

| Malaysia

Overweight *(no change)*
Highlighted Companies
Hartalega Holdings
ADD, TP RM24.30, RM12.44 close

Hartalega Holdings (HART) has the highest profit margins in the glove sector, given its industry-leading technology in the nitrile glove segment. It currently has a total annual production capacity of 39.3bn pieces, with a product mix of 96% nitrile and 4% latex gloves.

Supermax Corp
ADD, TP RM13.50, RM7.50 close

Supermax Corp adopts a manufacturing-cum-distribution business model, selling 95% of its gloves under its own brand via its own distribution centres and third-party distributors. This allows it to garner higher margins vs. its peers. Its current production capacity stands at 26.2bn pieces p.a. It plans to grow its capacity to 48.4bn pieces p.a. by end-CY22F.

Top Glove Corporation
ADD, TP RM9.20, RM7.76 close

We expect Top Glove Corporation (TOPG) to be a key beneficiary of the robust glove demand globally in view of its position as the world's largest glove manufacturer, with a total annual production capacity of 85.2bn pieces. TOPG plans to further expand its glove production capacity by 41.5% to 120.6bn pieces p.a. by end-CY22F.

Summary Valuation Metrics

P/E (x)	Dec-20F	Dec-21F	Dec-22F
Hartalega Holdings	28.47	21.43	26.35
Supermax Corp	16.93	12.52	14.36
Top Glove Corporation	22.48	15.27	
P/BV (x)	Dec-20F	Dec-21F	Dec-22F
Hartalega Holdings	13.60	10.84	9.31
Supermax Corp	9.26	6.31	5.00
Top Glove Corporation	14.91	10.00	
Dividend Yield	Dec-20F	Dec-21F	Dec-22F
Hartalega Holdings	2.12%	2.80%	2.28%
Supermax Corp	2.36%	3.19%	2.79%
Top Glove Corporation	2.17%	3.25%	

Analyst(s)

Walter AW

T (60) 3 2261 9093

E walter.aw@cgs-cimb.com

Rubber Gloves

A firm grip in the storm

- We believe that concerns on a decline in ASPs remain unwarranted at this juncture, with expectations of ASP hikes up to at least 1QCY21F.
- The Malaysia glove sector is currently trading at 24.3% discount to its 5-year mean, in spite of its strong earnings prospects in the next 12 months.
- Reiterate our sector Overweight call, with Top Glove and Hartalega as our top picks.

Outlook of glove makers remains bright

We gather that order visibility of glove makers is robust up to at least end-1HCY21F, a testament to the current strong global glove demand. In our view, the acute global shortage of gloves is likely to worsen as Covid-19 cases worldwide show no signs of slowing down. Note that many developed markets (with high glove usage per capita), such as the US and UK, have continued to record new highs in daily Covid-19 cases. We expect the situation to worsen as more western countries head towards the wintering period in 4Q20, which could lead to further spikes in Covid-19 cases.

Acute shortage driving ASPs higher

In term of ASPs, glove makers are expecting further hikes up to at least 1QCY21F. This is on the basis of the recent increase in raw material prices as well as the acute global shortage of gloves. Based on our estimates, glove ASPs could rise by 10-45% qoq in 4QCY20F to US\$50-100 per 1,000 pieces, which is above our current forecasts. However, we gather that certain glove buyers are willing to offer fixed ASPs (at a substantial premium to current ASPs) with a minimum 1-year contract tenure to secure glove supply. In our view, this should provide certainties of ASPs for CY21F if glove makers agree to these contracts.

Windfall tax may have long-term negative consequences

On the potential windfall tax, glove makers and Malaysia Rubber Glove Manufacturer Association (MARGMA) indicate that there has been no engagement with the government on this matter. In our view, the implementation of a windfall tax on the glove sector would have long-term negative implication as this will drive glove makers to countries with more conducive environments (e.g. labour, tax incentives, utilities, etc).

Glove stocks under selling pressure for the past two weeks

Glove stocks have been sold down with the recent newsflow on Covid-19 vaccine development. However, we think the eradication of the virus may take a while longer, given that: i) no Covid-19 vaccine candidates have passed Stage 3 and 4 of clinical trials, ii) current limited production capacity may hamper mass availability, and iii) potential mutations of the virus. Also, we believe that glove demand is unlikely to taper off even with a vaccine, as glove use will in fact increase when masses rush to be vaccinated.

