

28 June 2021

Consumer Cyclical | Rubber Products

Rubber Products

Neutral (from Overweight)

NRP1 Extension To Impact Sales Volumes; D/G

Stocks Covered 7
 Rating (Buy/ Neutral/ Sell): 0 / 7 / 0
 Last 12m Earnings Revision Trend: Positive

- **D/G NEUTRAL from Overweight.** Phase 1 of the National Recovery Plan (NRP1) will be extended. This is negative for the Malaysia glove industry's earnings in the near term. We downgrade the sector as glove ASPs have peaked in 1Q21. Earnings should be weaker QoQ in 2Q21, due to two factors: Lower volumes and weaker ASPs.
- **NRP1 extended.** Bernama, quoting Prime Minister Tan Sri Muhyiddin Yassin, reported that the NRP1 will be extended. We gather that the reason for the delay is that Malaysia's daily COVID-19 cases have not declined below the 4,000 level, which is the requirement to move to the next phase.
- **The news is negative for the Malaysia glove industry's earnings in the near term,** due to lower production volumes during NRP1, estimated at 20-30% below full potential. Recall that glove manufacturers are allowed to operate during NRP1, with the workforce capacity capped at 60%. The NRP1 is longer than we initially estimated.
- **2Q21 likely to be weaker QoQ for most players.** With the exception of Kossan Rubber, we believe that glove makers' earnings will decline QoQ – owing to weaker ASPs and lower volumes.
- **Glove ASPs have peaked.** We believe that long-term glove consumption growth remains solid due to higher hygiene awareness globally. However, we believe ASPs peaked in 1QFY21 due to rising competition from the new supply of gloves in the market. Note that major producers such as Top Glove and Supermax have guided for lower ASPs in the next few months.
- **Earnings and TP reduced.** FY21 earnings are cut by 6-11% for glove makers under our coverage. We have assumed a lower utilisation rate due to the longer-than-expected NRP1. Our TPs have also been reduced due to lower earnings estimates and higher long-term ESG-related costs in our DCF methodology.
- **D/G NEUTRAL.** We expect near-term lower demand for gloves due to the significant decline in COVID-19 cases in the US, where the 7-day moving average for new cases has declined from the peak of 250k cases, to below 15k cases recently. This is the result of the rapid rollout of the country's vaccination programme. On the supply side, new capacity coming on stream from Thailand, China and other new glove makers has resulted in higher competition. We have downgraded four stocks to Neutral, including Supermax, Kossan, Riverstone and UG Healthcare. Stay Neutral for Top Glove, Comfort Gloves and Rubberex.

Analyst

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Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	ROAE (%) Dec-21F	Yield (%) Dec-21F
Comfort Gloves	Neutral	MYR1.95	1.3	3.1	1.2	49.5	4.1
Kossan Rubber	Neutral	MYR3.30	2.3	2.5	2.1	85.2	13.8
Riverstone	Neutral	SGD1.30	1.7	4.3	2.8	78.8	10.5
Rubberex Corporation	Neutral	MYR0.90	2.5	3.1	1.2	47.9	-
Supermax Corp	Neutral	MYR3.40	0.5	3.1	1.9	61.4	9.6
Top Glove Corp	Neutral	MYR4.38	0.8	4.9	4.0	98.7	12.6
UG Healthcare	Neutral	SGD0.61	2.9	4.4	2.1	61.3	2.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

28 June 2021

Consumer Cyclical | Rubber Products

Comfort Gloves (CG MK)

Neutral (Maintained)

NRP1 Extension To Affect Sales Volumes

- **Stay NEUTRAL with lower DCF-derived MYR1.95 TP from MYR2.25, 1% upside and 4% yield.** Phase 1 of the National Recovery Plan (NRP1) will be extended. This is negative for Comfort Gloves' earnings in the near term. We lower our FY22 earnings estimates due to lower utilisation rate assumptions.
- **NRP1 extended.** Bernama, quoting Prime Minister Tan Sri Muhyiddin Yassin, reported that the NRP1 will be extended. We gather that the reason for the delay is that Malaysia's daily COVID-19 cases have not declined below the 4,000 level, which is the requirement to move to the next phase.
- **The news is negative for earnings in the near term,** due to lower production volumes during NRP1, estimated at 20-30% below full potential. Recall that glove manufacturers are allowed to operate during NRP1, with the workforce capacity capped at 60%. The NRP1 is longer than we initially estimated.
- **Glove ASPs have peaked.** We believe that long-term glove consumption growth remains solid due to higher hygiene awareness globally. However, we believe that ASPs peaked in 1QFY21 due to rising competition from the new supply of gloves in the market.
- **FY22 earnings reduced by 7% to MYR373m.** We assume lower utilisation rates due to the longer-than-expected NRP1. FY23-24 earnings estimates are maintained as we expect the NRP1 to end eventually.
- **NEUTRAL with lower TP.** Our TP is reduced due to lower earnings estimates and higher long-term ESG-related costs in our DCF methodology.
- **Upside/downside risks** to our TP are better/worse-than-expected glove ASPs after COVID-19 ends, higher/lower-than-expected sales volumes/USD, and higher/lower-than-estimated raw material prices.

Target Price (Return): MYR1.95 (1.0%)
 Price: MYR1.93
 Market Cap: USD270m
 Avg Daily Turnover (MYR/USD) 24.6m/5.98m

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(35.5)	(13.1)	(8.5)	(41.2)	(34.1)
Relative	(31.3)	(11.9)	(6.1)	(36.2)	(38.8)
52-wk Price low/high (MYR)	1.87 – 6.76				



Source: Bloomberg

Forecasts and Valuation	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
Total turnover (MYRm)	511	946	1,504	1,361	1,393
Recurring net profit (MYRm)	32	284	373	215	165
Recurring net profit growth (%)	16.3	775.3	31.3	(42.4)	(23.1)
Recurring P/E (x)	34.32	3.96	3.02	5.24	6.81
P/B (x)	3.6	1.9	1.2	1.0	0.9
P/CF (x)	14.96	4.31	2.88	3.28	4.72
Dividend Yield (%)	na	3.4	4.1	2.6	1.6
EV/EBITDA (x)	17.21	2.63	1.47	1.55	1.19
Return on average equity (%)	11.3	63.9	48.7	20.6	13.4
Net debt to equity (%)	16.0	net cash	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.

