

Extraordinary demand uplift

- Escalating global COVID-19 cases support demand surge; industry shortage has led to uptrend in pricing
- On course for extraordinary profit growth rates as players ramp up utilization rates and lock-in higher margins
- Catalysts: earnings surprises, ASPs increases, increased usage leading to "new normal" demand
- BUYs: Top Glove, Hartalega, Kossan, Riverstone

Ramping up the utilisation; order backlog extended. Rubber glove manufacturers are seeing robust demand leading to industry shortages and uptrend in pricing, as global Covid-19 infection rates have stayed high. We gather the rubber gloves producers are running at utilisation rate of above 90% with the order backlog at 1 year compared to usual 1-2 months. We raise our sales volume and ASP assumptions for rubber glove companies and forecast stronger earnings growth of 85% for the sector in 2020 (compared to average of 16% over the last three years), as manufacturers ramp up their utilisation in view of the surging demand. Rubber glove producers under our coverage are on course for record profits.

Expect strong earnings delivery. We upgrade Top Glove Corp and Hartalega to BUY in view of the stronger earnings outlook. Near-term share price catalysts include earnings surprises driven by escalating prices and margins. Every 1% improvement in net margin will increase these companies' net profit by 5-9% and TPs by 5-9%. We also like Singapore-listed Riverstone Holdings (RSTON) and Kossan Rubber Industries (KRI) for their relatively attractive valuations. RSTON's CY21 price-to-earnings (PE) of 20.0x is at a 41% discount to its peers' average. The stock is supported by a strong balance sheet with net cash position.

Margin uplift to be earnings kicker and share price catalyst. We expect higher ASPs to be reflected in sequentially stronger 2QCY20 profit. In addition, 2H20 should see a meaningful step up in sales volume and margins compared to 1H20. A second wave of infections from the gradual easing of lockdowns could see glove demand sustained at high levels. Over the longer term, even as infection rates ease, we expect the Covid-19 experience to drive increased usage of gloves globally, sustaining a "new normal" of demand.

KLCI : 1,561.84

STI : 2,707.20

Analyst

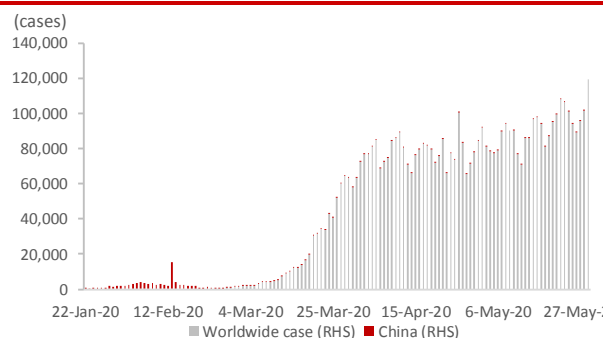
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STOCKS

	Price Ld	Mkt Cap US\$m	12-mth Target Price		PE (x) CY20	ROE (%) FY20	Rating
			Ld	Ld			
Hartalega Holdings	11.78	9,352	13.75	48.9	33.2	BUY	
Top Glove	15.44	9,285	18.45	34.4	28.8	BUY	
Kossan Rubber	8.81	2,644	11.00	28.8	25.0	BUY	
Riverstone	2.28	1,192	3.09	20.9	28.5	BUY	

Source: AllianceDBS, DBS Bank, Bloomberg Finance L.P.

Global daily COVID-19 cases: Infection rates still high



Source: WHO, AllianceDBS, DBSV

Sensitivity of TP to higher sales volume and margins

	TP	Sales vol growth +1%	Net margin +1%
Top Glove	18.45	18.60	19.85
Hartalega	13.75	13.85	14.40
Kossan	11.00	11.15	12.00
Riverstone	3.09	3.12	3.26

Source: AllianceDBS, DBS Bank

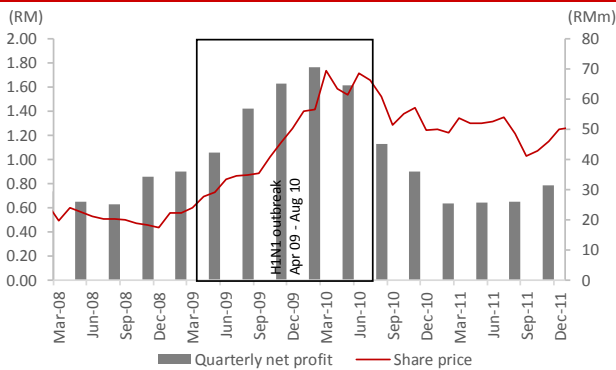


Live more, Bank less

Near-term earnings strength provide share price support

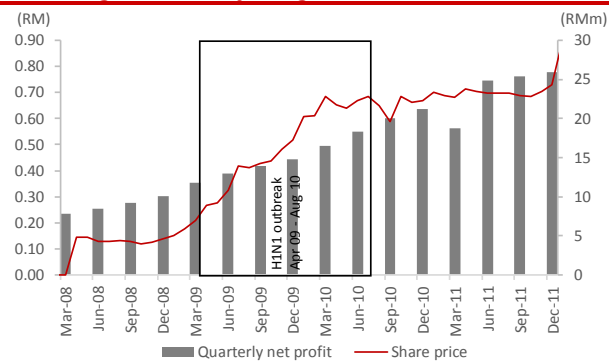
Share price likely to be supported by robust earnings. During the H1N1 outbreak, rubber glove manufacturers' share prices corrected when: 1) World Health Organization (WHO) announced containment of the pandemic and, 2) rubber glove manufacturers reported weaker net profit q-o-q.

Top Glove's share price performance during H1N1: Share price corrected as sequential earnings trend turned weaker and further declined when virus was contained in Aug 2010



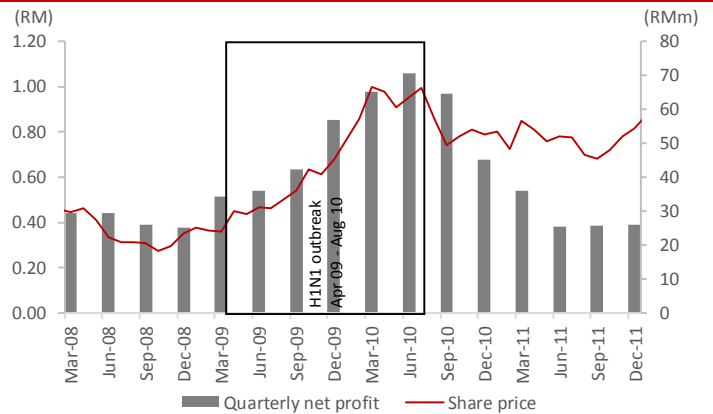
Source: Company, AllianceDBS, DBSV

Hartalega's share price performance during H1N1: Share price declined dipped when virus was contained; subsequently trended higher on steady EPS growth



Source: Company, AllianceDBS, DBSV

Kossan's share price performance during H1N1: Share price reversed as quarterly earnings trend turned weaker and further declined when virus was contained

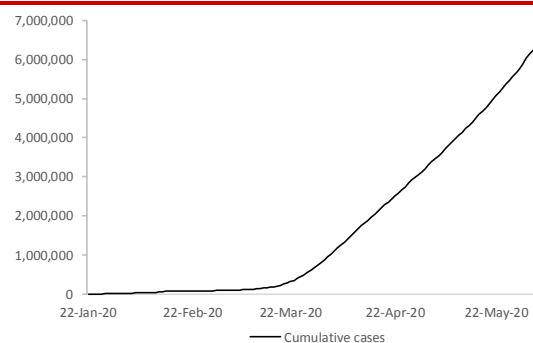


Source: Company, AllianceDBS, DBSV

COVID-19 infection rates still high

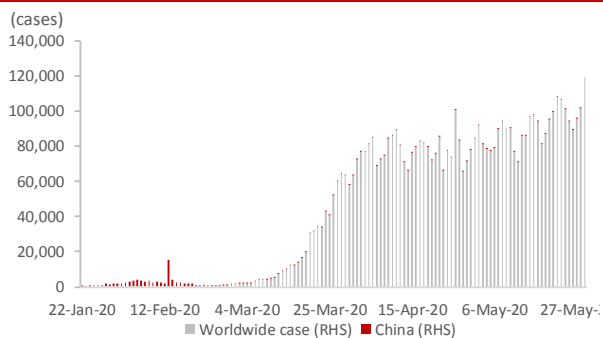
Infection rates remains high. Global Covid-19 daily infection rates have stayed relatively high. Countries such as United States and Brazil account for 19% and 24% of new cases, as of 3 June. Countries with high populations such as India have also contributed significantly to the increase of daily new cases. Compared to H1N1, the current COVID-19 pandemic seems more contagious. H1N1 had 491,382 confirmed cases. COVID-19 currently has 6.4m confirmed cases, about 13 times H1N1 levels.

Cumulative COVID-19 cases have exceeded 6.0m worldwide



Source: WHO, AllianceDBS, DBSV

Global daily COVID-19 cases: Infection rates still high



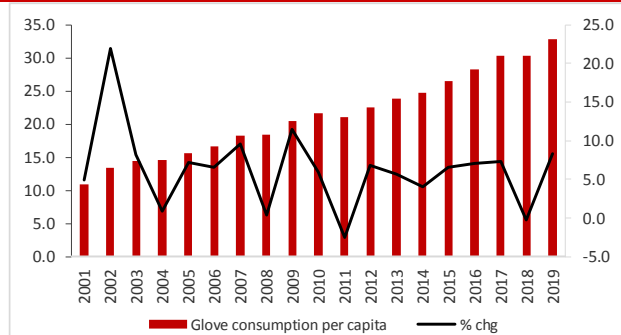
Source: WHO, AllianceDBS, DBSV

Risks of second wave. Many countries are slowly reopening their economies after being hit by COVID-19. However, there are increasing concerns that asymptomatic patients may trigger a second wave of infections. According to research conducted by Dr. Gigi Gronvall, an immunologist and senior scholar at the Johns Hopkins Center for Health Security and an associate professor at the Johns Hopkins Bloomberg School of Public Health, out of 5% of Iceland’s population that were tested for COVID-19, about 50% who tested positive had showed no symptoms. This could make it harder to contain COVID-19.

New vaccine on the way but could take time. Development of a vaccine for COVID-19 could take an estimated 12 to 18 months at the earliest, according to Dr. Anthony Fauci, director of the US National Institute of Allergy and Infectious Disease. Usually, a new vaccine takes a few years to develop and will go through three phases of trials.

Long term earnings supported by awareness of glove usage. Glove consumption per capita has shown positive growth annually, except in the post pandemic years of 2004 and 2010.

Steady increase in long term glove consumption



Source: Company, AllianceDBS, DBS Bank

Extended order backlog; higher ASPs

Strong order backlog. Order backlog is now at about 1 year for some companies compared to the usual 1-2 months. In April, order backlog was at about 4 months. Rubber glove production plants are running at utilisation rate of above 90%. In view of the shortage of rubber gloves in the market, ASP has increased compared to early this year. We raise FY20 and FY21 ASP assumption for all rubber glove companies under our coverage. Our net profit forecasts are above consensus largely on higher sales volume and margin assumptions.

Net profit revision summary

Company	FYE	Net profit (RMm)	Initial net profit forecasts (RMm)			New net profit forecasts (RMm)		
			FY19A	FY20F	FY21F	FY22F	FY20F	FY21F
Top Glove	Aug	371	510	528	510	1,002	1,228	1,168
Hartalega	Mar	470	583	592	615	938	975	933
Kossan	Dec	225	293	295	302	391	403	382
Riverstone	Dec	130	189	183	-	246	257	-

Source: Company, AllianceDBS, DBS Bank

Note: Hartalega forecasts refer to FY21F, FY22F and FY23F

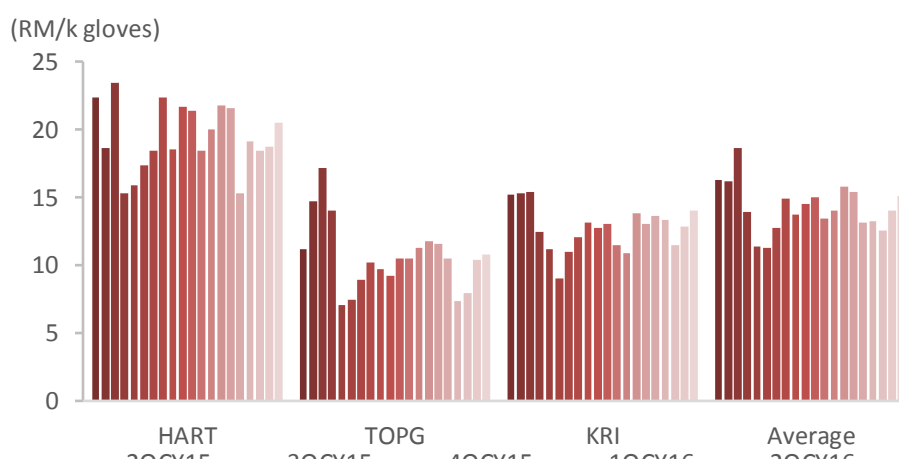
Target price basis summary

Company	Rec	New TP (Lcl currency)	TP basis	Change in net profit (%)		
				FY20F	FY21F	FY22F
Top Glove	BUY	18.45	Based on CY21F PE of 39x, equivalent to +2SD of its 5-year mean.	+96.4	+132.8	+128.8
Hartalega	BUY	13.75	Based on CY21F PE of 48x, equivalent to +2SD of its 5-year mean.	+61.1	+64.8	+51.7
Kossan	BUY	11.00	Based on a CY21F PE of 35x, equivalent to 20% discount (consistent with 10-year average) to Hartalega and Top Glove's target PE.	+33.4	+36.6	+26.5
Riverstone	BUY	3.09	Based on a FY20F PE of 28x, a 30% discount to its larger peers.	+30.0	+41.0	-

Source: Company, AllianceDBS, DBS Bank

Note: Hartalega forecasts refer to FY21F, FY22F and FY23F

Quarterly EBIT per thousand gloves up to 1QCY20 (rightmost column): On uptrend



Source: Companies, AllianceDBS, DBS Bank

Sensitivity analysis: Higher sales volume to net profit and TP

Top Glove	Base case	Sales vol grwth +1%	Sales vol grwth +2%	Sales vol grwth +5%	Sales vol grwth +10%
FY21 net profit (RMm)	1,228	1,243	1,258	1,302	1,376
Change in net profit (%)	-	+1.2	+2.4	+6.0	+12.0
Target price (RM)	18.45	18.60	18.75	19.20	19.95
Hartalega					
FY22 net profit (RMm)	975	986	997	1,030	1,084
Change in net profit (%)	-	+1.1	+2.2	+5.6	+11.2
Target price (RM)	13.75	13.85	14.00	14.35	14.90
Kossan					
FY21 net profit (RMm)	403	407	412	426	449
Change in net profit (%)	-	+1.2	+2.3	+5.8	+11.5
Target price (RM)	11.00	11.15	11.25	11.65	12.30
Riverstone					
FY20 net profit (RMm)	245.8	248.2	250.6	257.9	270.1
Change in net profit (%)	-	+1.0	+2.0	+4.9	+9.9
Target price (RM)	3.09	3.12	3.16	3.24	3.40

Sensitivity analysis: Higher net margin to net profit and TP

Top Glove	Base case	Margin +1%	Margin +2%	Margin +3%	Margin +4%
FY21 net profit (RMm)	1,228	1,318	1,415	1,512	1,615
Change in net profit (%)	-	+7.4	+15.2	+23.1	+31.5
Target price (RM)	18.45	19.85	21.35	22.85	24.45
Hartalega					
FY22 net profit (RMm)	975	1,038	1,100	1,166	1,235
Change in net profit (%)	-	+6.4	+12.9	+19.7	+26.8
Target price (RM)	13.75	14.40	15.10	15.80	16.50
Kossan					
FY21 net profit (RMm)	403	438	479	517	557
Change in net profit (%)	-	+8.9	+18.9	+28.4	38.4
Target price (RM)	11.00	12.00	13.10	14.15	15.25
Riverstone					
FY20 net profit (RMm)	245.8	259.0	272.2	285.4	298.7
Change in net profit (%)	-	+5.4	+10.8	+16.1	+21.5
Target price (RM)	3.09	3.26	3.42	3.59	3.75

Source: Company, AllianceDBS

BUYs: Top Glove, Hartalega, Kossan, Riverstone

1) Riverstone (RSTON: BUY, TP: S\$3.09)

The operating environment has been very favourable for glove manufacturers. Strong demand and tight supply have led to further increases in ASP, while lower raw material prices have further boosted margins. We raised our earnings forecast for FY20F/FY21F by 30%/41% on higher ASP and margins. On the back of higher earnings, our target price (TP) for RSTON is revised upward to S\$3.09 (previously S\$2.20), or PE of 28x (up from 26x, in line with the re-rating of its peers) on FY20F earnings, which is at a 30% discount to its peers.