Reiterate Overweight call on the sector

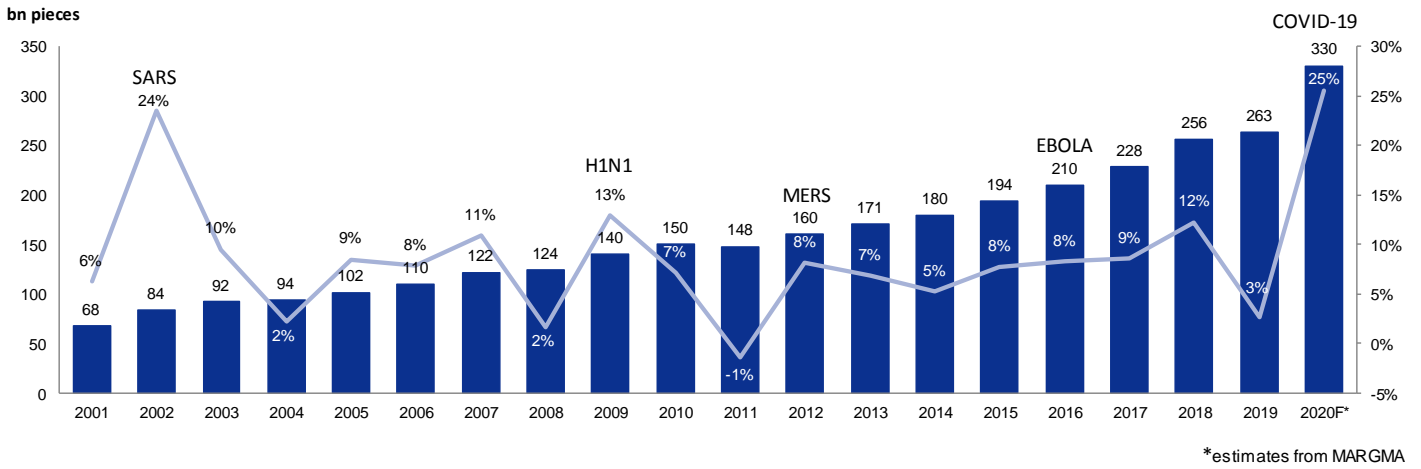
We reiterate our Overweight view on the sector. We believe that concerns on potential declines in ASPs from CY21F onwards are premature at this juncture, as signs are showing that ASPs may stay elevated for a longer period (up to end-CY21F). Despite its bright prospects, the Malaysian glove sector is trading attractively at 16.7x CY21F P/E, a 24.3% discount to its 5-year mean P/E of 22.1x. In our view, this has largely priced in concerns of a potential windfall tax and discovery of a Covid-19 vaccine.

Figure 1: Recommendation of Malaysia glove companies under coverage

Company	Bloomberg ticker	Target Price	Valuation basis
Hartalega	HART MK	Add RM24.30	41.0x CY21 P/E, +1 s.d. of its 5 year mean
Top Glove	TOPG MK	Add RM9.20	18.0x CY21 P/E, in-line with its 5 year mean
Supermax	SUCB MK	Add RM13.50	22.4x CY21 P/E, +1 s.d. of its 5 year mean
Kossan Rubber	KRI MK	Add RM17.00	22.0x CY21 P/E, in-line with its 5 year mean

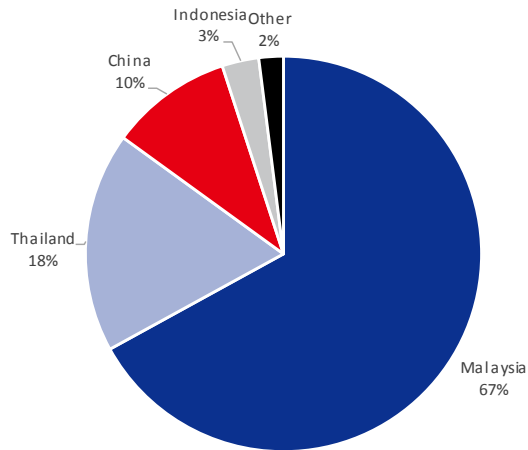
SOURCES: CGS-CIMB RESEARCH, COMPANY

Figure 2: Global glove demand (2001-2020F)



