	-1.9	3.5	45.8
Major shareholders			**% held**
Hartalega Industries			55.4
Kuan family members			1.1
Franklin Resources			0.6

Separating itself from the pack

Hartalega will be expanding capacity by 28bn to 38bn gloves by 2022, tripling its capacity. This could enhance its core EPS by 38sen on an NPV basis or 120% above its current earnings capability. It is also ready to enter China, a market primed for higher glove consumption.

Hartalega remains an Outperform with catalysts anticipated from the successful execution of its expansion plans and higher sales from emerging markets such as China. Our target price is still based on 14.15x CY14 P/E, in line with our target for Top Glove.

Building for the future

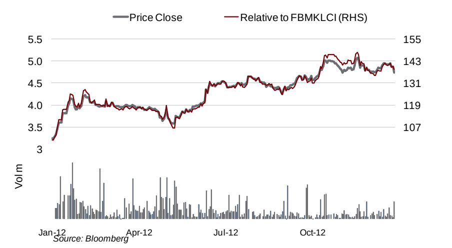
Hartalega intends to spend RM1.5bn over the next 10 years on a 28bn glovemaking facility in Sepang. This will take its annual capacity to 38bn pieces by 2022, enabling it to meet rising demand for synthetic gloves and build on its market dominance. Demand for synthetic gloves is on the rise, with utilisation rates now exceeding 90%, which is unusual as new capacity is usually built once utilisation stabilises at 85%. Our estimates suggest that its new plant could enhance its core EPS by 60sen by 2022 (85% utilisation, ASPs of US$30/1,000 pieces), which is equivalent to 38sen on an NPV basis or 120% above Hartalega's current earnings capability.

Never satisfied

Hartalega will be expanding its distribution to China (Malaysia will remain its manufacturing base) where it intends to sell gloves under its own brand. If successful, this will provide another revenue stream and market without the need to compete with its contract clients in the US and EU. Our estimates suggest that the Chinese glove market could be worth US$4bn in five years' time or 1.8x the combined revenue of all the stocks listed in Malaysia. If Hartalega were to capture 5% of this market, its core EPS could rise by 20% or 7sen on an NPV basis, assuming a 15% net margin.

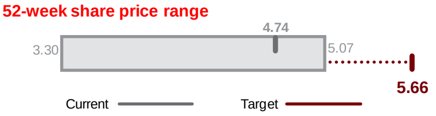
Minimum wage policy

At more than 30%, Hartalega has the highest EBITDA margins and lowest operating leverage among its peers. We believe this can insulate it from higher wages and material costs in 2013. Our estimates suggest that an increase in the minimum wage to RM900/month in Peninsular Malaysia will lower Hartalega's core EPS by only 1.6%, assuming zero cost passthrough.



Source: Bloomberg

52-week share price range



Financial Summary

	Mar-11A	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue (RMm)	735	931	933	1,063	1,237
Operating EBITDA (RMm)	270.3	287.2	328.0	384.3	450.6
Net Profit (RMm)	186.2	203.0	231.0	262.5	310.4
Core EPS (RM)	0.26	0.28	0.32	0.36	0.43
Core EPS Growth	28.1%	10.3%	12.5%	13.6%	18.3%
FD Core P/E (x)	18.51	16.78	15.66	14.45	12.22
DPS (RM)	0.14	0.17	0.19	0.22	0.26
Dividend Yield	2.95%	3.62%	4.02%	4.57%	5.41%
EV/EBITDA (x)	12.46	11.31	10.02	8.70	7.14
P/FCFE (x)	36.49	19.53	23.82	64.29	15.42
Net Gearing	(15.8%)	(32.5%)	(21.7%)	(11.7%)	(21.6%)
P/BV (x)	6.97	5.66	4.68	3.91	3.28
Recurring ROE	43.9%	37.2%	34.4%	32.5%	32.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.02	1.02	1.08

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Net Revenues	**931**	**933**	**1,063**	**1,237**
Gross Profit	**258**	**304**	**348**	**407**
Operating EBITDA	**287**	**328**	**384**	**451**
Depreciation And Amortisation	(29)	(32)	(45)	(53)
Operating EBIT	**258**	**295**	**340**	**398**
Total Financial Income/(Expense)	0	(7)	(11)	(10)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**259**	**289**	**328**	**388**
Exceptional Items	0	0	0	0
Pre-tax Profit	**259**	**289**	**328**	**388**
Taxation	(52)	(58)	(66)	(78)
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	**207**	**231**	**263**	**310**
Minority Interests	(0)	(0)	(0)	(0)
Preferred Dividends	(4)	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	0	0	0	0
Net Profit	**203**	**231**	**262**	**310**
Recurring Net Profit	205	231	262	310
Fully Diluted Recurring Net Profit	**205**	**231**	**262**	**310**