28 June 2021

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
Malaysia	Recurring EPS	0.06	0.49	0.64	0.37	0.28
Consumer Cyclical	DPS	-	0.07	0.08	0.05	0.03
Comfort Gloves	BVPS	0.54	1.01	1.62	1.97	2.25
CG MK	Return on average equity (%)	11.3	63.9	48.7	20.6	13.4
Neutral						
	Valuation metrics	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
Valuation basis	Recurring P/E (x)	34.32	3.96	3.02	5.24	6.81
DCF	P/B (x)	3.6	1.9	1.2	1.0	0.9
	FCF Yield (%)	1.6	11.6	31.8	27.5	18.3
	Dividend Yield (%)	-	3.4	4.1	2.6	1.6
Key drivers	EV/EBITDA (x)	17.21	2.63	1.47	1.55	1.19
i. Expansion in production capacity;	EV/EBIT (x)	25.54	2.83	1.55	1.71	1.36
ii. Increase in demand for gloves among developing nations.						
	Income statement (MYRm)	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
Key risks	Total turnover	511	946	1,504	1,361	1,393
Upside/downside risks to our TP are:	Gross profit	65	407	532	334	264
i. Better-/worse-than-expected glove ASPs after COVID-19 ends;	EBITDA	68	401	521	314	250
ii. Higher-/lower-than-expected sales volumes and/or USD;	Depreciation and amortisation	(22)	(28)	(28)	(30)	(31)
iii. Higher-/lower-than-estimated raw material prices.	Operating profit	46	373	493	284	218
	Net interest	(4)	(3)	(2)	(1)	(1)
	Pre-tax profit	42	370	491	283	217
	Taxation	(8)	(83)	(118)	(68)	(52)
	Reported net profit	33	287	373	215	165
	Recurring net profit	32	284	373	215	165
	Cash flow (MYRm)	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
Company Profile	Change in working capital	11.1	(89.0)	(129.3)	28.7	(11.2)
Comfort Gloves 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.	Cash flow from operations	74.4	260.8	391.3	342.5	238.5
	Capex	(56.4)	(130.4)	(33.0)	(33.0)	(33.0)
	Cash flow from investing activities	(56.4)	(130.1)	(33.0)	(33.0)	(33.0)
	Dividends paid	0.0	(37.9)	(46.6)	(29.1)	(17.5)
	Cash flow from financing activities	2.6	(67.6)	(56.6)	(39.1)	(27.5)
	Cash at beginning of period	23.4	34.9	124.6	405.2	674.9
	Net change in cash	20.7	63.1	301.7	270.4	178.0
	Ending balance cash	44.0	98.0	426.2	675.6	852.9
	Balance sheet (MYRm)	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
	Total cash and equivalents	35	125	405	675	852
	Tangible fixed assets	271	373	378	381	383
	Total assets	483	788	1,175	1,365	1,689
	Short-term debt	57	38	28	18	8
	Total long-term debt	28	17	17	17	17
	Total liabilities	172	199	232	219	377
	Total equity	311	589	943	1,146	1,312
	Total liabilities & equity	483	788	1,175	1,365	1,689
	Key metrics	Jan-20	Jan-21	Jan-22F	Jan-23F	Jan-24F
	Revenue growth (%)	7.7	85.3	58.9	(9.5)	2.4
	Recurrent EPS growth (%)	17.5	766.3	31.3	(42.4)	(23.1)
	Gross margin (%)	12.7	43.0	35.4	24.5	19.0
	Operating EBITDA margin (%)	13.2	42.4	34.6	23.1	17.9
	Net profit margin (%)	6.5	30.4	24.8	15.8	11.9
	Dividend payout ratio (%)	0.0	13.2	12.5	13.6	10.6
	Capex/sales (%)	11.0	13.8	2.2	2.4	2.4
	Interest cover (x)	11.4	134.7	274.0	203.3	218.8

Source: Company data, RHB

Figure 1: DCF valuation

FYE Jan (MYR m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal
CFO	362	235	153	146	164	179	195	212	225	238	
+ Interest (1 - Tax Rate)	1	1	0	1	1	1	1	1	1	1	
- capital expenditure	(33)	(33)	(33)	(33)	(33)	(36)	(39)	(43)	(45)	(48)	
Free cash flow to firm (FCFF)	330	203	120	114	131	143	156	170	180	191	1,182
Discount factor	0.83	0.68	0.56	0.47	0.39	0.32	0.26	0.22	0.18	0.15	0.15
PV of FCFF	273	138	68	53	51	46	41	37	33	29	176
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Risk-free	3.0%										
Beta	0.82										
Cost of equity	8.7%										
WACC	17.3%										
Terminal growth	1.0%										
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Enterprise value (MYR m)	944										
Cash	255										
- Debt	(71)										
Equity value (MYR m)	1,129										
No of shares (m)	580										
TP (MYR)	1.95										

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-06-22	Neutral	2.25	2.16
2021-03-16	Buy	2.60	2.09
2020-12-01	Buy	6.80	3.86
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

28 June 2021

Consumer Cyclical | Rubber Products

Kossan Rubber (KRI MK)

Neutral (from Buy)

NRP1 Extension To Weaken Sales Volumes; D/G

Target Price (Return): MYR3.30 (2.2%)
 Price: MYR3.23
 Market Cap: USD1,983m
 Avg Daily Turnover (MYR/USD) 33.8m/8.19m

- **D/G NEUTRAL from Buy, lower DCF-derived MYR3.30 TP from MYR5.45, 2% upside and 7% yield.** Phase 1 of the National Recovery Plan (NRP1) will be extended. This is negative for Kossan Rubber's earnings in the near term. We lower our FY21 earnings estimates on lower utilisation rate assumptions.
- **NRP1 deadline extended.** Bernama, quoting Prime Minister Tan Sri Muhyiddin Yassin, reported that NRP1 will be extended. We gather that the reason for the delay is that Malaysia's daily COVID-19 cases have not declined below the 4,000 level, which is the requirement to move to the next phase.
- **The news is negative for earnings in the near term,** due to lower production volumes during NRP1, estimated at 20-30% below full potential. Recall that glove manufacturers are allowed to operate during NRP1, with the workforce capacity capped at 60%. The NRP1 is longer than we initially estimated.
- **Glove ASPs have peaked.** We believe that long-term glove consumption growth remains solid due to higher hygiene awareness globally. However, we believe that ASPs peaked in 1QFY21 due to rising competition from the new supply of gloves in the market.
- **FY21 earnings reduced by 6% to MYR3.34bn.** We assume lower utilisation rates due to the longer-than-expected NRP1. FY22-23 earnings estimates are maintained as we expect the NRP1 to end eventually.
- **D/G to NEUTRAL, lower TP.** Our reduced TP is on lower earnings estimates and higher long-term ESG-related costs in our DCF methodology.
- **Risks.** Upside/downside to our TP are better/worse-than-expected glove ASP after COVID-19 ends, higher/lower-than-expected sales volumes/USD, and higher/lower-than-estimated raw material prices.

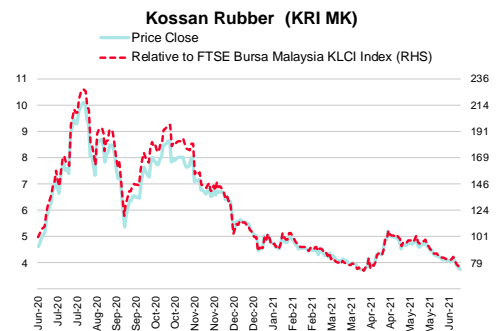
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.2)	(23.1)	(7.5)	(35.0)	(20.6)
Relative	(24.0)	(21.9)	(5.1)	(30.0)	(25.3)
52-wk Price low/high (MYR)	3.19 – 9.59				



Source: Bloomberg

Overall ESG Score: 2.89 (out of 4)

E: Good

To reduce carbon footprint, Kossan has installed solar panels in Plant 19, which is expected to generate 315.58kWh per million gloves. It complies with Malaysian Department of Environment's requirements and has maintained a Standard B rating for effluent discharge through its wastewater treatment plant.

S: Moderate

Recently, a high number of COVID-19 cases has been reported among Kossan's workers. We believe improvements are needed in this area. The company maintains a Supplier (B) membership in SEDEX and it is regularly audited under SEDEX Member Ethical Trade Audit or SMETA programme.

G: Excellent

33% of its board members are independent, and 11% are female. Both are still below the Malaysian Code on Corporate Governance requirement of 50% independent directors and 30% female. On the positive side, Kossan provides full disclosures on its directors' remunerations. The company holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	2,217	3,654	9,541	7,364	6,421
Recurring net profit (MYRm)	225	1,087	3,340	1,839	1,160
Recurring net profit growth (%)	12.4	384.0	207.2	(44.9)	(37.0)
Recurring P/E (x)	36.79	7.60	2.47	4.49	7.13
P/B (x)	5.8	3.5	2.1	1.8	1.6
P/CF (x)	45.51	8.44	2.72	4.14	6.91
Dividend Yield (%)	0.9	4.5	13.8	7.6	4.8
EV/EBITDA (x)	21.95	4.90	1.27	2.11	3.05
Return on average equity (%)	15.8	45.6	85.2	39.4	22.1
Net debt to equity (%)	22.5	net cash	net cash	net cash	net cash

