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Asia | Malaysia

ASEAN Glove Manufacturers

Structural Step Up in Demand; ASP to Stay High Amid Tight Supply

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- **Conclusion(s)** — We raise our estimates and TPs across the board for Asean glove makers, all rated Buys, with Top Glove (Street-high TP of RM48.10) remaining our most preferred pick. The glove industry's fundamentals are by far the best in its 30-year history: demand is showing no signs of peaking and a structural pick-up is likely even after a Covid vaccine is approved. The current volume visibility is at least one year out amid severe supply constraints, and the ongoing ASP upcycle is set to extend into CY21E, driving unprecedented profitability in a benign cost environment.

- **Demand is far from peaking** — Covid's infectious nature (high R0) and the prevalence of asymptomatic cases are necessitating mass-testing globally, driving up demand for medical supplies and depleting inventories across the supply chain. The testing intensity globally is still high, and signs of under-testing in developing countries imply further incremental demand for gloves. The progress of potential vaccines is encouraging, but Phase 3 trials could prove to be a bigger hurdle. Mass availability is unlikely until mid-CY21, without which testing will remain elevated amid second waves in Australia and a few other countries. Even with a vaccine, a structural step-up in gloves usage is on the cards as the pandemic may well accelerate the narrowing of the gap between EM and DM gloves consumption. Low- to mid-teens YoY demand growth could be the new normal (vs. pre-Covid's high single-digit LT CAGR).

- **Supply ramp-up needs time, ASP upcycle to be prolonged** — Glove makers are ramping up capacity to meet demand; we expect the ASEAN Big Five glove makers' end-CY20E capacity to reach c.219.8bn gloves, +19.6% yoy, with another +15% in CY21/22E. The wildcard here would be Chinese players, whose ramp-up timelines look far too aggressive and supply-chain constraints could cap capacity increases. As the bulk of the new capacity is due only from 2H21E, we expect ASPs to rise into 1Q CY21, before levelling off/normalizing. The emergence of spot orders (2-3x higher ASPs) is also pushing up blended ASPs; the impact on earnings and margins when costs are flattish/declining is being underappreciated by the Street, in our view. Our forecasts are materially above consensus; for some companies, net margins could rise to as high as c.50% (vs 10-15% pre-Covid).

					Rating		Target Price					Current Fiscal Year EPS		Next Fiscal Year EPS	
Company	Ticker	Currency	Price	Date & Time	Old	New	Old	New	Div Yld (%)	ETR (%)	Last Rpt Year	Old	New	Old	New
Top Glove	TPGC.KL	RM	27.20	10 Aug 17:00	1	1	25.30	48.10	6.2	83.1	Aug-19	0.49	0.61	1.39	3.38
Hartalega Hldgs	HTHB.KL	RM	18.36	10 Aug 17:00	1	1	26.70	26.70	2.1	47.5	Mar-20	64	64	93	93
Kossan Rubber Industries	KRIB.KL	RM	17.90	10 Aug 17:00	1	1	16.20	31.20	1.4	75.7	Dec-19	63	61	81	157
Supermax	SUPM.KL	RM	21.20	10 Aug 17:00	1	1	24.90	24.90	4.6	22.0	Jun-20	2.13	2.13	1.55	1.55
Sri Trang Agro-Industry	STA.BK	Bt	29.00	10 Aug 17:00	1	1	39.80	71.00	2.4	147.2	Dec-19	2.00	2.99	2.56	6.06

1 = Buy, 2 = Neutral, 3 = Sell, H = High Risk
Source: Citi Research

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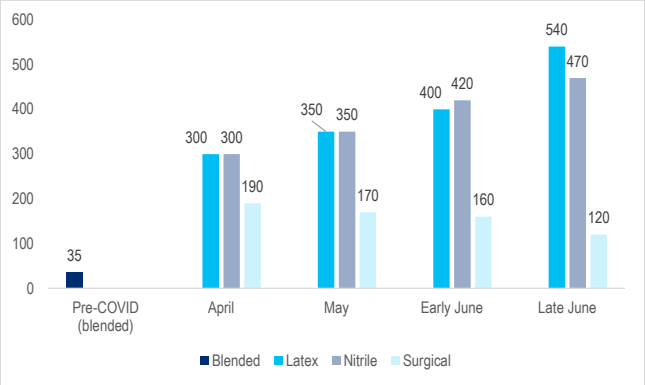
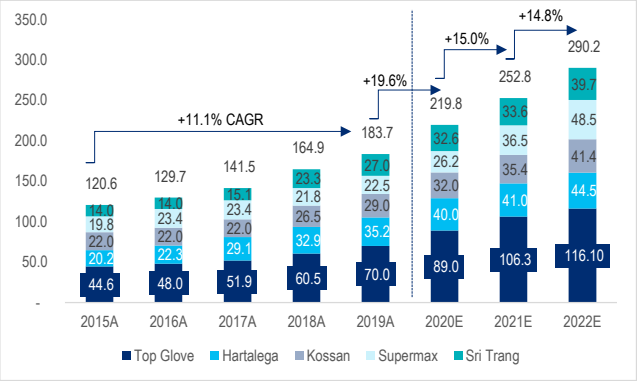
Focus Charts

Figure 1. Lead-time has exceeded 1 year for the majority of industry players; Top Glove's lead-time for nitrile gloves is now at 18 months



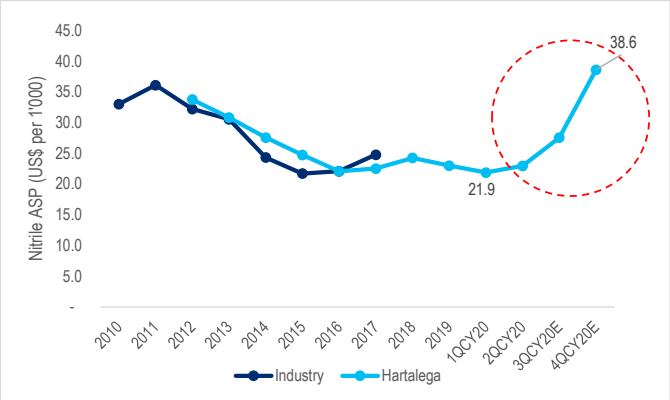
Source: Top Glove, Citi Research

Figure 2. Supply by the Big-Five will only start to catch up in 2H21



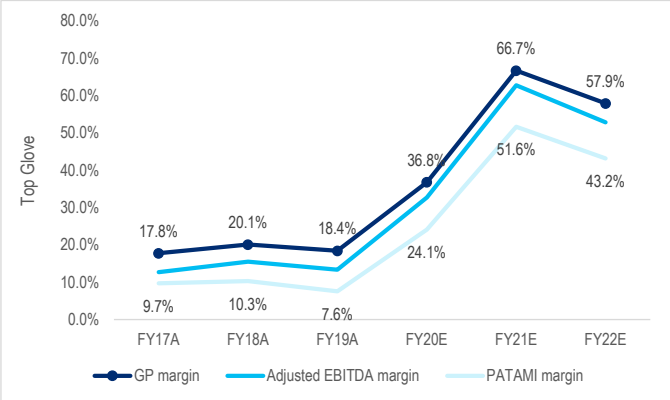
Source: Company, Citi Research

Figure 3. ASPs on the rise; by Dec-20 quarter, prices would be at least double pre-Covid levels (for Hartalega) and could move even higher due to supply tightness



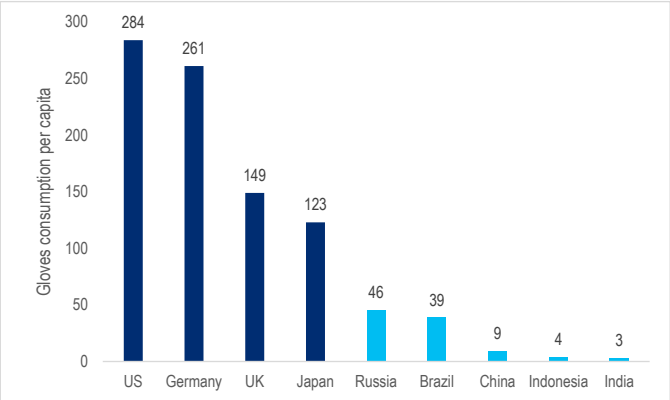
Source: MARGMA, Hartalega, Citi Research

Figure 4. In a benign cost environment, the incremental revenue from ASP hikes flows almost directly to earnings thus driving a rapid margin expansion; we model a 52% PATMI margin for Top Glove in FY21E



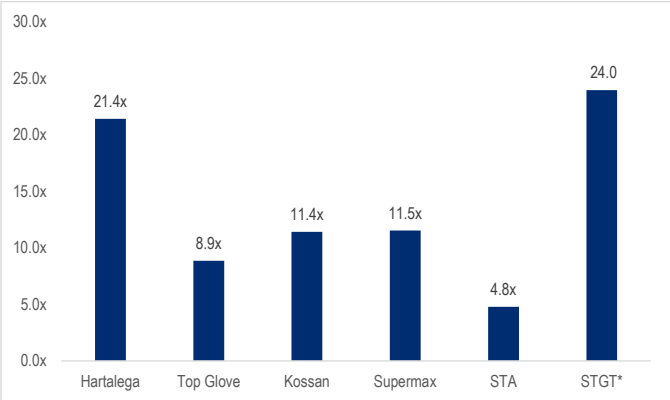
Source: Company, Citi Research

Figure 5. The pandemic may accelerate the narrowing of gap between EM and DM consumption, driving a structural demand pick-up; China at only 9 gloves consumption per capita, vs Japan at 123, US at 284



Source: Hartalega, Citi Research

Figure 6. CY21E PE multiples on our earnings look reasonable despite the massive outperformance YTD



Source: *IBES for STGT, Citi Research

Executive Summary

No Signs of Demand Peaking Yet; a Structural Pick-up in Gloves Usage post Covid is Likely even with a Vaccine

The current pandemic-driven demand upcycle is nothing like we've seen before; demand is far stronger than expected resulting in lead-time for some players ballooning to >1 year. Covid-19's high R0 (estimated at 1.5 to 3.5) and prevalence of asymptomatic cases are necessitating large-scale testing globally and imply higher risk of future waves. Both are key to driving the demand spike. Testing intensity remains generally elevated, and is unlikely to subside amid the rise of second waves with signs of under-testing in many LatAm countries. That, alongside stocking up activities/restocking, suggests we're still a long way from peak demand.

Demand strength has materially surprised on the upside, with lead time for industry players ballooning from 1-2 months pre-Covid to >12 months

Beyond that, we expect a structural step up in demand as the pandemic may well accelerate the narrowing of the gap between EM and DM glove consumption regardless of vaccine. Low to mid-teens YoY demand growth could be the new normal (vs pre Covid's high single digit LT CAGR). The sector could be on the verge of a multi-year demand upcycle. Vaccine development is encouraging, but various hurdles are yet to be cleared with mass-availability unlikely until mid-CY21.

Strong Visibility amid Capacity Constraints

As it is, capacities are locked up for most if not whole of CY21, providing an unprecedented visibility. Industry players expect demand to rise by 20% this year, which would be much higher if not for capacity constraints. The glove makers are ramping up to meet demand; we model the ASEAN Big-Five end-CY20E capacity to hit c.219.8bn, +19.6% YoY. On the surface, this may sound aggressive; but investors need to keep in mind that [1] CY19A was a relatively low base due to capacity being pushed back, [2] All of the incremental capacity this year is effectively sold out amid the pandemic outbreak. Going forward, indicative plans suggest that the Big-Five's capacity is set to rise to 252.8bn/290.2bn respectively by end-CY21/22E, implying +15.0%/+14.8% YoY; higher than historical trend but reasonable taking into account the huge order backlog.

Unlike surgical masks, the lead-time to ramp capacity for the gloves sector is at least a year, if not longer, which is why the bulk of new capacity will only come online in 2H21. Aggressive expansion from Chinese players cannot be overlooked, but at the same time their timelines do look too aggressive. Even if factories are able to be built, actual production may be capped by supply-chain constraints especially on feedstock and glove formers; approvals to sell into new markets will also take time, more so when it involves medical supplies like gloves.

ASPs to Rise Well into 1Q CY21 and Stay High in CY21, Consensus Still Underpricing Impact on Earnings, Operating Leverage

As capacity roll-out will take time, we expect ASP upcycle to last longer, and selling prices to stay elevated in CY21E

With demand-supply imbalance unlikely to be addressed within the next year or so, selling prices could grind higher going in 1Q CY21, especially amid second-wave concerns. In addition, we model for prices to only come off in 2H CY21, implying that on average, ASP's for CY21E could still be materially higher than CY20E's. The impact of ASP hikes on earnings in a benign cost environment is still well underappreciated by the Street, in our view; we expect very strong earnings momentum over the next 2-3 quarters at the very least; our forecasts are materially above Consensus; net margins could rise to as high as c.50% (vs 10-15% pre-Covid).

Staying Higher for Longer; Top Glove is our Top Pick

Top Glove remains our most preferred pick; we have Buy recommendations across the sector

Rising tide lifts all boats. We reiterate Top Glove (Buy, TP RM48.10) as a clear winner; being the largest by capacity has allowed the Group to lead the pack in raising prices. Capacity wise, the Group also has the most near-to-medium term capacity coming to absorb the pandemic-driven demand; our bull case valuation for Top Glove is RM77.60. Supermax's (Buy, TP RM24.90) OBM-centric and manufacturing-cum-distribution business model means the Group is closer to the end-market, allowing the company to capture the bulk of the significant ASP increase at both the manufacturing and distribution levels, resulting in faster and more aggressive ASP trends. Kossan (Buy, TP RM31.20), Hartalega (Buy TP RM26.70) were initially conservative in ASP guidance, but now are catching up quickly; Street's expectations for the two names look far too conservative. STA (Buy, TP Bt71.00) in Thailand is a proxy to Sri Trang Gloves (Not-rated), the world's third largest glove-maker.