Balance Sheet

(RMm)	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Total Cash And Equivalents	213	265	209	327
Total Debtors	93	103	117	136
Inventories	42	47	53	62
Total Other Current Assets	0	0	0	0
Total Current Assets	**349**	**414**	**379**	**525**
Fixed Assets	384	544	734	769
Total Investments	0	0	0	0
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	**384**	**544**	**734**	**769**
Short-term Debt	10	100	100	100
Current Portion of Long-Term Debt				
Total Creditors	63	70	80	93
Other Current Liabilities	6	6	5	5
Total Current Liabilities	**80**	**176**	**185**	**197**
Total Long-term Debt	5	5	5	0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**5**	**5**	**5**	**0**
Total Provisions	39	41	43	45
Total Liabilities	**124**	**222**	**233**	**242**
Shareholders' Equity	609	736	880	1,051
Minority Interests	0	0	0	0
Total Equity	**609**	**736**	**880**	**1,051**

Cash Flow

(RMm)	Mar-12A	Mar-13F	Mar-14F	Mar-15F
EBITDA	287.2	328.0	384.3	450.6
Cash Flow from Invt. & Assoc.				
Change In Working Capital	40.0	(7.3)	(11.0)	(14.8)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	24.6	(0.2)	104.8	115.7
Net Interest (Paid)/Received	0.5	(6.7)	(11.4)	(9.9)
Tax Paid	(52.5)	(52.0)	(57.8)	(65.6)
Cashflow From Operations	**299.7**	**261.7**	**408.8**	**476.0**
Capex	(100.0)	(200.0)	(350.0)	(225.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.3	0.3	0.3	0.3
Cash Flow From Investing	**(99.7)**	**(199.7)**	**(349.7)**	**(224.7)**
Debt Raised/(repaid)	(23.5)	90.0	(0.1)	(5.3)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(76.1)	(93.6)	(104.0)	(118.1)
Preferred Dividends				
Other Financing Cashflow	(1.7)	(6.7)	0.0	0.0
Cash Flow From Financing	**(101.4)**	**(10.3)**	**(104.1)**	**(123.4)**

Key Ratios

	Mar-12A	Mar-13F	Mar-14F	Mar-15F
Revenue Growth	26.7%	0.2%	13.9%	16.4%
Operating EBITDA Growth	6.3%	14.2%	17.2%	17.3%
Operating EBITDA Margin	30.8%	35.2%	36.2%	36.4%
Net Cash Per Share (RM)	0.27	0.22	0.14	0.31
BVPS (RM)	0.84	1.01	1.21	1.45
Gross Interest Cover	148.6	42.7	28.9	38.5
Effective Tax Rate	20.1%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	46.1%	45.0%	45.0%	45.0%
Accounts Receivables Days	35.16	34.81	34.27	33.93
Inventory Days	29.22	25.82	25.48	25.27
Accounts Payables Days	20.77	25.82	25.48	25.27
ROIC (%)	42.7%	49.3%	41.3%	36.4%
ROCE (%)	42.2%	38.3%	35.6%	35.8%

Key Drivers

	Mar-12A	Mar-13F	Mar-14F	Mar-15F
ASP (% chg, main prod./serv.)	2.4%	-0.1%	-0.5%	-100.0%
Unit sales grth (%, main prod./serv.)	16.2%	10.3%	14.5%	-100.0%
Util. rate (%, main prod./serv.)	85.0%	85.0%	85.0%	0.0%
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

CIMB

Latexx Partners

LTX MK / LATX.KL

Market Cap	Avg Daily Turnover	Free Float
US$158.4m	**US$0.16m**	**62.7%**
RM481.0m	RM0.50m	218.8 m shares

Current	RM2.16
Target	RM1.96
Previous Target	RM1.96
Up/downside	-9.5%

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

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	4.3	-3	3.9
Absolute	2.9	-4.9	11.3

Major shareholders	% held
Low Bok Tek and associates	29.2
Lembaga Tabung Haji	8.1
CIMB Principal Asset	2.3

Headed out west

We are ceasing coverage of Latexx as it has been bought out by Austrian OBM glove and rubber-goods maker, Semperit, and could be delisted from Bursa Malaysia. Semperit now controls Latexx's board and aims to integrate operations with its glove facility in Thailand.