Source: Company data, RHB

28 June 2021

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.09	0.42	1.31	0.72	0.45
Consumer Cyclical	DPS	0.03	0.15	0.45	0.25	0.16
Kossan Rubber	BVPS	0.56	0.93	1.53	1.83	2.05
KRI MK	Return on average equity (%)	15.8	45.6	85.2	39.4	22.1
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	36.79	7.60	2.47	4.49	7.13
	P/B (x)	5.8	3.5	2.1	1.8	1.6
	FCF Yield (%)	(0.3)	9.8	33.7	19.3	10.2
	Dividend Yield (%)	0.9	4.5	13.8	7.6	4.8
	EV/EBITDA (x)	21.95	4.90	1.27	2.11	3.05
	EV/EBIT (x)	29.15	5.27	1.31	2.24	3.39
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	2,217	3,654	9,541	7,364	6,421
	Gross profit	532	1,443	6,130	3,628	2,490
	EBITDA	388	1,570	5,005	2,820	1,838
	Depreciation and amortisation	(96)	(110)	(143)	(158)	(182)
	Operating profit	292	1,460	4,862	2,662	1,656
	Net interest	(16)	(15)	23	41	48
	Pre-tax profit	276	1,445	4,885	2,703	1,704
	Taxation	(49)	(352)	(1,466)	(811)	(511)
	Reported net profit	224	1,087	3,340	1,839	1,160
	Recurring net profit	225	1,087	3,340	1,839	1,160
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(46)	(152)	(444)	46	(70)
	Cash flow from operations	182	979	3,035	1,995	1,196
	Capex	(208)	(172)	(250)	(400)	(350)
	Cash flow from investing activities	(220)	(28)	(214)	(346)	(290)
	Dividends paid	0	0	(1,142)	(629)	(397)
	Cash flow from financing activities	55	(24)	(1,133)	(742)	(471)
	Cash at beginning of period	146	162	1,089	2,522	2,865
	Net change in cash	16	927	1,688	906	436
	Ending balance cash	161	1,088	2,776	3,427	3,299
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	162	1,089	2,522	2,865	3,182
	Tangible fixed assets	1,207	1,268	1,635	1,880	2,066
	Total investments	104	7	7	7	7
	Total assets	2,355	3,575	6,560	6,797	7,160
	Short-term debt	325	383	200	193	187
	Total long-term debt	163	107	272	264	256
	Total liabilities	904	1,160	2,335	1,856	1,631
	Total equity	1,451	2,414	4,225	4,941	5,530
	Total liabilities & equity	2,355	3,575	6,560	6,797	7,160
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	3.6	64.8	161.1	(22.8)	(12.8)
	Recurrent EPS growth (%)	12.4	384.0	207.2	(44.9)	(37.0)
	Gross margin (%)	24.0	39.5	64.2	49.3	38.8
	Operating EBITDA margin (%)	17.5	43.0	52.5	38.3	28.6
	Net profit margin (%)	10.1	29.8	35.0	25.0	18.1
	Dividend payout ratio (%)	34.2	34.2	34.2	34.2	34.2
	Capex/sales (%)	9.4	4.7	2.6	5.4	5.5
	Interest cover (x)	18.8	98.0	374.4	211.3	135.6

Source: Company data, RHB

28 June 2021

Consumer Cyclical | Rubber Products

Figure 1: DCF valuation

FYE Dec (MYR m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	1,995	1,196	766	897	921	945	976	1,024	1,076	1,124	
+ Interest (1 - tax rate)	10	9	9	9	8	8	8	8	9	9	
- capital expenditure	(400)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	
Free cash flow to firm (FCFF)	1,604	855	425	556	579	603	634	683	734	783	9,381
Discount factor	0.94	0.85	0.77	0.70	0.63	0.57	0.52	0.47	0.42	0.38	0.38
PV of FCFF	1,502	725	327	386	365	344	327	319	311	301	3,600
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Risk-free	3.0%										
Beta	0.97										
Cost of equity	9.8%										
WACC	9.4%										
Terminal growth	1.0%										
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Enterprise value (MYR m)	8,507										
Cash	1,249										
- Debt	(415)										
Equity value (MYR m)	9,341										
No of shares (m)	2,558										
Equity value per share (MYR)	3.65										
ESG discount	10%										
TP (MYR)	3.30										

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-17	Buy	5.45	4.01
2020-12-23	Buy	7.90	5.05
2020-11-10	Buy	9.00	6.58
2020-08-26	Buy	8.50	7.65
2020-07-14	Buy	7.75	6.75
2020-07-07	Buy	6.50	5.46
2020-05-15	Buy	5.05	3.84
2020-04-21	Buy	3.25	2.67
2020-01-23	Buy	2.85	2.32
2020-01-22	Neutral	2.35	2.34
2019-08-23	Buy	2.35	2.09

Source: RHB, Bloomberg

28 June 2021

Consumer Cyclical | Rubber Products

Riverstone (RSTON SP)

Neutral (from Buy)

NRP1 Extension To Weaken Sales Volumes; D/G

Target Price (Return): SGD1.30 (+1%)
 Price: SGD1.28
 Market Cap: USD1,414m
 Avg Daily Turnover (SGD/USD): 4.55m/3.42m

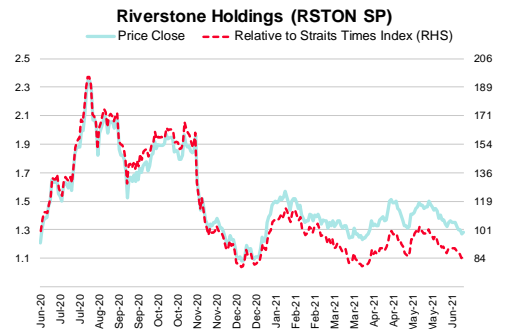
- **Downgrade to NEUTRAL from Buy with lower DCF-derived SGD1.30 TP from SGD1.85, 1% upside and 8% yield.** Phase 1 of Malaysia's National Recovery Plan (NRP1) will be extended. This is negative to Riverstone earnings in the near term. We lower our FY21F earnings due to a lower utilisation rate assumption.
- **The NRP1's deadline is extended.** National news agency Bernama – citing Prime Minister Tan Sri Muhyiddin Yassin – reported that Malaysia's NRP1 will be extended. The reason for the delay, we gather, is because the country's total number of new COVID-19 cases has not declined below the 4,000 threshold, ie the requirement needed to move to the next phase of the plan. Recall that Riverstone has a manufacturing plant in Taiping, Perak, which has to comply with the NRP1.
- **This news is negative for near-term earnings,** given the lower production volume estimated at 20-30% below the full potential during NRP1. Recall: Gloves manufacturers are allowed to operate during Phase 1 with the workforce capacity capped at 60%. The length of the NRP1 is now longer than our initial estimate.
- **Gloves ASPs have peaked.** We believe that long-term gloves consumption growth remains solid due to higher hygiene awareness globally. However, we think ASPs peaked in 1Q21 due to rising competition from new gloves supply in the market.
- **FY21F earnings reduced by 8% to MYR1.37bn.** We have assumed a lower utilisation rate due to the longer-than-expected NRP1. FY22F-23F earnings are maintained, as we expect this Phase 1 to be over eventually.
- **Downgrade to Neutral with TP reduced to SGD1.30.** Our TP has been cut due to lower earnings estimates and higher long-term ESG-related costs in our DCF methodology.
- **Risks.** Upside/downside to TP are better-/worse-than-expected gloves ASPs after COVID-19 ends, higher-/lower-than-expected sales volumes and/or USD, and higher-/lower-than-estimated raw material prices.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.3	(12.3)	0.8	9.4	9.4
Relative	5.5	(11.5)	1.5	(0.4)	(11.1)
52-wk Price low/high (SGD)	1.08 – 2.35				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	989	1,830	2,886	2,644	1,984
Recurring net profit (MYRm)	130	647	1,366	1,098	601
Recurring net profit growth (%)	0.6	396.3	111.1	(19.6)	(45.3)
Recurring P/E (x)	45.08	9.08	4.30	5.35	9.79
P/B (x)	7.4	4.3	2.8	2.2	1.9
P/CF (x)	35.02	8.36	5.24	4.75	7.06
Dividend Yield (%)	0.9	1.2	10.5	8.4	4.6
EV/EBITDA (x)	27.96	5.86	2.82	3.02	4.74
Return on average equity (%)	17.4	60.3	78.8	45.5	20.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

