

1 December 2020

Consumer Non-cyclical | Rubber Products

## Comfort Gloves (CG MK)

**Buy** (Maintained)

### The Best Quarter Is Yet To Come; Stay BUY

Target Price (Return): MYR6.80 (+70%)  
 Price: MYR3.99  
 Market Cap: USD571m  
 Avg Daily Turnover (MYR/USD) 95.8m/23.1m

- **Stay BUY with higher MYR6.80 TP from MYR5.70, 70% upside with c.1% yield.** Our TP is based on CY21F P/E of 11.3x – a 20% discount against the peers' average. Our target P/E is at a discount to reflect Comfort Gloves' smaller market cap/liquidity to peers. 9MFY21 (Jan) earnings beat expectations on better-than-expected ASPs. After adjusting for higher ASPs, we increase our earnings forecasts and TP.
- **Earnings beat expectation.** Comfort's 9MFY21 earnings of MYR149.5m were above expectations, as it makes up 97% of our FY21F full-year net profit estimate. Comparison against consensus is not available, as the stock is under-researched. The positive deviation was due to better-than-expected ASPs. In line with the gloves industry price uptrends, we believe Comfort has increased its monthly ASPs by 5-10%.
- **9MFY21 net profit soared 552% YoY.** Revenue grew 69% YoY in 9MFY21 to MYR627.5m due to an increase in sales volumes and significantly better ASPs. Comfort also enjoyed better economies of scale, which caused EBITDA margins to increase to 34.9% (9MFY20: 12.7%).
- **3QFY21 net profit improved 111% QoQ (>10x YoY).** Revenue grew 40% QoQ (+106% YoY) in 3QFY21 to MYR276.7m. This was due to an increase in sales volumes and much better ASPs. EBITDA margin improved to 45.3% vs 2QFY21's 32.4% and 3QFY20's 11.9%.
- **Prospects.** Comfort believes the emphasis on hygiene and sanitation will not be reduced in the event a vaccine becomes generally available. Hence, it plans to expand capacity by 10% in 4QFY21 to capture the rising demand for gloves. On the nitrile butadiene shortage, the company has acknowledged the global shortage situation. It said its specialty premium gloves made from latex are equally in demand as compared to nitrile ones.
- **Higher TP of MYR6.80.** We have increased FY21F-23F earnings by 63-103% to reflect the higher ASPs – in line with the industry trend. The higher TP is in tandem with better earnings estimates. Our target P/E has been lowered to 11.3x from 18x – in sync with the latest sector P/E.
- **Maintain BUY.** In the near term, we expect Comfort to register a stronger set of results in 3QFY21 in tandem with the higher ASP trend in the industry. In the long run, we believe the company will be a beneficiary of the long-term uptrend in global gloves consumption.
- **Risks** include worse-than-expected gloves demand after the COVID-19 pandemic ends, lower-than-expected sales volumes/USD, and higher-than-estimated raw material prices.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	405.1	1.0	(7.4)	10.2	421.6
Relative	406.7	(5.5)	(9.9)	4.1	421.5
52-wk Price low/high (MYR)				0.61	– 6.76



Source: Bloomberg

Forecasts and Valuation	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
Total turnover (MYRm)	474	511	1,019	1,524	1,361
Recurring net profit (MYRm)	28	33	275	353	396
Recurring net profit growth (%)	(29.0)	19.0	728.0	28.5	12.1
Recurring P/E (x)	83.38	69.38	8.47	6.59	5.88
P/B (x)	8.4	7.4	3.9	2.4	1.7
P/CF (x)	208.06	30.93	8.29	6.24	4.01
Dividend Yield (%)	0.2	0.4	0.5	0.6	0.7
EV/EBITDA (x)	45.29	34.80	5.54	3.70	2.35
Return on average equity (%)	10.7	11.3	60.2	45.3	34.3
Net debt to equity (%)	24.0	16.0	net cash	net cash	net cash

Source: Company data, RHB

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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## Financial Exhibits