Semperit's strategy in Malaysia will be closely watched as it intends to withdraw volume from its other OBM partners to make full use of Latexx's idle capacity. Our last recommendation was Underperform. We prefer Hartalega.

Austrians are taking over

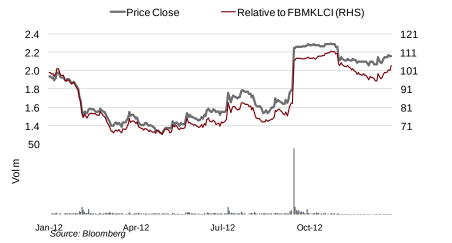
Semperit has completed the acquisition of all the shares and warrants owned by Mr. Low Bok Tek (Latexx's CEO and major shareholder) and other key shareholders. Semperit now has over 85% ownership of Latexx on a diluted basis and over 80% on an undiluted basis. It has begun to revamp Latexx's corporate structure by replacing its board with its own representatives. Latexx's board now includes five members from Semperit, including its group CEO Thomas Fahnemann who will serve as Chairman of Latexx. We understand that while Semperit does not intend to merge the shareholdings of its Malaysian (Latexx) and Thai (Sri Trang) manufacturing facilities, it will work hard on generating revenue and cost synergies from the two. For example, Semperit sells 1bn-2bn pieces of OBM gloves annually. These gloves can be withdrawn from non-Latexx contract manufacturers and moved to Latexx's factory. The two plants can also coordinate input sourcing and save costs from a larger scale.

Could be taken off Bursa

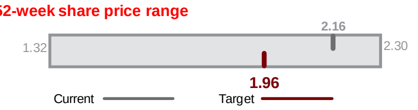
We believe Semperit's next step could be to delist Latexx from Bursa Malaysia. As its offer ended on 23 Nov 12, existing shareholders of Latexx can no longer sell their shares to Semperit at RM2.30/share. The two options available to them are to dispose of their shares in the open market or retain ownership of a potentially private company.

We prefer larger names

We would advise investors to switch to Hartalega, the world's largest nitrile glovemaker for exposure to the glove industry. With Semperit already holding 85% of Latexx, we believe Latexx will be delisted from Bursa Malaysia in a matter of time.



52-week share price range



Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (RMm)	497.3	440.6	310.2	358.3	377.2
Operating EBITDA (RMm)	73.9	93.7	70.2	89.1	106.6
Net Profit (RMm)	42.82	59.59	36.37	48.16	57.83
Core EPS (RM)	0.20	0.27	0.16	0.22	0.26
Core EPS Growth	(24.6%)	36.9%	(38.9%)	32.4%	19.5%
FD Core P/E (x)	13.32	10.01	16.50	12.46	10.40
DPS (RM)	0.10	0.05	0.04	0.06	0.07
Dividend Yield	4.71%	2.47%	2.02%	2.68%	3.20%
EV/EBITDA (x)	7.06	5.49	7.19	5.60	4.52
P/FCFE (x)	38.77	13.35	13.69	16.10	7.15
Net Gearing	21.4%	12.1%	7.8%	5.5%	0.1%
P/BV (x)	2.01	1.68	1.51	1.34	1.18
Recurring ROE	21.2%	22.9%	12.1%	14.3%	15.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.02	0.99	1.00

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Total Net Revenues	**440.6**	**310.2**	**358.3**	**377.2**
Gross Profit	**63.1**	**66.2**	**81.0**	**94.0**
Operating EBITDA	**93.7**	**70.2**	**89.1**	**106.6**
Depreciation And Amortisation	(13.3)	(24.1)	(28.6)	(32.4)
Operating EBIT	**80.4**	**46.1**	**60.5**	**74.2**
Total Financial Income/(Expense)	(6.2)	(6.6)	(7.3)	(8.0)
Total Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0
Total Non-Operating Income/(Expense)	0.0	6.0	7.0	7.0
Profit Before Tax (pre-EI)	**74.2**	**45.5**	**60.3**	**73.3**
Exceptional Items	0.0	0.0	0.0	0.0
Pre-tax Profit	**74.2**	**45.5**	**60.2**	**73.2**
Taxation	(14.6)	(9.1)	(12.0)	(15.4)
Exceptional Income - post-tax				
Profit After Tax	**59.6**	**36.4**	**48.2**	**57.8**
Minority Interests	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**59.6**	**36.4**	**48.2**	**57.8**
Recurring Net Profit	59.6	36.4	48.2	57.9
Fully Diluted Recurring Net Profit	**59.6**	**36.4**	**48.2**	**57.9**