28 June 2021

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.09	0.44	0.92	0.74	0.41
Consumer Cyclical	DPS	0.04	0.05	0.41	0.33	0.18
Riverstone	BVPS	0.53	0.92	1.42	1.83	2.05
RSTON SP	Return on average equity (%)	17.4	60.3	78.8	45.5	20.9
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	45.08	9.08	4.30	5.35	9.79
	P/B (x)	7.4	4.3	2.8	2.2	1.9
	FCF Yield (%)	1.6	10.4	17.1	19.1	12.2
	Dividend Yield (%)	0.9	1.2	10.5	8.4	4.6
	EV/EBITDA (x)	27.96	5.86	2.82	3.02	4.74
	EV/EBIT (x)	36.44	6.22	2.91	3.16	5.19
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	989	1,830	2,886	2,644	1,984
	Gross profit	199	898	1,711	1,386	782
	EBITDA	206	894	1,725	1,404	802
	Depreciation and amortisation	(48)	(53)	(59)	(64)	(69)
	Operating profit	158	842	1,666	1,339	733
	Net interest	(1)	(0)	(0)	(0)	(0)
	Pre-tax profit	157	841	1,666	1,339	732
	Taxation	(27)	(194)	(300)	(241)	(132)
	Reported net profit	130	647	1,366	1,098	601
	Recurring net profit	130	647	1,366	1,098	601
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(10)	(127)	(304)	74	162
	Cash flow from operations	168	703	1,121	1,236	832
	Capex	(74)	(92)	(115)	(115)	(115)
	Cash flow from investing activities	(77)	(99)	(122)	(122)	(122)
	Dividends paid	(52)	(73)	(615)	(494)	(270)
	Cash flow from financing activities	(64)	(90)	(612)	(496)	(273)
	Cash at beginning of period	97	130	649	1,036	1,653
	Net change in cash	27	514	387	618	437
	Ending balance cash	125	638	1,036	1,653	2,090
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	130	649	1,036	1,653	2,090
	Tangible fixed assets	511	587	607	667	722
	Total assets	933	1,688	2,396	3,012	3,334
	Short-term debt	6	7	6	6	6
	Total long-term debt	7	2	7	7	7
	Total liabilities	143	330	287	298	290
	Total equity	789	1,358	2,109	2,713	3,044
	Total liabilities & equity	933	1,688	2,396	3,012	3,334
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	7.4	85.0	57.7	(8.4)	(25.0)
	Recurrent EPS growth (%)	0.6	396.3	111.1	(19.6)	(45.3)
	Gross margin (%)	20.1	49.1	59.3	52.4	39.4
	Operating EBITDA margin (%)	20.8	48.9	59.8	53.1	40.4
	Net profit margin (%)	13.2	35.4	47.3	41.5	30.3
	Dividend payout ratio (%)	39.8	11.3	45.0	45.0	45.0
	Capex/sales (%)	7.4	5.0	4.0	4.3	5.8
	Interest cover (x)	236	2,371	4,694	3,773	2,064

Source: Company data, RHB

Figure 1: DCF valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	1,236	832	505	515	558	600	642	683	724	765	
+ Interest (1 - tax rate)	0	0	0	0	0	0	0	0	0	0	
- capital expenditure	(115)	(115)	(115)	(115)	(115)	(115)	(115)	(115)	(115)	(115)	
Free cash flow to firm (FCFF)	1,122	717	390	400	443	485	527	568	609	650	6,271
Discount factor	0.89	0.78	0.69	0.61	0.54	0.48	0.43	0.38	0.33	0.30	0.30
PV of FCFF	993	562	271	246	241	234	225	214	204	192	1,855

Risk-free	3.0%
Beta	0.44
Cost of Equity	11.5%
WACC	11.5%
Terminal growth	1.0%

Enterprise value (MYRm)	5,236
Cash	649
- Debt	(8)
Equity value (MYRm)	5,877
No of shares (m)	1,482
TP (MYR)	3.96
SGD/MYR	3.05
TP (SGD)	1.30

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-26	Buy	1.85	1.36
2020-11-10	Buy	2.73	1.63
2020-10-28	Buy	5.45	1.82

Source: RHB, Bloomberg

28 June 2021

Consumer Cyclical | Rubber Products

Rubberex Corporation (RBRX MK)

Neutral (Maintained)

Affected By The NRP1 Extension

Target Price (Return): MYR0.90 (2.3%)
 Price: MYR0.88
 Market Cap: USD175m
 Avg Daily Turnover (MYR/USD) 37.1m/9.00m

- **Stay NEUTRAL with lower DCF-derived MYR0.90 TP from MYR1.05, 2% upside.** Phase 1 of the National Recovery Plan (NRP1) will be extended. This is negative for Rubberex's earnings in the near term. We lower our FY21 earnings estimates on lower utilisation rate assumptions.
- **NRP1 extended.** Bernama, quoting Prime Minister Tan Sri Muhyiddin Yassin, reported that the NRP1 will be extended. We gather that the reason for the delay is that Malaysia's daily COVID-19 cases have not declined below the 4,000 level, which is the requirement to move to the next phase.
- **The news is negative for earnings in the near term,** due to lower production volumes during NRP1, estimated at 20-30% below full potential. Recall that glove manufacturers are allowed to operate during NRP1, with the workforce capacity capped at 60%. The NRP1 is longer than we initially estimated.
- **Gloves ASPs have peaked.** We believe that long-term glove consumption growth remains solid due to higher hygiene awareness globally. However, we believe that ASPs peaked in 1QFY21 due to rising competition from the new supply of gloves in the market.
- **FY21 earnings reduced to MYR238m.** We assume lower utilisation rates due to the longer-than-expected NRP1. FY22-23 earnings estimates are maintained as we expect NRP1 to end eventually.
- **Stay NEUTRAL with lower TP.** Our TP is reduced due to lower earnings estimates and higher long-term ESG-related costs in our DCF methodology.
- **Upside/downside to TP** are better-/worse-than-expected gloves ASPs after COVID-19 ends, higher-/lower-than-expected sales volumes and/or USD, and higher-/lower-than-estimated raw material price.

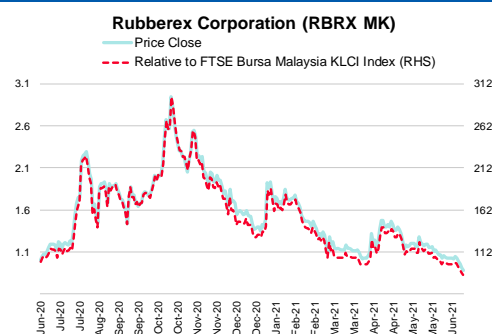
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(37.5)	(26.5)	(21.2)	(42.4)	(7.2)
Relative	(33.3)	(25.3)	(18.8)	(37.4)	(11.9)
52-wk Price low/high (MYR)	0.88 – 2.95				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	219	416	649	584	493
Recurring net profit (MYRm)	11	131	238	175	112
Recurring net profit growth (%)	30.7	1,055.3	81.5	(26.3)	(36.0)
Recurring P/E (x)	64.14	5.35	3.06	4.15	6.48
P/B (x)	3.6	1.9	1.2	0.9	0.8
P/CF (x)	18.57	5.16	3.83	3.26	4.90
Dividend Yield (%)	0.8	na	na	na	na
EV/EBITDA (x)	26.86	3.26	1.24	0.90	0.65
Return on average equity (%)	5.4	45.0	47.9	24.9	13.3
Net debt to equity (%)	net cash	net cash	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.