Figure 7. Who is best positioned in this upcycle? Ranking from 1(best) to 5 (least)

	Top Glove	Hartalega	STA	Kossan	Supermax
ASP	2	3	3	3	1
Capacity					
6 months	1	2	4	2	3
12 months	1	2	3	3	3
18 months	2	4	5	3	1
Spot allocation	1	4	3	3	2
Product mix	4	1	5	2	3
YTD share price	3	1	na	2	4
Valuation (CY21E PE)	1	5	na	3	4

Source: Company, Bloomberg, Citi Research

Figure 8. Our bull-bear scenarios

	Bear	Base	Bull
Top Glove (RM)	16.50	**48.10**	77.60
Hartalega (RM)	10.20	**26.70**	40.30
Kossan (RM)	12.20	**31.20**	44.00
Supermax (RM)	8.90	**24.90**	39.20
STA (Bt)	22.10	**71.00**	88.00

Source: Citi Research

Figure 9. Citi vs Consensus (Bloomberg) – We are materially above Street; we believe consensus is still expecting a sharp normalization in ASPs come CY21; our view is that until supply tightness abates, ASPs are likely to remain elevated

	Citi				Consensus (Bloomberg)				Citi vs Consensus			
PATMI (RM mn)	**FY20E**	**FY21E**	**FY22E**	**FY23E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**	**FY20E**	**FY21E**	**FY22E**	**FY23E**
Top Glove	1,644	9,138	6,592	na	1,441	3,808	1,545	na	14%	140%	327%	na
Hartalega	na	2,175	3,137	1,361	na	1,717	1,719	1,117	na	27%	83%	22%
Kossan	781	2,005	914	na	662	850	527	na	18%	136%	73%	na
Supermax	na	2,832	2,069	932	na	1,164	738	na	na	143%	179%	na
STA (Bt mn)	4,600	9,305	4,632	na	3,838	4,419	4,338	na	20%	111%	7%	na

Note: Top Glove's fiscal YE is Aug, Hartalega's is Mar, Kossan's and STA's are Dec, Supermax's is June.

Source: Bloomberg, Citi Research

Making Sense of the Pent-up Demand

Clear precedence from H1N1 and SARS…

Strong demand for gloves was seen during SARS (2003) and H1N1 (2009)

Back in April (see: Malaysia Glove Manufacturers - Strong Demand, Tighter Supply Could See More Earnings Upside), we pointed out that the global escalation of Covid-19 would likely result in a pent-up demand for medical supplies including gloves, more so following the exponential spike in the number of cases in the US and Europe in the back half of March. Both are enormous markets for gloves (50-80% of revenue). After all, medical examination gloves are inexpensive but effective one-time-use barrier of protection, critical in protecting healthcare workers. Historically, demand strength was clearly seen during global pandemic episodes like SARS (2003) and H1N1 (2009), as hospitals, governments, and medical supply distributors stocked up to cope with outbreaks.

Figure 10. US$ revenue by the Big-Three glove makers in Malaysia remained robust for many years after SARS in 2003 amid lower healthcare awareness, fueling a c.47% 3-year CAGR over 2002 to 2005

Revenue (RM mn)	2001A	2002A	2003A	2004A	2005A	2006A	2007A
Top Glove	153	208	316	493	759	1,071	1,278
Kossan	126	155	182	281	386	571	703
Supermax	63	85	141	218	285	400	574
Total (RM mn)	**342**	**448**	**639**	**992**	**1,429**	**2,043**	**2,555**
YoY growth		*31%*	*43%*	*55%*	*44%*	*43%*	*25%*
Total (US$ mn)	**90**	**118**	**168**	**261**	**376**	**539**	**697**
YoY growth		*31%*	*43%*	*55%*	*44%*	*43%*	*29%*
YoY growth	**2001A**	**2002A**	**2003A**	**2004A**	**2005A**	**2006A**	**2007A**
Top Glove		37%	52%	56%	54%	41%	19%
Kossan		22%	18%	54%	37%	48%	23%
Supermax		34%	67%	55%	30%	41%	43%

*Adjusted to CY due to different fiscal year-ends

**Hartalega was only listed in 2008

Source: Company, Citi Research

Figure 11. H1N1 in 2009 on the other hand saw the Big-Four's collective US$ revenue growing at a CAGR of 18% (2008 to 2011) before showing signs of normalization

Revenue (RM mn)	2008A	2009A	2010A	2011A	2012A	2013A	2014A
Top Glove	1,428	1,713	2,071	2,141	2,314	2,301	2,354
Hartalega	397	540	694	882	1,007	1,088	1,136
Kossan	897	842	1,047	1,090	1,234	1,307	1,302
Supermax	812	804	977	1,021	997	1,048	1,004
Total (RM mn)	**3,534**	**3,898**	**4,789**	**5,134**	**5,552**	**5,744**	**5,796**
YoY growth		*10%*	*23%*	*7%*	*8%*	*3%*	*1%*
Total (US$ mn)	**1,028**	**1,170**	**1,487**	**1,678**	**1,798**	**1,824**	**1,771**
YoY growth		*14%*	*27%*	*13%*	*7%*	*1%*	*-3%*
YoY growth	**2008A**	**2009A**	**2010A**	**2011A**	**2012A**	**2013A**	**2014A**
Top Glove	12%	20%	21%	3%	8%	-1%	2%
Hartalega	na	36%	29%	27%	14%	8%	4%
Kossan	28%	-6%	24%	4%	13%	6%	0%
Supermax	41%	-1%	22%	5%	-2%	5%	-4%

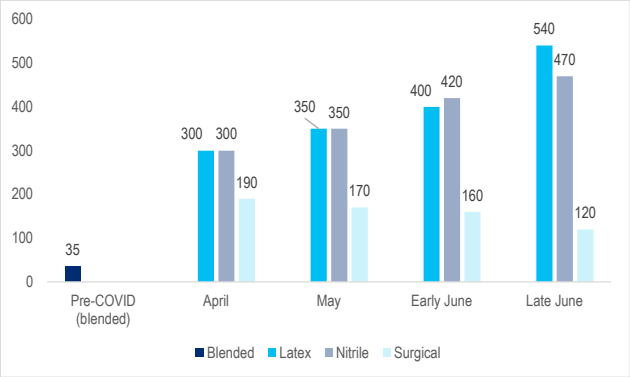
Source: Company, Citi Research

…but current demand is far stronger than anticipated

Demand spike amid Covid has far exceeded expectations, lead time for some players has ballooned to >12 months

Just over 3 months after Covid-19 was officially declared as a pandemic, demand has proven to be far stronger than anticipated, surprising the Street and industry players alike. In fact, the current cycle is by far the strongest that the sector has seen since its inception about 30 years ago. Across the board, glove manufactures in Malaysia, Thailand and China are now looking at a lead time of >12 months for forward orders (vs pre-Covid levels of just 1-2 months), with conversion from forward to sport orders (2-3x higher prices) also climbing as buyers are desperate to get hold of inventories. Anecdotally, we gathered from the Malaysian players that the longest lead-time seen during H1N1 was only 5-6 months. Current demand is so strong that even Top Glove's surgical (higher ASP) and vinyl gloves (non-medical end-usage) are seeing extended lead-time.

Figure 12. Top Glove's lead-time evolution (days)



Source: Top Glove, Citi Research

Of high R0 and prevalence of asymptomatic cases...

The reproduction rate, R0, tells us how contagious a virus is; bringing down R0 to <1 is the ultimate goal

To understand the current demand upcycle, we explore two points. First, the **infectious nature of Covid-19** measured by R0 (pronounced R naught). In layman's terms, R0 is an estimate of the average number of people infected by one Covid case.

An R0 of <1 implies that an outbreak is likely to eventually peter out on its own. Bringing down R0 to <1 therefore is key in any government's decision to ease lockdowns and lift movement restrictions. An R0 of 1 implies that a disease will stay alive but stable and won't lead to an epidemic, or worse, a pandemic. Also, the higher the R0, the bigger the extent of immunization that a population requires to achieve herd immunity when a vaccine is available. For example, the population required to be vaccinated is 75% when R0 = 4 (formula: 1-1/R0).

Figure 13. Factors affecting R0

Infectious period	The longer the infectious period of a disease, the more likely it can be transmitted. Infectious period is a subset of incubation period, during which one is able to spread the virus to someone else; for COVID-19, evidence suggests an infectious period of 1-3 days before symptoms are developed.
Contact rate	The rate of contact between susceptible and infected individuals. An outbreak in busier cities for example, would push R0 higher compared to one in a remote village.
Mode of transmission	Diseases which can be transmitted through the air have higher R0, such as the flu or measles. In contract, diseases such as Ebola or HIV can only be transmitted through bodily fluids, therefore lower R0.

Source: Various sources, Citi Research

Figure 14. Reproduction rate, R0 formula

$$\mathcal{R}_0 \propto \left(\frac{\text{infection}}{\text{contact}}\right) \cdot \left(\frac{\text{contact}}{\text{time}}\right) \cdot \left(\frac{\text{time}}{\text{infection}}\right)$$

More specifically:

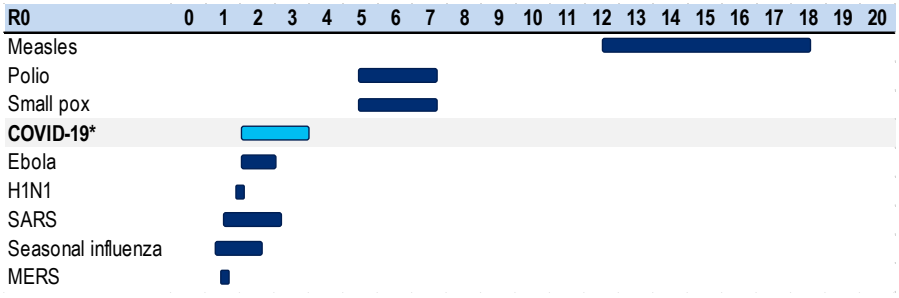
$$\mathcal{R}_0 = \tau \cdot \bar{c} \cdot d \qquad (1)$$

where τ is the transmissibility (i.e., probability of infection given contact between a susceptible and infected individual), $\bar{c}$ is the average rate of contact between susceptible and infected individuals, and d is the duration of infectiousness.

Source: Stanford, Citi Research

Ultimately, R0 is an estimate, and as such, it is hardly surprising that the views on Covid-19's R0 also vary according to different sources. According to CDC, the early dynamics of the outbreak in Wuhan suggest a basic R0 of 2.2 to 2.7; although a subsequent study suggests that that the median R0 is actually closer to 5.7[1]. The often cited R0 for Covid-19 comes from the Imperial College group, which estimated an R0 of somewhere between 1.5 and 3.5. Regardless, it is widely accepted that while Covid-19 is far less contagious relative to measles, small pox and polio, it is more contagious that diseases such as H1N1 and SARS. The virus is primarily spread via respiratory droplets from coughs or sneezes or if one touches a contaminated surface. More recently, WHO has acknowledged the possibility of airborne transmission, although views remain very mixed.

Figure 15. Reproduction rate (R0) estimates for various diseases



*Using estimate from Imperial College

Source: University of Michigan, Citi Research

Covid-19's relatively high R0 is accompanied by the prevalence of asymptomatic cases, rendering symptoms-based tests ineffective

Covid-19's relatively high R0 is further complicated by a **prevalence of asymptomatic cases**; one can carry the virus and not show any symptoms, raising the risk of the virus being unknowingly spread in a community. WHO suggests that on average it takes 5–6 days from when someone is infected with the virus for symptoms to show, although it can take up to as long as 14 days. The high prevalence of asymptomatic cases blunts the effectiveness of symptoms-based testing. The % of asymptomatic cases vary between countries, but is generally high. Iceland reported a figure of 50% (CNN), Singapore at 50% of new cases (Reuters), with Malaysia at 75% of all cases (The Star).

This is in contrast to H1N1/MERS, especially the latter, which if contracted, severe symptoms will show and thus would allow for swifter isolation and containment. The only solace here is that existing evidence suggests that asymptomatically infected individuals are much less likely to transmit the virus than those with symptoms. CDC's latest Pandemic Planning Scenarios[2] puts Covid-19's R0 at 2.5 (midpoint of Imperial College's estimated range) and asymptomatic infections % at 40%.

[1] https://wwwnc.cdc.gov/eid/article/26/7/20-0282_article

[2] https://www.cdc.gov/coronavirus/2019-ncov/hcp/planning-scenarios.html

Figure 16. CDC's parameter values for planning

Parameter	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5: Current Best Estimate
R0	2	2	4	4	**2.5**
Infection Fatality Ratio, Overall	0.005	0.005	0.008	0.008	**0.0065**
Percent of infections that are asymptomatic	10%	70%	10%	70%	**40%**
Infectiousness of asymptomatic individuals relative to symptomatic	25%	100%	25%	100%	**75%**
Percentage of transmission occurring prior to symptom onset	35%	70%	35%	70%	**50%**

Source: CDC, Citi Research

Two-fold implications: [1] the need for mass-testing as well as [2] higher risk of future waves

With the high R0 and prevalence of asymptomatic cases, testing is more important than ever

Covid-19's relatively high R0 alongside the prevalence of asymptomatic cases has two implications. First, more than ever, testing is crucial. Unless everyone is tested, no country in the world knows exactly the total number of infected people. The most closely watched data point related to the pandemic is arguably the number of confirmed cases globally, and that very data point is a subset of the number of people being tested.

Tests identify infected individuals, guiding the medical treatment they need. It enables the isolation of those infected and the tracing and quarantining of their contacts, and above all, it can help allocate medical resources and staff more efficiently. In the absence of a vaccine, testing may well be the only fool-proof way of containing the virus without prolonged lockdowns and restrictions. As symptoms may not show up until 14 days after infection, re-testing may also be required in many cases.

Figure 17. Types of Covid-19 testing

Type of COVID-19 testing	Explanation
Viral	Tells you if you have a current infection. Check samples from your respiratory system, such as a swab from the inside of your nose. Results from some tests may be available at the testing site in less than an hour. Other tests must be sent to a laboratory to analyze, a process that takes 1-2 days once received by the lab.
Antibody	An antibody test might tell you if you had a past infection. An antibody test might not show if you have a current infection because it can take 1-2 weeks after infection for your body to make antibodies. Having antibodies to the virus that causes COVID-19 might provide protection from getting infected with the virus again.