Riverstone's forward PE

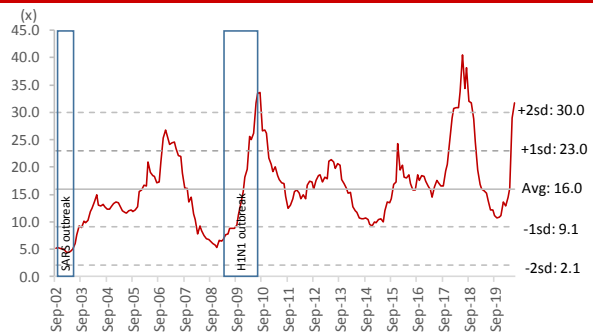


Source: Bloomberg Finance L.P, Company, DBS Bank

2) Top Glove (TOPG: BUY, TP: RM18.45)

We raise our TP to RM18.45, based on PE of 39x CY21F earnings. This is based on +2 SD of its 5-year mean. TOPG is trading at 33x forward PE (near +1.3 SD of its 5-year mean PE). TOPG's order backlog is about 1 year and ASP has grown at double digit m-o-m since April. Its current utilisation rate is above 90%. We are expecting TOPG to register a strong net profit growth of 163% y-o-y for FY20F, compared to its peers at about 70%-120% y-o-y. Upgrade to BUY from HOLD in view of strong earnings outlook.

Top Glove's forward PE

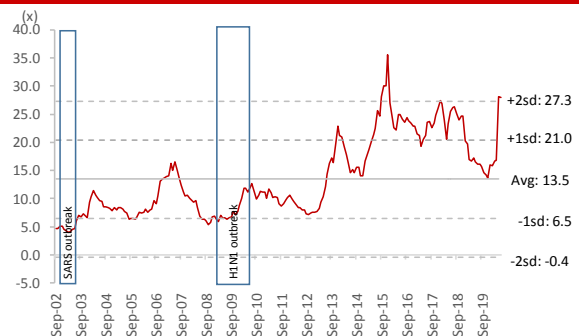


Source: Bloomberg Finance L.P, Company, AllianceDBS

3) Kossan (KRI: BUY, TP: RM11.00)

We raise KRI's TP to RM11.00, based on 35x FY21F EPS. This is a 20% discount to Hartalega and Top Glove's average target PE of 43.5x. KRI is currently trading at 28x forward PE, or +1.5 SD of its 5-year mean PE.

Kossan's forward PE

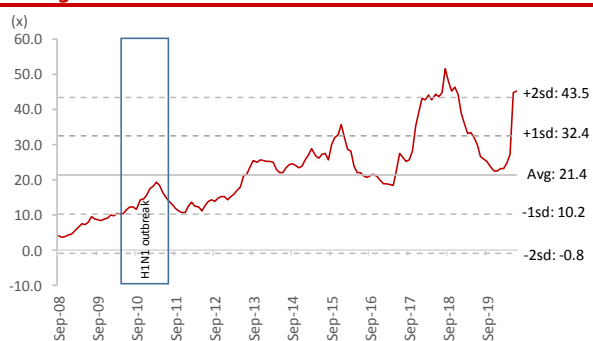


Source: Bloomberg Finance L.P, Company, AllianceDBS

4) Hartalega (HART: BUY, TP: RM13.75)

Post earnings, adjustment, we raise our TP for to RM13.75 (from RM5.95), pegged to 48x CY21F EPS. This is equivalent to +2 SD (standard deviation) of its 5-year average. HART is trading at 41x CY21F PE, close to +1.2 SD of its 5-year mean PE. Upgrade to BUY from HOLD on strong earnings expectations.

Hartalega's forward PE



Source: Bloomberg Finance L.P, Company, AllianceDBS

Peer table

	Mkt Cap (USDm)	Current price (LC)	TP (LC)	PE CY20 (x)	PE CY21 (x)	Div yield FY20 (%)	NP margin FY20 (%)	FY20 net profit growth (%)	CY20 PE/G (x)
Hartalega	9,352	11.78	13.75	48.9	41.1	1.1	23.8	116	0.6
Top Glove	9,285	15.44	18.45	34.4	32.6	1.3	16.6	163	0.4
Kossan	2,644	8.81	11.00	28.8	28.0	1.4	12.7	73.9	0.4
Riverstone	1,192	2.28	3.09	20.9	20.0	1.9	18.6	88.5	0.2
Average				33.3	30.4	1.4	17.9	110	0.4

Source: Company, AllianceDBS, DBS Bank

Malaysia Company Guide

Top Glove Corporation

Version 15 | Bloomberg: TOPG MK | Reuters: TPGC.KL

Refer to important disclosures at the end of this report

DBS Group Research. Equity

4 Jun 2020

BUY (Upgrade from HOLD)

Last Traded Price (3 Jun 2020): RM14.70 (KLCI : 1,538.53)

Price Target 12-mth: RM18.45 (26% upside) (Prev RM6.05)

Analyst

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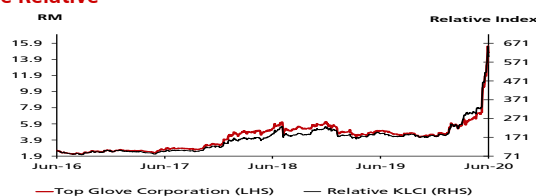
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What's New

- Operating at high utilisation rate driven by robust demand
- Industry shortage has led to uptrend in pricing
- Raise net profit forecasts on higher ASP assumptions
- BUY with higher TP of RM18.45 on strong earnings growth

Price Relative



Forecasts and Valuation

FY Aug (RMm)	2019A	2020F	2021F	2022F
Revenue	4,802	6,037	7,392	7,564
EBITDA	705	1,443	1,738	1,714
Pre-tax Profit	441	1,156	1,412	1,343
Net Profit	381	1,002	1,228	1,168
Net Pft (Pre Ex.)	381	1,002	1,228	1,168
Net Pft Gth (Pre-ex) (%)	(12.2)	163.0	22.5	(4.9)
EPS (sen)	14.9	39.2	48.0	45.7
EPS Pre Ex. (sen)	14.9	39.2	48.0	45.7
EPS Gth Pre Ex (%)	(12)	163	23	(5)
Diluted EPS (sen)	14.9	39.2	48.0	45.7
Net DPS (sen)	7.51	19.7	24.2	23.0
BV Per Share (sen)	94.9	178	206	228
PE (X)	98.6	37.5	30.6	32.2
PE Pre Ex. (X)	98.6	37.5	30.6	32.2
P/Cash Flow (X)	73.8	38.7	29.0	25.2
EV/EBITDA (X)	56.4	26.5	22.0	22.3
Net Div Yield (%)	0.5	1.3	1.6	1.6
P/Book Value (X)	15.5	8.3	7.1	6.5
Net Debt/Equity (X)	0.9	0.2	0.1	0.1
ROAE (%)	15.8	28.8	25.0	21.1
Earnings Rev (%):		96	133	129
Consensus EPS (sen):		20.4	21.7	22.4
Other Broker Recs:		B: 15	S: 2	H: 6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Powered by stunning profit growth

BUY with higher TP of RM18.45. The robust demand for gloves is leading to industry shortage and average selling price (ASP) increases. We understand that utilisation rate is running at more than 90% and order backlog has extended to one year. We raise our FY20-22F net profit forecasts for Top Glove (TOPG) by 96-133% to factor in higher product price assumptions. We expect the higher ASPs to be reflected in sequentially stronger 3QFY20 profit. 2H20 should see a significant step up in sales volume and margins compared to 1H20. Upgrade to BUY in view of the strong earnings outlook.

Where we differ: Our FY20/21F net profit forecasts are 32%/28% higher than consensus as we have factored in higher sales volume and ASP due to the robust demand arising from the COVID-19 outbreak.

Potential catalysts: Stronger-than-expected ASP and sales volume will further drive the company's earnings and share price. Every 1% improvement in net margin could boost TOPG's net profit by 7.4%. A second wave of COVID-19 infections after the gradual easing of lockdowns could see glove demand sustained at high levels. In the long term, even as infection rates ease, we expect COVID-19 to drive increased usage of gloves globally, sustaining a "new normal" of demand.

Valuation:

Upgrade to BUY with higher TP of RM18.45. Coupled with our earnings upgrades, we roll forward our valuation base to CY21 earnings. We raise our target price (TP) to RM18.45, based on 39x CY21F earnings. This is based on +2 SD (standard deviation) of its 5-year mean. TOPG is trading at 33x CY20F PE, close to +1.3 SD of its 5-year mean PE.

Key Risks to Our View:

Lower-than-expected sales volume and ASP. Lower-than-expected sales volume and ASP will adversely affect TOPG's earnings and share price.

At A Glance

Issued Capital (m shrs)	2,563
Mkt. Cap (RMm/US\$m)	37,678 / 8,840
Major Shareholders (%)	
Tan Sri Lim Wee Chai	28.9%
Employees Provident Fund	7.3%
KWAP	5.4%
Free Float (%)	71
3m Avg. Daily Val (US\$m)	31.9

GIIC Industry : Health Care / Health Care Equipment & Services



Live more, Bank less

Top Glove Corporation

WHAT'S NEW

Stronger product pricing on shortage

Uptrend in ASP expectations. We gather ASP increased about 5%-10% m-o-m in March-May and about 15% in June-July due to strong demand. Currently, the market is facing a shortage of gloves due to COVID-19 and order backlog has increased from four months to one year. Overall, ASP in 2HFY20 is expected to be higher than 1HFY20. With the anticipation of a continuous increase in ASP, we have adjusted our FY20 ASP growth assumption upwards to 11% y-o-y. Profit margin is expected to be better at 16.6% for FY20 compared to 7.9% in FY19 and 9.3% in 1HFY20 on the back of strong volume growth and higher ASPs. Our net profit assumption for FY20-FY22F is adjusted upwards by 96%, 133% and 129% respectively as we factor in higher product price assumptions.

Valuation

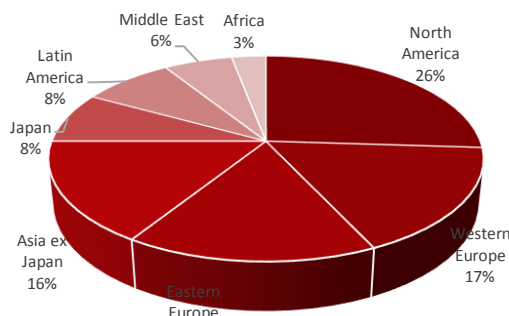
BUY with higher TP of RM18.45. We raise our TP to RM18.45, based on PE of 39x CY21F earnings. This is based on +2 SD of its 5-year mean. TOPG is trading at 33x forward PE or close to +1.3 SD of its 5-year mean PE. Upgrade from HOLD to BUY in view of its strong earnings outlook.

Sensitivity analysis: Every 1% improvement in margin could increase net profit by 7.4%

	Base case	Sales volume growth		
		+1%	+2%	+5%
FY21 net profit (RMm)	1,228	1,243	1,258	1,302
Change in net profit (%)	-	+1.2	+2.4	+6.0
Target price (RM)	18.45	18.60	18.75	19.20
	Base case	Margin		
		+1%	+2%	+3%
FY21 net profit (RMm)	1,228	1,318	1,415	1,512
Change in net profit (%)	-	+7.4	+15.2	+23.1
Target price (RM)	18.45	19.85	21.35	22.85

Source: Company, AllianceDBS

Top Glove: Sales volume by geography (1HFY20)



Source: Company, AllianceDBS

Top Glove Corporation

CRITICAL DATA POINTS TO WATCH

Capacity expansion. TOPG currently operates 33 glove factories with a production capacity of 63.9bn gloves p.a. which includes its Aspion acquisition. Its expansion plans include Factory 32 Phase 2 in Klang which commenced at end 2019. Its newest factory F8A in Thailand will be operational by 2020. This will raise the group’s annual capacity to 72.5bn gloves by end FY20. Premised on the expected completion dates provided by the company’s management, we expect TOPG to grow its installed annual capacity by 13%/16%/4% in FY20F/21F/22F.

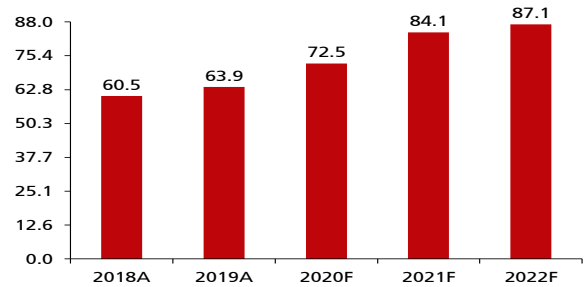
Sales volume to grow at 12.9% CAGR. We expect the group’s utilisation rate to hit 85%/90%/90% in FY20F/21F/22F. Premised on this, we expect TOPG to grow its sales volume by 13%/23%/4% in FY20F/21F/22F. This translates into a 3-year compound annual growth rate (CAGR) of 12.9%. The sales volume growth is supported by the robust demand driven by the COVID-19 pandemic.

Better metric for profitability. We assess TOPG’s profitability with unit profitability (i.e. earnings before interest and taxes (EBIT)/k gloves), rather than profit margins. This is because profit margins may fluctuate even if there are no changes in underlying profitability due to cost pass-through pricing (which lags by 1-2 months). Under its pricing mechanisms, profit margins may rise when costs fall, with the same profit levels on lower ASP. Margins may drop when costs rise, with the same profit levels on higher ASP and no impact on bottom line.

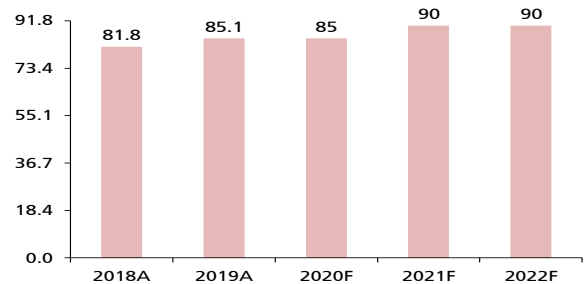
EBIT/k gloves to normalise. TOPG’s EBIT/k gloves declined by 17% to RM9.37 in FY19 as a result of increasing competition among glove players as well as rising operating costs from hikes in natural gas and raw material prices. We expect EBIT/k gloves to improve in FY20F-22F on the back of stronger ASP outlook.

Gains from nitrile and surgical gloves. The company’s recent capacity expansion has been geared towards the production of nitrile gloves, with stronger demand expected in this segment. TOPG’s current product mix stands at 64:36 (natural rubber:nitrile). This could shift to 60:40 once incoming capacity for nitrile gloves kicks in. The acquisition of Aspion, which will increase the sales mix of surgical gloves from 2% to 4%, will also improve TOPG’s earnings and margins.