28 June 2021

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.01	0.16	0.29	0.21	0.14
Consumer Cyclical	DPS	0.01	-	-	-	-
Rubberex Corporation	BVPS	0.25	0.47	0.74	0.95	1.09
RBRX MK	Return on average equity (%)	5.4	45.0	47.9	24.9	13.3
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	64.14	5.35	3.06	4.15	6.48
DCF	P/B (x)	3.6	1.9	1.2	0.9	0.8
	FCF Yield (%)	(0.5)	11.6	22.7	27.0	16.6
	Dividend Yield (%)	0.8	-	-	-	-
Key drivers	EV/EBITDA (x)	26.86	3.26	1.24	0.90	0.65
i. Volume of sales;	EV/EBIT (x)	38.90	3.43	1.27	0.93	0.68
ii. USD/MYR;						
iii. Nitrile butadiene prices.						
Key risks	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Upside/downside to TP are:	Total turnover	219	416	649	584	493
i. Better-/worse-than-expected gloves ASPs after COVID-19 ends;	Gross profit	32	174	341	254	170
ii. Higher-/lower-than-expected sales volumes and/or USD;	EBITDA	26	169	336	249	163
iii. Higher-/lower-than-estimated raw material price.	Depreciation and amortisation	(8)	(8)	(8)	(9)	(9)
	Operating profit	18	161	328	240	154
	Net interest	(2)	(0)	(2)	(2)	(1)
	Pre-tax profit	16	161	326	239	154
	Taxation	(4)	(30)	(88)	(63)	(42)
	Reported net profit	11	131	238	175	112
	Recurring net profit	11	131	238	175	112
Company Profile	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Rubberex produces nitrile disposable gloves, household gloves and industrial gloves.	Cash flow from operations	39.2	136.1	190.2	223.5	148.6
	Capex	(43.0)	(55.0)	(25.0)	(26.5)	(27.8)
	Cash flow from investing activities	35.1	(17.1)	(25.0)	(26.5)	(27.8)
	Dividends paid	(5.5)	0.0	0.0	0.0	0.0
	Cash flow from financing activities	(41.0)	(11.6)	(7.9)	(3.4)	(2.4)
	Cash at beginning of period	23.9	56.1	165.3	322.2	515.7
	Net change in cash	33.4	107.4	157.3	193.5	118.4
	Ending balance cash	55.8	165.4	322.6	515.7	634.1
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	56	165	322	516	634
	Tangible fixed assets	126	177	193	209	226
	Total assets	270	460	727	916	1,023
	Short-term debt	11	1	1	1	1
	Total long-term debt	1	5	1	1	1
	Total liabilities	65	82	111	125	119
	Total equity	205	378	616	791	904
	Total liabilities & equity	270	460	727	916	1,023
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	6.5	90.4	56.0	(10.1)	(15.6)
	Recurrent EPS growth (%)	30.7	1098.1	75.0	(26.3)	(36.0)
	Gross margin (%)	14.4	41.8	52.5	43.6	34.4
	Operating EBITDA margin (%)	11.7	40.7	51.7	42.6	33.2
	Net profit margin (%)	5.2	31.5	36.7	30.1	22.8
	Dividend payout ratio (%)	48.9	0.0	0.0	0.0	0.0
	Capex/sales (%)	19.7	13.2	3.8	4.5	5.6
	Interest cover (x)	9.41	608.68	218.40	160.17	308.91

Source: Company data, RHB

Figure 1: DCF valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	223	149	105	87	91	99	108	116	125	134	
+ Interest (1 - tax rate)	1	0	0	0	0	0	0	0	0	0	
- capital expenditure	(27)	(28)	(29)	(31)	(32)	(34)	(36)	(37)	(39)	(43)	
Free cash flow to firm (FCFF)	198	121	77	57	59	66	73	79	86	91	523
Discount factor	0.97	0.79	0.64	0.52	0.42	0.35	0.28	0.23	0.19	0.15	0.15
PV of FCFF	191	95	49	30	25	23	20	18	16	14	79
<hr/>											
Risk-free	3.0%										
Beta	0.99										
Cost of equity	10.0%										
WACC	18.6%										
Terminal growth	1.0%										
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Enterprise value (MYR m)	561										
Cash	194										
- Debt	(4)										
Equity value (MYR m)	752										
No of shares (m)	832										
Fair value (MYR)	0.90										

Source: RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
2021-06-22	Neutral	1.05	0.99
2021-02-25	Buy	1.60	1.34
2020-11-05	Buy	3.00	2.53
2020-08-28	Buy	2.20	1.89
2020-04-28	Buy	0.56	0.43

Source: RHB, Bloomberg

Source: RHB, Bloomberg

28 June 2021

Consumer Cyclical | Rubber Products

Supermax Corp (SUCB MK)

Neutral (from Buy)

NRP1 Extension To Affect Sales Volumes; D/G

Target Price (Return): MYR3.40 (0.6%)
 Price: MYR3.38
 Market Cap: USD2,129m
 Avg Daily Turnover (MYR/USD): 113m/27.4m

- **Downgrade to NEUTRAL from Buy with new DCF-derived MYR3.40 TP from MYR6.60, 1% upside and 8% yield.** Phase 1 of the National Recovery Plan (NRP1) is to be extended – we believe this is negative to Supermax’s earnings in the near term. We cut our FY21F earnings, given a lower utilisation rate assumption.
- **Phase 1 deadline extended.** Bernama reported that NRP1 will be extended, citing Prime Minister Tan Sri Muhyiddin Yassin. The reason for the delay? We gathered from the report that Malaysia’s total new COVID-19 cases has not declined below the 4,000 level, which was the requirement to move to the next phase of the country’s recovery.
- **The news is negative for earnings in the near term.** This is due to lower production volumes, which are estimated at 20-30% below its full potential during NRP1. Recall: Gloves manufacturers are allowed to operate during the NRP1 period, but with their workforce capacity capped at 60%. The length of Phase 1 is now longer than what we initially estimated.
- **Gloves ASPs have peaked.** We believe gloves consumption growth for the long term remains solid. This is due to higher levels of hygiene awareness globally. However, we also think ASPs peaked in 1Q21, primarily on the rise in competition from the new supply of gloves in the market.
- **FY21F earnings reduced by 6% to MYR3.21bn.** We have assumed a lower utilisation rate, given the longer-than-estimated NRP1. We retain our FY22F-23F earnings, as we do believe the NRP1 will eventually be over.
- **Downgrade to NEUTRAL with TP cut to MYR3.40.** Our TP has also been reduced, given the trimmed earnings estimates and elevated long-term ESG-related costs in our DCF methodology.
- **Risks.** Upside/downside to TP are: i) better-/worse-than-expected gloves ASP after COVID-19 ends, ii) higher-/lower-than-expected sales volumes and/or USD, and iii) higher-/lower-than-estimated raw material prices.

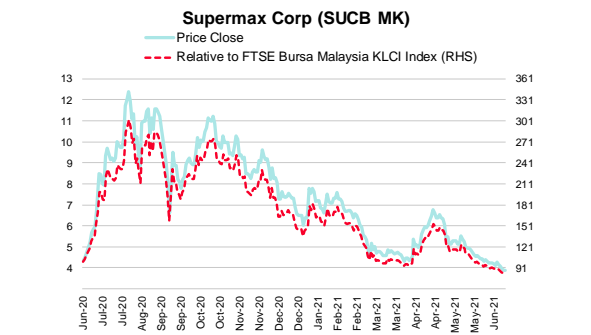
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(43.8)	(24.1)	(19.9)	(50.4)	(4.9)
Relative	(39.6)	(22.9)	(17.5)	(45.4)	(9.6)
52-wk Price low/high (MYR)	3.38 – 11.9				



Source: Bloomberg

Overall ESG Score: 2.89 (out of 4)

E: Good

Supermax uses alternative fuel sources such as biomass at several factories. It has spent MYR24m over the years to build, upgrade and maintain its biomass facilities. Supermax also treats its wastewater to protect the environment.

S: Good

Supermax has reported several positive COVID-19 cases among its workers. The cases remain low vis-à-vis peers. This could be caused by efforts spent to ensure all accommodations are in compliance with regulations and standards.

G: Good

63% of its board members are independent. 13% of its directors are female – still below the Malaysian Code on Corporate Governance requirement of 30%. Additionally, Supermax provides full disclosure of its directors’ remunerations, including salaries and bonuses. It also holds investor regular briefings, embodying good transparency and disclosure practices.