Source: CDC, Citi Research

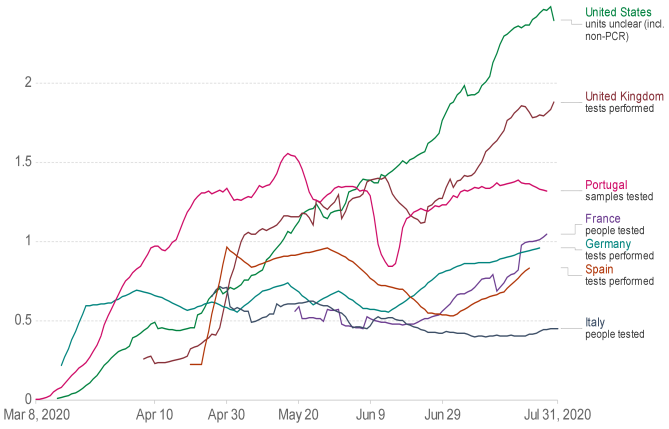
In Asia, South Korea was particularly aggressive in testing its citizens, with China eventually deciding to test every single person in Wuhan, the initial epicenter of the pandemic. It was recently reported that an asymptomatic woman in China had unwittingly infected at least 71 people after using the lift at her residence, despite practicing social distancing (source: CDC); an illustration on just how easily Covid-19 can spread and the risk stemming from asymptomatic carriers.

Testing intensity still at elevated levels

No let-up in testing intensity across the world, more so given growing concerns of second waves

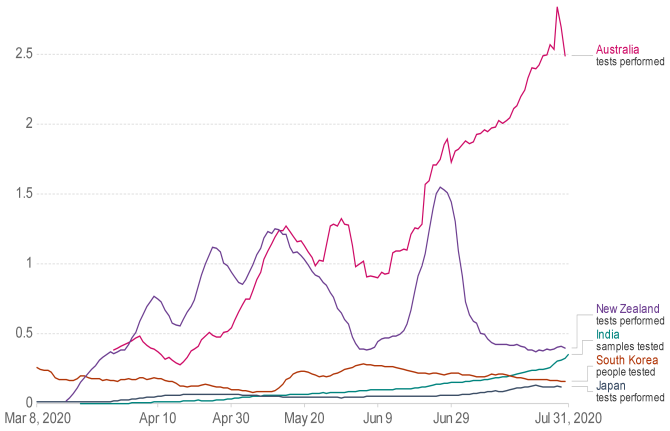
Based on available data, Covid-19 testing intensity (measured by daily new tests per 1,000 people) around the world is still generally high. In countries like the US, this is hardly a surprise as confirmed cases are still trending higher, especially in recent weeks. More interestingly in Europe, countries like the UK, France, Germany and Spain have turned incrementally more aggressive in testing, especially from late June onwards. In Asia, testing intensity has dropped significantly in countries like New Zealand, but is still on the rise in Australia where a second wave may be underway and in India, which is still coping with the initial wave of Covid.

Figure 18. US/Europe – daily new COVID-19 tests per 1'000 people (7-day average)



Source: Our World in Data, Citi Research

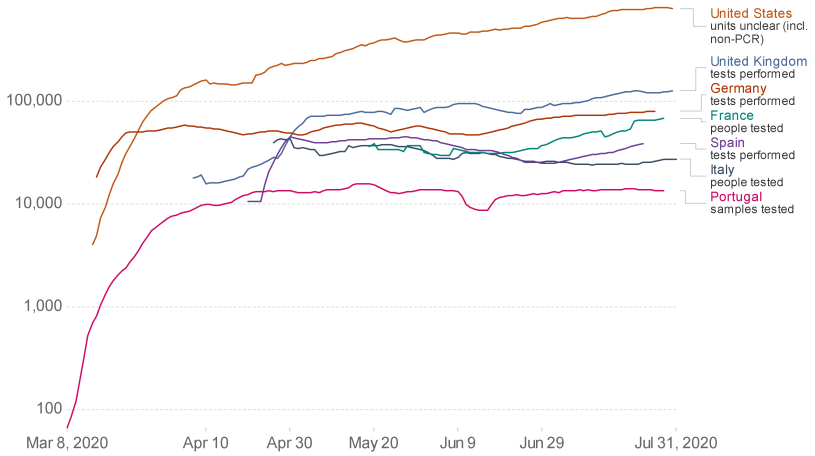
Figure 19. Asia - daily new COVID-19 tests per 1'000 people (7-day average)



Source: Our World in Data, Citi Research

In absolute numbers, the US is administering almost 800k new Covid-19 tests daily (7-day average). This is double the levels in early June (c.400k) and more than 3x the levels in early May (c.235k). It is estimated that as many as 57m Covid tests have been done in the US as of end-July. India is currently testing c.300k/day with over 13m cumulative tests done so far. The sheer amount of tests performed globally in our view is a key factor in driving the current elevated demand for medical supplies in general.

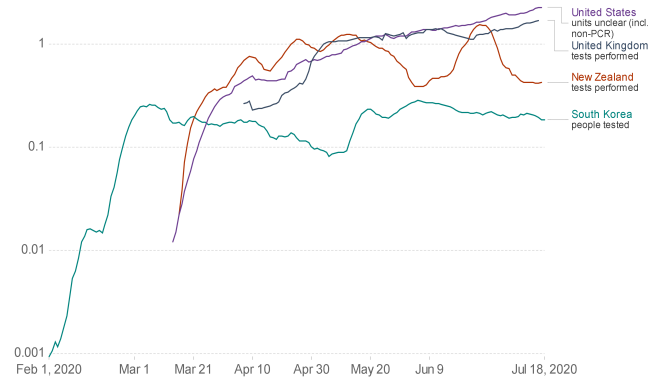
Figure 20. Absolute daily new Covid-19 tests (log scale) in the US and selected European countries



Source: Our World in Data, Citi Research

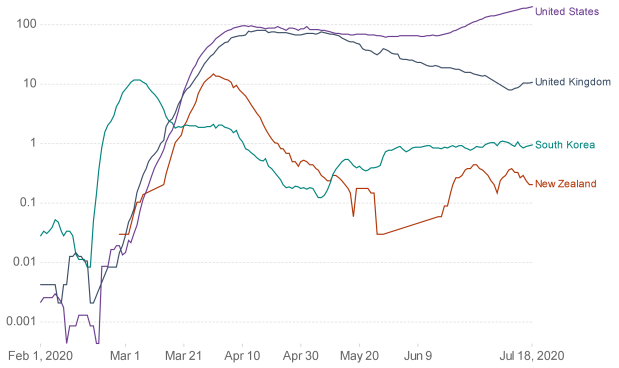
Countries which fared better against Covid-19 are those that tested early, and tested en masse

Figure 21. Daily new Covid-19 tests per 1'000 people (rolling 7-day average, log scale)



Source: Our World in Data, Citi Research

Figure 22. Daily new Covid-19 cases (rolling 7-day average, log scale)

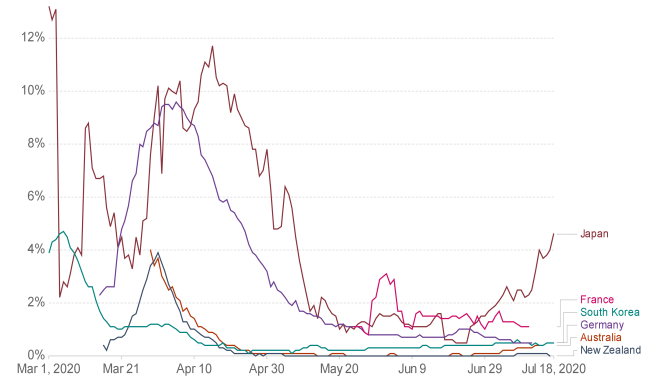


Source: Our World in Data, Citi Research

Both South Korea and New Zealand have contained Covid-19, at least initially, and both share the same strategy. The countries started to test early, and tested aggressively on top of cross-border restrictions and various other containment measures. As a result, New Zealand bent the curve (see Fig 19) in late March, and subsequently declared the nation virus free and lifted all Covid-19 related restrictions. New cases however unfortunately resurfaced, albeit few. South Korea, being much closer to the initial epicenter, Wuhan, ramped up testing as early as February even before Covid-19 escalated in China and globally. The country too was able to *bend the curve* as early as March.

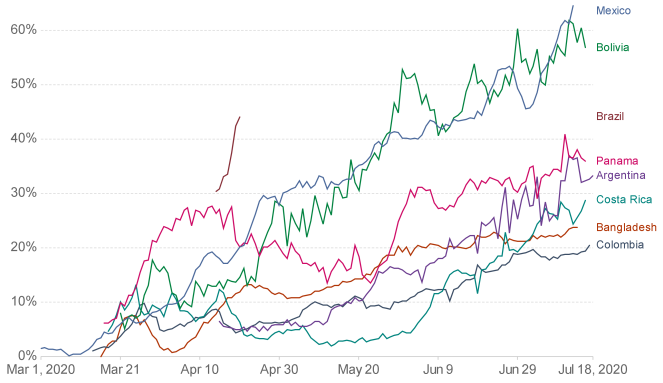
Positive rates *too high* in some countries suggesting inadequate testing

Figure 23. Positive rates in selected Asian/European countries are down to low single digit – good progress



Source: Our World in Data, Citi Research

Figure 24. Positive rates in selected countries Lat America are far too high pointing to under-testing



Source: Our World in Data, Citi Research

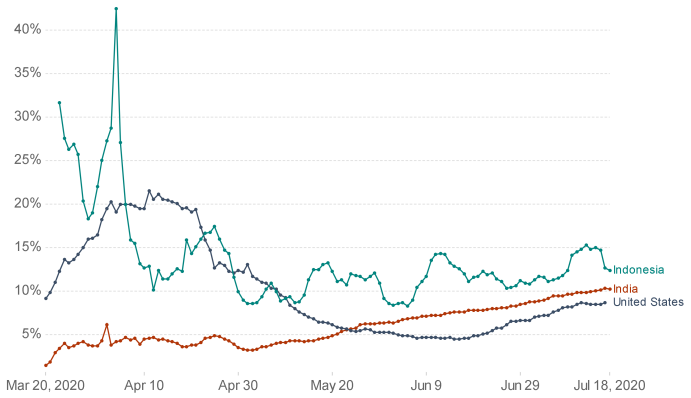
One important testing metric to track when scouring through data on Covid-19 testing is the **positive rate,** which is simply the % of positive cases of the total number of people tested. This figure again varies across countries; Australia and South Korea, for example, have positive rates of <1%, whereas countries like Mexico and Nigeria's positive rates range from 20-50% and higher; the lower the

better. Countries with high positive rates are likely not testing enough; WHO has suggested 3-12% as a benchmark for adequate testing. This also could imply that it is a matter of time before these countries start buying more medical supplies, pointing to potential incremental demand.

Flattening/declining cases can only be taken positively if positive rates are flat/declining and testing intensity is high

In short, contrary to popular belief, a flattening number of confirmed Covid-19 cases means very little in isolation. It must be accompanied with a **flat or declining positive rate** and **high test intensity** in all countries. Until then, without vaccine, this pandemic very much remains a threat. Current data on Covid-19 testing point to some encouraging trends, but we are still not close to truly containing the pandemic.

Figure 25. In the US, whilst cases are still rising, positive rate appears inline with WHO guidance which suggests adequate testing, although ideally positive rate should be falling



Source: Our World in Data, Citi Research

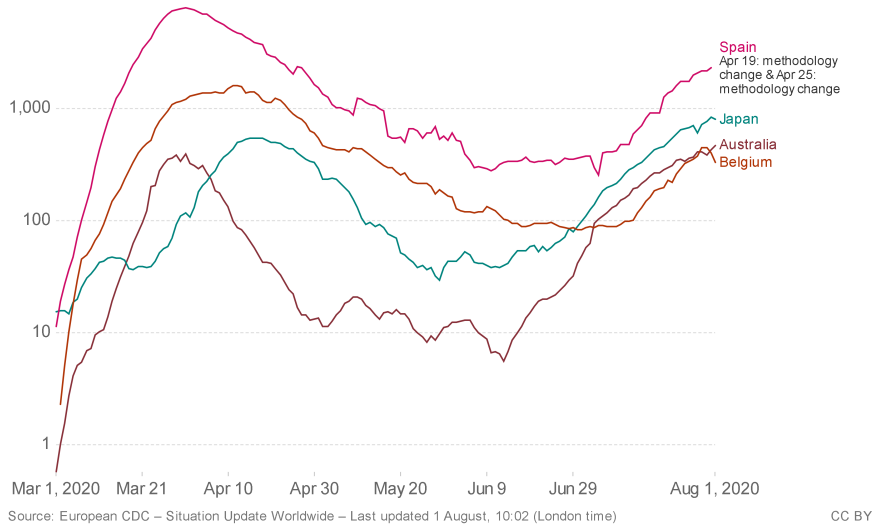
Risks of future waves = the need to stock up inventories

Worryingly, various countries are facing spikes in new cases

Aside from necessitating large-scale testing, the higher R0 and prevalence of asymptomatic cases also arguable translate to a higher risk of future waves, more so as economies around the world are forced to reopen. The initial stages of Covid-19 illustrated just how deadly the pandemic can be; governments around the world therefore cannot afford to be complacent of potential future waves and are left with no choice but to stock up inventories ahead. Unfortunately, these future waves, according to experts are really a matter of when not if. We've seen some evidence of this in recent weeks especially; even countries that have done a good job at containing the pandemic are seeing flare-ups.

Second waves have always been a well-documented risk; we saw it during H1N1, and MERS, but are we actually already seeing second waves? Technically, for a second wave to happen, the first wave has to end first, that is the number of cases has to peak and then see a substantial reduction. It is likely that many states in the US are still experiencing remnants of the first wave, a view shared by Dr. Anthony Fauci, Director of the National Institute of Allergy and Infectious Diseases. That said, recent data suggest that second waves may well be underway in countries like Australia, Japan and Spain, validating scientists' concerns.