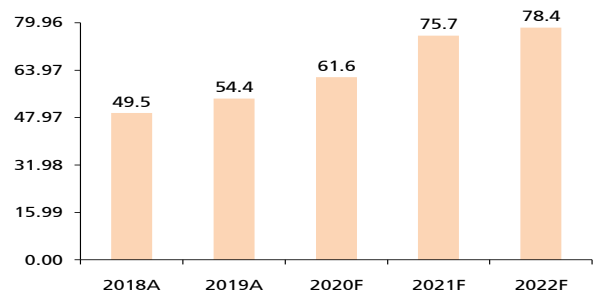
Capacity (bn gloves)



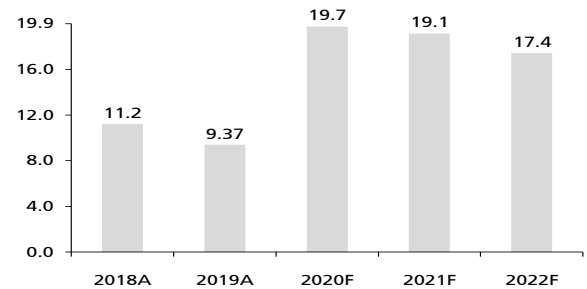
Utilisation rate (%)



Sales Volume (bn gloves)



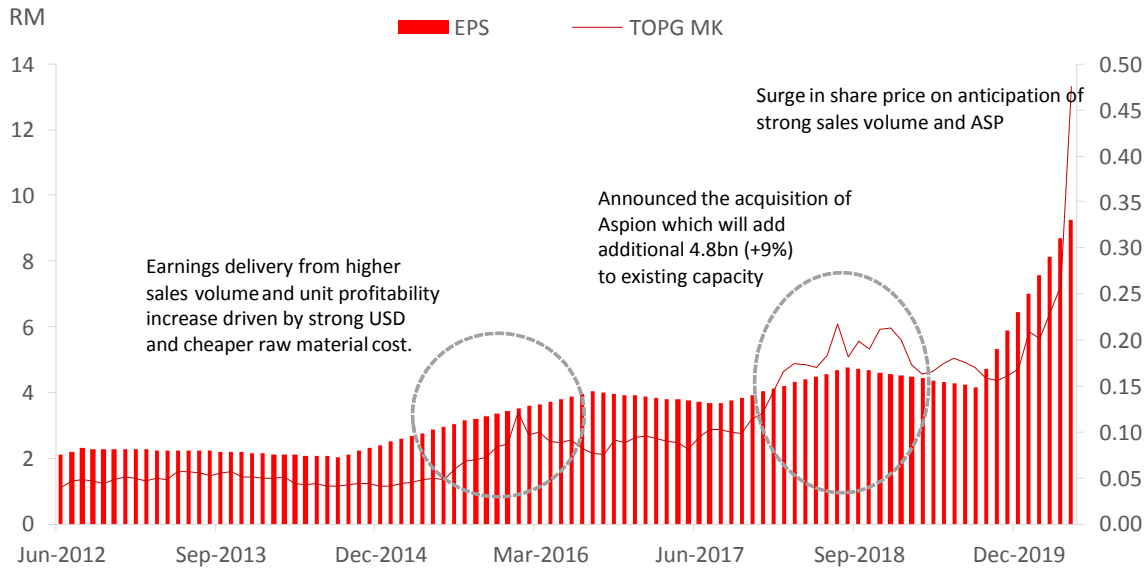
EBIT/k gloves (RM)



Source: Company, AllianceDBS

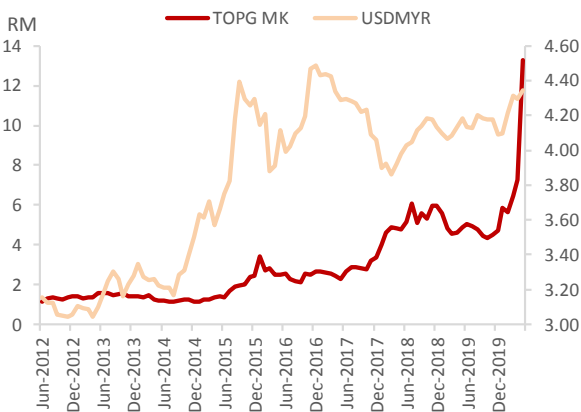
Top Glove Corporation

Appendix 1: Factors driving historical share price performance



*Top Glove forward EPS is based on consensus
 Source: Company, AllianceDBS, Bloomberg Finance L.P

Top Glove's share price versus USD/MYR



Source: Company, AllianceDBS, Bloomberg Finance L.P

Remarks

From June 2012 to April 2017, TOPG's share price had a high correlation of 0.87 with the US Dollar/Malaysian Ringgit (USD/MYR) trend, as revenue is denominated in USD. However, with a more competitive environment and cost/savings pass-through pricing mechanism, any gains/losses from foreign exchange (forex) movements will eventually normalise. The correlation between TOPG's share price and USD/MYR trend dropped to 0.14 from May 2017- May 2020.

Top Glove Corporation

Balance Sheet:

Solid balance sheet. TOPG is a strong cash generator. With the acquisition of Aspion, TOPG is now in a net debt position. However, we are not too concerned over the increased gearing at this point given TOPG's strong cash generation.

Share Price Drivers:

Increased market volatility. Malaysia-listed glove makers have generally been regarded as defensive counters and a safe haven by investors given their resilient earnings outlook backed by; 1) cost pass through mechanism, 2) stable demand for medical glove products, 3) exposure to global markets (not dependent on a single geographical region). As such, share prices in the sector tend to react favourably during periods of increasing market volatility.

Earnings outlook. TOPG's earnings are a function of two variables; (1) sales volume, (2) unit profitability (EBIT/k gloves). We assume sales volume growth of 3-year CAGR of 12.9% for FY20F-22F backed by growing demand. Unit profitability is influenced by the competitive environment, productivity and macroeconomic factors (currency movements, raw material prices).

Key Risks:

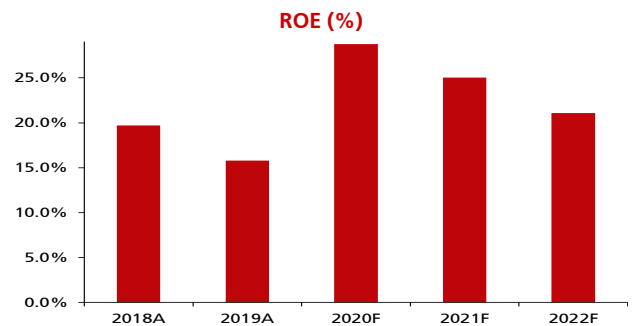
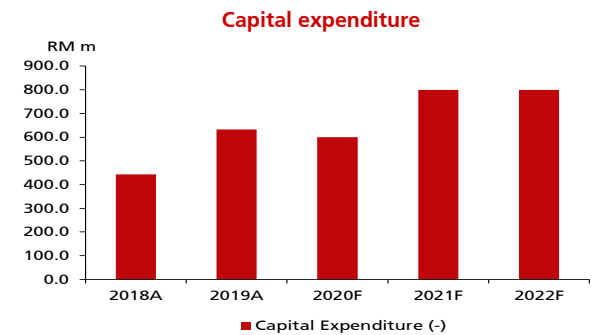
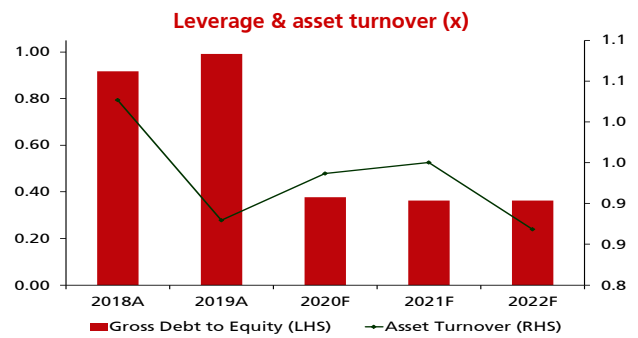
Lower-than-expected sales volume and ASP. Lower-than-expected sales volume and ASP will adversely affect TOPG's earnings and share price.

Environmental, Social, Governance (ESG):

TOPG's sustainability efforts are focused on 4 key areas - economic, environmental, social and governance which are well-aligned with relevant United Nation Sustainable Development Goals (UNSDG). In line with SDG 13: Climate Action and recognising climate change as a significant risk to the business, community and environment, TOPG aims to reduce 8% carbon dioxide (CO₂) emission annually.

Company Background

Top Glove is the world's largest rubber glove manufacturer with an annual production capacity of 63.9bn gloves. Natural rubber gloves make up the lion's share of its product mix (51%), while nitrile rubber gloves account for 36%. Vinyl and surgical gloves account for the rest. Currently, the group's manufacturing facilities are located in Malaysia, Thailand and Indonesia.



Source: Company, AllianceDBS

Top Glove Corporation

Key Assumptions

FY Aug	2018A	2019A	2020F	2021F	2022F
Capacity (bn gloves)	60.5	63.9	72.5	84.1	87.1
Utilisation rate (%)	81.8	85.2	85.0	90.0	90.0
Sales Volume (bn gloves)	49.5	54.4	61.6	75.7	78.4
EBIT/k gloves (RM)	11.2	9.37	19.8	19.1	17.4

Income Statement (RMm)

FY Aug	2018A	2019A	2020F	2021F	2022F
Revenue	4,214	4,802	6,037	7,392	7,564
Cost of Goods Sold	(3,368)	(4,338)	(4,458)	(5,500)	(5,756)
Gross Profit	847	464	1,579	1,892	1,808
Other Opng (Exp)/Inc	(297)	48.2	(364)	(448)	(449)
Operating Profit	550	512	1,215	1,445	1,359
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.70	(1.7)	1.70	1.61	1.53
Net Interest (Exp)/Inc	(23.1)	(68.7)	(61.2)	(33.9)	(18.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	529	441	1,156	1,412	1,343
Tax	(90.7)	(57.1)	(150)	(184)	(175)
Minority Interest	(3.7)	(3.1)	(3.1)	(0.6)	(0.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	434	381	1,002	1,228	1,168
Net Profit before Except.	434	381	1,002	1,228	1,168
EBITDA	694	705	1,443	1,738	1,714
Growth					
Revenue Gth (%)	23.6	13.9	25.7	22.5	2.3
EBITDA Gth (%)	43.8	1.6	104.6	20.5	(1.4)
Opg Profit Gth (%)	47.4	(7.0)	137.5	18.9	(5.9)
Net Profit Gth (Pre-ex) (%)	32.2	(12.2)	163.0	22.5	(4.9)
Margins & Ratio					
Gross Margins (%)	20.1	9.7	26.2	25.6	23.9
Opg Profit Margin (%)	13.0	10.7	20.1	19.5	18.0
Net Profit Margin (%)	10.3	7.9	16.6	16.6	15.4
ROAE (%)	19.7	15.8	28.8	25.0	21.1
ROA (%)	10.6	7.0	15.6	15.8	13.4
ROCE (%)	11.5	6.4	16.4	17.3	14.9
Div Payout Ratio (%)	50.0	50.4	50.4	50.4	50.4

Supported by strong sales volume and ASP.

Top Glove Corporation

Quarterly / Interim Income Statement (RMm)

FY Aug	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	1,160	1,190	1,190	1,209	1,230
Cost of Goods Sold	(929)	(1,003)	(1,010)	(989)	(1,002)
Gross Profit	231	187	180	220	228
Other Oper. (Exp)/Inc	(88.0)	(85.0)	(80.4)	(80.1)	(80.0)
Operating Profit	143	102	99.6	140	148
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(1.9)	(0.6)	2.59	(0.8)
Net Interest (Exp)/Inc	(17.7)	(17.9)	(17.9)	(17.0)	(17.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	125	82.2	81.2	125	130
Tax	(18.8)	(7.1)	(1.1)	(13.7)	(14.4)
Minority Interest	(0.9)	(0.5)	0.0	(0.3)	(0.3)
Net Profit	106	74.7	80.1	111	116
Net profit bef Except.	106	74.7	80.1	111	116
EBITDA	192	151	150	197	204

Growth

Revenue Gth (%)	(8.1)	2.6	(0.1)	1.6	1.7
EBITDA Gth (%)	(6.5)	(21.4)	(0.7)	31.5	3.4
Opg Profit Gth (%)	(8.7)	(28.7)	(2.3)	40.4	6.0
Net Profit Gth (Pre-ex) (%)	(3.9)	(29.4)	7.2	39.2	3.8

Margins

Gross Margins (%)	19.9	15.7	15.1	18.2	18.6
Opg Profit Margins (%)	12.3	8.6	8.4	11.6	12.1
Net Profit Margins (%)	9.1	6.3	6.7	9.2	9.4

Balance Sheet (RMm)

FY Aug	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	2,194	2,642	3,016	3,524	3,971
Invt in Associates & JVs	1.70	0.0	1.70	3.31	4.84
Other LT Assets	1,459	1,473	1,473	1,473	1,473
Cash & ST Invt	358	245	1,032	1,222	1,494
Inventory	514	615	680	839	878
Debtors	671	597	962	1,177	1,205
Other Current Assets	76.4	76.6	76.6	76.6	76.6
Total Assets	5,273	5,649	7,241	8,316	9,102
ST Debt	854	1,042	1,042	1,042	1,042
Creditor	485	471	642	793	829
Other Current Liab	71.0	158	158	158	158
LT Debt	1,359	1,379	679	879	1,079
Other LT Liabilities	88.8	156	156	156	156
Shareholder's Equity	2,405	2,426	4,544	5,267	5,817
Minority Interests	10.6	17.1	20.1	20.7	21.3
Total Cap. & Liab.	5,273	5,649	7,241	8,316	9,102
Non-Cash Wkg. Capital	705	660	918	1,142	1,172
Net Cash/(Debt)	(1,855)	(2,175)	(688)	(699)	(627)
Debtors Turn (avg days)	47.2	48.2	47.1	52.8	57.5
Creditors Turn (avg days)	51.2	42.1	48.0	50.3	54.8
Inventory Turn (avg days)	46.9	49.7	55.9	53.2	58.0
Asset Turnover (x)	1.0	0.9	0.9	1.0	0.9
Current Ratio (x)	1.1	0.9	1.5	1.7	1.8
Quick Ratio (x)	0.7	0.5	1.1	1.2	1.3
Net Debt/Equity (X)	0.8	0.9	0.2	0.1	0.1
Net Debt/Equity ex MI (X)	0.8	0.9	0.2	0.1	0.1
Capex to Debt (%)	20.0	26.1	34.9	41.7	37.7
Z-Score (X)	5.5	5.0	5.8	5.4	5.1

Strong net profit growth provides strong cash flow generation which reduces net gearing ratio.

Source: Company, AllianceDBS

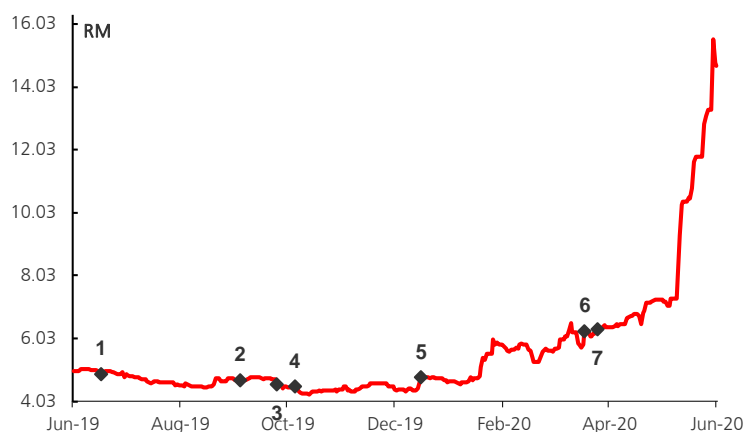
Top Glove Corporation

Cash Flow Statement (RMm)

FY Aug	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	529	441	1,156	1,412	1,343
Dep. & Amort.	142	195	226	292	353
Tax Paid	(36.8)	(56.8)	(150)	(184)	(175)
Assoc. & JV Inc/(loss)	(1.7)	1.70	(1.7)	(1.6)	(1.5)
Chg in Wkg.Cap.	(279)	(73.3)	(258)	(225)	(29.5)
Other Operating CF	(9.4)	1.02	0.0	0.0	0.0
Net Operating CF	344	509	971	1,295	1,490
Capital Exp.(net)	(443)	(632)	(600)	(800)	(800)
Other Invt.(net)	(1,261)	120	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	12.2	10.1	0.0	0.0	0.0
Net Investing CF	(1,692)	(502)	(600)	(800)	(800)
Div Paid	(202)	(220)	(179)	(505)	(618)
Chg in Gross Debt	1,472	192	(700)	200	200
Capital Issues	14.5	14.8	0.0	0.0	0.0
Other Financing CF	0.0	0.0	1,295	0.0	0.0
Net Financing CF	1,285	(13.0)	416	(305)	(418)
Currency Adjustments	(12.9)	1.02	0.0	0.0	0.0
Chg in Cash	(75.9)	(5.3)	787	190	272
Opg CFPS (sen)	24.4	22.8	48.1	59.4	59.5
Free CFPS (sen)	(3.9)	(4.8)	14.5	19.3	27.0