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	1,538	2,132	6,354	6,004	5,098
Recurring net profit (MYRm)	123	526	3,206	2,442	1,569
Recurring net profit growth (%)	15.5	326.6	510.1	(23.8)	(35.8)
Recurring P/E (x)	71.88	16.85	2.76	3.63	5.65
P/B (x)	7.9	5.9	2.4	1.6	1.3
P/CF (x)	37.67	11.45	2.31	3.73	6.28
Dividend Yield (%)	0.4	1.8	10.9	8.3	5.3
EV/EBITDA (x)	38.32	11.69	1.35	1.30	1.51
Return on average equity (%)	10.9	35.1	85.9	44.8	23.3
Net debt to equity (%)	19.2	net cash	net cash	net cash	net cash

Source: Company data, RHB

28 June 2021

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.05	0.20	1.22	0.93	0.60
Consumer Cyclical	DPS	0.01	0.06	0.37	0.28	0.18
Supermax Corp	BVPS	0.43	0.57	1.44	2.09	2.52
SUCB MK	Return on average equity (%)	10.9	35.1	85.9	44.8	23.3
Neutral						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Recurring P/E (x)	71.88	16.85	2.76	3.63	5.65
	P/B (x)	7.9	5.9	2.4	1.6	1.3
	FCF Yield (%)	1.4	7.0	41.6	25.1	14.2
	Dividend Yield (%)	0.4	1.8	10.9	8.3	5.3
	EV/EBITDA (x)	38.32	11.69	1.35	1.30	1.51
	EV/EBIT (x)	47.57	13.07	1.38	1.34	1.61
	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total turnover	1,538	2,132	6,354	6,004	5,098
	Gross profit	510	1,102	5,041	3,959	2,449
	EBITDA	232	720	4,195	3,177	2,033
	Depreciation and amortisation	(45)	(76)	(78)	(105)	(124)
	Operating profit	187	644	4,117	3,072	1,909
	Net interest	(20)	(17)	32	76	101
	Pre-tax profit	172	689	4,213	3,208	2,061
	Taxation	(49)	(153)	(990)	(754)	(484)
	Reported net profit	123	526	3,206	2,442	1,569
	Recurring net profit	123	526	3,206	2,442	1,569
	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	31	145	567	(111)	(191)
	Cash flow from operations	235	773	3,835	2,372	1,409
	Capex	(112)	(150)	(150)	(150)	(150)
	Cash flow from investing activities	(112)	(150)	(107)	(64)	(40)
	Dividends paid	(33)	(158)	(962)	(733)	(471)
	Cash flow from financing activities	(104)	(140)	(954)	(780)	(513)
	Cash at beginning of period	145	174	667	3,450	4,987
	Net change in cash	19	483	2,774	1,527	856
	Ending balance cash	174	667	3,450	4,987	5,853
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	174	667	3,450	4,987	5,853
	Tangible fixed assets	969	1,018	1,068	1,121	1,177
	Total investments	208	208	208	208	208
	Total assets	1,843	2,420	5,742	7,351	8,224
	Short-term debt	331	294	336	327	164
	Total long-term debt	61	129	121	114	107
	Total liabilities	708	921	2,009	1,901	1,492
	Total equity	1,134	1,499	3,732	5,450	6,732
	Total liabilities & equity	1,843	2,420	5,742	7,351	8,224
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	17.9	38.6	198.1	(5.5)	(15.1)
	Recurrent EPS growth (%)	15.5	326.6	510.1	(23.8)	(35.8)
	Gross margin (%)	33.2	51.7	79.3	65.9	48.0
	Operating EBITDA margin (%)	15.1	33.8	66.0	52.9	39.9
	Net profit margin (%)	8.0	24.7	50.5	40.7	30.8
	Dividend payout ratio (%)	26.6	30.0	30.0	30.0	30.0
	Capex/sales (%)	7.3	7.0	2.4	2.5	2.9
	Interest cover (x)	9.47	37.61	384.31	310.84	210.86

Source: Company data, RHB

Figure 1: DCF valuation

FYE Jun (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	2,372	1,088	555	686	693	690	671	647	653	660	
+ Interest (1 - tax rate)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(152)	(153)	
Free cash flow to firm (FCFF)	2,214	931	399	531	538	536	517	493	498	503	4,873
Discount factor	0.90	0.79	0.70	0.62	0.55	0.49	0.43	0.38	0.34	0.30	0.30
PV of FCFF	1,982	739	281	331	297	262	224	190	170	152	1,471

Risk-free	3.0%
Beta	1.37
Cost of Equity	12.6%
WACC	11.4%
Terminal growth	1.0%

Enterprise value (MYR m)	6,098
Cash	3,986
- Debt	(311)
Equity value (MYR m)	9,773
Number of shares (m)	2589
Equity value per share (MYR)	3.77
Operation risk discount	10%
TP (MYR)	3.40

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-06	Buy	6.6	4.9
2021-02-10	Buy	8.8	6.2
2021-02-01	Buy	10.6	6.8
2020-10-28	Buy	13.2	9.5
2020-08-11	Buy	12.0	10.8
2020-07-21	Buy	10.9	8.9
2020-07-14	Buy	9.4	8.0
2020-07-08	Buy	6.9	5.4
2020-06-02	Buy	5.3	3.8
2020-05-22	Buy	3.3	2.9
2020-05-21	Buy	3.0	2.7
2020-05-13	Buy	2.0	1.8
2020-02-26	Buy	0.9	0.9

Source: RHB, Bloomberg

28 June 2021

Consumer Cyclical | Rubber Products

Top Glove Corp (TOPG MK)

Neutral (Maintained)

Negative Impact From NRP 1 Extension

- **Stay NEUTRAL with new DCF-derived MYR4.38 TP from MYR4.90, 1% upside and 8% yield.** Phase 1 of the National Recovery Plan (NRP1) will be extended – this is negative to Top Glove Corp’s near-term earnings. We lower our FY21F (Aug) earnings on a decrease in utilisation rate assumptions.
- **NRP1 deadline extended.** A Bernama report, quoting Prime Minister Tan Sri Muhyiddin Yassin, said the NRP1 will be extended. We gather that the reason for the delay was because Malaysia’s total new COVID-19 cases has not declined below the 4,000 mark – this was the requirement to move to the next phase of the plan.
- **The news is negative for Top Glove’s earnings in the near term.** This is due to the lower production volumes: Estimated at 20-30% below the full potential during NRP1. Recall that gloves manufacturers are allowed to operate during this period, with the workforce capacity capped at 60%. The length of the NRP1 has been longer than we initially estimated.
- **Gloves ASPs have peaked.** We believe long-term gloves consumption growth remains solid, given the higher hygiene awareness globally. However, we also think ASPs peaked in 1Q21 on rising competition from the new supply of gloves in the market.
- **FY21F earnings reduced to MYR8.37bn.** We have assumed lower utilisations rate due to a longer-than-expected NRP1. FY22F-23F earnings estimates are maintained, as we believe the NRP1 will be over eventually.
- **Stay NEUTRAL with TP adjusted to MYR4.38.** Our TP has also been reduced due to the lower earnings estimates and elevated ESG-related costs in the long term in our DCF methodology.
- **Risks.** Upside to TP: i) Better-than-expected gloves ASPs after COVID-19 ends, ii) higher-than-expected sales volumes and/or USD, and iii) higher-than-estimated raw material prices. Downside to TP are worse-than-expected gloves ASPs after the pandemic ends, lower-than-expected sales volumes and/or USD, and lower-than-estimated raw material prices.

Target Price (Return): MYR4.38 (+1%)
 Price: MYR4.35
 Market Cap: USD8,377m
 Avg Daily Turnover (MYR/USD): 123m/29.7m

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.9)	(16.4)	(14.7)	(33.0)	(15.8)
Relative	(24.7)	(15.2)	(12.3)	(28.0)	(20.5)
52-wk Price low/high (MYR)	4.35 – 9.60				



Source: Bloomberg

Overall ESG Score: 2.78 (out of 4)

E: Good

Top Glove measures its CO₂ emissions, and aims to reduce it by 8% annually. For nature preservation, it has installed on-site detention and rain harvesting tanks with a combined capacity of 2,500cu m at its factories. To reduce pollution, six of its factories are powered by biomass, which is a renewable source of energy.

S: Moderate

Recently, a high number of COVID-19 cases have been reported at Top Glove’s hostels. We believe improvements are needed in this area. The company has spent MYR20m to purchase 100 units of apartments for its workers in the past two months – this is on top its current 100 units of double-storey houses and hostels.