Figure 26. Daily new cases per 1000 in Iran, Australia and Japan (7-day average, log scale)



Source: Our World in Data, Citi Research

In all of these countries, new cases clearly peaked in late March/early April and further dropped substantially before rising again in June/July. Whilst top officials in some of the countries have claimed that was down to more testing, several others like South Korea have conceded that second waves are indeed underway. In Germany and South Korea, new clusters are emerging. These clusters may well be containable, but highlight just how easy it is for flare-ups to resurface, again underscoring the higher risk of future waves. Anecdotally, industry leaders like Top Glove and Hartalega both believe that bulk of current demand for gloves is for immediate use rather than stocking up.

Over 18m confirmed Covid cases, close to 700,000 casualties

The world has thus far seen >18m confirmed Covid-19 cases, with the associated death toll inching closer towards 700k, making Covid-19 one of the worst pandemics. From a total number of cases standpoint, Covid-19 still trails H1N1, although casualties from the current pandemic are already above the higher end of CDC's estimated death tolls from H1N1, and are still rising.

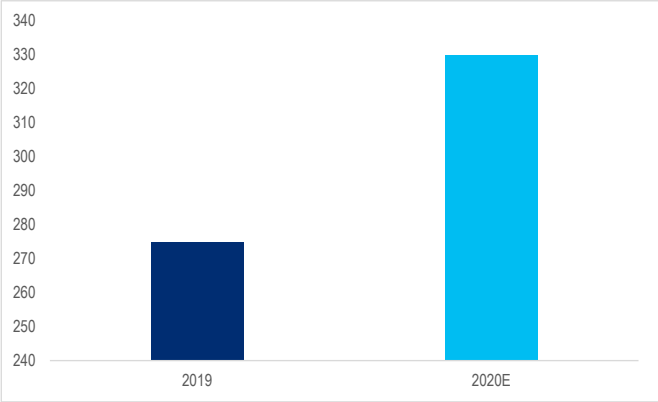
Figure 27. Details of SARS/H1N1 vs COVID-19

	SARS	H1N1	COVID-19
Time frame	Late 2002 - mid 2003	Late 2009 - early 2010	Early 2020 - now
Total cases	c.8,100	700mn-1.4bn	c.18.3mn
Death	774	151-575k	c.695k
Mortality rate	c.10%	c.0.02%	c.3.8%
Post-pandemic	n/a	Aug-2010	tba

Source: WHO, CDC, Citi Research

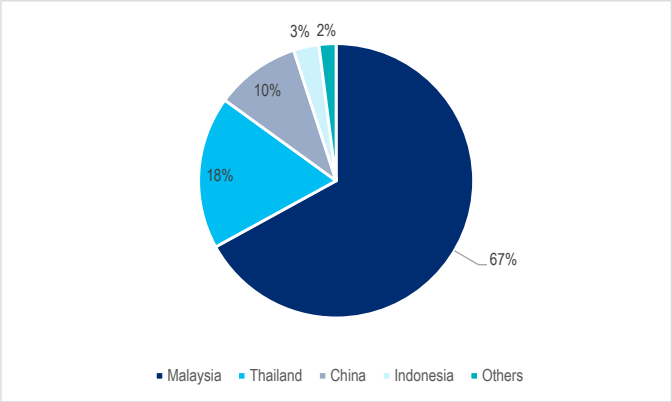
Implications for gloves demand: 20-25% growth this year

Figure 28. MARGMA – demand for gloves to rise 20% this year



Source: MARGMA, Citi Research

Figure 29. Malaysia to take up >65% market share, followed by Thailand



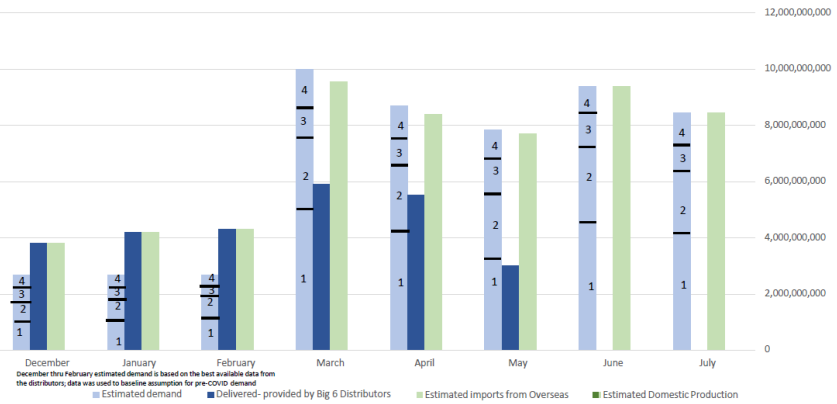
Source: MARGMA, Citi Research

Demand for rubber gloves typically expands in high single digit % every year, with a lead time of 1-2 months for the glove-makers. Quantifying the impact of Covid-19 to demand is not as straight forward as it sounds due to constraints on the supply side as well as the vast discrepancy between consumption per capita from one country to another. The industry, however, has quoted this year's demand growth to be at 20-25% (Top Glove and MARGMA). The latter estimates that global demand for gloves will rise to c.330bn (+20% YoY), with Malaysia expected to contribute 67% of the said figure, followed by Thailand with c.18% market share.

Monthly demand for gloves in the US tripled post Covid-19

On the other hand, a White House document from early June suggests that demand for nitrile gloves in the US more than tripled from c.3bn pieces/month pre-Covid, to as high as 10bn/month in March. Monthly April to July demand was estimated to be 8-9bn/month, with roughly half of the consumption catering for hospitals. Prior to March, deliveries by distributors would often exceed demand by 25-30%, which likely represent the 2-3 months inventories held by end-users. Since then, deliveries have consistently been lower than demand. We can also see that the large US distributors were able to increase deliveries by as much as 50% MoM vs February, but the deliveries halved in May – all of these point to inventory levels being low at both the distributor and end-client levels.

Figure 30. Nitrile gloves – estimated demand and supply in the US



Note: (1=hospitals, 2=long-term care, 3=first responders, 4= others, non-healthcare)

Source: US Supply Chain Task Force, Citi Research

We outline three key data watch points here to monitor the demand environment:

1. **Trajectory in number of cases and testing intensity**. A rising case count can be seen as a leading indicator for the strong demand environment to continue. That said, a flattening or falling number of cases doesn't necessarily imply that demand will normalize, as testing will likely remain until a vaccine is found.

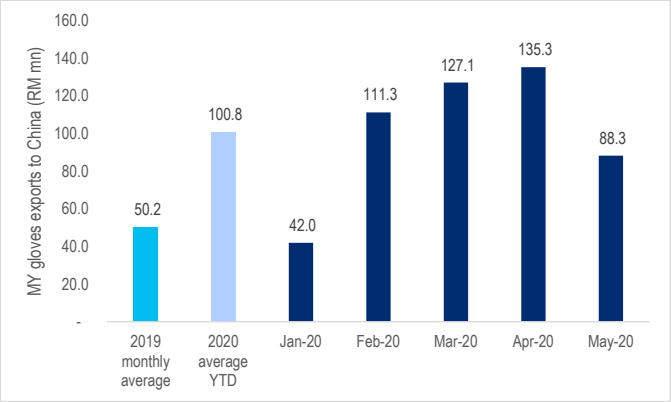
2. **Lead-time,** which is essentially the time from manufacturing to delivery. This figure has moved from 1-2 months pre-Covid to 5-6 months in April and to 12-15 months now.

3. **Spot prices/spot orders**. Spot orders are essentially orders requiring immediate or urgent deliveries. This often comes with materially higher ASPs. As of now, spot orders are still rising, and come mainly for developed countries like the US, which has a bigger purchasing power.

Beyond Covid-19: Could we see a "structural step-up" in demand?

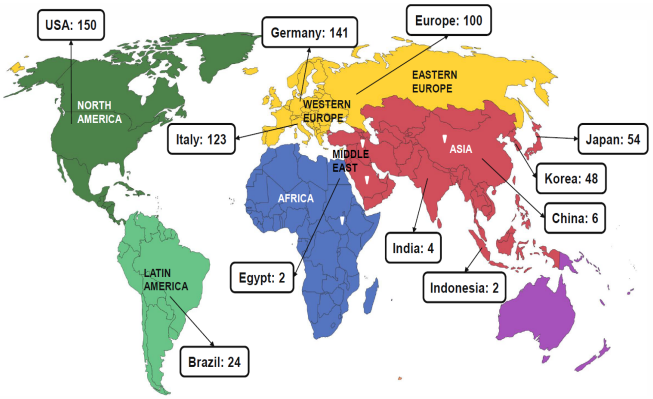
Industry players from Top Glove, to Hartalega to Sri Trang Gloves have been consistent in saying that "the shelves are empty" and that "inventory levels across the supply chain are low", and Fig 28 supports this statement. In the event that Covid-19 subsides, demand normalization will likely be cushioned by restocking activities, providing a softer landing in the near-term. We however see a potential structural step-up in gloves demand in the making.

Figure 31. Malaysia's gloves exports to China – 2020 YTD monthly average is 100% higher vs 2019 average



Source: DOSM, Citi Research

Figure 32. Gloves consumption per capita in 2018



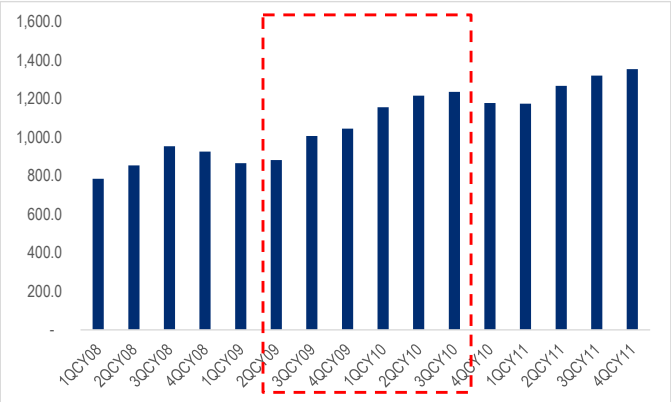
Source: Top Glove, MARGMA, Citi Research

On the one hand, the pandemic has unearthed a new set of end-clients ranging from airports to hotels. Traditionally, demand for gloves had been primarily driven by the healthcare industry. EM countries continue to present a big opportunity from a demand standpoint. In developed markets like the US and Europe gloves consumption per capita stands at >100. Whereas countries like India and China are still at mid-single digit levels. Covid-19 could accelerate the narrowing of the said gap. If China's consumption per capita were to rise to 50 (closer to Japan, Korea), the country's glove consumption would rise almost 10x to 95bn pieces/year. This alone would account for >30% of 2019's global demand.

It took 6 quarters to see signs of demand peaking during H1N1

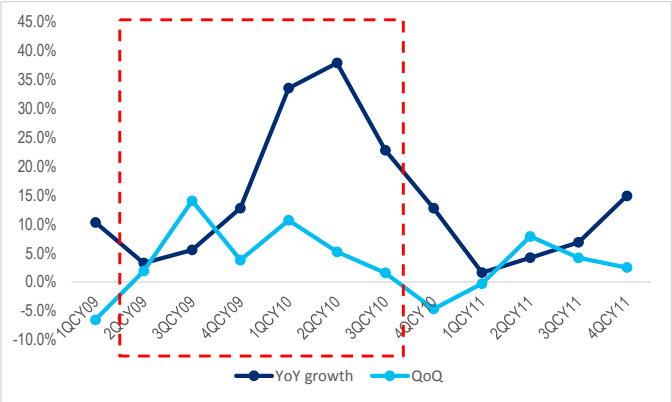
The H1N1 pandemic began sometime in April 2009, although the impact on the glove-makers was seen only in 3Q CY09. Quarterly revenue moved higher sequentially for 5 quarters, up until 3Q20. Even then, demand didn't necessarily correct sharply; sequential decline was seen for about two quarters, before trending higher again. Extrapolating this trend to the current environment is the bare minimum in our view; generally speaking Covid-19 is widely accepted to be more severe than H1N1.

Figure 33. Big-Four revenue (RM mn) by quarter in 2009 (H1N1)



Source: Bloomberg, Citi Research

Figure 34. YoY and QoQ growth of Big-Four revenue



Source: Bloomberg, Citi Research

The other side of the trade: all about vaccine development

>20 candidate vaccines are in clinical trials, >130 more in pre-clinical evaluation; plenty of work being done towards developing a vaccine

In the fight against the pandemic, the development of a vaccine is desperately needed given how lethal the pandemic has been thus far alongside the catastrophic economic implications coming against the backdrop of lockdowns and movement restrictions all over the globe. A vaccine saves lives and will also reduce the strain on the healthcare systems across the world, many of which were pushed to the brink of a collapse. Only with a vaccine, restrictions can be safely lifted, and normalcy can start to return. As of mid-July, according to WHO, there were as many as 23 candidate vaccines under "clinical trials", and 137 candidate vaccines in "pre-clinical evaluation" as the best minds from companies all over the world work day and night in search of an effective and safe vaccine.

A vaccine stimulates one's immune system to produce antibodies, exactly like it would if a person were to be exposed to the disease. After getting vaccinated, a person develops immunity to that disease, without having to get the disease first. This is what makes vaccines such powerful medicines. Unlike most medicines, which treat or cure diseases, vaccines *prevent* them. Dr. Anthony Fauci, in a recent interview noted that he was cautiously optimistic for one or more vaccines "to be available later this year or by early 2021". He has also often quoted the 12-18 month timeline for a vaccine to be available. There are however many others who believe that the said timeline is far too optimistic and, that a vaccine is "several years in development". Let's consider both sides of the coin here.

Generally, there are six stages of the development cycle of a vaccine namely: (1) exploratory stage, (2) pre-clinical, (3) clinical development, (4) regulatory review and approval, (5) manufacturing and (6) quality control. Each of it is rigorous and takes a significant amount of time, which is why the typical timeframe for a vaccine

development is many years. The fastest time frame for which a vaccine has been developed was 5 years, according to The New England Journal of Medicine.