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 Jun 19	4.90	4.80	HOLD
2:	06 Sep 19	4.71	4.50	HOLD
3:	27 Sep 19	4.57	4.50	HOLD
4:	07 Oct 19	4.49	4.00	HOLD
5:	18 Dec 19	4.79	4.25	HOLD
6:	20 Mar 20	6.27	5.70	HOLD
7:	27 Mar 20	6.32	6.05	HOLD

Source: AllianceDBS

Analyst: Malaysian Research Team

Malaysia Company Guide

Kossan Rubber Industries

Version 13 | Bloomberg: KRI MK | Reuters: KRIB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jun 2020

BUY

Last Traded Price (2 Jun 2020): RM8.80 (KLCI : 1,507.69)
Price Target 12-mth: RM11.00 (25% upside) (Prev RM6.20)

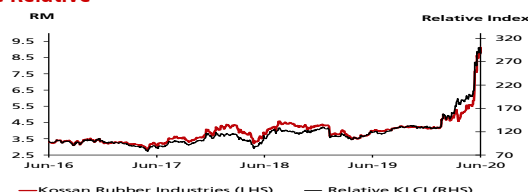
Analyst

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What's New

- Raise utilisation rate assumption on strong global glove demand
- Anticipate stronger ASP on glove shortages
- FY20-22F net profit raised by 26-37% to factor in higher sales volume and ASP
- Reiterate BUY with higher TP of RM11.00; valuation of 28x FY21 PE relatively attractive compared to peers

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	2,222	3,079	3,089	3,014
EBITDA	384	598	613	585
Pre-tax Profit	280	484	498	472
Net Profit	225	391	403	382
Net Pft (Pre Ex.)	225	391	403	382
Net Pft Gth (Pre-ex) (%)	12.0	73.9	3.0	(5.2)
EPS (sen)	17.6	30.6	31.5	29.8
EPS Pre Ex. (sen)	17.6	30.6	31.5	29.8
EPS Gth Pre Ex (%)	12	74	3	(5)
Diluted EPS (sen)	17.6	30.6	31.5	29.8
Net DPS (sen)	6.00	12.2	12.6	11.9
BV Per Share (sen)	112	133	155	173
PE (X)	50.1	28.8	28.0	29.5
PE Pre Ex. (X)	50.1	28.8	28.0	29.5
P/Cash Flow (X)	97.7	38.1	22.7	22.8
EV/EBITDA (X)	30.4	19.6	18.6	19.3
Net Div Yield (%)	0.7	1.4	1.4	1.4
P/Book Value (X)	7.9	6.6	5.7	5.1
Net Debt/Equity (X)	0.3	0.2	0.1	CASH
ROAE (%)	16.4	25.0	21.8	18.2
Earnings Rev (%):		33	37	26
Consensus EPS (sen):		21.6	23.4	26.1
Other Broker Recs:		B: 16	S: 0	H: 2

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Spurred by robust demand and shortages

Raise earnings; reiterate BUY. We raise our FY20-22 net profit forecast for Kossan Rubber Industries (KRI) by 26-37% to factor in higher utilisation and average selling price (ASP) assumptions. Robust demand has led to shortage of rubber gloves in the market and a strong ASP uplift. We expect the higher ASPs to be reflected in sequentially stronger 2Q20 profit. In addition, 2H20 should see a meaningful step up in sales volume and margins compared to 1H20. KRI's valuations at 28x FY21 earnings are relatively attractive compared to its peers.

Where we differ: On course for a record year. Our FY20F-FY21F earnings forecast is higher than consensus as we have factored in a higher sales volume and ASP in view of the higher demand arising from the COVID-19 outbreak. KRI is on course for a record net profit this year with projected growth of 74%, as it ramps up utilisation in response to the surge in demand.

Potential catalyst: Margin expansion. The Group is allocating 15% of capacity to new customer orders that fetch better ASP and margins. Every 1% improvement in net margin could boost KRI's net profit by 7.7%. A second wave of COVID-19 infections could continue to support ASPs.

Valuation:

Reiterate BUY. We reiterate our BUY call with a higher target price (TP) of RM11.00, based on 35x FY21F PE.

Key Risks to Our View:

Lower-than-expected sales volume and ASP. Lower-than-expected sales volume and ASP will adversely affect KRI's earnings and share price. A delay in KRI's expansion plans will adversely affect earnings growth. Delays could occur during the commissioning of production lines.

At A Glance

Issued Capital (m shrs)	1,279
Mkt. Cap (RMm/US\$m)	11,255 / 2,632
Major Shareholders (%)	
Kossan Holdings	51.9
Kumpulan Wang Persaraan (Diperbadankan)	7.6
Free Float (%)	
3m Avg. Daily Val (US\$m)	8.3
GIC Industry : Health Care / Health Care Equipment & Services	



Live more, Bank less

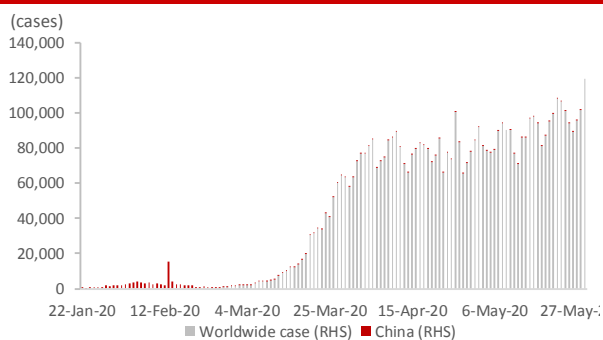
Kossan Rubber Industries

WHAT'S NEW

Record FY20 net profit on strong demand and ASP

Strong demand driven by COVID-19 pandemic. We adjusted KRI's utilisation rate further from 80% to 90%/85% for FY20F/FY21F on the back of strong demand due to the COVID-19 pandemic which has been more severe than previous major outbreaks such as SARS and H1N1. Global daily COVID-19 cases are at about 90,000-110,000. Countries such as the United States and Brazil contribute about 20% of daily cases. Countries with high populations such as India have also had a significant increase of daily new cases. The strong demand for gloves has caused a shortage of rubber gloves in the market.

Daily COVID-19 cases: Still relatively high infection rates



Source: Our World in Data, WHO, AllianceDBS, DBSV

Shortages boosting ASP. In view of the shortage of rubber gloves, ASP has increased significantly compared to early this year, at about double digit growth in 2Q20. The strong ASP trend is expected to continue in 2H20. The severe rubber glove shortage started in end March when COVID-19 started to spread worldwide. ASP quotations have about 2 months lead time. For instance, ASP for June will be determined in April. We are taking this opportunity to raise our FY20 and

FY21 average ASP assumption to 6% y-o-y and 1% y-o-y respectively.

New customer orders at higher margins. We gather that additional capacity coming on stream at about 5.5bn pieces of gloves per annum in FY19-20 is allocated to new customer orders that fetch better ASP and margins. Orders from new customers comprise about 15% of KRI's total capacity, while the remaining 85% of its capacity will be allocated to existing customers. KRI is also streamlining its production to reduce low volume products and increase efficiency.

2Q20 results expected to be stronger; record profits expected in 2H20. We are expecting KRI to report stronger results q-o-q and y-o-y in 2Q20 supported by higher sales volume and ASP. 2H20 results should be significantly stronger compared to 1H20. This is due to the ASP surge that started in March and expected to be reflected from June onwards.

Raise net profit forecasts. Our net profit assumption for FY20-FY22F is adjusted upwards by 33%, 37% and 26% respectively to factor in the higher utilisation rate and ASP assumptions.

Valuation

Maintain BUY with higher TP. We raise KRI's TP to RM11.00 post earnings adjustment. Our new TP is based on 35x FY21F earnings per share (EPS) (previously RM6.20, based on 27x FY20F EPS). KRI is currently trading at 28x forward PE, at +1.6 SD (standard deviation) of its 5-year mean PE (or +1.7 SD of its 10-year mean). It provides capital gain of 25% and yield of 1.4%. Maintain BUY.

Kossan Rubber Industries

CRITICAL DATA POINTS TO WATCH

Capacity expansion. KRI recently completed its nitrile glove plant #17 and #18 which will take its annual production capacity to 27.5bn gloves. The next phase of expansion involving plant #19 will add another 3.0bn gloves p.a. capacity in 1H20, bringing total annual production capacity to 32bn in 2020. Based on this, we forecast KRI's capacity to grow by 23%/5%/3% in FY20/21/22F.

824 acres of Bidor land bank ready for development. KRI is expecting its facility in Bidor, Perak to take eight years to complete and eventually add c.45bn to its annual glove capacity. The first plant focusing on specialised gloves is expected to be completed in 2021, sooner than expected (previously 2022).

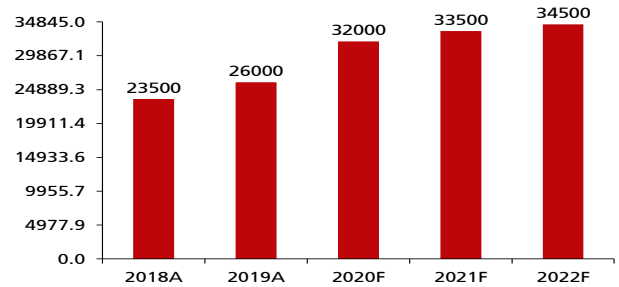
Sales volume to grow at 9% CAGR. We are expecting utilisation rate of 90%/85% for FY20/FY21 on the back of strong demand due to the COVID-19 pandemic. We expect KRI to grow its sales volume at 3-year compound annual growth rate (CAGR) of 9% for FY19-FY22F.

EBIT/k gloves a better metric to assess profitability. We assess KRI's profitability by looking at unit profitability (i.e. earnings before interest and taxes (EBIT)/k gloves), rather than profit margins. This is because profit margins can fluctuate wildly even if there is no change in underlying profitability as KRI has a cost pass-through pricing strategy at a time lag of 1-2 months. Under this pricing mechanism, profit margins can rise even when costs are falling (i.e. same level of profit at lower ASP), and margins can drop when costs are rising (i.e. same level of profit at higher ASP), with no impact on bottom line.

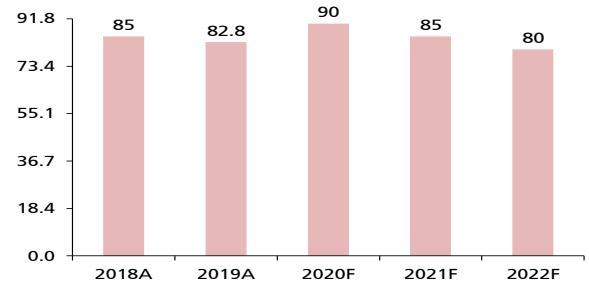
Efficiency gains to boost unit profitability. KRI relies on efficiency gains to improve its profitability. The group will continue to focus on its enhancement initiatives and introduce its patented accelerator-free nitrile gloves and other special gloves to minimise the impact of price competition. We expect FY20 unit profitability of RM16.6.

Shifting focus to nitrile gloves. KRI's incoming production lines are capable of producing both latex and nitrile gloves, but it plans to focus more on nitrile gloves due to stronger demand. As such, KRI's sales mix is expected to tilt increasingly towards nitrile gloves, from 70% in FY17 to 75% in FY20F.

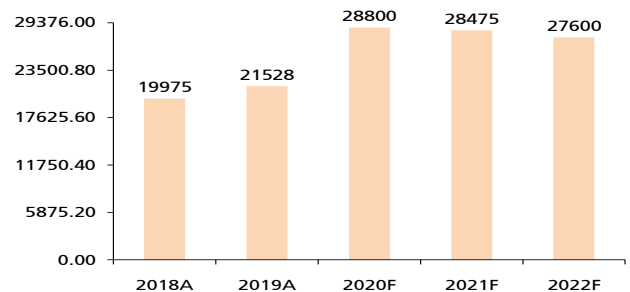
Capacity (m gloves)



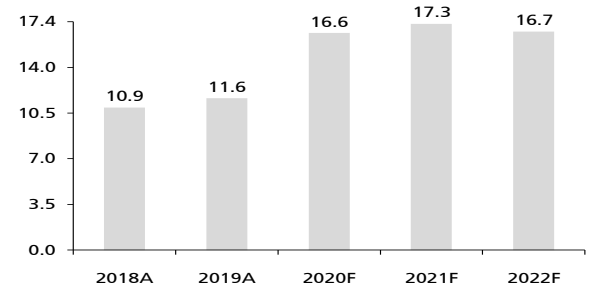
Utilisation rate (%)



Output (m gloves)

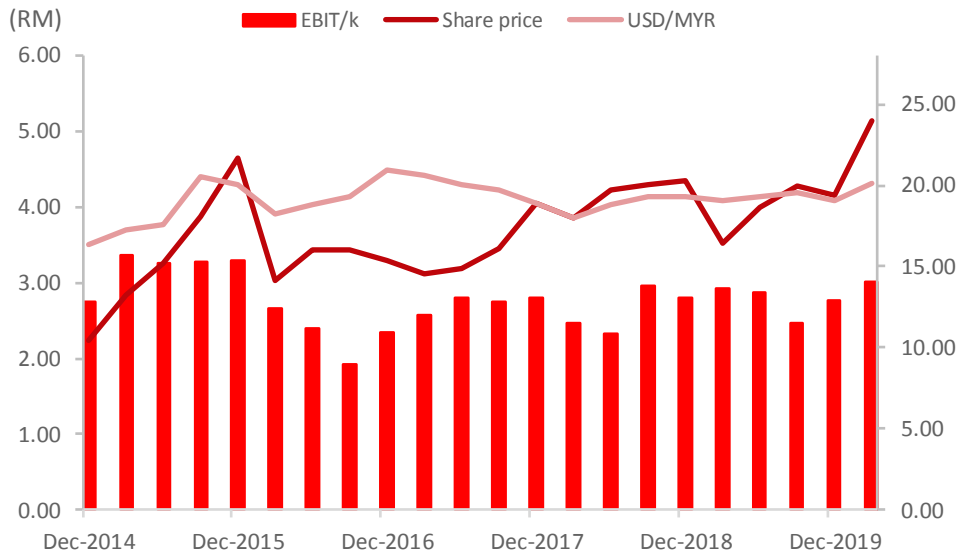


EBIT/k gloves (RM)



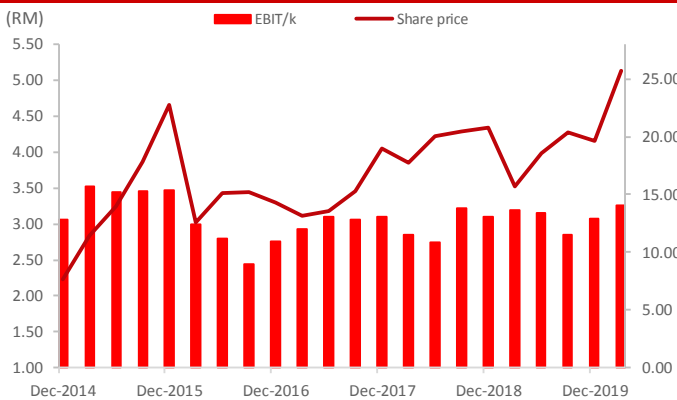
Kossan Rubber Industries

Appendix 1: Factors driving historical share price performance



Source: Company, AllianceDBS, Bloomberg Finance L.P

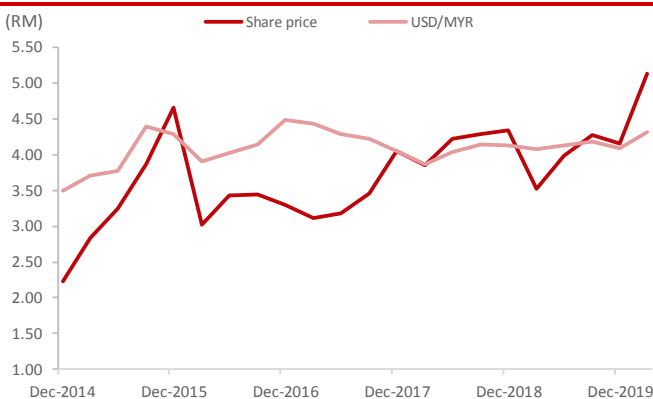
KRI's share price versus EBIT/k



Remarks

KRI's profitability is measured on unit profitability (i.e. EBIT/k gloves). Efficiency gains help improve its profitability. We noticed that when EBIT/k dropped, KRI's share price also declined. On the other hand, when EBIT/k improved, its share price increased. These trends were more obvious in March 2016, March-December 2017 and March 2018.