G: Excellent

50% of its board members are independent, and 42% are female, exceeding the Malaysian Code on Corporate Governance requirement of 30%. Additionally, Top Glove provides full disclosure on its directors’ remuneration, including salaries and bonuses, and on a named basis. Top Glove has an in-house investor relations team and holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
Total turnover (MYRm)	4,801	7,236	20,082	16,222	14,885
Recurring net profit (MYRm)	365	1,605	8,373	5,142	3,502
Recurring net profit growth (%)	(15.0)	340.2	421.6	(38.6)	(31.9)
Recurring P/E (x)	97.48	22.14	4.24	6.91	10.15
P/B (x)	14.0	7.1	4.5	3.4	2.9
P/CF (x)	67.54	11.21	4.41	6.11	9.08
Dividend Yield (%)	0.6	1.0	15.3	7.2	4.9
EV/EBITDA (x)	54.43	14.19	2.84	4.17	5.72
Return on average equity (%)	14.8	42.7	129.5	55.7	30.7
Net debt to equity (%)	84.9	net cash	net cash	net cash	net cash

Source: Company data, RHB

28 June 2021

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
Malaysia	Recurring EPS	0.04	0.20	1.02	0.63	0.43
Consumer Cyclical	DPS	0.03	0.05	0.67	0.31	0.21
Top Glove Corp	BVPS	0.31	0.61	0.97	1.29	1.50
TOPG MK	Return on average equity (%)	14.8	42.7	129.5	55.7	30.7
Neutral						
	Valuation metrics	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
	Recurring P/E (x)	97.48	22.14	4.24	6.91	10.15
	P/B (x)	14.0	7.1	4.5	3.4	2.9
	DCF					
	FCF Yield (%)	(0.3)	6.8	21.3	15.0	9.6
	Dividend Yield (%)	0.6	1.0	15.3	7.2	4.9
	EV/EBITDA (x)	54.43	14.19	2.84	4.17	5.72
	EV/EBIT (x)	75.85	15.79	2.91	4.35	6.11
	Income statement (MYRm)	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
	Total turnover	4,801	7,236	20,082	16,222	14,885
	Gross profit	884	2,732	12,807	8,118	5,790
	EBITDA	690	2,329	11,450	7,107	4,896
	Depreciation and amortisation	(195)	(235)	(259)	(285)	(313)
	Operating profit	495	2,094	11,191	6,822	4,583
	Net interest	(69)	(53)	(11)	40	87
	Pre-tax profit	424	2,040	11,189	6,869	4,677
	Taxation	(56)	(398)	(2,797)	(1,717)	(1,169)
	Reported net profit	365	1,605	8,373	5,142	3,502
	Recurring net profit	365	1,605	8,373	5,142	3,502
	Cash flow (MYRm)	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
	Change in working capital	(42)	864	(537)	478	232
	Cash flow from operations	526	3,171	8,065	5,819	3,915
	Capex	(624)	(765)	(500)	(500)	(500)
	Cash flow from investing activities	(494)	(393)	(194)	(191)	(191)
	Cash flow from financing activities	(28)	(44)	(5,637)	(2,752)	(1,923)
	Cash at beginning of period	165	166	1,210	3,187	5,850
	Net change in cash	4	2,734	2,234	2,877	1,801
	Ending balance cash	163	2,897	5,131	8,008	9,809
	Balance sheet (MYRm)	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
	Total cash and equivalents	253	2,885	3,187	5,850	7,481
	Tangible fixed assets	2,480	3,035	4,932	5,095	5,400
	Total investments	164	164	164	164	164
	Total assets	5,688	8,673	11,417	13,773	15,485
	Short-term debt	1,041	323	273	223	173
	Total long-term debt	1,379	217	63	(111)	(106)
	Total liabilities	3,134	2,363	2,157	1,931	1,885
	Total equity	2,554	6,310	9,260	11,842	13,600
	Total liabilities & equity	5,688	8,673	11,417	13,773	15,485
	Key metrics	Aug-19	Aug-20	Aug-21F	Aug-22F	Aug-23F
	Revenue growth (%)	13.8	50.7	177.5	(19.2)	(8.2)
	Recurrent EPS growth (%)	(15.0)	340.2	421.6	(38.6)	(31.9)
	Gross margin (%)	18.4	37.7	63.8	50.0	38.9
	Operating EBITDA margin (%)	14.4	32.2	57.0	43.8	32.9
	Net profit margin (%)	7.6	22.2	41.7	31.7	23.5
	Dividend payout ratio (%)	59.6	23.2	65.0	50.0	50.0
	Capex/sales (%)	13.0	10.6	2.5	3.1	3.4
	Interest cover (x)	6.22	39.47	186.18	123.03	90.25

Source: Company data, RHB

Figure 1: DCF valuation

FYE 31 Aug (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	5,819	3,915	3,749	3,875	4,001	4,110	4,215	4,388	4,608	4,838	
+ Interest (1 - tax rate)	42	39	35	32	28	26	23	21	21	21	
- capital expenditure	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	
Free cash flow to firm (FCFF)	5,362	3,454	3,284	3,406	3,529	3,636	3,738	3,909	4,129	4,359	48,697
Discount factor	0.90	0.81	0.73	0.65	0.59	0.53	0.48	0.43	0.38	0.35	0.35
PV of FCFF	4,821	2,792	2,387	2,226	2,074	1,921	1,776	1,670	1,586	1,506	16,820
Risk-free	3.0%										
Beta	1.16										
Cost of Equity	11.1%										
WACC	10.1%										
Terminal growth	1.0%										
Enterprise value (MYRm)	39,581										
Cash	4,713										
- Debt	(483)										
Equity value (MYRm)	43,811										
No of shares (m)	8004										
Equity value per share	5.47										
ESG discount	10%										
Operation risk discount	10%										
Total discount	20%										
TP (MYR)	4.38										

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-06-10	Neutral	4.9	4.8
2021-03-10	Buy	6.8	5.3
2021-01-18	Buy	8.5	6.3
2020-09-18	Buy	9.5	8.0
2020-07-21	Buy	33.3	8.3
2020-07-14	Buy	28.9	7.7
2020-07-07	Buy	24.8	6.8
2020-06-12	Buy	20.5	5.6
2020-06-05	Buy	18.3	5.5
2020-05-14	Buy	13.3	3.4
2020-03-20	Buy	7.0	2.1
2020-01-23	Buy	6.4	1.8

Source: RHB, Bloomberg

28 June 2021

UG Healthcare (UGHC SP)

Negative Impact From NRP1 Extension; D/G

- **Downgrade to NEUTRAL from Buy with new DCF-derived SGD0.61 TP from SGD0.75, 2% upside and 3% yield.** Malaysia's Phase 1 of the National Recovery Plan (NRP1) will be extended. This is negative to UG Healthcare's near-term earnings. We lower our FY21F (Jun) earnings due to a lower utilisation rate assumption.
- **NRP1 deadline extended.** National news agency Bernama, quoting Prime Minister Tan Sri Muhyiddin Yassin, reported that Malaysia's NRP1 will be extended. The reason for the delay: The country's total new COVID-19 cases have not declined below the 4,000 level, ie the requirement needed to move to Phase 2. Recall: UG Healthcare owns two manufacturing plants in Seremban, Negeri Sembilan, which have to comply with the NRP1.
- **The news is negative for near-term earnings.** This is due to lower production volumes estimated at 20-30% below the full potential during the NRP1. Recall: Glove manufacturers are allowed to operate during this period with a workforce capacity capped at 60%. The length of the NRP1 has been longer than our initial estimate.
- **Gloves ASPs have peaked.** We believe that long-term gloves consumption growth remains solid due to higher hygiene awareness globally. However, we believe ASPs peaked in 1Q21 due to rising competition from new gloves supply in the market.
- **FY21F earnings reduced by 11% to SGD106m.** We have assumed a lower utilisation rate due to the longer-than-expected NRP1. FY22F-23F earnings are maintained, as we expect the NRP1 to eventually be over.
- **Downgrade to NEUTRAL with TP reduced to SGD0.61.** Our TP has been reduced due to the lower earnings estimates and higher long-term ESG-related costs in our DCF methodology.
- **Risks.** Upside/downside to TP are better-/worse-than-expected gloves ASPs after COVID-19 ends, higher-/lower-than-expected sales volumes and/or USD, and higher-/lower-than-estimated raw material prices.