Asia	Financial summary (MYR)	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
Malaysia	Recurring EPS	0.05	0.06	0.47	0.61	0.68
Consumer Non-cyclical	DPS	0.01	0.02	0.02	0.02	0.03
<b>Comfort Gloves</b>	BVPS	0.48	0.54	1.03	1.64	2.32
CG MK	Return on average equity (%)	10.7	11.3	60.2	45.3	34.3
Buy						
	<b>Valuation metrics</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21F</b>	<b>Jan-22F</b>	<b>Jan-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	83.38	69.38	8.47	6.59	5.88
10x CY21F P/E	P/B (x)	8.4	7.4	3.9	2.4	1.7
	FCF Yield (%)	(2.3)	0.8	10.6	14.6	23.5
<b>Key drivers</b>	Dividend Yield (%)	0.2	0.4	0.5	0.6	0.7
i. Expansion in production capacity;	EV/EBITDA (x)	45.29	34.80	5.54	3.70	2.35
ii. Increase in demand for gloves among the developing nations.	EV/EBIT (x)	64.82	51.63	5.87	3.89	2.46
	<b>Income statement (MYRm)</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21F</b>	<b>Jan-22F</b>	<b>Jan-23F</b>
<b>Key risks</b>	Total turnover	474	511	1,019	1,524	1,361
i. Fluctuations in raw materials prices;	Gross profit	57	65	389	502	568
ii. Competition among rubber glove manufacturers.	EBITDA	53	68	386	490	547
	Depreciation and amortisation	(16)	(22)	(22)	(23)	(25)
<b>Company Profile</b>	Operating profit	37	46	364	467	523
Comfort is involved in the manufacturing and trading of natural and synthetic speciality examination gloves. These gloves are exported to North America, Oceania, the Middle East, Europe, South America, Africa, and the Asia-Pacific regions.	Net interest	(1)	(4)	(3)	(2)	(2)
	Pre-tax profit	35	42	362	464	520
	Taxation	(8)	(8)	(87)	(111)	(125)
	Reported net profit	28	33	275	353	396
	Recurring net profit	28	33	275	353	396
	<b>Cash flow (MYRm)</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21F</b>	<b>Jan-22F</b>	<b>Jan-23F</b>
	Change in working capital	(38.6)	11.1	(105.4)	(117.5)	33.2
	Cash flow from operations	11.2	74.4	280.5	372.5	580.6
	Capex	(63.7)	(56.4)	(33.0)	(33.0)	(33.0)
	Cash flow from investing activities	(63.4)	(56.4)	(33.0)	(33.0)	(33.0)
	Dividends paid	(5.6)	(8.7)	(11.5)	(14.4)	(17.3)
	Cash flow from financing activities	47.2	(6.1)	(24.5)	(24.4)	(27.3)
	Cash at beginning of period	28.6	23.4	34.9	257.7	572.5
	Net change in cash	(4.9)	11.9	223.0	315.1	520.3
	Ending balance cash	23.7	35.3	257.9	572.8	1,092.8
	<b>Balance sheet (MYRm)</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21F</b>	<b>Jan-22F</b>	<b>Jan-23F</b>
	Total cash and equivalents	23	35	258	573	1,093
	Tangible fixed assets	236	271	282	292	300
	Total assets	455	483	831	1,268	1,707
	Short-term debt	64	57	44	34	24
	Total long-term debt	26	27	27	27	27
	Total liabilities	177	172	230	313	357
	Total equity	278	311	601	955	1,350
	Total liabilities & equity	455	483	831	1,268	1,707
	<b>Key metrics</b>	<b>Jan-19</b>	<b>Jan-20</b>	<b>Jan-21F</b>	<b>Jan-22F</b>	<b>Jan-23F</b>
	Revenue growth (%)	12.5	7.7	99.6	49.5	(10.7)
	Recurrent EPS growth (%)	(25.7)	20.2	719.5	28.5	12.1
	Gross margin (%)	12.1	12.7	38.2	32.9	41.7
	Operating EBITDA margin (%)	11.1	13.2	37.9	32.2	40.2
	Net profit margin (%)	5.9	6.5	27.0	23.2	29.1
	Dividend payout ratio (%)	20.1	26.4	4.2	4.1	4.4
	Capex/sales (%)	13.4	11.0	3.2	2.2	2.4
	Interest cover (x)	25.0	11.4	127.4	189.8	253.7

Source: Company data, RHB

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Figure 1: 3QFY20 results snapshot