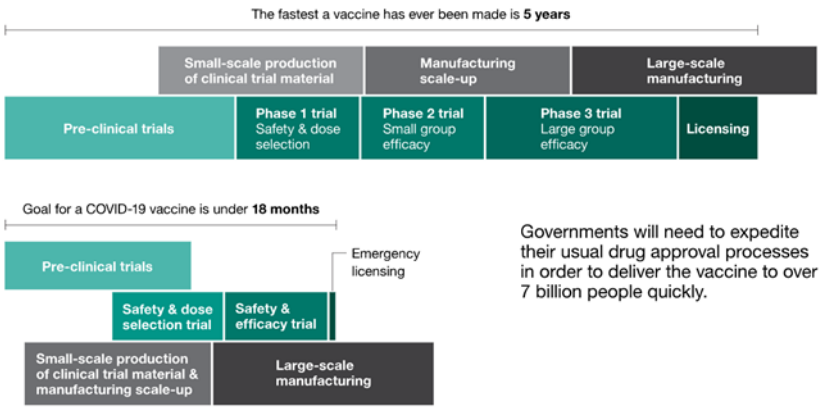
Figure 35. Stages of vaccine development and typical time-frame

Stage	Description
Exploratory	Lab research to identify something that can treat or prevent a disease. Without any prior work done, this may take 2-5 years.
Pre-clinical	Lab tests and animal tests to learn whether a vaccine works, last 1-2 years.
Clinical	Three-phased stage involving humans. Phase 1: less than 100 people, phase 2: several hundred people, phase 3: thousands of people involved. Overall process may stretch to 10 years or more.
Regulatory review/approval	FDA and CDC will review data from clinical trials and sign off.
Manufacturing	Factories are built, FDA inspects the facilities and mass production will kick off.
Quality control	This is important to ensure that there are no side effects, and that the immunization stays for an extended period of time instead of a temporary one

Source: WEF, CDC, Citi Research

On the one hand, in developing a vaccine for Covid-19, we are lucky as scientists' prior experience dealing with MERS and SARS (both are also coronavirus) has allowed for the current vaccine development to move from the explanatory stage to clinical stage fairly quickly which would otherwise have taken a few years at the very least. Over 200 groups are working at breakneck speed to find a breakthrough, with plenty of funding available. Some stages of clinical trials are also being run concurrently in order to speed up the process. Plenty of promising signs indeed, but there are still many challenges ahead.

Figure 36. Timeline for a development of a vaccine



Source: NEJM, Citi Research

Historically, the success rate of vaccine candidates is typically 10% or less from preclinical studies through clinical trials to regulatory approval. Vaccines need to be proven safe for everyone and effective across all ages with Covid-19 specifically deadly for older population with existing medical conditions. Getting the necessary approvals will require strict conditions to be met; data from placebo-controlled trials indicating their vaccine is at least 50% effective against Covid-19 in order to be authorized for use, according to FDA guidance issued and effective 30 June. From there, large-scale production may prove to be another barrier. Factories producing vaccines are also often highly sophisticated and costly, and above all, vaccines will need to be produced at a scale that can enable herd immunity, translating to at least few billions of doses.

Investors need to distinguish between first availability and mass availability; the latter is unlikely until mid-CY21E

The track record on vaccine development is also not great. For many of the previous pandemics, vaccines are still not available. Vaccine for Ebola only came in this year. For context, CEO of Merck in a recent interview stated that over the past 25 years or so, only seven truly new vaccines were developed globally. We therefore believe that the 12- to 18-month timeline is a **best-case timeline** for a large-scale global availability of a Covid vaccine. It remains a possibility, and if successful, it would be unprecedented and can only be achieved if everything goes smoothly. An early release in limited volumes for emergency use in high-risk groups is more likely later this year, assuming positive data and approval from regulators. Investors also need to be clear of the difference between "first supply availability" and "mass market availability"; there will be a gap between the two milestones.

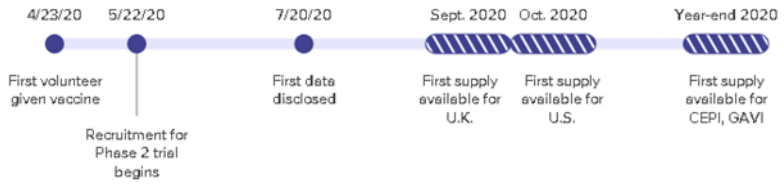
Vaccine front-runners and relevant timelines

The past few weeks have seen a slew of encouraging data points from Phase 1 and/or 2 human trials by a least four vaccine candidates. At the point of writing, leaders going into Phase 3 include AstraZeneca-Oxford with some 10,000 people already enrolled in various countries. Moderna's Phase 3 and Pfizer-BioNTech Phase 2/3 are not far behind. CanSino is also expected to roll out Phase 3 "soon", although in China, two companies have reportedly begun Phase 3 trials (Sinovac and Sinopharm). Companies with timelines for first vaccine availability include = Moderna (fall 2020), Pfizer (Oct-2020), AstraZeneca-Oxford (Sep-2020), J&J (1QCY21) and Sanofi-GSK (2HCY21).

AstraZeneca-Oxford

The University of Oxford invented one of the first potential vaccines for Covid-19 to enter human testing, and the work was licensed subsequently to AstraZeneca. A weakened version of a common cold virus called adenovirus which causes infections in chimpanzees is used to trick the human body to produce Covid-19's characteristic "spike" protein. Researchers hope to make the body recognize and develop immunity to these spike proteins, therefore preventing the SARS-CoV-2 virus from entering people's bodies. The vaccine candidate spurred a strong immune response in a **Phase 1 trial** that enrolled over 1,000 patients. The partners tested a single-dose and two-dose regimen of the recombinant adenovirus shot, with the double dose yielding a stronger immune response. Pascal Soriot, CEO of AstraZeneca, said the company was on track to produce doses by September, but that hopes that it will be available this year hinged on how quickly late-stage trials could be completed, given the dwindling prevalence of the virus in Britain (CNA). Late-stage trials are under way in Brazil and South Africa and are due to start in the United States, where prevalence is higher.

Figure 37. Timeline



Source: Biopharmadive, Citi Research

Moderna

Moderna is counting on the RNA technology, an unproven approach, but one that could accelerate a vaccine production materially. The classical approach in developing a vaccine is introducing an antigen in the body to produce an immune response. In the case of RNA-based vaccines, no antigen is introduced, only the RNA containing the genetic information and instructions for the body to produce the antigen itself. Moderna's mRNA vaccine candidate triggered "robust" levels of neutralizing antibodies in coronavirus patients, newly published phase 1 data show, but some side effects showed up, too. Now, Moderna is ramping up for a 30,000-participant, phase 3 trial later this month, with plans to recruit participants from the U.S. states hardest hit by the virus

Figure 38. Timeline

Source: Biopharmadive, Citi Research

CanSino Biologics

CanSino was one of the first candidate vaccines to move to Phase 2 trials in April. The company's approach is similar to AstraZeneca-Oxford, using a genetically engineered weakened common cold virus to produce the Covid-19 induced spike protein. The Chinese military in late June approved the emergency use of the vaccine in soldiers, a global first. In a **phase 2** study, the company's vaccine spurred strong neutralizing antibody responses, albeit with side effects. Patients in both the high- and low-dose cohorts produced Covid-fighting antibodies at day 28 post-vaccination; 72% of patients in the high dose cohort and 74% given the lower dose reported side effects, including fatigue and headache, while 32% on the higher dose developed a fever. With phase 2 safety data under its belt, CanSino now aims to push the low-dose regimen into phase 3.

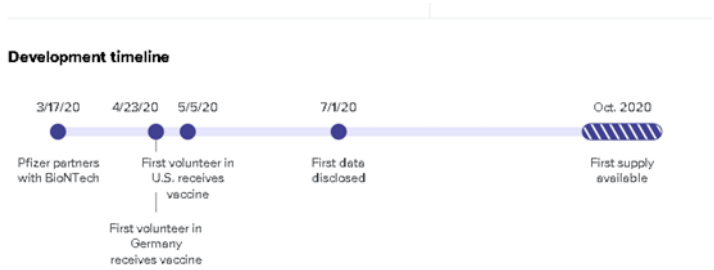
Figure 39. Timeline

Source: Biopharmadive, Citi Research

Pfizer and BioNTech

Similar to Moderna, BioNTech is developing multiple mRNA vaccines for the coronavirus. The drugmaker had already been working with Pfizer on an influenza vaccine for over a year when Covid-19 emerged as a global threat. The partnership's vaccine candidate triggered "strong" T-cell responses in patients, **phase 1/2** data showed. 80% of subjects who received the shot had vaccine-induced CD8 T-cell levels, well-above those produced by Moderna's rival mRNA vaccine, and almost 95% of patients had CD4 T-cell responses. Mounting evidence shows that T-cell response could play a role in lasting immunity against the virus; plus, the Pfizer-BioNTech vaccine triggered the response at the 1 mcg dose, compared to Moderna's shot, which yielded "low levels" of T-cells at 100 mcg. If "things go well and the stars are aligned," Bourla said, the companies could have a vaccine available for use by the end of October.

Figure 40. Timeline



Source: Biopharmadive, Citi Research

Capacity to Catch Up only in 2H21E

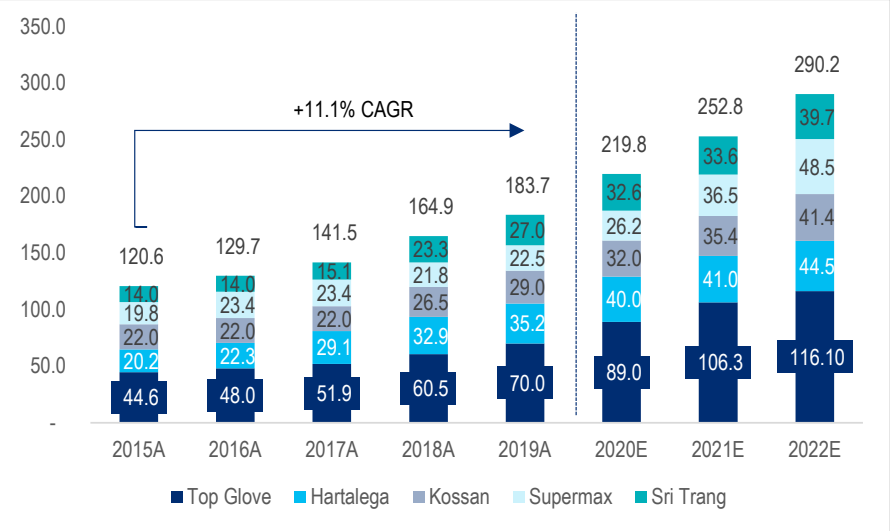
Due to the nature of the glove manufacturing business, capacity ramp-up takes time; most of the new capacity will only come in 2H CY21E

Capacity has been a key discussion point among investors. It's only fair, considering that just over a year ago, the sector was grappling with a supply glut (see: Malaysia Glove Manufacturers - Minding Demand-Supply Balance, Trade Tension and Elevated Multiples; Prefer Kossan and Supermax). To recap, China's aggressive push to go green in 2017 saw many vinyl/PVC glove operations in the country being forced to move away from coal as a source of energy to the more expensive natural gas, resulting in a temporary shortage in supply. That inadvertently led to a switch into rubber gloves (particularly nitrile), boosting demand for the Malaysian glove-makers.

As Chinese glove-makers eventually resumed their operations, demand normalized towards the later part of 2018, which also coincided with players like Kossan and Supermax in Malaysia getting their expansion trails back on track after multiple years of minimal capacity addition for various reasons. Further, Sri Trang (see: Sri Trang Agro (STA.BK): Initiate at Buy: Manifold Benefits from Big Downstream Bet) in Thailand was also embarking on an aggressive downstream expansion; all of which tilted the demand-supply scale unfavourably. Ironically, the oversupply seen in 1H19 resulted in many industry players slowing down their capacity roll-outs in 2H19, contributing to the current supply tightness.

Supply pipeline has been accelerated, looks manageable

Figure 41. Big-Five expansion plans – collective end of year capacity to rise to 219.8bn this year (+19.6% YoY), 252.8bn next year (+15.0% YoY), and 290.2bn (+14.8% YoY)



Source: Citi Research

In 2H20E, we expect another c.16bn pieces (+8% from current) capacity to be added by the Big-Five, bringing end-CY20E collective capacity to c.219.8bn, +19.6% YoY. On the surface, this may sound aggressive, but investors need to keep in mind that [1] CY19A was a relatively low base due to capacity being pushed back, [2] All of the incremental capacity this year is effectively sold out amidst the pandemic outbreak. Going forward, indicative plans suggest that the Big-Five's end of year collective capacity is set to rise to 252.8bn/290.2bn respectively by end-CY21/22E, implying +15.0%/+14.8% YoY. These numbers are notably more aggressive than our previous compilation and relative to historical trend, but manageable taking into account our view that demand strength is likely to remain going into 2HCY21.

Back in April, we saw little signs of industry players accelerating capacity roll-out just yet. Of course, back then, the industry was still digesting the impact from the pandemic, and no one saw the current ASP upcycle coming, at least not to this extent. There has been some notable changes since. For the rest of 2020, Top Glove is by far the most aggressive; instead of looking to end the year at 78bn pieces capacity (+8bn from end-CY19A), the world's largest player now plans to hit 89bn by year-end. The rest of the Big-Five seems to have made little change to their capacity roll-out for the rest of 2020.

Over the medium term, we saw Kossan acquiring a new landbank (see: Alert: Kossan Rubber Industries (KRIB.KL) - Acquiring Freehold Land with Buildings for RM40mn, Likely for Near- to Medium-Term Expansion). The Group recently confirmed that the said landbank will be used to house a new factory with a 5bn capacity. This will come on top of another small factory (1.4bn); both of which will bridge the gap between the Group's current capacity and its Bidor expansion. Recall that Kossan and Hartalega are both transitioning into a new expansion phase via a new landbank; this would have caused a lull in capacity roll-out, as new landbank often takes time to build infrastructure.

