



AmInvestment Bank

Sector report
3 June 2020

GLOVES

Selling prices soar as demand outstrips supply

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- **We are keeping our OVERWEIGHT call for the glove sector.** We believe that selling prices will continue to soar for the next 12 months as lead time stretches up to 12 months. The glove companies' earnings will be further pushed by expanded margins as raw material prices remain low, selling prices continue to grow, USD continues to strengthen over MYR and expansion plans remain intact for the glove producers.
- Our house projection for the USD/MYR rate is an average of RM4.29 in 2020 and RM4.25 in 2021. We think that a stronger ringgit will even help further expand net margins for glove companies because unlike pre-Covid-19 times, cost savings are not passed through to customers due to supply constraints.
- Glovemakers are now expecting glove demand to increase by roughly 30–50% (8–10% pre-Covid-19). The higher demand has resulted in a shortage of supply, pushing up average selling prices for these medical gloves. ASPs are trending upwards and glovemakers now guide for around 5–15% QoQ gradual increases while spot selling prices for gloves skyrocketed 100–400% in the past few months as panic buying of gloves ensues.
- We raise our ASP assumptions for the glovemakers by around 2–9% as explained below. We believe selling prices will continue to grow in 2021 as a vaccine for Covid-19 is expected to take roughly 12–18 months to create.
- Beyond Covid-19 pandemic, we anticipate a structural change in the way gloves are used, forming a new normal where glove usage per capita will increase as hygiene measures become stricter. This is expected to apply not only in the healthcare sector but also across different industries like F&B. The glove consumption per capita in emerging markets such as India and China was low at around 2–6 gloves as opposed to circa 100–280 gloves for developed countries.
- **We maintain our BUY call on Top Glove with an FV of RM17.38/share** (RM12.23/share previously). Our valuation is based on 33x CY21F EPS (rolled over from FY21F EPS). We raise Top Glove's earnings forecasts by 21% for FY20F, 71% for FY21F and 33% for FY22F. We believe net margins expansion will be bigger than previously anticipated at 14.7% (+2ppt) for FY20F, 16.0% (+4.5ppt) for FY21F and 11.0% (+2.5ppt for FY22F).
- We increase our FY21F ASP by 2% to US\$29 as we believe the higher selling price will be sustained for another year before falling post-Covid-19 pandemic. We keep our ASP assumption of US\$24 for FY22F as we expect that a drop in demand growth will be minimized by the structural change in glove usage.
- **We retain our BUY call on Kossan with a higher FV of RM11.05/share** (RM9.72/share previously). Our valuation is based on 27x CY21F EPS. We raise Kossan's earnings forecasts by 10% for FY20F, 14% for FY21F and 25% for FY22F.
- We raise our FY20F ASP by 8% to US\$26 as we expect a 10–15% jump in selling prices for Kossan in 2HFY20F. We also expect the higher selling price to be sustained for another year before falling post-Covid-19 pandemic. We increase our ASP assumption to US\$26 for FY21F.
- **We upgrade our call on Hartalega to HOLD from UNDERWEIGHT with a higher FV of RM12.43/share** (RM7.37/share previously). Our valuation is based on 38x CY21F EPS. We raise Hartalega's earnings forecasts by 41% for FY21F, 47% for FY22F and 18% for FY23F. We believe net margins expansion will be bigger than previously anticipated at 21.1% (+2.8ppt) for FY21F, 18.7% (+2.4ppt) for FY22F and 17.5% (+0.4ppt for FY23F).
- We increase our FY21F ASP by 9% to US\$29 as we believe the higher selling price will be sustained for another year before falling post-Covid-19 pandemic. We keep our ASP assumption of US\$26 for FY22F.

EXHIBIT 1: PEER COMPARISON

	Recomm.	FV (RM)	FYE	EPS (sen)		EPS growth %		P/E (x)		ROE*	NDPS*	DY*	Estimated Capacity		Changes to forecasts (%)		
				FY20F	FY21F	FY20F	FY21F	FY20F	FY21F				(%)	(sen)	(%)	CY20F	CY21F
Top Glove	BUY	17.38	Aug	49.5	63.3	247.6	27.9	29.9	23.4	44.3	24.8	1.7	84.0	91.0	21.4	71.0	33.3
Hartalega#	HOLD	12.43	Mar	29.0	25.0	121.2	-13.8	43.9	51.0	37.1	17.3	1.4	41.2	44.6	41.0	47.2	18.3
Kossan	BUY	11.05	Dec	43.0	40.9	145.6	-4.8	20.5	21.5	34.6	17.2	2.0	34.5	34.5	10.4	13.7	24.9
Simple Average						171.5	3.1	31.4	32.0				159.7	170.1			
Weighted Average						176.2	4.4	35.3	36.0								