FYE Jan (MYRm)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)	Comments
<b>Revenue</b>	<b>134.5</b>	<b>198.0</b>	<b>276.7</b>	<b>39.8</b>	<b>105.7</b>	<b>372.1</b>	<b>627.5</b>	<b>68.7</b>	Higher sales volume and significantly better ASP and better sales volume
<b>EBITDA</b>	<b>16.1</b>	<b>64.1</b>	<b>125.2</b>	<b>95.3</b>	<b>679.5</b>	<b>47.3</b>	<b>219.0</b>	<b>363.0</b>	
<i>EBITDA margin (%)</i>	11.9	32.4	45.3			12.7	34.9		
Depreciation	(5.8)	(6.5)	(7.1)	8.1	21.5	(16.1)	(20.0)	24.0	
<b>EBIT</b>	<b>10.3</b>	<b>57.6</b>	<b>118.2</b>	<b>105.2</b>	<b>1,051.9</b>	<b>31.2</b>	<b>199.0</b>	<b>538.1</b>	
<i>EBIT margin (%)</i>	7.6	29.1	42.7	46.8	460.0	8.4	31.7	278.3	
Interest expense	(0.9)	(0.7)	(0.6)	(8.1)	(29.0)	(2.9)	(2.4)	(16.7)	
El/Others	(0.1)	(0.1)	(0.6)	nm	nm	(0.7)	(0.1)	nm	
<b>Pre-tax profit</b>	<b>9.4</b>	<b>56.9</b>	<b>117.5</b>	<b>106.6</b>	<b>1,155.5</b>	<b>28.3</b>	<b>196.7</b>	<b>594.2</b>	
<i>Pre-tax margin (%)</i>	7.0	28.7	42.5			7.6	31.3		
Tax	(1.9)	(14.1)	(27.2)	93.0	1,296.1	(5.4)	(47.2)	776.0	
<i>Effective tax rate (%)</i>	20.8	24.8	23.1			19.0	24.0		
Minority interest	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m	
<b>Net profit</b>	<b>7.4</b>	<b>42.8</b>	<b>90.3</b>	111.1	1,118.5	<b>22.9</b>	<b>149.5</b>	551.5	97% of our FY21 estimate
<b>Core profit</b>	<b>7.4</b>	<b>42.8</b>	<b>90.3</b>	111.1	1,118.5	<b>22.9</b>	<b>149.5</b>	551.5	Above expectation

Source: Company data

Figure 2: Key assumptions

	FY21F	FY22F	FY23F
Installed year-end capacity (m ppa)	5,880	6,600	8,040
Blended ASP (USD per 1,000 pieces)	45	60	44
Average USD/MYR	4.025	4.025	4.025
Utilisation rate	90%	90%	90%

Source: RHB

**Update on COVID-19 vaccine development.** Our base case scenario is that a safe and effective vaccine will be available in 1H21 under an Emergency Use Authorisation. According to a 30 Nov BBC report, Moderna has filed for US and European emergency regulatory approvals of its coronavirus vaccine so that it can be recommended for widespread use. The same report stated that regulators will look at trial data for the mRNA vaccine and decide if it is safe and effective enough to recommend for roll out. We gather that the Moderna vaccine is 94.1% effective against COVID-19.

According to an 18 Nov Reuters report, the final results from Pfizer and BioNTech's COVID-19 vaccine trial showed its shot had a 95% success rate and two months of safety data, paving the way for the drug makers to apply for an emergency US authorisation within days. Note that this was a Phase 3 trial with 43,000 volunteers – out of which there were 170 cases of COVID-19 patients. Of these 170, only eight persons with the disease had been given the shot rather than a placebo.

On 17 Nov, Reuters reported: "Moderna's experimental COVID-19 vaccine is more stable than expected at temperatures that ordinary refrigerators can provide and can be distributed using existing cold-chain shipping and storage infrastructure". Reuters also reported that the experimental vaccine was 94.5% effective in preventing COVID-19, based on interim data from a late-stage trial. Note that the Moderna vaccine points to only interim data and is not yet final.

We will be monitoring the progress of the vaccine development closely, as it is a potential leading indicator that COVID-19 new cases may decline. Historically, after the influenza A virus subtype H1N1 outbreak in 2009-2010, demand for gloves dipped slightly in 2011 YoY by 1.3%, or by 2bn to 148bn pieces pa. Growth continued from 2012 onwards and remained on an uptrend. This has been reflected in our lower ASPs for FY23 vs FY21-22.

**Upside risk to ASPs is possible due to raw material shortages.** Due to the unprecedented demand for nitrile gloves, demand for nitrile butadiene has spiked. The situation has worsened, leading to nitrile butadiene suppliers raising the price of this raw material by 20% each month since September.

This is a strong indicator that almost all nitrile butadiene supply in the market has been booked, as buyers are now willing to pay higher prices. If this situation persists into 1Q21, we believe it will lead to a longer-than-expected sustained increase in nitrile glove ASPs – as demand would continue to grow, but supply is capped by the shortage of raw materials.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-09-08	Buy	5.70	3.99
2020-07-14	Buy	4.80	3.84
2020-05-28	Neutral	3.18	3.45
2019-03-27	Buy	1.08	0.86
2018-11-28	Buy	1.21	0.99
2018-10-01	Neutral	0.87	0.93
2018-06-28	Neutral	0.76	0.80

Source: RHB, Bloomberg

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