KRI's share price versus USD/MYR



Remarks

From December 2014 to December 2015, KRI's share price had a high correlation of 0.91 with the US Dollar/Malaysian Ringgit (USD/MYR) trend, as revenue is denominated in USD. However, with a more competitive environment and cost/savings pass-through pricing mechanism, any gains/losses from foreign exchange (forex) movements will eventually normalise. The correlation between KRI's share price and USD/MYR trend dropped to 0.11 from June 2017- March 2020.

Source: Company, AllianceDBS, Bloomberg Finance L.P

Kossan Rubber Industries

Balance Sheet:

Solid balance sheet. KRI is a strong cash generator. We expect the group to maintain a low net gearing at 0.3x/0.2x in FY19/20F. In our forecasts, we assume KRI paying 40% of its net profit as dividends and annual capital expenditure (capex) of RM190m in FY20-22F.

Share Price Drivers:

Increasing market volatility. Malaysian-listed glove makers are generally regarded as defensive and a safe haven by investors, given their resilient earnings outlook that is backed by: (1) the cost pass-through pricing mechanism, (2) stable demand for medical glove products, and (3) exposure to a global market (not dependent on a single geographical region).

Earnings outlook. KRI's earnings are a function of two variables: (1) sales volume, and (2) unit profitability (EBIT/k gloves). Unit profitability is influenced by the competitive environment, productivity and macroeconomic factors (i.e. currency movements, raw material prices, etc.).

Key Risks:

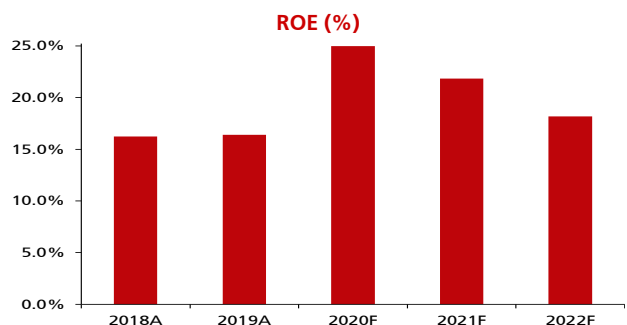
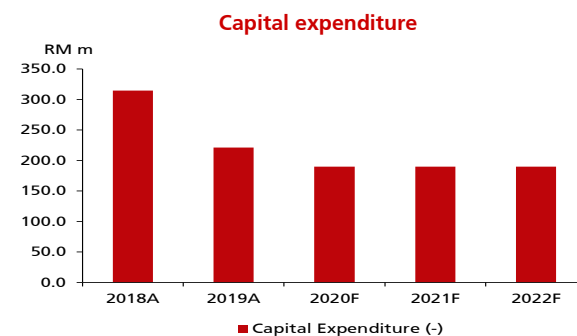
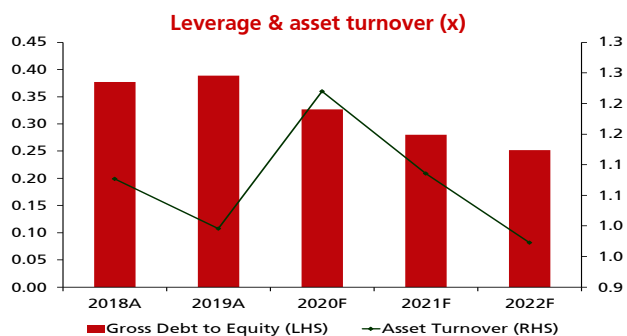
Delays in expansion plans. A delay in KRI's expansion plans will adversely affect earnings growth. Delays typically occur during the commissioning of production lines.

Environmental, Social, Governance (ESG):

KRI launched Yayasan Kossan in December 2015 to facilitate a well-structured, organised and focused platform to execute KRI's corporate social responsibility (CSR) efforts effectively and reaching out to those in need. KRI's CSR programmes are fully aligned with Bursa Malaysia's CSR Framework for Malaysian Corporations, with initiatives focusing on four pillars: Marketplace Development, Workplace Development, Community Development and Environment Preservation.

Company Background

Kossan Rubber Industries manufactures latex, nitrile, cleanroom and surgical gloves. It also produces technical rubber products for the automotive, industrial and construction sectors.



Source: Company, AllianceDBS

Kossan Rubber Industries

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Capacity (m gloves)	23,500	26,000	32,000	33,500	34,500
Utilisation rate (%)	85.0	82.8	90.0	85.0	80.0
Output (m gloves)	19,975	21,528	28,800	28,475	27,600
EBIT/k gloves (RM)	10.9	11.6	16.6	17.3	16.8

Strong rubber glove demand driven by COVID-19 pandemic.

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (RMm)					
Gloves	1,877	1,964	2,785	2,781	2,691
Technical Rubber	185	181	203	213	223
Cleanroom products	79.5	74.1	87.4	91.8	96.4
Others	3.28	2.36	3.30	3.30	3.30
Total	2,144	2,222	3,079	3,089	3,014

Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	2,144	2,222	3,079	3,089	3,014
Cost of Goods Sold	(1,823)	(1,873)	(2,528)	(2,524)	(2,476)
Gross Profit	321	349	551	566	538
Other Opng (Exp)/Inc	(53.4)	(55.6)	(45.2)	(45.2)	(45.2)
Operating Profit	267	293	506	520	492
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.1)	(12.9)	(22.3)	(22.6)	(20.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	249	280	484	498	472
Tax	(44.0)	(52.2)	(90.1)	(92.8)	(87.9)
Minority Interest	(4.5)	(3.1)	(2.8)	(2.5)	(2.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	201	225	391	403	382
Net Profit before Except.	201	225	391	403	382
EBITDA	344	384	598	613	585

Growth

Revenue Gth (%)	9.5	3.6	38.6	0.3	(2.4)
EBITDA Gth (%)	11.8	11.5	55.6	2.5	(4.5)
Opg Profit Gth (%)	13.3	9.5	72.7	2.9	(5.4)
Net Profit Gth (Pre-ex) (%)	10.3	12.0	73.9	3.0	(5.2)

Supported by stronger sales volume and better ASP.

Margins & Ratio

Gross Margins (%)	15.0	15.7	17.9	18.3	17.8
Opg Profit Margin (%)	12.5	13.2	16.4	16.8	16.3
Net Profit Margin (%)	9.4	10.1	12.7	13.0	12.7
ROAE (%)	16.2	16.4	25.0	21.8	18.2
ROA (%)	10.1	10.1	15.5	14.2	12.3
ROCE (%)	12.2	11.8	18.3	16.7	14.4
Div Payout Ratio (%)	57.3	34.1	40.0	40.0	40.0
Net Interest Cover (x)	14.8	22.8	22.7	23.0	23.8

Kossan Rubber Industries

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	561	551	531	578	611
Cost of Goods Sold	(483)	(477)	(467)	(505)	(527)
Gross Profit	78.8	74.0	64.5	73.4	84.1
Other Oper. (Exp)/Inc	0.64	0.82	0.50	0.39	1.22
Operating Profit	79.4	74.8	65.0	73.8	85.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(4.3)	(4.8)	(2.2)	(1.6)	(2.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	75.1	70.0	62.8	72.3	82.5
Tax	(15.6)	(13.3)	(12.6)	(10.7)	(17.3)
Minority Interest	(0.8)	(0.8)	(1.0)	0.57	(0.5)
Net Profit	58.7	55.9	49.2	62.2	64.8
Net profit bef Except.	58.7	55.9	49.2	62.2	64.8
EBITDA	103	96.9	87.0	97.6	111

Growth

Revenue Gth (%)	(4.7)	(1.9)	(3.5)	8.9	5.7
EBITDA Gth (%)	4.8	(5.5)	(10.3)	12.3	13.3
Opg Profit Gth (%)	5.4	(5.8)	(13.1)	13.7	15.5
Net Profit Gth (Pre-ex) (%)	(1.3)	(4.8)	(12.0)	26.4	4.3

Margins

Gross Margins (%)	14.0	13.4	12.1	12.7	13.7
Opg Profit Margins (%)	14.1	13.6	12.2	12.8	13.9
Net Profit Margins (%)	10.5	10.2	9.3	10.7	10.6

Better q-o-q net profit on higher sales volume.

Balance Sheet (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	1,266	1,398	1,496	1,486	1,584
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	13.3	24.6	24.6	24.6	24.6
Cash & ST Invt	143	163	152	446	592
Inventory	252	325	438	437	429
Debtors	406	405	561	563	549
Other Current Assets	37.6	30.4	30.4	30.4	30.4
Total Assets	2,117	2,345	2,703	2,988	3,209
ST Debt	242	393	393	393	393
Creditor	175	229	309	309	303
Other Current Liab	1.58	4.64	4.64	4.64	4.64
LT Debt	264	172	172	172	172
Other LT Liabilities	89.7	92.2	92.2	92.2	92.2
Shareholder's Equity	1,317	1,427	1,701	1,984	2,209
Minority Interests	27.4	27.0	29.9	32.4	34.6
Total Cap. & Liab.	2,117	2,345	2,703	2,988	3,209
Non-Cash Wkg. Capital	518	526	715	717	701
Net Cash/(Debt)	(364)	(402)	(413)	(119)	26.6
Debtors Turn (avg days)	67.4	66.6	57.3	66.4	67.4
Creditors Turn (avg days)	39.5	41.4	40.3	46.4	46.8
Inventory Turn (avg days)	48.5	59.0	57.1	65.7	66.3
Asset Turnover (x)	1.1	1.0	1.2	1.1	1.0
Current Ratio (x)	2.0	1.5	1.7	2.1	2.3
Quick Ratio (x)	1.3	0.9	1.0	1.4	1.6
Net Debt/Equity (X)	0.3	0.3	0.2	0.1	CASH
Net Debt/Equity ex MI (X)	0.3	0.3	0.2	0.1	CASH
Capex to Debt (%)	62.1	39.1	33.6	33.6	33.6

Source: Company, AllianceDBS

Kossan Rubber Industries

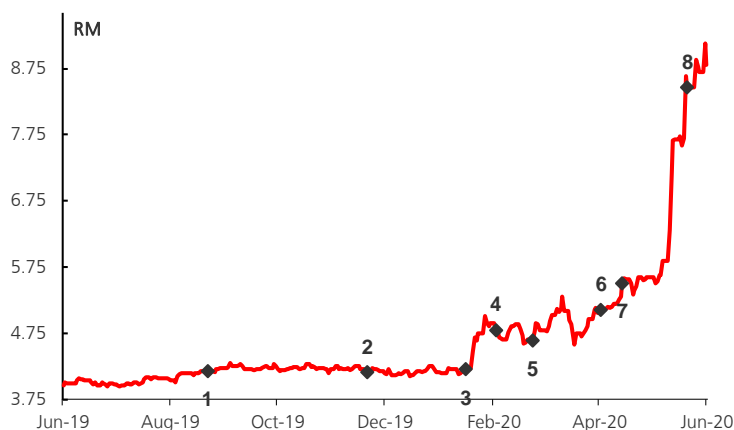
Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	249	280	484	498	472
Dep. & Amort.	77.0	91.2	91.7	92.1	92.6
Tax Paid	(57.8)	(62.5)	(90.1)	(92.8)	(87.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(62.7)	(13.1)	(190)	(1.7)	16.2
Other Operating CF	0.59	(180)	0.0	0.0	0.0
Net Operating CF	206	115	296	496	493
Capital Exp.(net)	(315)	(221)	(190)	(190)	(190)
Other Invt.(net)	0.0	0.0	0.0	147	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	180	0.0	0.0	0.0
Net Investing CF	(315)	(41.8)	(190)	(43.0)	(190)
Div Paid	(70.8)	(115)	(117)	(159)	(157)
Chg in Gross Debt	112	58.4	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	41.3	(56.9)	(117)	(159)	(157)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(67.2)	16.6	(10.7)	294	146
Opg CFPS (sen)	21.0	10.0	37.9	38.9	37.2
Free CFPS (sen)	(8.5)	(8.3)	8.27	23.9	23.7

Sufficient to support expansion capex.

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Aug 19	4.18	4.00	HOLD
2:	22 Nov 19	4.16	4.00	HOLD
3:	17 Jan 20	4.20	4.00	HOLD
4:	03 Feb 20	4.80	5.60	BUY
5:	24 Feb 20	4.64	5.60	BUY
6:	03 Apr 20	5.10	5.60	BUY
7:	15 Apr 20	5.51	6.20	BUY
8:	22 May 20	8.46	10.10	BUY

Source: AllianceDBS

Analyst: Malaysian Research Team

Malaysia Company Guide

Hartalega Holdings

Version 12 | Bloomberg: HART MK | Reuters: HTHB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Jun 2020

BUY (Upgrade from HOLD)

Last Traded Price (4 Jun 2020): RM11.78 (KLCI : 1,561.84)

Price Target 12-mth: RM13.75 (17% upside) (Prev RM5.95)

Analyst

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sruzannamf@alliancedbs.com

What's New

- Robust gloves demand amid high global COVID-19 infection rates
- Industry shortage driving ASP higher
- Lift FY21-23F earnings by 52-65%
- Upgrade to BUY with higher TP of RM13.75 on strong earnings growth

Price Relative



Forecasts and Valuation

FY Mar (RMm)	2020A	2021F	2022F	2023F
Revenue	2,924	3,938	4,319	4,401
EBITDA	724	1,315	1,376	1,335
Pre-tax Profit	556	1,183	1,229	1,175
Net Profit	435	938	975	933
Net Pft (Pre Ex.)	470	938	975	933
Net Pft Gth (Pre-ex) (%)	0.9	99.6	3.9	(4.3)
EPS (sen)	12.9	27.8	28.9	27.6
EPS Pre Ex. (sen)	13.9	27.8	28.9	27.6
EPS Gth Pre Ex (%)	(1)	100	4	(4)
Diluted EPS (sen)	12.9	27.8	28.9	27.6
Net DPS (sen)	5.75	13.2	13.7	13.1
BV Per Share (sen)	75.3	92.3	108	122
PE (X)	91.4	42.3	40.8	42.6
PE Pre Ex. (X)	84.5	42.3	40.8	42.6
P/Cash Flow (X)	60.3	44.5	37.7	37.0
EV/EBITDA (X)	54.8	30.2	28.6	29.3
Net Div Yield (%)	0.5	1.1	1.2	1.1
P/Book Value (X)	15.6	12.8	10.9	9.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	18.1	33.2	28.9	24.1

Earnings Rev (%):

Consensus EPS (sen):

Other Broker Recs:

61 65 52
16.1 17.9 N/A
B: 5 S: 6 H: 11

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Riding on strong tailwinds

BUY with higher TP of RM13.75. Hartalega (HART) is riding on robust demand for gloves and price uptrend led by industry shortage as global COVID-19 infection rates have stayed high. We raised our FY20-23F net profit forecasts by 52-65% to factor in stronger sales volume and higher product price assumptions. A second wave of COVID-19 infections after the gradual easing of lockdowns could see glove demand staying high. In the long term, even as COVID-19 infection rates ease, we expect increased usage of gloves globally, sustaining a "new normal" level of demand. We upgrade HART to BUY on the back of the favourable earnings outlook.

Where we differ: Our FY21F/22F net profit are 34%/44% higher than consensus, as we expect HART to enjoy better ASP due to the strong demand driven by the COVID-19 outbreak.

Potential catalysts: Stronger-than-expected ASP may further increase HART's net profit. Every 1ppt improvement in net margin could boost HART's net profit by 6.4%. Plans for its next growth phase is in the works with its recent acquisition of a site in Banting – a solid indication of the group's longer term expansion strategy. This new facility will increase HART's total capacity to 76bn pieces of gloves per annum by 2029, up by 74% from 43bn pieces of gloves per annum once Plant #7 for NGC1 is fully commissioned in 2021.

Valuation:

Upgrade to BUY with higher TP of RM13.75. Post earnings, adjustment, we raise our TP for HART to RM13.75 (from RM5.95), pegged to higher 48x CY21F EPS. This is equivalent to +2 SD (standard deviation) of its 5-year average.

Key Risks to Our View:

Lower than expected demand for gloves and ASP. Weaker than expected sales volume and ASP could dampen earnings and suppress margins.