*FY20 #FY20F and FY21F refer to FY21F and FY22F

Source: AmInvestment Bank Bhd

EXHIBIT 2: TOP GLOVE - SENSITIVITY ANALYSIS BASED ON VARIOUS ASP ASSUMPTIONS

ASP (US\$/1,000)	FY20F		ASP (US\$/1,000)	FY21F	
	Revenue	Net Profit		Revenue	Net Profit
27	8,021	908	29	10,259	1,598
27	8,021	908	35	12,343	2,119
27	8,021	908	40	13,843	2,853
29	8,572	1,268	29	10,066	1,621
29	8,572	1,268	35	12,356	2,202
29	8,572	1,268	40	13,927	2,908

Source: AmInvestment Bank Bhd

EXHIBIT 3: KOSSAN - SENSITIVITY ANALYSIS BASED ON VARIOUS ASP ASSUMPTIONS

ASP (US\$/1,000)	FY20F		ASP (US\$/1,000)	FY21F	
	Revenue	Net Profit		Revenue	Net Profit
24	3,327	500	24	3,503	475
24	3,327	500	26	3,722	522
26	3,557	550	26	3,744	524
26	3,557	550	28	4,014	582
28	3,813	628	28	4,048	592
28	3,813	628	30	4,266	646

Source: AmInvestment Bank Bhd

EXHIBIT 4: HARTALEGA - SENSITIVITY ANALYSIS BASED ON VARIOUS ASP ASSUMPTIONS

ASP (US\$/1,000)	FY21F		ASP (US\$/1,000)	FY22F	
	Revenue	Net Profit		Revenue	Net Profit
26	4,210	847	24	4,109	710
26	4,210	847	26	4,418	783
28	4,561	964	26	4,451	831
28	4,561	964	28	4,786	960
30	4,911	1,082	28	4,793	969
30	4,911	1,082	30	5,154	1,107

Source: AmInvestment Bank Bhd

EXHIBIT 5: TOP GLOVE - FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	4,214.5	4,801.1	8,571.6	10,066.5	7,255.3
EBITDA	711.3	702.0	1,766.9	2,178.3	1,217.0
Depreciation/Amortisation	(161.4)	(206.8)	(221.5)	(236.3)	(249.8)
Operating income (EBIT)	550.0	495.3	1,545.4	1,942.0	967.2
Other income & associates	1.7	(2.7)	-	-	-
Net interest	(23.1)	(69.0)	(54.7)	(35.7)	(26.0)
Exceptional items	-	-	-	-	-
Pretax profit	528.6	423.6	1,490.7	1,906.3	941.3
Taxation	(90.7)	(56.0)	(223.6)	(285.9)	(141.2)
Minorities/pref dividends	(3.7)	(2.9)	0.5	0.7	0.3
Net profit	434.2	364.7	1,267.6	1,621.0	800.4
Core net profit	434.2	364.7	1,267.6	1,621.0	800.4
Consensus Net Profit (RM mil)	-	-	757.8	1,038	673.7

Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 6: KOSSAN - FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,140.6	2,217.2	3,557.4	3,743.7	3,839.8
EBITDA	341.3	378.2	833.8	818.0	712.2
Depreciation/Amortisation	(76.8)	(91.2)	(115.7)	(131.5)	(147.3)
Operating income (EBIT)	264.5	287.0	718.1	686.5	564.9
Other income & associates	-	-	-	-	-
Net interest	(15.1)	(11.3)	(25.0)	(22.7)	(26.4)
Exceptional items	-	-	-	-	-
Pretax profit	249.4	275.7	693.1	663.8	538.4
Taxation	(44.7)	(48.5)	(135.1)	(132.8)	(110.4)
Minorities/pref dividends	(4.8)	(3.2)	(7.9)	(7.5)	(6.0)
Net profit	199.9	224.0	550.0	523.5	422.0
Core net profit	199.9	224.0	550.0	523.5	422.0
Consensus Net Profit (RM mil)	-	-	381.1	376.0	371.9

Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 7: HARTALEGA - FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,827.2	2,924.0	4,560.6	4,451.0	4,505.6
EBITDA	661.8	706.1	1,375.9	1,221.3	1,162.9
Depreciation/Amortisation	(104.0)	(139.0)	(153.0)	(167.0)	(177.5)
Operating income (EBIT)	557.8	567.0	1,223.0	1,054.2	985.3
Other income & associates	-	-	-	-	-
Net interest	(10.6)	(7.6)	(2.8)	(1.0)	(1.1)
Exceptional items	-	(2.0)	-	-	-
Pretax profit	547.2	557.4	1,220.2	1,053.2	984.3
Taxation	(95.9)	(120.4)	(256.2)	(222.3)	(196.9)
Minorities/pref dividends	0.2	(1.1)	0.5	0.4	0.4
Net profit	451.6	436.0	964.5	831.3	787.8
Core net profit	452.0	436.0	964.5	831.3	787.8
Consensus Net Profit (RM mil)	-	-	706.4	6849	669.4

Source: Company, AmInvestment Bank Bhd estimates

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