Balance Sheet

(RMm)	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Total Cash And Equivalents	74.9	96.5	115.6	151.9
Total Debtors	79.5	52.7	60.9	64.1
Inventories	56.1	37.2	43.0	45.3
Total Other Current Assets	0.0	0.0	0.0	0.0
Total Current Assets	**210.6**	**186.5**	**219.5**	**261.3**
Fixed Assets	253.7	289.1	321.1	349.5
Total Investments	0.0	0.0	0.0	0.0
Intangible Assets	20.4	20.4	20.4	20.4
Total Other Non-Current Assets	5.9	5.7	5.5	5.4
Total Non-current Assets	**279.9**	**315.1**	**347.0**	**375.2**
Short-term Debt	42.9	43.8	45.2	47.3
Current Portion of Long-Term Debt				
Total Creditors	93.6	62.0	71.7	75.4
Other Current Liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	**136.5**	**105.8**	**116.9**	**122.8**
Total Long-term Debt	66.6	77.4	90.2	105.2
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0
Total Non-current Liabilities	**66.6**	**77.4**	**90.2**	**105.2**
Total Provisions	1.4	1.5	1.6	1.7
Total Liabilities	**204.5**	**184.8**	**208.6**	**229.6**
Shareholders' Equity	286.0	316.9	357.8	407.0
Minority Interests	0.0	0.0	0.0	0.0
Total Equity	**286.0**	**316.9**	**357.8**	**407.0**

Cash Flow

(RMm)	Dec-11A	Dec-12F	Dec-13F	Dec-14F
EBITDA	93.7	70.2	89.1	106.6
Cash Flow from Invt. & Assoc.				
Change In Working Capital	2.7	14.2	(4.3)	(1.7)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(25.9)	(16.9)	(20.8)	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	14.5	14.6	9.1	12.0
Cashflow From Operations	**85.0**	**82.0**	**73.0**	**117.0**
Capex	(50.0)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.1	0.1	0.1	0.1
Cash Flow From Investing	**(49.9)**	**(49.9)**	**(49.9)**	**(49.9)**
Debt Raised/(repaid)	9.6	11.7	14.2	17.1
Proceeds From Issue Of Shares	0.0	0.0	1.0	1.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(9.7)	(10.8)	(7.3)	(9.7)
Preferred Dividends				
Other Financing Cashflow	(3.6)	(4.7)	(4.7)	0.0
Cash Flow From Financing	**(3.8)**	**(3.9)**	**3.1**	**8.4**

Key Ratios

	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue Growth	(11.4%)	(29.6%)	15.5%	5.3%
Operating EBITDA Growth	26.8%	(25.1%)	27.0%	19.6%
Operating EBITDA Margin	21.3%	22.6%	24.9%	28.3%
Net Cash Per Share (RM)	(0.16)	(0.11)	(0.09)	(0.00)
BVPS (RM)	1.29	1.43	1.61	1.82
Gross Interest Cover	12.53	6.16	7.26	7.94
Effective Tax Rate	19.6%	20.0%	20.0%	21.0%
Net Dividend Payout Ratio	14.9%	20.0%	20.0%	20.0%
Accounts Receivables Days	67.96	78.03	57.88	60.50
Inventory Days	55.99	70.04	52.79	56.88
Accounts Payables Days	93.3	116.7	88.0	94.8
ROIC (%)	21.1%	10.8%	13.2%	14.7%
ROCE (%)	22.0%	11.2%	13.2%	14.3%

Key Drivers

	Dec-11A	Dec-12F	Dec-13F	Dec-14F
ASP (% chg, main prod./serv.)	-15.3%	-9.6%	-1.5%	0.0%
Unit sales grth (%, main prod./serv.)	26.3%	-26.7%	17.3%	5.3%
Util. rate (%, main prod./serv.)	65.0%	45.0%	50.0%	50.0%
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

CIMB

Top Glove Corporation

TOPG MK / TPGC.KL

Market Cap	Avg Daily Turnover	Free Float
US$1,083m	**US$1.31m**	**50.6%**
RM3,288m	RM3.99m	618.2 m shares

Current	RM5.31
Target	RM5.97
Previous Target	RM5.97
Up/downside	12.5%

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	-4.8	0.2	-3.7
Absolute	-6.2	-1.7	3.7

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

Sounds nice in theory

Top Glove's fortunes have improved from stronger glove demand following lower, more-sustainable natural-rubber prices. That said, costlier labour and energy are risks in 2013 and we think its 30k ha plantation could divert resources as well as management's focus.