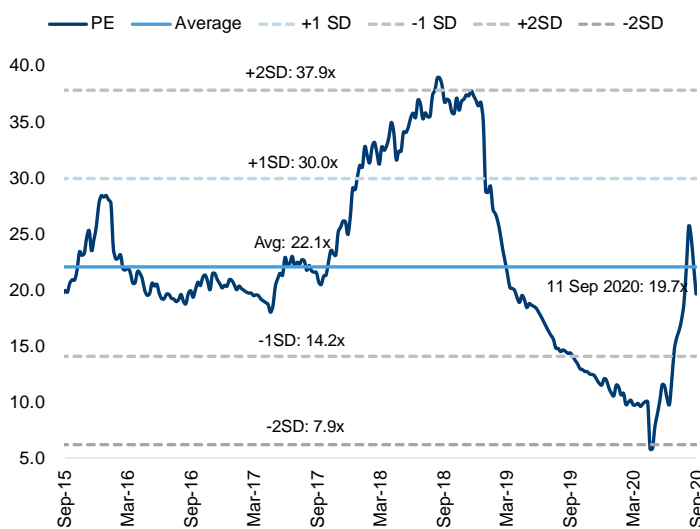
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Global glove market share by countries in 2020 YTD



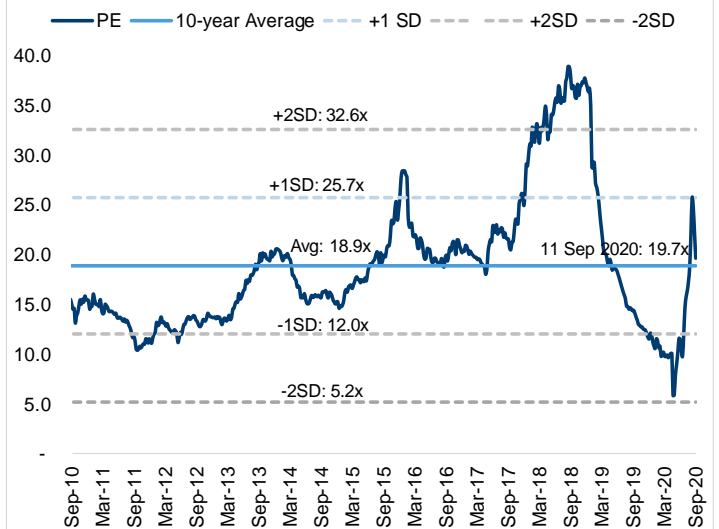
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Malaysia rubber glove sector's 5-year historical mean



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Malaysia rubber glove sector's 10-year historical mean



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Sector comparisons (CGS-CIMB's Malaysia glove sector coverage)

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY20F	CY21F	(%)	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Hartalega Holdings	HART MK	Add	12.44	24.30	10,241	28.2	21.4	47.4%	13.6	10.8	53.7%	56.1%	2.1%	2.8%
Kossan Rubber Industries	KRI MK	Add	10.68	17.00	3,281	19.6	14.1	37.1%	7.4	5.6	43.1%	45.6%	2.1%	2.8%
Supermax Corp	SUCB MK	Add	7.50	13.50	4,643	16.9	12.5	71.5%	9.3	6.3	67.7%	59.4%	2.4%	3.2%
Top Glove Corporation	TOPG MK	Add	7.76	9.20	15,125	22.5	15.3	36.0%	14.9	10.0	79.2%	78.4%	2.1%	3.2%
Weighted average						23.2	16.7	44.6%	13.0	9.3	66.2%	65.7%	2.2%	3.1%
Consumer Discretionary														
Riverstone Holdings	RSTON SP	Add	3.33	5.55	1,807	17.6	14.3	58.5%	6.6	5.0	44.7%	39.5%	2.3%	2.8%
Weighted Subsector Average						17.6	14.3	58.5%	6.6	5.0	44.7%	39.5%	2.3%	2.8%
Weighted Average						22.9	16.5	45.3%	12.7	9.1	65.1%	64.3%	2.2%	3.0%
Simple Average						20.8	15.5	50.5%	10.2	7.4	57.0%	54.9%	2.2%	3.0%

SOURCES: CGS-CIMB, BLOOMBERG

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result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

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. CGS-CIMB Thailand 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 30 June 2020		
800 companies under coverage for quarter ended on 30 June 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.1%	0.4%
Hold	25.9%	0.1%
Reduce	14.0%	0.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.