Figure 42. Capacity addition by calendar year

	EOP Capacity (bn pieces)				YoY change			3-year CAGR
	2019A	2020E	2021E	2022E	2020E	2021E	2022E	
Top Glove	70.0	89.0	106.3	116.1	27%	19%	9%	18.4%
Hartalega	35.2	40.0	41.0	44.5	14%	2%	9%	8.1%
Sri Trang Gloves	27.0	32.6	33.6	39.7	21%	3%	18%	13.7%
Kossan	29.0	32.0	35.4	41.4	10%	11%	17%	12.6%
Supermax	22.5	26.2	36.5	48.5	16%	39%	33%	29.2%

Source: Citi Research estimates

Figure 43. Capacity schedule for the next 18 months

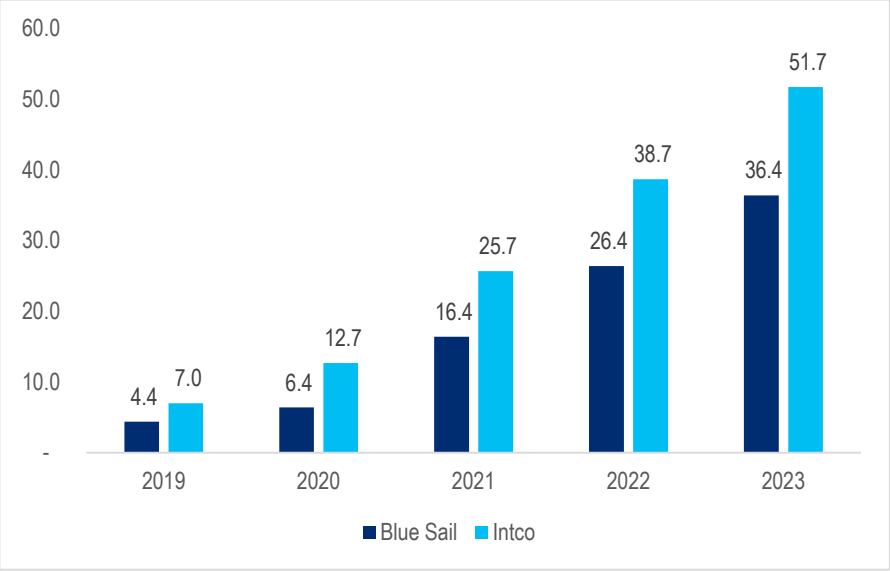
Bn pieces per annum	Top Glove	Hartalega	Sri Trang Gloves	Kossan	Supermax
Current	**80.2**	**37.0**	**32.6**	**30.0**	**25.2**
3Q20	8.8	2.0	-	2.0	-
4Q20	-	-	-	-	2.2
End-CY20	**89.0**	**39.0**	**32.6**	**32.0**	**27.4**
1Q21	8.6	2.0	-	1.4	-
2Q21	5.2	-	-	2.0	-
3Q21	3.5	-	1.0	-	5.2
4Q21	-	-	-	-	5.1
End-CY21	**106.3**	**41.0**	**33.6**	**35.4**	**36.5**

Source: Citi Research

China's plans cannot be overlooked, but pace of ramp-up looks a tad too optimistic

The wildcards here are the Chinese glove players. Intco Medical and Blue Sail Medical (both A-share listed, not rated) recently raised funds with the intention to aggressively ramp up their capacity medical glove capacity. Glove-makers in China are predominantly skewed towards PVC/vinyl gloves. The country's location (far from Thailand, the largest natural rubber producer) makes it tricky for China players to manufacture latex gloves. However, in recent years, more and more China glove-makers have started to venture into the medical glove segment via nitrile whose feedstock can be sourced from players such as Kumho Petrochem (South Korea) and Nantex in Taiwan.

Figure 44. Nitrile capacity roll-out plans by the Intco and Blue Sail



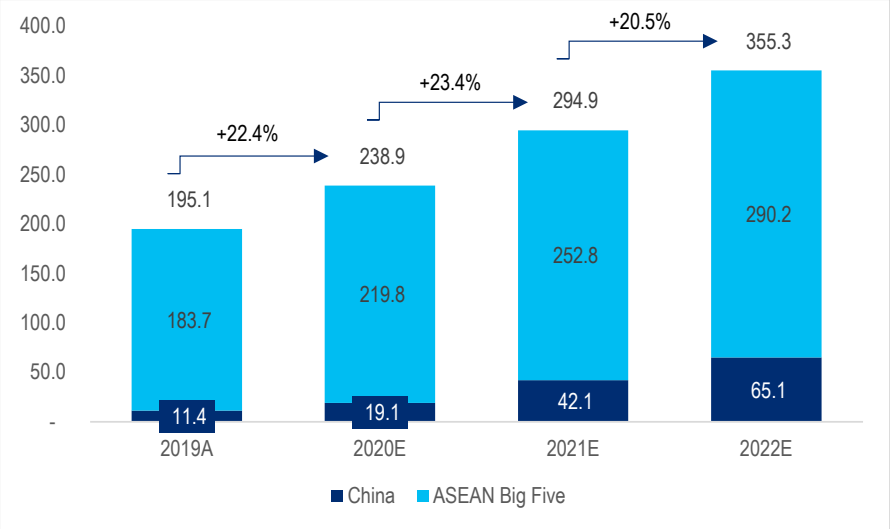
Source: Company filings, various reports, Citi Research

Based on various reports (The Star), company website and filings, Blue Sail's current capacity stands at c.22bn, 80% of which caters for PCV/TPE gloves, and the rest for nitrile. A new plant is slated to be completed by end of this year, add c.6.6bn pieces (4.6bn PVC and 2bn nitrile). Going forward, focus has shifted towards nitrile. In the near term, the company is looking to build two additional factories (10bn nitrile capacity), to begin construction in 3Q20. The company is looking to acquire a land to accommodate as much as 20bn nitrile more capacity with the aim to have c.36bn nitrile capacity by 2023.

Intco on the other hand has c.19bn pieces of existing capacity, also mainly PVC (14bn, and 5bn nitrile). Construction of a new plant reportedly began late last year, which is slated to add c.5.6bn capacity (mainly PVC, 2bn for nitrile). The Group also has plants to add 5.7bn/4.1bn additional nitrile/PVC capacity coming in by end of this year, with plans to add 3 more nitrile factories (each with 7bn capacity) over the next three years. A separate agreement with a state government was also signed to add 27bn capacity (10bn nitrile, 4.5bn surgical, 3bn latex) within the next 5 years. Intco also has plans to roll out a nitrile capacity in Vietnam, around 9bn gloves. By 2023, the company aims to have production of 84bn gloves.

Taking these figures at face value would imply a risk of oversupply. Combined with the ASEAN Big-Five, industry capacity could then grow by >20% YoY over the next few years (vs LT historical growth rate c.10-11%). In the event that demand normalizes at a faster pace than expected, this certainly looks like a recipe for disaster.

Figure 45. ASEAN Big-Five + China – capacity schedule

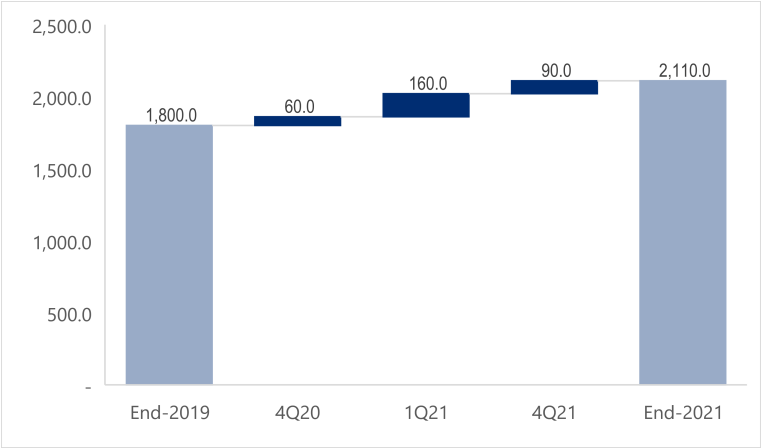


Source: Citi Research

Nonetheless, whilst the numbers look aggressive, the timeframe involved is a tad too optimistic. Building the physical factories is often the biggest portion of the lead-time to ramp; in Malaysia, one factory with a 3-4bn capacity can take a year to build, with a few additional months to get the production lines installed and trial runs done. The Chinese players are talking about adding over 20bn capacity every year for the next three years; for context, Hartalega took more than 10 years to build their 35bn capacity (95% nitrile). Even if these factories are able to be build (for some, land not finalized yet), there are a few other bottlenecks.

First and foremost, the supply chain has to be able to absorb the sheer amount of capacity to be added, from feedstock, to chemicals, and all the way to labour. The availability of nitrile latex, the feedstock for nitrile gloves, is already tight (see: Kumho Petrochemical (011780.KS) - Catalyst Watch: NB Latex Strength to Persist). Capacity plans point to only c.17% additional capacity from end CY19E to end CY21E. If that hurdle is cleared, then comes the question, can the companies sell their products? Approvals to penetrate new markets will also take time as most distributors will require a track record especially for medical supplies. Above all, the Chinese players will still lag, lacking the operational experience. No they are not new, but production process of vinyl/PVC gloves are different from latex gloves.

Figure 46. Capacity plans by nitrile latex suppliers – only 17% from end-2019 to end-2021



Source: Citi Research

All-in, while not discounting China, we believe that some execution needs to be seen, especially as many of the plans are still in the initial stages. We are also seeing smaller players emerging in Malaysia, although we believe most will not survive post COVID-19. At the end of the day, manufacturing needs scale, and the incumbents will remain better positioned over the longer run, in our view.

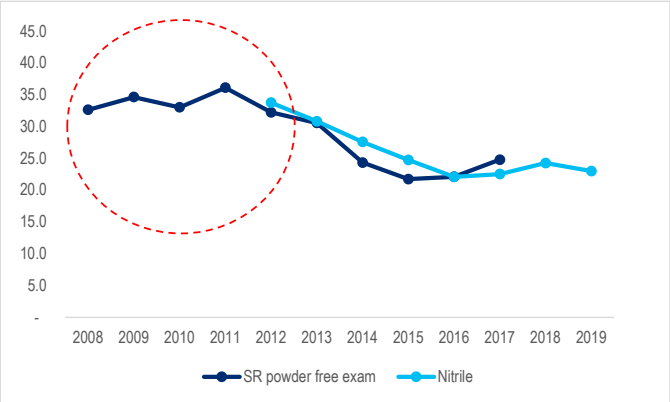
Comparison with surgical mask is unfair

Demand for surgical masks quickly shot up as a result of Covid-19, and so did supply. China, which dominates the supply of masks (c.50% global share), reportedly increased capacity by more than 5x in the just a month, between February 2020 and March. As a result, just a few months later, plenty of supply was available, with countries lifting export bans on surgical masks. Prices have also fallen accordingly; with reports suggesting that factory prices in May had almost halved vs April levels. Questions have risen as to whether the gloves sector will see a similar fate; we certainly don't believe so. Unlike masks, capacity ramp for gloves takes longer, which is why even months after the pandemic, supply remains extremely tight. Further, the investments required to build gloves capacity are also higher, which would weed out short-term players looking to take advantage of the current situation.

Watching ASPs, the Biggest Needle Mover in this Upcycle

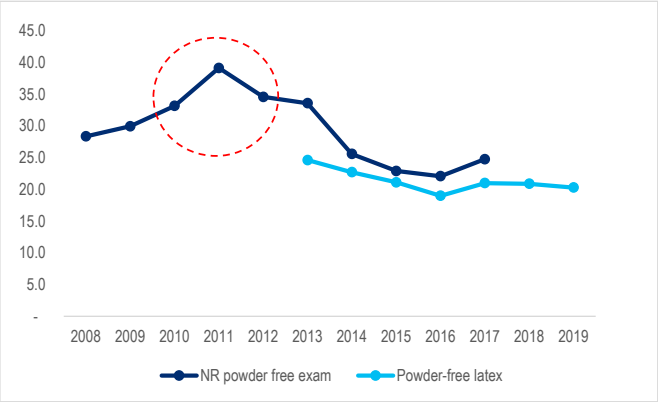
The gloves sector has seen a few pandemic-driven demand upcycles, none of which however resulted in such a severe demand-supply imbalance as we have now, which has also led to an unprecedented ASP upcycle. Prior to Covid, the sector's historical ASP trajectory was fairly stable with ASPs remaining relatively sticky, unless big changes were seen in feedstock prices (eg in 2010-2011) - 40-50% of the glove-makers' COGS. The industry's "cost plus" model allows for adjustments to be made, with prices firming up only 1-2 months ahead of deliveries. A sharp deterioration in FX like Ringgit in 2015-2016, could allow for US$ prices to grind lower. During H1N1, anecdotally, the glove-makers were happy to be selling more gloves but there was no intention to increase prices as aggressively.

Figure 47. ASP trend of nitrile gloves (US$ per 1'000)



Source: Citi Research

Figure 48. ASP trend of powder free latex gloves (US$ per 1'000)



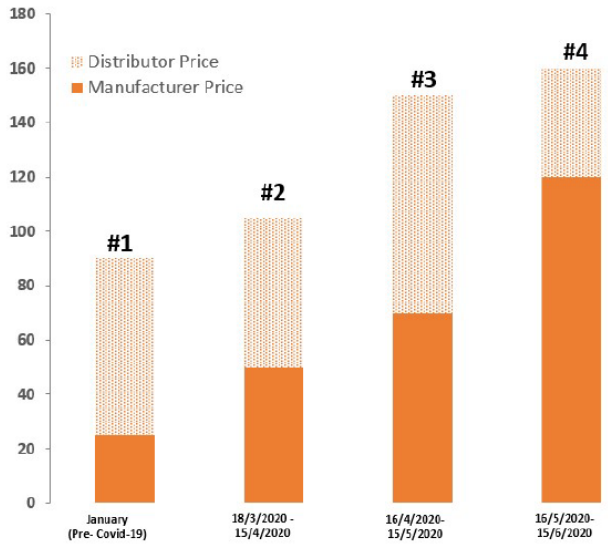
Source: Citi Research

Due to Covid-19, prices of gloves have moved significantly higher. To illustrate this, Top Glove's Feb-quarter (2QFY20) blended ASP was c.US$21 per 1,000 pieces, which moved to US$23 in the May-quarter (+9% QoQ). For the August quarter, management guided for prices to increase 15% MoM every month, implying that August deliveries (normal orders) could be sold at a high of US$40 per 1000 pieces (blended), double pre-Covid levels (see: Top Glove (TPGC.KL) - A Record-Breaking 3Q20, but Best Days Are Still Ahead; Buy). This message is consistent across industry players, with most having plans to continue raising prices at least until the end of the year. Some believe that prices could continue to grind higher in even 1Q CY21. Sri Trang Gloves' management noted that they believe prices of nitrile gloves could hit US$60 by end of the year (see: Sri Trang Agro (STA.BK) - Takeaways from Dialogue with STGT Management). Similarly, Top Glove's management sees US$100 for nitrile gloves as a real possibility by year-end.