Top Glove remains a Neutral as we believe positives of higher glove demand are offset by the prospect of higher costs in 2013. Our target price is still based on 14.15x CY14 P/E, the stock's 2-year average. We prefer Hartalega.

Demand rebounds

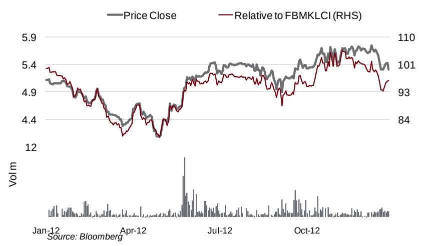
Demand for gloves is strong with utilisation now at 80%, up from below 70% a year ago. At the same time, the price of natural rubber (60% of operating cost) has moderated from RM10.80/kg to just above RM6/kg on weaker economic conditions. This has stimulated demand and enabled the company to pass on costs more effectively. The company has also caught up with customers who are demanding for more nitrile gloves, increasing its nitrile capacity by 1.2bn gloves in the past year. Nitrile now comprises 14% of its capacity, up from 11% in FY11.

Higher costs are a risk

Top Glove's profit margins are the lowest in the sector as a result of its mass production and low selling price model. This leaves it most exposed to cost inflation, specifically from wages and energy in 2013. The minimum wage for Peninsular Malaysia has been set at RM900/month from 1 Jan. Our analysis suggests that Top Glove's core EPS could fall by 7% assuming zero cost passthrough. This would be the highest in the sector as Top Glove has the most foreign workers. In mitigation, Malaysia controls 60% of the world's glove supply and Top Glove is the world's largest manufacturer, by capacity. We think its market dominance could enable Top Glove to pass on a portion of its higher wages.

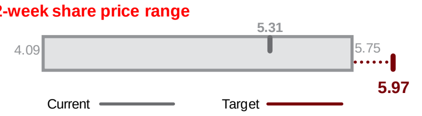
Distracting ventures

Top Glove has started developing a 30k ha natural rubber plantation in Indonesia. Management is also evaluating plantation projects in Africa. These upstream ventures are attempts to hedge natural-rubber prices as it is difficult to do so with derivatives alone. He believe they could distract Top Glove from its core glovemaking business and lead to inefficient use of human capital, time and financial resources.



Source: Bloomberg

52-week share price range



Financial Summary

	Aug-11A	Aug-12A	Aug-13F	Aug-14F	Aug-15F
Revenue (RMm)	2,054	2,314	2,667	2,850	2,975
Operating EBITDA (RMm)	206.3	310.2	351.3	411.4	430.9
Net Profit (RMm)	113.2	202.2	224.3	257.4	268.0
Core EPS (RM)	0.18	0.33	0.36	0.42	0.43
Core EPS Growth	(54.7%)	78.6%	10.9%	14.8%	4.1%
FD Core P/E (x)	28.71	16.23	14.63	12.75	12.25
DPS (RM)	0.15	0.15	0.24	0.28	0.29
Dividend Yield	2.76%	2.76%	4.56%	5.23%	5.44%
EV/EBITDA (x)	14.76	9.27	8.10	6.71	6.17
P/FCFE (x)	23.88	23.31	43.66	16.70	10.91
Net Gearing	(22.2%)	(31.9%)	(30.8%)	(32.8%)	(35.2%)
P/BV (x)	2.92	2.51	2.27	2.04	1.85
Recurring ROE	10.2%	16.6%	16.3%	16.9%	15.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.02	1.05	0.98

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Aug-12A	Aug-13F	Aug-14F	Aug-15F
Total Net Revenues	**2,314**	**2,667**	**2,850**	**2,975**
Gross Profit	**376**	**440**	**506**	**529**
Operating EBITDA	**310**	**351**	**411**	**431**
Depreciation And Amortisation	(69)	(68)	(74)	(79)
Operating EBIT	**241**	**284**	**338**	**352**
Total Financial Income/(Expense)	(0)	10	(2)	(2)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**241**	**294**	**336**	**350**
Exceptional Items	0	0	0	0
Pre-tax Profit	**241**	**294**	**336**	**350**
Taxation	(34)	(65)	(74)	(77)
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	**207**	**229**	**262**	**273**
Minority Interests	(5)	(5)	(5)	(5)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	0	0	0	0
Net Profit	**202**	**224**	**257**	**268**
Recurring Net Profit	202	224	257	268
Fully Diluted Recurring Net Profit	**202**	**224**	**257**	**268**