At A Glance

Issued Capital (m shrs)	3,383
Mkt. Cap (RMm/US\$m)	39,857 / 9,352
Major Shareholders (%)	
Hartalega Industries	49.3
Employees Provident Fund	7.5
Budi Tenggara	3.0
Free Float (%)	51
3m Avg. Daily Val (US\$m)	20.5

GIC Industry : Health Care / Health Care Equipment & Services



Live more, Bank less

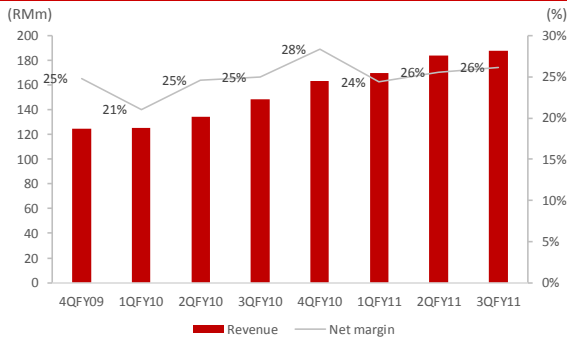
Hartalega Holdings

WHAT'S NEW

Strong ASP on solid demand

Factoring in higher ASP assumptions. We expect HART to enjoy strong average selling price (ASP) in upcoming months in view of the robust demand for gloves. We are expecting utilisation rate to rise to 90% for FY21-22F from 88.4% in FY20. We have raised our FY21-23F net profit forecasts by 61%, 65% and 52% respectively to factor in higher ASP assumption. Profit margin is expected to improve to 23.8% in FY21 compared to 14.9% in FY20 on the back of strong volume growth and higher ASPs.

Hartalega: Net margin improved to 25-28% during H1N1 pandemic (vs. long-term average of 20%)



Source: Company, AllianceDBS

Sensitivity analysis: Every 1ppt improvement in margins could increase net profit by 6.4%

	Base case	Sales volume growth		
		+1%	+2%	+5%
FY22 net profit (RMm)	975	986	997	1,030
Change in net profit (%)	-	+1.1	+2.2	+5.6
Target price (RM)	13.75	13.85	14.00	14.35
	Base case	Margin		
		+1%	+2%	+3%
FY22 net profit (RMm)	975	1,038	1,100	1,166
Change in net profit (%)	-	+6.4	+12.9	+19.7
Target price (RM)	13.75	14.40	15.10	15.80

Source: Company, AllianceDBS

Valuation

Upgrade to BUY with higher TP of RM13.75. Post earnings, adjustment, we raise our TP for to RM13.75 (from RM5.95), pegged to higher 48x CY21F EPS. This is equivalent to +2 SD (standard deviation) of its 5-year average. HART is currently trading at 41x CY21F PE.

Hartalega Holdings

CRITICAL DATA POINTS TO WATCH

NGC expansion to drive capacity growth. Located on a 112-acre site in Sepang, HART’s Next Generation Integrated Glove Manufacturing Complex (NGC) comprises nitrile glove plants with a total production capacity of 32.5bn gloves p.a. Each production line is able to churn out 45k gloves/hour, translating into 2.6 employees per million gloves per month (vs 3.9 currently and industry average of 4.7). All in, we expect HART to grow its effective annual capacity by 13%/10%/7% in FY21F/22F/23F.

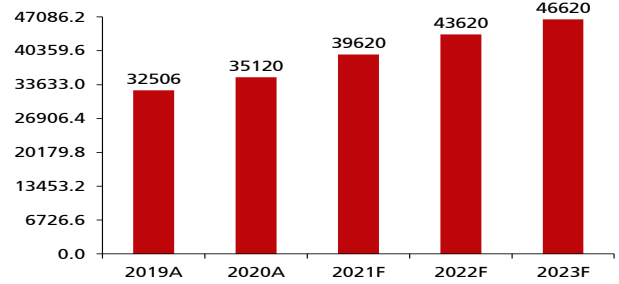
Sales volume to grow at 10% compound annual growth rate (CAGR). We expect the group’s utilisation rate to be at 90% for FY21-22F and 87.5% for FY23F on the back of the robust demand arising from COVID-19. We assume that HART may close its older and less efficient plants once the new NGC plants come online. Premised on this, we expect HART to grow its sales volume by 15%/10%/4% in FY21/22/23F.

EBIT/k gloves a better metric to assess profitability. We assess HART’s profitability by looking at unit profitability (i.e. earnings before interest and taxes/k (EBIT/k) gloves), rather than profit margins. This is because profit margins may fluctuate even if there are no changes in underlying profitability, due to cost pass-through pricing (which has 1-2 months lag). Under this pricing mechanism, profit margins may rise when costs fall (i.e. same profit levels on lower ASP due to cost pass-through); margins may drop when costs rise (i.e. same profit levels on higher ASP).

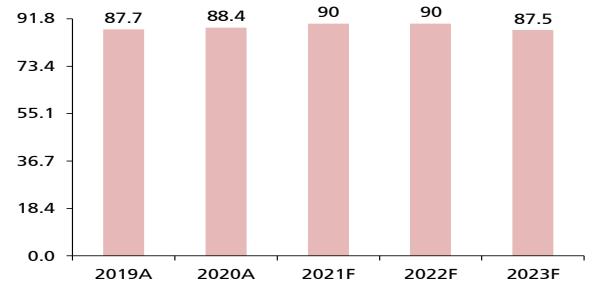
Expect higher EBIT/k gloves in FY21F. We forecast EBIT/k gloves of RM28.90-RM33.30 in FY21-23F mainly supported by higher ASP in view of market gloves shortage on the back of solid demand.

Primarily a nitrile gloves producer. Driven by its NGC, we expect HART’s sales mix to continue tilting towards nitrile gloves, from 95% in FY18 to 96% in FY21. Demand for nitrile gloves is expected to outpace latex gloves in the coming years. However, supply and demand dynamics will be impacted by rising incoming supply relative to latex gloves.

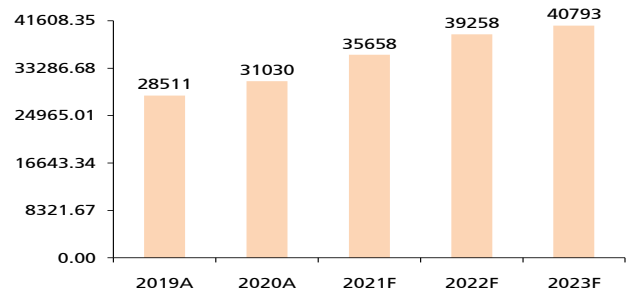
Capacity (m gloves)



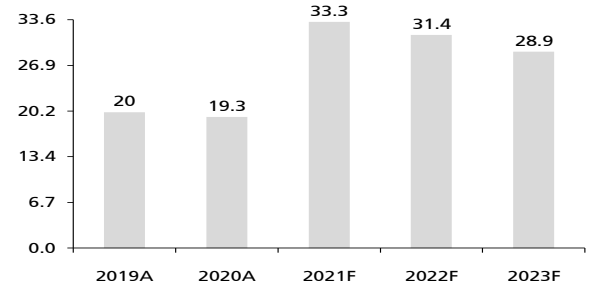
Utilisation rate (%)



Output (m gloves)



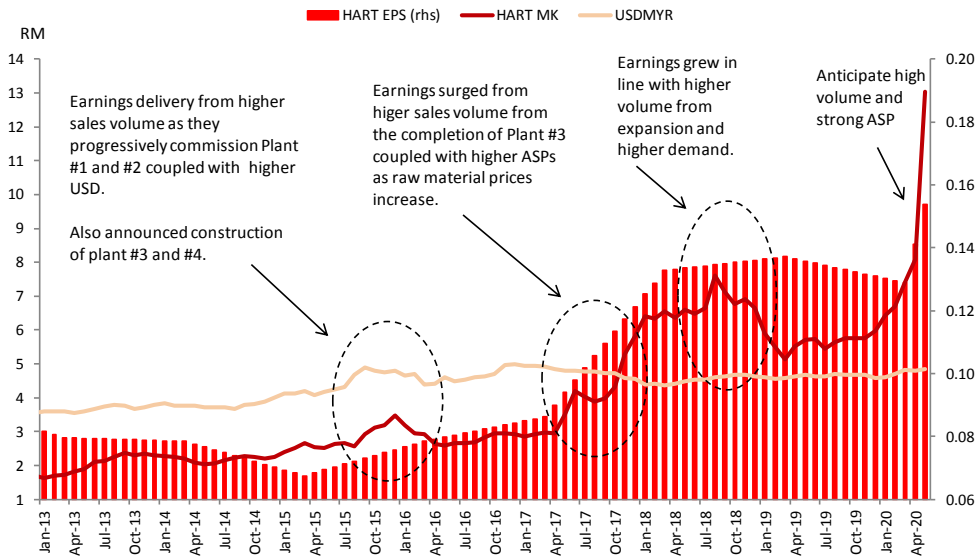
EBIT/k gloves (RM)



Source: Company, AllianceDBS

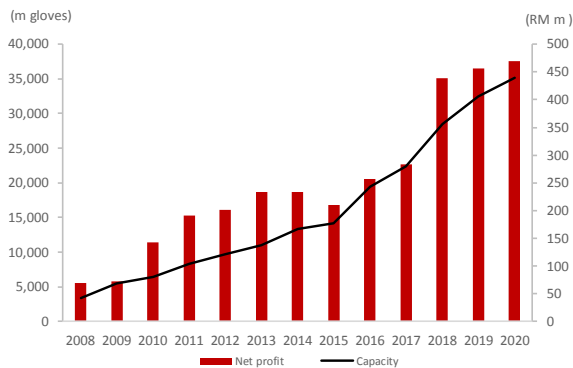
Hartalega Holdings

Appendix 1: Factors driving historical share price performance



*Hartalega forward EPS is based on consensus
Source: Company, AllianceDBS, Bloomberg

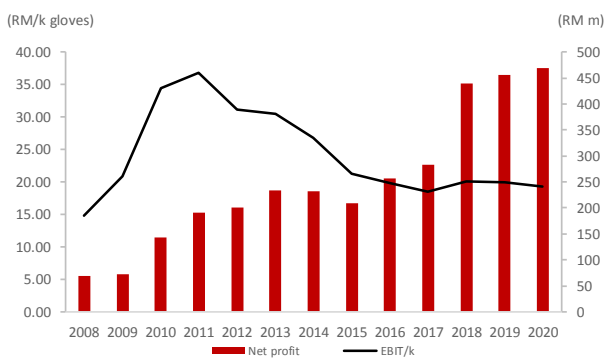
Hartalega's capacity vs net profit



Remarks

The company's net profit grew in tandem with capacity expansion. Net profit has a positive correlation of 0.97 with capacity expansion.

Hartalega's EBIT/k vs net profit



Remarks

From 2008 to 2011, Hartalega's net profit growth is supported by both increase in capacity and improvement in unit profitability. Meanwhile, for year 2012 to 2015, we noticed that despite a steady increase in capacity, net profit did not increase in the same quantum due to declining unit profitability. However, unit profitability was stable in during 2016 to 2019, while the higher net profit was mainly due to surge in capacity.

Source: Company, AllianceDBS, Bloomberg

Hartalega Holdings

Balance Sheet:

Improving gearing level. HART is able to generate strong operating cashflows to fund its expansion activity. We expect its gearing level to hover at 0.1x for FY19 and turn into a net cash position in FY20-23F.

Share Price Drivers:

Increased market volatility. Malaysian-listed glove makers have generally been regarded as defensive counters and a safe haven by investors, given their resilient earnings outlook backed by: 1) cost pass through mechanism, 2) stable demand for medical glove products, 3) exposure to global markets (not dependent on a single geographical region). As such, share prices in the sector tend to react favourably during periods of increasing market volatility.

Supported by capacity and demand growth. We expect HART's sales volume to grow at double-digits, given its capacity growth and strong demand for nitrile gloves. The absolute increase in output is reasonable vis-à-vis the additional global demand.

Unit profitability is influenced by the competitive environment, productivity and macroeconomic factors (i.e. currency movements, raw material prices, etc.). In the long term, the competitive environment is expected to drag the company's unit profitability.

Key Risks:

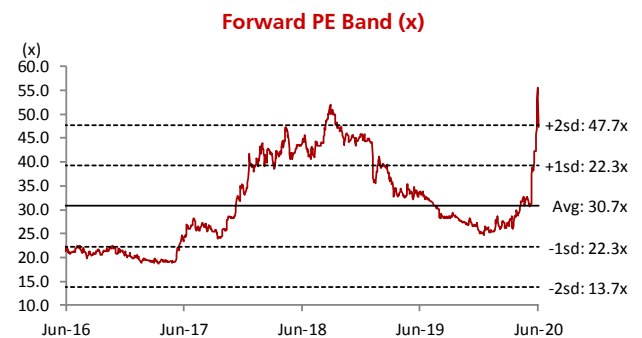
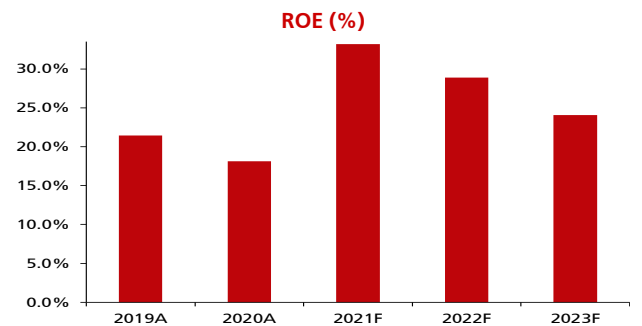
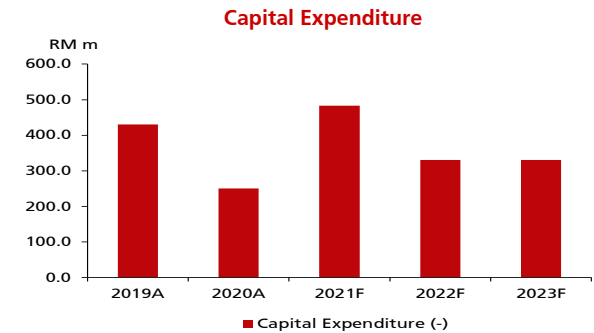
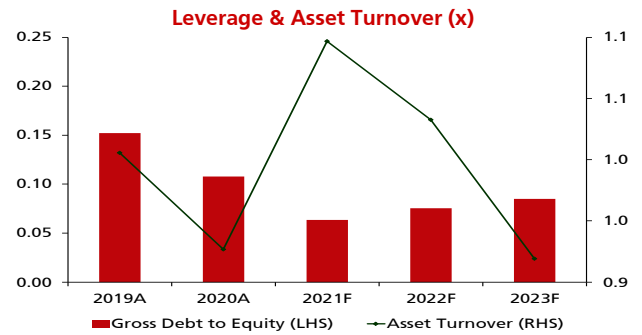
Lower than expected demand for gloves and ASP. Weaker than expected sales volume and ASP could dampen earnings and suppress margins.

Environment, Social, Governance:

HART has set aside an average 4% from its annual profits to invest in advanced equipment and technology to help protect the environment. HART has also obtained the ISO14001:2015 certification for environmental management systems.

Company Background

Hartalega manufactures a wide range of gloves. The company's products include natural rubber examination gloves, nitrile examination gloves, nitrile clean room gloves and natural rubber surgical gloves. It has the largest nitrile glove capacity among the glove makers under our coverage.