This sharp upward move in ASPs is down to basic demand-supply. As supply is extremely tight with extended lead-time, sellers have a bigger pricing power. In fact, some buyers are so desperate that they offered to pay higher prices to get ahead of the queue, resulting in what we call "spot" or "panic orders" (more on this in the next section). One can also argue that demand for gloves is relatively inelastic in a normal course of business, more so now amid the pandemic; higher prices are therefore unlikely to dampen demand until additional supply comes in. Even at US$40 per 1,000 pieces (500 pairs) the absolute dollar cost for gloves remains relatively undemanding given the benefits offered in protecting wearers from being infected.

From a value-chain standpoint, distributors used to capture bulk of the value prior to Covid; the manufacturers would sell at US$20-25 per 1,000 pieces. Distributor mark-up could be as much as US$70. Now, distributors and dealers are being bypassed. Governments are going straight to the factories to get supply. Even with the premium being paid to the OEM manufacturers, the prices would still be cheaper than distribution prices.

Figure 49. ASP trend between distributor and manufacturer



Source: Supermax, Citi Research

From an ASP standpoint, of the five players under our coverage, Top Glove and Sri Trang Gloves were the first to start talking about raising prices, especially the former. Supermax, on the other hand, is much closer to end-market due to its own distribution centres; it was able to increase its exposure to OBM (own-brand) thus capturing bulk of the ASP upside. Kossan and Hartalega were the more conservative ones; but both have caught up and turned more bullish over the past month or so.

Impact of ASP hike, an illustration when costs are unchanged

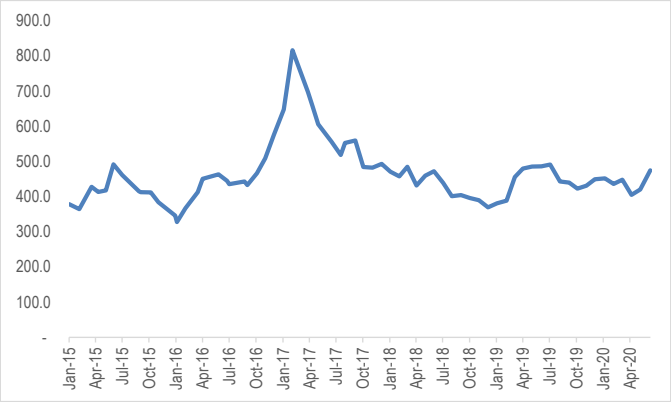
The current ASP hikes are coming in an environment of generally benign costs, particularly feedstock (40-50% of COGS). This means that every dollar of ASP increase almost flows straight to earnings, minus tax. Since investors had never seen such a sharp move in ASP, the impact on earnings were initially underappreciated. We illustrate this below.

Figure 50. Theoretical illustration of ASP hike impact on earnings; a 50% ASP increase, all else equal, would lead to PATMI tripling

	3Q20 (Top Glove)	3Q20 with ASP 50% higher
Revenue (RM mn, RHS)	1,688.3	2,532.5
Operating expenses	-1,212.1	-1,212.1
D&A	-59.2	-59.2
Other income	9.8	9.8
Operating profit	426.9	1,271.0
EBITDA	486.1	1,330.3
Finance costs	-5.8	-5.8
Finance income	3.0	3.0
Share of results of associates	-2.1	-2.1
Profit before taxation	422.0	1,266.2
Taxation	-72.0	-215.3
Tax rate	17%	17%
Profit for the period	350.0	1,050.9
Minority interest	2.1	2.1
PATMI	**347.9**	**1,053.1**

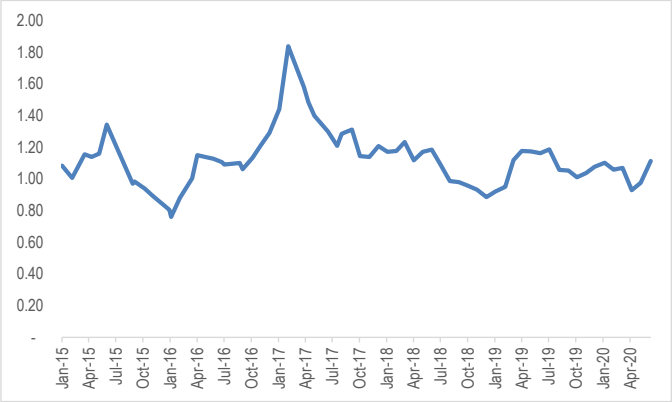
Source: Citi Research

Figure 51. YTD natural latex prices at c.RM4.40/kg, flattish vs CY19A's RM4.46/kg; outlook on natural rubber prices in general remains muted due to weak auto demand



Source: Citi Research

Figure 52. Similarly, nitrile latex prices have remained subdued at c.US$1.04/kg YTD (vs US$1.08/kg in CY19A); industry players believe nitrile latex prices may move higher going forward given the strong demand from the glove-makers

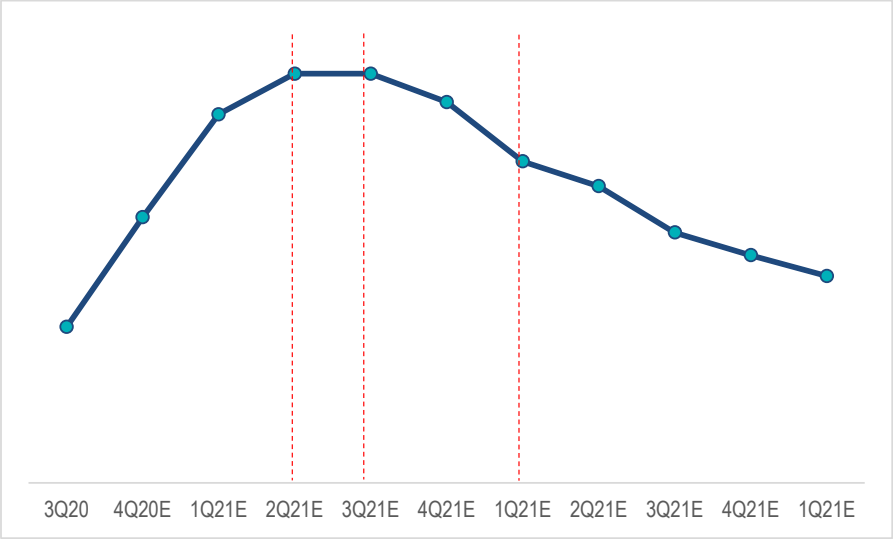


Source: Citi Research

Rising spot order allocation, pushing blended ASP even higher

An important development in recent months is the growing contribution of spot/panic orders. These orders are sold at significantly higher prices. Most players are now allocating their new lines to cater for these orders. Currently, ASPs for spot orders can fetch at least US$60, and may hit as high as >US$100 for smaller orders. Given the large gap between the ASPs for spot and normal orders, going from zero spot orders pre-Covid to 15-20% currently, the impact cannot be overlooked. We are modelling for prices to continue rising until 1Q CY20E, flattish in 2Q, before falling thereafter as supply catches up.

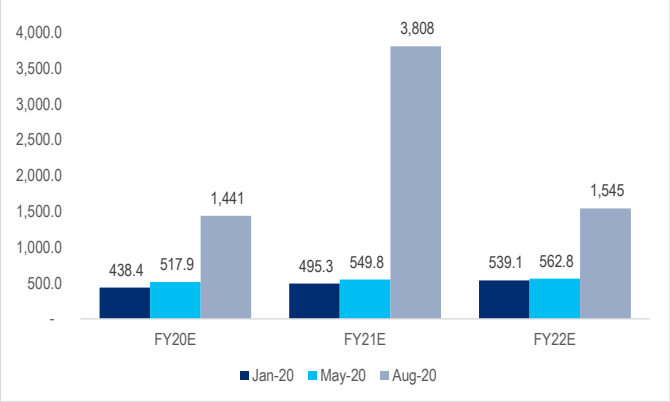
Figure 53. Our current pricing model – ASP hikes to continue until 1QCY21, before flattening in 2Q CY21 and then normalizing



Source: Citi Research

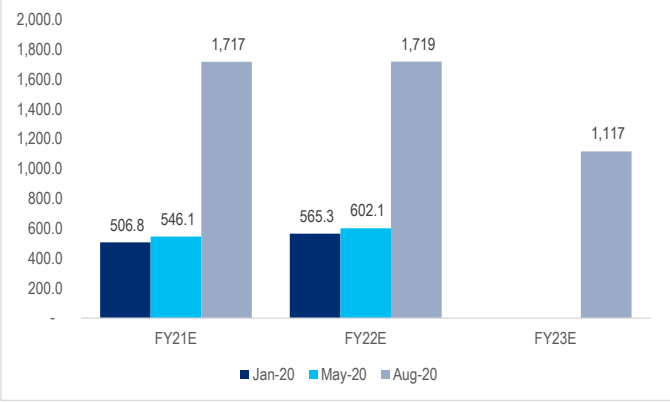
Earnings estimates – Citi vs Street

Figure 54. Top Glove PATMI (RM mn) – consensus revisions



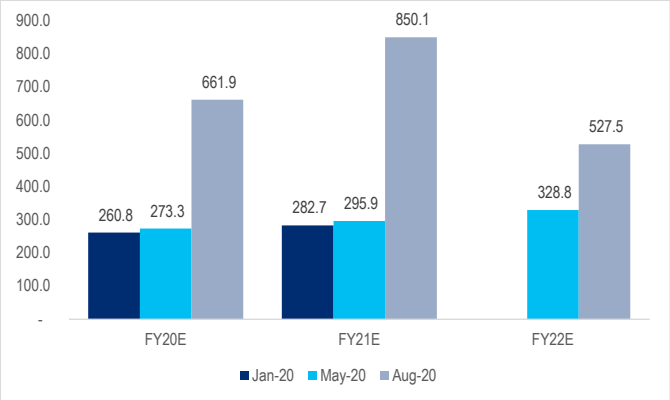
Source: Bloomberg, Citi Research

Figure 55. Hartalega PATMI (RM mn) – consensus revisions



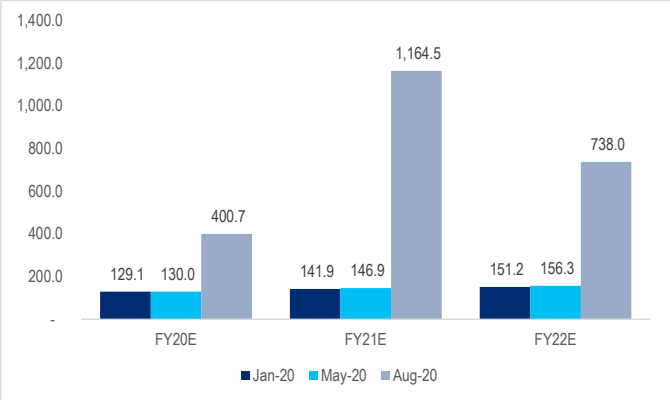
Source: Bloomberg, Citi Research

Figure 56. Kossan PATMI (RM mn) – consensus revisions



Source: Bloomberg, Citi Research

Figure 57. Supermax PATMI (RM mn) – consensus revisions



Source: Bloomberg, Citi Research

As shown earlier, ASP hikes in a benign cost environment leads to rapid margin expansions. Despite players like Top Glove guiding that they were raising prices as early as April, consensus only started revising upwards sharply sometime in May.

Figure 58. Citi vs Consensus (Bloomberg) – we are materially above the Street; we believe consensus is still expecting a sharp normalization in ASPs come CY21; our view is that until supply tightness abates, ASPs are likely to remain elevated

	Citi				Consensus (Bloomberg)				Citi vs Consensus			
PATMI (RM mn)	FY20E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E	FY23E
Top Glove	1,644	9,138	6,592	na	1,441	3,808	1,545	na	14%	140%	327%	na
Hartalega	na	2,175	3,137	1,361	na	1,717	1,719	1,117	na	27%	83%	22%
Kossan	781	2,005	914	na	662	850	527	na	18%	136%	73%	na
Supermax	na	2,832	2,069	na	na	1,164	738	na	na	143%	179%	na
STA (Bt mn)	4,600	9,305	4,632	na	3,838	4,419	4,338	na	20%	111%	7%	na

Note: Top Glove's fiscal YE is Aug, Hartalega's is Mar, Kossan's and STA's are Dec, Supermax's is June.
Source: Citi Research

Impact on balance sheet, future expansion plans

Aside from the impact on earnings, industry players are set to shore up their balance sheets. With revenues across industry players set to at least double YoY thanks to higher ASPs, the glove-makers are set to build a significant cash balance. Taking Top Glove as an example, we model for cash balance to rise to as much as RM6.3bn by end-FY22E, a c.RM3bn cash increase YoY. This amount is big enough to cater to the Group's prior 5-year worth of capex.

Who is best positioned now?

Figure 59. Who is best positioned in this upcycle? Ranking from 1(best) to 5 (least)

	Top Glove	Hartalega	STA	Kossan	Supermax
ASP	2	3	3	3	1
Capacity					
6 months	1	2	4	2	3
12 months	1	2	3	3	3
18 months	2	4	5	3	1
Spot allocation	1	4	3	3	2
Product mix	4	1	5	2	3
YTD share price	3	1	na	2	4
Valuation (CY21E PE)	1	5	na	3	4

Source: Citi Research

Stock Recommendations and Valuations

Top Glove: Buy, TP raised to a Street-high of RM48.10. As the largest in the world by glove capacity, the Group has led the way in revising ASPs amid the severe demand-supply imbalance; recent guidance continues to point to better-than-expected ASP trend (normal orders), further boosted by spot order allocation of as much as 20% of capacity. With the most near-to-medium term capacity addition, Top Glove is a clear winner in this unprecedented upcycle. Our estimates are higher by 14%/ 140%/ 327% for FY20/21/22E; PATMI at RM1.6bn/RM9.1bn/RM6.6bn respectively. Target multiple lowered again, now at c.15.6x (-1sd of 5-year mean, from 21.1x).