Balance Sheet

(RMm)	Aug-12A	Aug-13F	Aug-14F	Aug-15F
Total Cash And Equivalents	427	454	535	632
Total Debtors	312	360	385	402
Inventories	185	213	228	238
Total Other Current Assets	0	0	0	0
Total Current Assets	**924**	**1,027**	**1,148**	**1,272**
Fixed Assets	621	689	752	808
Total Investments	18	17	17	16
Intangible Assets	20	20	20	20
Total Other Non-Current Assets	0	0	1	1
Total Non-current Assets	**659**	**727**	**790**	**846**
Short-term Debt	1	1	1	1
Current Portion of Long-Term Debt				
Total Creditors	208	240	257	268
Other Current Liabilities	9	10	19	22
Total Current Liabilities	**218**	**251**	**277**	**291**
Total Long-term Debt	4	4	4	5
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	**4**	**4**	**4**	**5**
Total Provisions	38	40	42	44
Total Liabilities	**259**	**295**	**323**	**339**
Shareholders' Equity	1,306	1,447	1,608	1,775
Minority Interests	17	13	8	3
Total Equity	**1,324**	**1,459**	**1,615**	**1,778**

Cash Flow

(RMm)	Aug-12A	Aug-13F	Aug-14F	Aug-15F
EBITDA	310.2	351.3	411.4	430.9
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(32.6)	(44.1)	(22.9)	0.0
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(26.9)	(68.1)	2.2	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(30.3)	(34.4)	(64.6)	0.0
Cashflow From Operations	**220.5**	**204.8**	**326.1**	**430.9**
Capex	(80.0)	(130.0)	(130.0)	(130.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	**(80.0)**	**(130.0)**	**(130.0)**	**(130.0)**
Debt Raised/(repaid)	0.4	0.4	0.5	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(68.0)	(68.0)	(112.2)	(128.7)
Preferred Dividends				
Other Financing Cashflow	7.4	9.7	(1.5)	0.0
Cash Flow From Financing	**(60.2)**	**(57.9)**	**(113.2)**	**(128.7)**

Key Ratios

	Aug-12A	Aug-13F	Aug-14F	Aug-15F
Revenue Growth	12.7%	15.2%	6.9%	4.4%
Operating EBITDA Growth	50.4%	13.2%	17.1%	4.7%
Operating EBITDA Margin	13.4%	13.2%	14.4%	14.5%
Net Cash Per Share (RM)	0.68	0.73	0.86	1.01
BVPS (RM)	2.11	2.34	2.60	2.87
Gross Interest Cover	2,133	762	225	234
Effective Tax Rate	14.3%	22.0%	22.0%	22.0%
Net Dividend Payout Ratio	33.6%	50.0%	50.0%	50.0%
Accounts Receivables Days	39.70	40.90	42.39	42.88
Inventory Days	34.04	32.66	34.37	34.76
Accounts Payables Days	20.90	20.41	21.48	21.73
ROIC (%)	19.6%	23.1%	24.5%	23.8%
ROCE (%)	18.8%	20.5%	21.3%	20.2%

Key Drivers

	Aug-12A	Aug-13F	Aug-14F	Aug-15F
ASP (% chg, main prod./serv.)	-10.6%	-3.1%	1.0%	0.0%
Unit sales grth (%, main prod./serv.)	42.9%	7.5%	5.8%	4.4%
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

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2012 822 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	54.4%	9.0%
Neutral	34.1%	3.4%
Underperform/Sell/Trading Sell	11.5%	8.6%

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, Jakarta Stock Exchange, Australian Securities Exchange, Korea Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay 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.*

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

Sector

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 +10% 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 +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; 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 -10% 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 +10% 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 -10% 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 2011.

AAV – not available, **ADVANC** - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCH** - Good, **BEC** - Very Good, **BECL** - Very Good, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Very Good, **CCET** - Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** - Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - not available, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS –** Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Very Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Very Good, **THCOM** – Very Good, **TICON** – Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good, **WORK** – Good.