Healthcare | Medical Equipment & Devices

Neutral (from Buy)

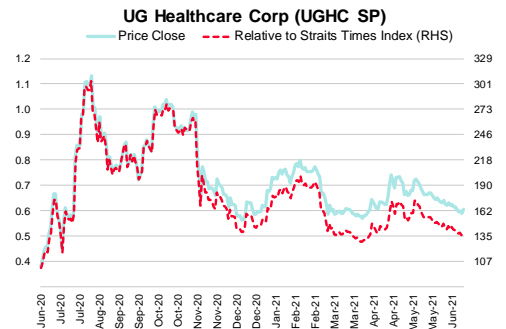
Target Price (Return): SGD0.61 (+2%)
 Price: SGD0.60
 Market Cap: USD273m
 Avg Daily Turnover (SGD/USD) 3.27m/2.45m

Analyst

Singapore Research
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.7	(9.2)	4.4	(4.0)	68.4
Relative	(8.1)	(8.4)	5.1	(13.8)	47.9
52-wk Price low/high (SGD)	0.36 – 1.12				



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (SGDm)	92	144	271	276	195
Recurring net profit (SGDm)	3	13	106	63	29
Recurring net profit growth (%)	(42.2)	434.6	690.4	(40.8)	(53.6)
Recurring P/E (x)	146.27	27.36	3.46	5.84	12.60
P/B (x)	8.7	7.0	2.5	1.8	1.6
P/CF (x)	na	28.76	3.72	6.18	14.85
Dividend Yield (%)	0.1	0.4	3.2	1.9	0.9
EV/EBITDA (x)	75.09	18.28	2.21	3.00	5.47
Return on average equity (%)	5.9	28.3	106.6	36.0	13.5
Net debt to equity (%)	78.3	47.9	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.

28 June 2021

Healthcare | Medical Equipment & Devices

Financial Exhibits

Asia	Financial summary (SGD)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Singapore	Recurring EPS	0.00	0.02	0.17	0.10	0.05
Healthcare	DPS	0.00	0.00	0.02	0.01	0.01
UG Healthcare	BVPS	0.07	0.08	0.24	0.33	0.37
UGHC SP	Return on average equity (%)	5.9	28.3	106.6	36.0	13.5
Neutral						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Recurring P/E (x)	146.27	27.36	3.46	5.84	12.60
	P/B (x)	8.7	7.0	2.5	1.8	1.6
	DCF Yield (%)	(4.1)	2.6	25.6	14.0	5.4
	Dividend Yield (%)	0.1	0.4	3.2	1.9	0.9
	EV/EBITDA (x)	75.09	18.28	2.21	3.00	5.47
	EV/EBIT (x)	108.09	20.64	2.25	3.08	5.77
	Income statement (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total turnover	91.7	144.2	271.0	276.2	195.4
	Gross profit	18.7	42.5	150.3	99.8	59.3
	EBITDA	5.3	21.3	132.9	80.9	40.4
	Depreciation and amortisation	(1.6)	(2.4)	(2.1)	(2.1)	(2.1)
	Operating profit	3.7	18.9	130.8	78.8	38.3
	Net interest	(1.6)	(2.0)	(2.3)	(2.5)	(2.5)
	Pre-tax profit	2.8	18.1	129.7	77.6	37.1
	Taxation	(0.5)	(3.0)	(22.0)	(13.2)	(6.3)
	Reported net profit	2.5	13.4	105.9	62.7	29.1
	Recurring net profit	2.5	13.4	105.9	62.7	29.1
	Cash flow (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	(8.4)	(6.0)	(7.8)	(5.0)	(6.0)
	Cash flow from operations	(6.6)	12.8	98.7	59.3	24.7
	Capex	(8.6)	(3.3)	(5.0)	(8.0)	(5.0)
	Cash flow from investing activities	(6.9)	(2.8)	(3.2)	(6.0)	(3.0)
	Dividends paid	(0.1)	(0.1)	0.0	0.0	0.0
	Cash flow from financing activities	10.8	(7.4)	10.0	10.0	10.0
	Cash at beginning of period	6.7	4.9	9.3	114.9	176.0
	Net change in cash	(2.7)	2.5	105.5	63.3	31.7
	Ending balance cash	4.0	7.3	114.8	179.2	208.7
	Balance sheet (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	4.9	9.3	114.9	176.0	207.5
	Tangible fixed assets	31.3	31.5	34.4	40.3	43.2
	Total investments	4.6	4.9	6.0	8.0	8.0
	Total assets	98.4	113.0	234.6	316.3	359.7
	Short-term debt	32.2	30.5	40.5	50.5	60.5
	Total long-term debt	6.4	4.8	8.0	8.5	8.5
	Total liabilities	55.2	58.7	88.2	113.1	130.5
	Total equity	43.2	54.3	146.4	203.2	229.2
	Total liabilities & equity	98.4	113.0	234.6	316.3	359.7
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	17.5	57.2	87.9	1.9	(29.2)
	Recurrent EPS growth (%)	(42.2)	434.6	690.4	(40.8)	(53.6)
	Gross margin (%)	20.4	29.5	55.5	36.1	30.3
	Operating EBITDA margin (%)	5.8	14.8	49.0	29.3	20.7
	Net profit margin (%)	2.7	9.3	39.1	22.7	14.9
	Dividend payout ratio (%)	21.2	10.9	11.0	11.0	11.0
	Capex/sales (%)	9.4	2.3	1.8	2.9	2.6
	Interest cover (x)	2.27	9.51	56.85	31.53	15.32

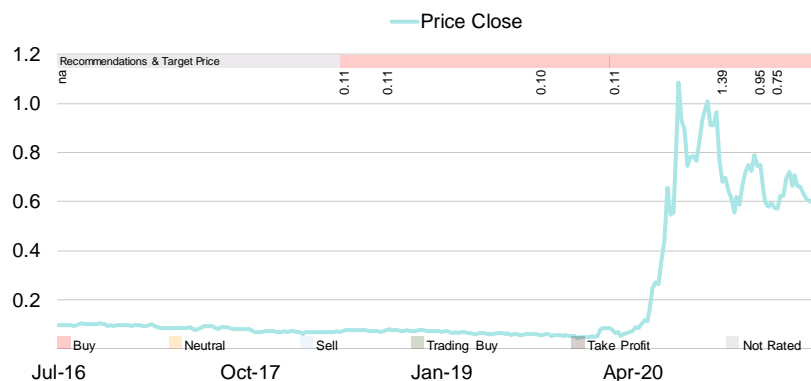
Source: Company data, RHB

Figure 1: DCF valuation

FYE Jun (SGDm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	57	23	19	20	21	21	21	22	22	22	
+ Interest (1 - tax rate)	2	2	2	2	2	2	2	2	2	2	
- capital expenditure	(8)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	
Free cash flow to firm (FCFF)	51	21	16	17	18	18	18	19	19	19	358
Discount factor	0.94	0.88	0.82	0.77	0.72	0.67	0.63	0.59	0.55	0.52	0.52
PV of FCFF	48	18	13	13	13	12	12	11	10	10	186
<hr/>											
Risk-free	3.0%										
Beta	0.42										
Cost of equity	6.4%										
WACC	6.4%										
Terminal growth	1.0%										
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Enterprise value (SGDm)	346										
Cash	44										
- Debt	(11)										
Equity value (SGDm)	379										
No of shares (m)	616										
Fair value (SGD)	0.61										

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-03-19	Buy	0.75	0.60
2021-02-05	Buy	0.95	0.79
2020-11-06	Buy	1.39	0.97
2020-02-20	Buy	0.11	0.08
2019-08-28	Buy	0.10	0.06
2018-05-11	Buy	0.11	0.07

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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