Source: Company, AllianceDBS

Hartalega Holdings

Key Assumptions

FY Mar	2019A	2020A	2021F	2022F	2023F
Capacity (m gloves)	32,506	35,120	39,620	43,620	46,620
Utilisation rate (%)	87.7	88.4	90.0	90.0	87.5
Output (m gloves)	28,511	31,030	35,658	39,258	40,793
EBIT/k gloves (RM)	20.0	19.3	33.3	31.4	28.9

Income Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Revenue	2,828	2,924	3,938	4,319	4,401
Cost of Goods Sold	(2,098)	(2,166)	(2,568)	(2,886)	(3,015)
Gross Profit	730	758	1,370	1,434	1,386
Other Opng (Exp)/Inc	(161)	(159)	(184)	(200)	(207)
Operating Profit	569	599	1,187	1,234	1,179
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.4)	(7.6)	(4.0)	(5.0)	(3.5)
Exceptional Gain/(Loss)	(9.8)	(35.2)	0.0	0.0	0.0
Pre-tax Profit	552	556	1,183	1,229	1,175
Tax	(95.7)	(120)	(243)	(253)	(242)
Minority Interest	0.0	(1.1)	(1.1)	(1.1)	(1.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	456	435	938	975	933
Net Profit before Except.	466	470	938	975	933
EBITDA	673	724	1,315	1,376	1,335

Supported by solid demand arising from COVID-19

Supported by strong sales volume and ASP

Growth

Revenue Gth (%)	17.6	3.4	34.7	9.7	1.9
EBITDA Gth (%)	11.1	7.7	81.6	4.6	(3.0)
Opg Profit Gth (%)	10.0	5.3	98.1	4.0	(4.4)
Net Profit Gth (Pre-ex) (%)	10.1	0.9	99.6	3.9	(4.3)

Margins & Ratio

Gross Margins (%)	25.8	25.9	34.8	33.2	31.5
Opg Profit Margin (%)	20.1	20.5	30.1	28.6	26.8
Net Profit Margin (%)	16.1	14.9	23.8	22.6	21.2
ROAE (%)	21.5	18.1	33.2	28.9	24.1
ROA (%)	16.2	13.8	26.1	23.3	19.5
ROCE (%)	17.8	16.2	28.8	25.6	21.3
Div Payout Ratio (%)	62.7	44.6	47.5	47.5	47.5
Net Interest Cover (x)	77.1	78.6	297.9	247.9	335.1

Source: Company, AllianceDBS

Hartalega Holdings

Quarterly / Interim Income Statement (RMm)

FY Mar	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Revenue	683	640	709	797	778
Cost of Goods Sold	(573)	(516)	(567)	(642)	(604)
Gross Profit	110	125	143	154	174
Other Oper. (Exp)/Inc	(4.1)	1.51	(4.6)	4.23	0.0
Operating Profit	106	126	138	159	174
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.1)	(2.4)	(2.4)	(1.6)	(1.2)
Exceptional Gain/(Loss)	8.91	(2.0)	1.63	2.78	(35.1)
Pre-tax Profit	113	122	137	160	138
Tax	(22.5)	(27.4)	(33.1)	(38.0)	(21.9)
Minority Interest	0.20	(0.2)	(0.3)	(0.4)	(0.1)
Net Profit	90.3	94.1	104	121	116
Net profit bef Except.	81.4	96.1	102	118	151
EBITDA	134	156	169	190	206

Growth

Revenue Gth (%)	(5.6)	(6.3)	10.8	12.3	(2.3)
EBITDA Gth (%)	(26.4)	16.6	8.4	12.4	8.3
Opg Profit Gth (%)	(32.1)	19.1	9.6	14.8	9.7
Net Profit Gth (Pre-ex) (%)	(34.0)	18.0	6.4	15.9	27.1

Margins

Gross Margins (%)	16.1	19.5	20.1	19.4	22.4
Opg Profit Margins (%)	15.5	19.7	19.5	19.9	22.4
Net Profit Margins (%)	13.2	14.7	14.6	15.2	14.9

Balance Sheet (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	2,070	2,191	2,550	2,737	2,912
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	23.9	35.0	30.5	30.5	30.5
Cash & ST Invt	150	305	271	616	985
Inventory	276	276	327	368	384
Debtors	458	503	678	743	757
Other Current Assets	13.3	7.40	7.40	7.40	7.40
Total Assets	2,992	3,318	3,864	4,502	5,076
ST Debt	223	85.4	85.4	85.4	85.4
Creditor	258	276	327	368	384
Other Current Liab	2.90	47.9	47.9	47.9	47.9
LT Debt	121	189	112	189	265
Other LT Liabilities	126	175	175	175	175
Shareholder's Equity	2,257	2,541	3,111	3,632	4,112
Minority Interests	3.06	3.60	4.65	5.70	6.75
Total Cap. & Liab.	2,992	3,318	3,864	4,502	5,076
Non-Cash Wkg. Capital	486	463	637	703	717
Net Cash/(Debt)	(194)	31.0	73.9	342	635
Debtors Turn (avg days)	55.8	60.0	54.7	60.0	62.2
Creditors Turn (avg days)	43.6	47.8	45.1	46.2	48.0
Inventory Turn (avg days)	51.9	49.4	45.2	46.3	48.0
Asset Turnover (x)	1.0	0.9	1.1	1.0	0.9
Current Ratio (x)	1.9	2.7	2.8	3.5	4.1
Quick Ratio (x)	1.3	2.0	2.1	2.7	3.4
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	125.1	91.3	244.7	120.4	94.1

Source: Company, AllianceDBS

Hartalega Holdings

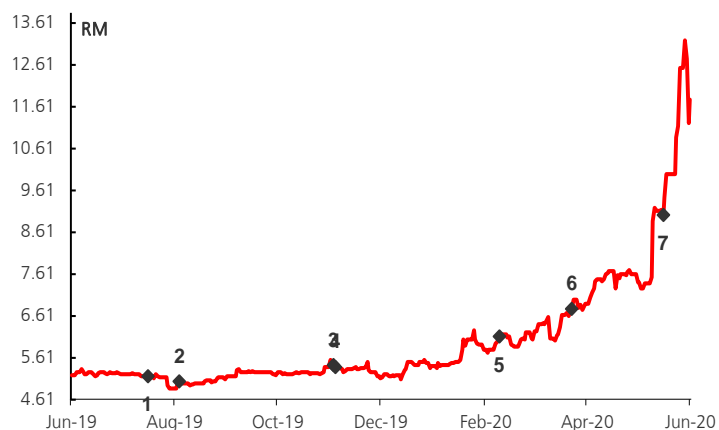
Cash Flow Statement (RMm)

FY Mar	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	552	556	1,183	1,229	1,175
Dep. & Amort.	104	125	129	142	156
Tax Paid	(78.3)	(120)	(243)	(253)	(242)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(1.5)	(53.2)	(175)	(65.6)	(14.1)
Other Operating CF	49.7	151	0.0	0.0	0.0
Net Operating CF	625	659	894	1,053	1,075
Capital Exp.(net)	(430)	(250)	(483)	(330)	(330)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(1.5)	(0.3)	0.0	0.0	0.0
Net Investing CF	(432)	(250)	(483)	(330)	(330)
Div Paid	(286)	(249)	(368)	(455)	(452)
Chg in Gross Debt	27.3	(76.6)	(76.6)	76.6	76.6
Capital Issues	68.8	84.0	0.0	0.0	0.0
Other Financing CF	(9.9)	(12.3)	0.0	0.0	0.0
Net Financing CF	(200)	(254)	(444)	(378)	(376)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(6.3)	155	(33.7)	344	369
Opg CFPS (sen)	18.8	21.1	31.7	33.2	32.3
Free CFPS (sen)	5.86	12.1	12.2	21.4	22.1

Strong operating cash flow able to support expansion plan

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysian Research Team

Singapore Company Guide

Riverstone Holdings

Version 19 | Bloomberg: RSTON SP | Reuters: RVHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jun 2020

BUY

Last Traded Price (2 Jun 2020): S\$2.24 (STI : 2,611.63)
Price Target 12-mth: S\$3.09 (38% upside) (Prev S\$2.20)

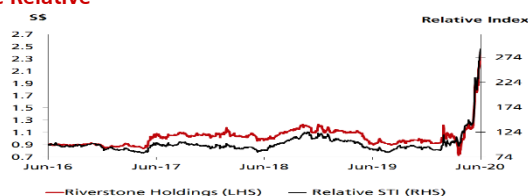
Analyst

Lee Keng LING +65 6682 3703 leekeng@db.com

What's New

- Running at full capacity; orderbook fully locked in
- Margin improvement on higher ASP and lower raw material prices
- Demand expected to be strong post COVID-19
- Revised earnings up for FY20F/FY21F by 30%/41%; reiterate BUY with higher TP of S\$3.09

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	921	989	1,323	1,367
EBITDA	193	206	372	384
Pre-tax Profit	151	157	307	317
Net Profit	130	130	246	257
Net Pft (Pre Ex.)	130	130	246	257
Net Pft Gth (Pre-ex) (%)	0.3	0.6	88.5	4.6
EPS (S cts)	5.72	5.75	10.8	11.3
EPS Pre Ex. (S cts)	5.72	5.75	10.8	11.3
EPS Gth Pre Ex (%)	0	1	88	5
Diluted EPS (S cts)	5.72	5.75	10.8	11.3
Net DPS (S cts)	2.21	2.42	4.34	4.54
BV Per Share (S cts)	31.3	34.8	41.3	48.1
PE (X)	39.0	38.7	20.6	19.7
PE Pre Ex. (X)	39.0	38.7	20.6	19.7
P/Cash Flow (X)	30.2	30.1	26.4	16.1
EV/EBITDA (X)	25.7	24.0	13.3	12.6
Net Div Yield (%)	1.0	1.1	1.9	2.0
P/Book Value (X)	7.1	6.4	5.4	4.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	19.3	17.4	28.5	25.4

Earnings Rev (%): 30 41
Consensus EPS (S cts): 9.5 9.6
Other Broker Recs: B: 4 S: 0 H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Higher ASP and margins

Positive demand and supply dynamics to drive ASP and margins higher. Riverstone is running at full capacity now at c.95% utilisation rate. Any increase in volume can only come from the Phase 6 capacity expansion plan to increase capacity by 1.4bn gloves (+15.6%), which is expected to be completed by end of this year. Given the current strong demand and tight supply situation, ASP is on a rising trend. Besides higher ASP, Riverstone is also benefitting from a lower raw material price environment. Price for the key raw material, butadiene, has shed 66% YTD. Prices of other raw materials, like nitrile, are also trending down, though not as much as butadiene. Hence, a higher ASP and lower raw material prices would lead to further margin improvement. In 1Q20, which did not benefit much from ASP increase, gross margin had already improved by 4.6ppts y-o-y to 24.0%. We expect further margin improvement to 27.5% for FY20F.

At current price-to-earnings (PE) of 20.6x and 19.7x on FY20F and FY21F earnings respectively, Riverstone is trading at a c.50% discount to peers. This is unjustifiable, in our view, given its leadership position in the cleanroom segment.

Where we differ: We are optimistic that Riverstone can continue to generate above-industry margins given its strong market share in cleanroom gloves.

Potential catalysts: Further capacity expansion, sustained increase in cleanroom glove mix (and thus margins), higher ASP and inorganic growth.

Valuation:

Maintain BUY call with higher TP of S\$3.09. Earnings for FY20F/FY21F are raised by 30%/41% on higher ASP and margins. Our TP is pegged to 28x FY20F earnings. This is equivalent to a c.30% discount to its bigger peers.

Key Risks to Our View:

Global economic slowdown. While margins for cleanroom gloves are higher, demand for these gloves could be threatened by a global economic slowdown.

At A Glance

Issued Capital (m shrs)	741
Mkt. Cap (S\$m/US\$m)	1,660 / 1,179
Major Shareholders (%)	
Ringlet Investment Ltd	50.8
Lee Wai Keong	10.9
Free Float (%)	38.3
3m Avg. Daily Val (US\$m)	2.6
GIC Industry : Health Care / Health Care Equipment & Services	



Live more, Bank less

Riverstone Holdings

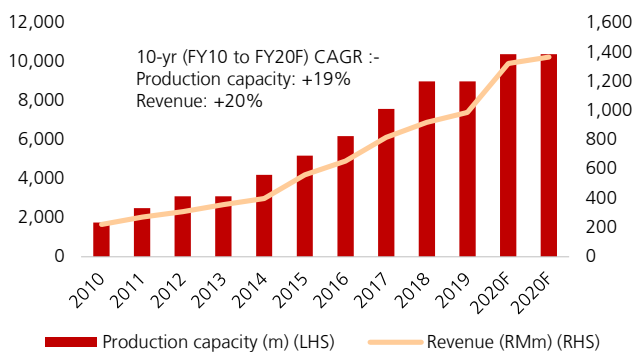
WHAT'S NEW

Positive operating environment leading to higher ASP and margins

Running at full capacity; orderbook fully locked in. Due to the surge in worldwide demand for products such as examination gloves and facemasks, Riverstone has been witnessing an uptick in orders from both new and existing customers. New customers, mainly from hospitals, account for 40-50% of total sales. The group is running at full capacity of c.95% utilisation currently.

Orderbook is fully locked in and any new demand can only be fulfilled next year, likely in January or February, as the Phase 6 expansion to increase production capacity by 1.4bn (+15.6%) to 10.4bn pieces of gloves per annum is expected to be completed by end of this year. Currently, two out of seven lines are already in production. Moving beyond Phase 6, plans are already underway following the group's acquisition of a 3.8-acre land bank in Taiping where Riverstone intends to construct its new facility and expand capacity further. Going forward, higher production capacity should help to drive revenue higher for the group.

Revenue moving in tandem with production capacity



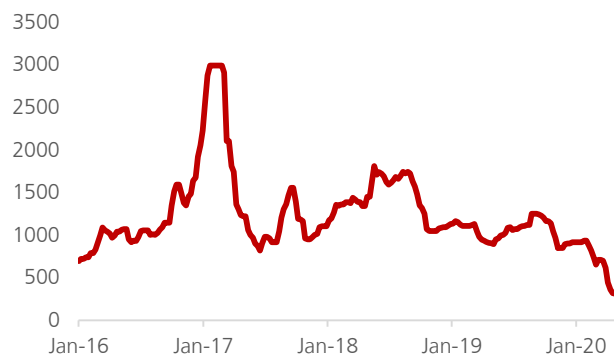
Source: DBS Bank, Company

Higher ASP, in line with market trend. Average selling price (ASP) is also on a rising trend, due to the strong demand and tight supply. The 10-20% increase in ASP is effective in May/June 2020 onwards. We would not rule out further increase in ASP in 2H20. Other players like Top Glove, Hartalega and Kossan Rubber are also raising their ASPs.

Margin improvement on higher ASP and lower raw material prices. Besides higher ASP, Riverstone is also benefitting from a lower raw material price environment. The price of butadiene, a key raw material used in the production of its nitrile-based gloves and accounts for c.50% of total costs, has shed 66% YTD. The price of butadiene, a by-product of oil, tends to move in tandem with oil prices. Prices of other raw materials, like nitrile, are also trending down, though not as much as butadiene. Hence, a higher ASP and lower raw

material prices would lead to further margin improvement. In 1Q20, which did not benefit much from ASP increase, gross margin had already improved by 4.6ppts y-o-y to 24.0%. We expect further improvement in gross margin to 27.5% for FY20F.

Butadiene Prices (US\$/metric tonne)



Source: DBS Bank, Bloomberg Finance L.P.

Positive demand and supply dynamics. Malaysian Rubber Glove Manufacturers Association (MARGMA) has revised up its estimated export of gloves to c.220bn pieces in 2020, c.20% growth from 2019, amid the current situation. Malaysia is the world's largest rubber glove producer and contributes nearly 63% of global supply. The industry is in a tight supply situation, with almost all players running at full capacity.

Demand expected to be strong post COVID-19. Post the pandemic, we expect the demand for healthcare gloves to remain strong, as hygiene will still be a keen concern going forward. For the cleanroom segment, we continue to expect new technologies like 5G, Artificial Intelligence, and Internet of Things to drive demand for cleanroom gloves.

Revised earnings up for FY20F/FY21F by 30%/41%. We have raised earnings for FY20F/FY21F by 30%/41% on higher ASP and margins. The operating environment has been very favourable for glove manufacturers. The strong demand and tight supply have led to further increase in ASP while the lower raw material prices have further boosted margins. On the back of the higher earnings, our TP is revised up to S\$3.09 (previously S\$2.20), or PE of 28x (up from 26x, in line with the re-rating of peers) on FY20F earnings, which is at a 30% discount to peers.

Riverstone Holdings

CRITICAL DATA POINTS TO WATCH

Critical Factors

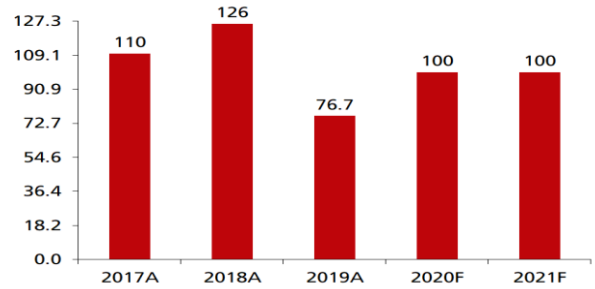
Growth in global demand for gloves; beneficiary of shift in demand to nitrile gloves. Malaysian Rubber Glove Manufacturers Association (MARGMA) expects Malaysia’s rubber glove exports to surge c.20% in 2020 vs 2019. We project a ramp-up in Riverstone’s glove production at 6% CAGR in FY19-21F. The global demand ratio of natural rubber and synthetic (nitrile) rubber gloves is also shifting in synthetic’s favour, due to rising awareness about latex allergies in emerging economies and synthetic’s low cost. Riverstone could be a long-term beneficiary of the switch from rubber gloves and PVC gloves (especially for the cleanroom segment) to nitrile gloves, as the company is principally engaged in the production of the latter. More than 90% of the group’s total revenue is generated from nitrile gloves.

Raw material prices. Prices for butadiene, the key raw material for nitrile gloves accounting for c.50% of total costs, were down c.66% in 1Q20. This should help to improve margins.

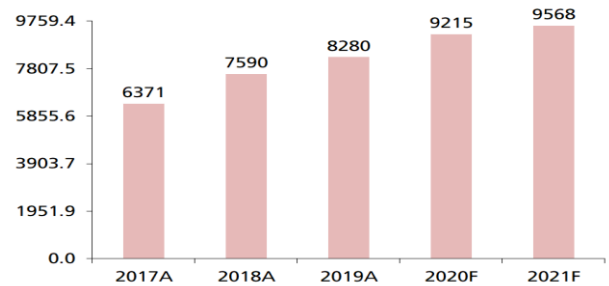
Capacity expansion to underpin growth. To capitalise on the favourable demand growth, Riverstone is expanding its manufacturing capacity to 10.4bn gloves. Out of a total of seven lines, two are already in production and the remaining lines are expected to be ready by end-2020. We expect Riverstone’s new production capacity to gradually propel top-line growth at a CAGR of 14% between FY18 and FY21F. For longer-term growth, Riverstone has acquired a 3.80-acre (165,692 sqft) parcel of industrial land in Malaysia, for RM4.2m.

Margin improvement via higher proportion of cleanroom gloves and operational efficiency. As Riverstone’s glove production lines can be used interchangeably for both healthcare and higher-margin cleanroom glove production, priority is typically given to cleanroom glove orders. Given the current competitive landscape within the healthcare glove space, a higher and more sustained cleanroom glove production could help Riverstone defend margins vs its peers, (which are predominantly focused on the production of healthcare gloves). Furthermore, we continue to expect automation efforts and Riverstone’s growing economies of scale to help defend against margin pressure.

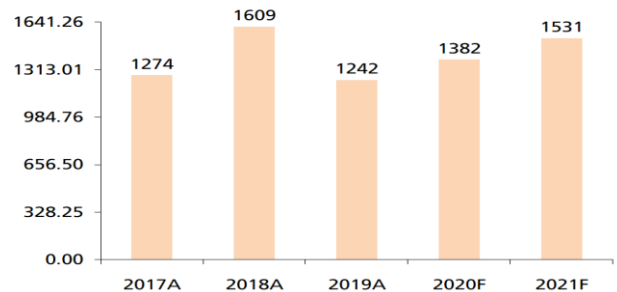
Capital Expenditure (RM\$m)



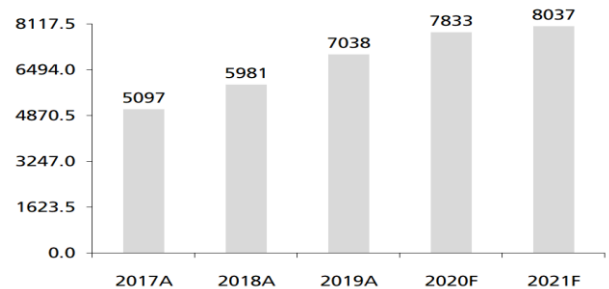
Production Capacity (m gloves)



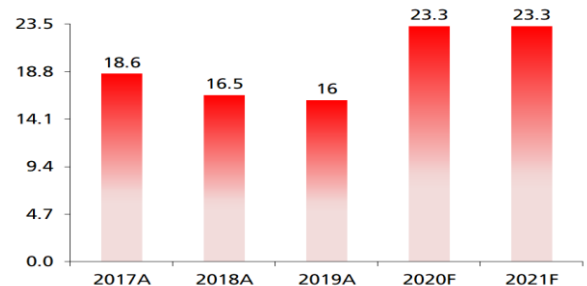
Cleanroom Gloves (m gloves)



Healthcare Gloves (m gloves)



Operating Margins (%)



Source: Company, DBS Bank

Riverstone Holdings

Balance Sheet:

Healthy balance sheet. Supported by strong operating cashflow, Riverstone had a healthy cash position of RM170.7m as at end-1Q20.

Share Price Drivers:

Higher proportion of cleanroom (vs healthcare) products to drive margins. Cleanroom products deliver much higher margins compared to healthcare gloves. The ability to secure more orders for cleanroom products should boost earnings.

Acceleration of capacity expansion plans beyond the current 10.4bn gloves in FY20F could drive a further re-rating of Riverstone's share price.

Opportunities for inorganic growth. Due to the stringent requirements for the establishment of cleanroom facilities, Riverstone does not rule out the possibility of acquiring quality cleanroom glove manufacturing companies in the future.

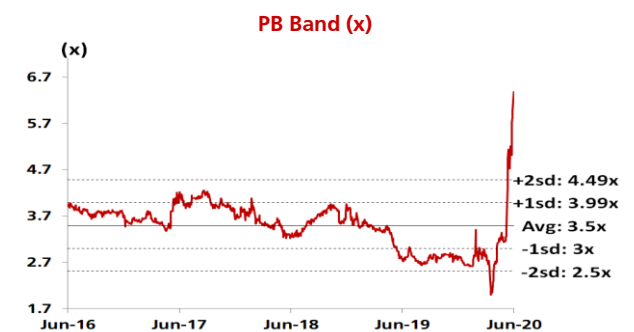
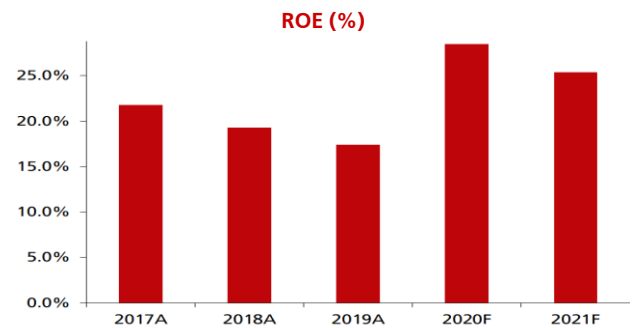
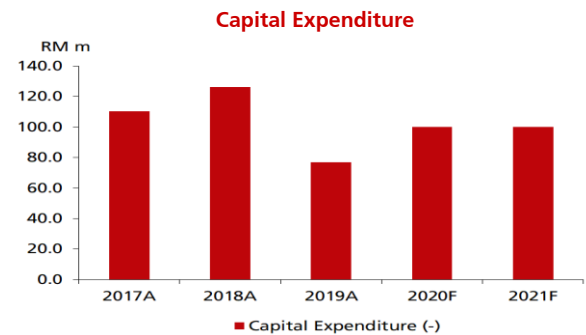
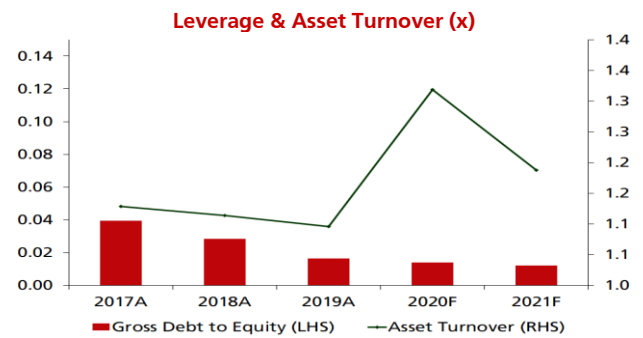
Key Risks:

Global economic slowdown could impact cleanroom sales. A slowdown in the general economy could lead to declines in discretionary spending and manufacturing activity in the hard disk drive (HDD) industry. Although Riverstone has been gradually reducing its exposure to the HDD and semiconductor industries (down from historical highs of up to 70%), they still make up almost 40% of the company's cleanroom portfolio today.

Intensifying competition could erode profitability. Rising competition from budding glove manufacturing regions such as Thailand and China could threaten Riverstone's market share and pricing advantages, if it fails to advance on the technological front.

Company Background

Riverstone Holdings (Riverstone SP) is a natural rubber and nitrile (synthetic rubber) glove manufacturer specialising in cleanroom and healthcare gloves. It is also engaged in the manufacturing and distribution of other ancillary products such as finger cots, packaging bags and face masks.



Source: Company, DBS Bank

Riverstone Holdings

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Capital Expenditure	110	126	76.7	100	100
Production Capacity (m)	6,371	7,590	8,280	9,215	9,568
Cleanroom Gloves (m)	1,274	1,609	1,242	1,382	1,531
Healthcare Gloves (m)	5,097	5,981	7,038	7,833	8,037
Operating Margins (%)	18.6	16.5	16.0	23.3	23.3

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (RMm)					
Nitrile Gloves	772	870	935	1,250	1,292
Natural Latex Gloves	23.7	26.7	28.7	38.4	39.6
Other Non-Gloves	21.3	23.9	25.7	34.4	35.5
Total	817	921	989	1,323	1,367

Income Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	817	921	989	1,323	1,367
Cost of Goods Sold	(620)	(731)	(790)	(959)	(991)
Gross Profit	198	190	199	364	376
Other Opng (Exp)/Inc	(45.9)	(38.0)	(40.8)	(55.8)	(57.8)
Operating Profit	152	152	158	308	318
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.0)	(0.9)	(0.7)	(0.7)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	151	151	157	307	317
Tax	(21.5)	(21.4)	(27.0)	(61.4)	(60.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	129	130	130	246	257
Net Profit before Except.	129	130	130	246	257
EBITDA	186	193	206	372	384
Growth					
Revenue Gth (%)	24.8	12.7	7.4	33.7	3.4
EBITDA Gth (%)	10.5	3.7	6.6	80.6	3.3
Opg Profit Gth (%)	9.4	0.1	4.0	94.8	3.3
Net Profit Gth (Pre-ex) (%)	7.4	0.3	0.6	88.5	4.6
Margins & Ratio					
Gross Margins (%)	24.2	20.6	20.1	27.5	27.5
Opg Profit Margin (%)	18.6	16.5	16.0	23.3	23.3
Net Profit Margin (%)	15.8	14.1	13.2	18.6	18.8
ROAE (%)	21.8	19.3	17.4	28.5	25.4
ROA (%)	17.9	15.7	14.4	24.5	22.3
ROCE (%)	20.7	18.3	16.7	27.7	24.7
Div Payout Ratio (%)	40.2	38.6	42.1	40.0	40.0
Net Interest Cover (x)	148.4	160.7	235.6	458.8	474.1

Source: Company, DBS Bank

Riverstone Holdings

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	257	241	240	251	257
Cost of Goods Sold	(209)	(194)	(191)	(200)	(205)
Gross Profit	48.7	46.6	48.3	51.4	52.6
Other Oper. (Exp)/Inc	(9.7)	(10.8)	(9.5)	(9.5)	(11.0)
Operating Profit	39.0	35.8	38.8	41.9	41.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	38.8	35.6	38.6	41.8	41.5
Tax	(5.9)	(5.4)	(6.1)	(6.1)	(9.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	32.9	30.2	32.5	35.6	32.1
Net profit bef Except.	32.9	30.2	32.5	35.6	32.1
EBITDA	49.9	47.4	50.5	54.0	54.1

Growth

Revenue Gth (%)	7.5	(6.6)	(0.3)	4.8	2.5
EBITDA Gth (%)	4.5	(4.9)	6.5	6.9	0.1
Opg Profit Gth (%)	3.8	(8.3)	8.3	8.1	(0.6)
Net Profit Gth (Pre-ex) (%)	2.5	(8.2)	7.6	9.5	(9.9)

Margins

Gross Margins (%)	18.9	19.4	20.1	20.5	20.4
Opg Profit Margins (%)	15.2	14.9	16.2	16.7	16.2
Net Profit Margins (%)	12.8	12.6	13.6	14.2	12.5

Balance Sheet (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	420	484	511	547	580
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	9.74	28.6	30.7	30.7	30.7
Cash & ST Invt	114	97.0	130	124	236
Inventory	71.1	83.6	97.3	98.1	101
Debtors	145	158	155	265	273
Other Current Assets	20.9	20.9	8.91	8.91	8.91
Total Assets	781	873	933	1,073	1,230
ST Debt	6.00	7.00	6.00	6.00	6.00
Creditor	102	126	113	105	109
Other Current Liab	8.45	6.88	7.24	7.24	7.24
LT Debt	19.0	13.0	7.00	7.00	7.00
Other LT Liabilities	11.2	11.0	10.1	10.1	10.1
Shareholder's Equity	634	709	789	937	1,091
Minority Interests	0.01	0.01	0.01	0.01	0.01
Total Cap. & Liab.	781	873	933	1,073	1,230
Non-Cash Wkg. Capital	127	130	141	259	268
Net Cash/(Debt)	89.3	77.0	117	111	223
Debtors Turn (avg days)	63.7	60.1	57.7	57.8	71.8
Creditors Turn (avg days)	60.0	60.3	58.7	44.5	42.3
Inventory Turn (avg days)	43.1	41.0	44.5	39.8	39.3
Asset Turnover (x)	1.1	1.1	1.1	1.3	1.2
Current Ratio (x)	3.0	2.6	3.1	4.2	5.1
Quick Ratio (x)	2.2	1.8	2.3	3.3	4.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	441.1	630.1	590.2	769.2	769.2
Z-Score (X)	15.8	12.7	14.2	15.8	15.3

Source: Company, DBS Bank

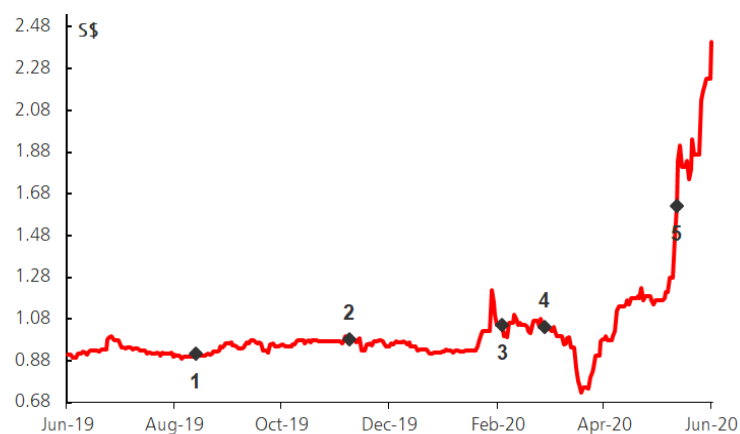
Riverstone Holdings

Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	151	151	157	307	317
Dep. & Amort.	34.5	41.3	48.0	64.1	66.3
Tax Paid	(21.3)	(23.4)	(26.7)	(61.4)	(60.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(11.6)	(2.8)	(10.2)	(118)	(8.7)
Other Operating CF	(6.8)	1.03	(0.6)	0.0	0.0
Net Operating CF	146	167	168	192	315
Capital Exp.(net)	(110)	(126)	(76.7)	(100.0)	(100.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(110)	(126)	(76.7)	(100.0)	(100.0)
Div Paid	(48.1)	(51.9)	(51.9)	(98.3)	(103)
Chg in Gross Debt	25.0	(5.0)	(7.0)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(23.1)	(56.9)	(58.9)	(98.3)	(103)
Currency Adjustments	(1.3)	(1.6)	1.16	0.0	0.0
Chg in Cash	11.1	(17.2)	33.4	(6.6)	112
Opg CFPS (S cts)	6.94	7.50	7.85	13.7	14.3
Free CFPS (S cts)	1.56	1.82	4.02	4.04	9.47

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Aug 19	0.92	1.16	BUY
2:	08 Nov 19	0.99	1.16	BUY
3:	03 Feb 20	1.05	1.34	BUY
4:	27 Feb 20	1.04	1.34	BUY
5:	12 May 20	1.62	2.20	BUY

Source: DBS Bank

Analyst: Lee Keng LING

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 5 Jun 2020 06:19:33 (MYT)

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