Hartalega: Buy, we recently raised Hartalega's TP to RM26.70 (see: Hartalega (HTHB.KL): Stellar 1Q21, ASP Guidance Points to Even Better Quarters Ahead). The Group's ASP outlook going into 2HCY20 has been aggressively revised upwards in order to catch up with peers. Whilst valuation is not as attractive as Top Glove's, consensus is still vastly underappreciating the revised guidance; our FY21/22/23E estimates are 27%/83%/22% higher than the Street with room for ASPs to move even higher; Hartalega is also a relative laggard from a share price standpoint. We model for Hartalega's PATMI to increase almost five-fold YoY to RM2.1bn in FY21E, further rising to RM3.1bn in FY22E. Our target PE is at 31.2x (5-year mean) pegged to end-CY21E EPS.

Kossan: TP raised to RM31.20 (from RM16.60), reaffirm Buy. Although the stock has doubled since July, we still see further upside; two important developments: [1] the company guided for aggressive Jul/Aug ASPs and alluded to further price hikes as the Group too moves closer towards market levels, and [2] Two new plants are set to be built in the near term to bridge the gap between Plant 19 and the Group's expansion in Bidor, Perak, thus putting the group in a better position to capitalize on the strong demand environment. These are now reflected in our estimates; minimal tweak to FY20E (-5%), FY21/22E higher by 93%/91%. Target PE maintained at c.20x (5-year mean), pegged to end-CY21E PER.

Supermax: Buy, TP at RM24.90. Supermax, the world's fifth largest glove-maker by capacity is set to be one of the biggest beneficiaries in this cycle owing to the group's OBM-centric and manufacturing-cum-distribution business model. Being closer to end-markets via its 7 distribution centers globally has and will continue to allow the Group to capture bulk of the significant ASP increase at both manufacturing and distribution levels, resulting in a faster and more aggressive ASP trend. We recently raised our estimates and TP post 4Q20 results (see: Supermax (SUPM.KL) - A Record-Breaking 4Q20, Best Yet to Come). Our FY21/22E estimates are 143%/173% above the Street at the point of writing.

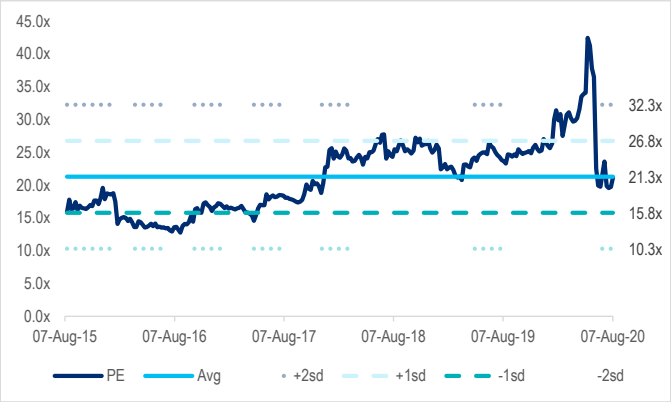
Sri Trang Agro: TP raised to Bt71.00 (from Bt39.80), mainly on higher valuation for STA's 56%-owned Sri Trang Gloves (STGT), reaffirm Buy. We revise our ASP assumptions for STGT; at the STA level, FY20-22E earnings are raised by 50-136%. Our SOTP-derived TP is raised to Bt71.00. We value the midstream division at an unchanged 5x CY21E. The bulk of STA's TP is still derived from STGT; as such we ascribe a higher hold co discount of 30% (previously: 10%) as the muted outlook at STA's midstream may see investors preferring to take a direct exposure via STGT.

Figure 60. Valuation Comps

Company	RIC	Rating	Price (lcy) 10 Aug	TP (lcy)	ETR (%)	Mkt Cap (US$m)	ADTV (US$m)	P/E (x) CY20	P/E (x) CY21	P/B (x) CY20	P/B (x) CY21	EV/EBITDA (x) CY20	EV/EBITDA (x) CY21	ROE (%) CY20	ROE (%) CY21	Yield (%) CY20	Yield (%) CY21
Pure downstream																	
Hartalega	HTHB.KL	Buy	18.36	26.70	48.2	15,028	46.8	35.7	21.4	19.5	14.3	27.0	16.6	61.6	77.1	1.7	2.8
Top Glove	TPGC.KL	Buy	27.20	48.10	82.5	17,564	108.1	17.8	8.9	15.1	8.2	14.5	7.3	108.1	119.6	2.8	5.6
Kossan Rubber	KRIB.KL	Buy	17.90	31.20	77.8	5,467	25.9	29.3	11.4	11.9	7.3	21.0	8.6	46.7	79.5	1.4	3.5
Supermax	SUPM.KL	Buy	21.20	24.90	21.2	6,887	100.0	16.7	11.5	11.9	7.5	12.6	8.4	90.3	79.5	2.7	3.7
Sri Trang Gloves	STGT.BK	NR	88.50	NA	NA	4,048	108.8	32.2	24.0	8.9	7.0	n/a	n/a	49.1	39.9	1.0	1.4
Riverstone	RVHL.SI	NR	4.69	NA	NA	2,537	11.1	30.0	27.1	10.7	9.2	20.1	20.2	43.9	38.1	1.5	1.7
Mean (simple)								**26.9**	**17.4**	**13.0**	**8.9**	**19.0**	**12.2**	**66.6**	**72.3**	**1.9**	**3.1**
Median								**29.7**	**16.5**	**11.9**	**7.8**	**20.1**	**8.6**	**55.4**	**78.3**	**1.6**	**3.2**
High								35.7	27.1	19.5	14.3	27.0	20.2	108.1	119.6	2.8	5.6
Low								16.7	8.9	8.9	7.0	12.6	7.3	43.9	38.1	1.0	1.4
Sri Trang Agro	STA.BK	Buy	29.00	71.00	150.0	1,426	50.7	9.7	4.8	1.4	1.0	7.5	3.1	16.7	24.7	2.4	5.2

Source: IBES, Citi Research Note: Closing prices

Figure 61. Top Glove – 5 year PE band

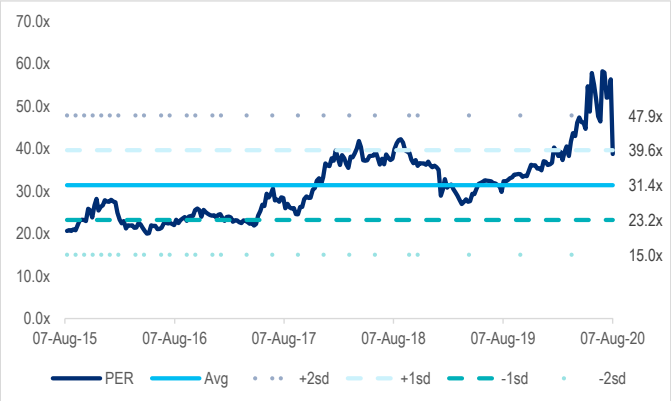


Source: Citi Research

Figure 62. Top Glove – long-term PE band; during H1N1 (Apr-09 to April-10), multiple expanded by c.56%, from <8x to c.12x forward PE

Source: Citi Research

Figure 63. Hartalega – 5 year PE band

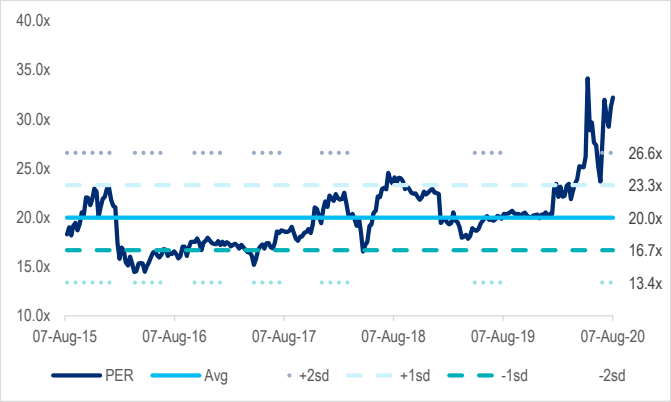


Source: Citi Research

Figure 64. Hartalega – long-term PE band; during H1N1 (Apr-09 to April-10), multiple expanded by c.74%, from <6x to c.10x forward PE

Source: Citi Research

Figure 65. Kossan – 5 year PE band

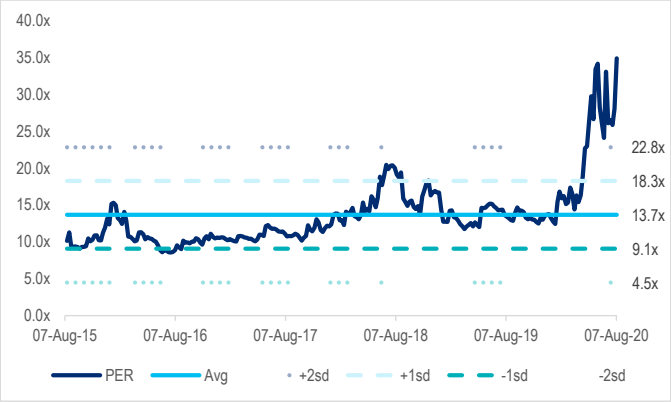


Source: Citi Research

Figure 66. Kossan – long-term PE band; during H1N1 (Apr-09 to April-10), multiple expanded by c.46%, from c.6x to c.9x forward PE

Source: Citi Research

Figure 67. Supermax – 5 year PE band



Source: Citi Research

Figure 68. Supermax – long-term PE band; during H1N1 (Apr-09 to April-10), multiple expanded by c.230%, from c.3x to c.9.5x forward PE

Source: Citi Research

Risks to our thesis

Key risks include:

- Rapid de-escalation of Covid-19 pandemic, resulting in demand normalizing and ASPs moving back to pre-Covid levels;
- Oversupply, as incumbents and new players alike are rushing to add capacity; and
- Fluctuations in FX and feedstock; a strong US$ is generally positive for the glove-makers whose revenue is dollar-denominated.

Company Focus

Top Glove (TPGC.KL)

Leading the Pack, Maintain as Top Pick

- Target Price Change
- Estimate Change

Buy	
Price (10 Aug 20 17:00)	RM27.20
Target price	RM48.10
from RM25.30	
Market Cap	RM73,550M
	US$17,564M
Expected share price return	76.8%
Expected dividend yield	6.2%
Expected total return	83.1%

- **Conclusion(s)** — Buy, TP raised to a Street-high of RM48.10. As the largest glove manufacturer in the world by capacity, the Group has led the way in revising ASPs amidst the severe demand-supply imbalance; recent guidance continues to point to a better-than-expected ASP trend (normal orders), further boosted by spot order allocation of as much as 20% of capacity. With the most near- to medium-term capacity addition, Top Glove is a clear winner in this unprecedented upcycle.

- **What's New** — Lead time continues to grind higher; nitrile now at >18 months, and natural latex at >15 months providing an unmatched volume visibility. Top Glove seems to have been able to accelerate its near-term capacity roll-out; capacity to hit 89.0bn by end-CY20 (+27% YoY) and 106.3bn by end-CY21 (+19.4% YoY); our volume assumptions are accordingly higher by 11-16%. Management is now guiding for Aug-20 ASPs to be higher by 25% MoM, better than the 15% MoM initial guidance; implying at least >60% QoQ ASP increase (including spot) vs May-quarter (3QFY20). The Group expects prices to continue to move higher at least for the rest of the year with a minimum of 5% MoM increase every month. Spot allocation at 20% of capacity, mainly via new lines and skewed towards nitrile as orders are mainly from developed markets; we understand that spot ASPs are still on the rise suggesting that demand remains robust. Our revised FY20/21/22E ASP assumptions are higher by 8%/62%/57% at US$26.0/52.7/41.30. Top Glove's full-year FY20E numbers are due in Sep; we are implicitly modelling RM1.07bn in PATMI (13.3x YoY, 3.1x QoQ); another record quarter, but the best is still at least a few quarters away. Top Glove is currently in discussions with the CBP and is optimistic to get a resolution within this month (August). Meanwhile, orders are still being shipped to the US and can be re-routed to Europe as demand is strong everywhere.

- **Implications** — Our estimates are higher by 14%/140%/327% for FY20/21/22E; PATMI at RM1.6bn/RM9.1bn/RM6.6bn respectively. Target multiple lowered again, now at 15.7x (-1sd vs. 5-year mean, from 21.1x) to reflect the significantly enlarged earnings base and what is likely to be peak earnings next year. Citi is well above the Street; plenty of room for consensus to move higher. Top Glove trades at an undemanding 8.9x CY21E PER and is our top pick in this space.

Statistical Abstract

FYE 31 Aug	Net Profit (RMM)	EPS (RM)	P/E (x)	D. Yld (%)
2017A	331	0.13	na	0.3
2018A	434	0.17	160.4	0.3
2019A	365	0.14	190.7	0.3
2020E	1,644	0.61	44.7	1.1
2021E	9,138	3.38	8.0	6.2
2022E	6,592	2.44	11.2	4.5

Source: Powered by dataCentral

Earnings Revision

FYE 31 Aug	Net Profit (RMM)	EPS (RM)	% chg	DPS (RM)
2020E	1,644	0.61	23.3	0.30
Prev	1,259	0.49		0.25
2021E	9,138	3.38	142.5	1.69
Prev	3,562	1.39		0.70
2022E	6,592	2.44	196.0	1.22
Prev	2,105	0.82		0.41

Source: Powered by dataCentral

TPGC.KL: Fiscal year end 31-Aug — **Price: RM27.20; TP: RM48.10; Market Cap: RM73,550m; Recomm: Buy**

Profit & Loss (RMm)	2018	2019	2020E	2021E	2022E
Sales revenue	4,214	4,801	6,812	17,694	15,272
Cost of sales	-3,227	-3,728	-4,070	-5,611	-6,088
Gross profit	988	1,073	2,742	12,083	9,183
Gross Margin (%)	23.4	22.3	40.3	68.3	60.1
EBITDA (Adj)	**651**	**646**	**2,224**	**11,104**	**8,066**
EBITDA Margin (Adj) (%)	15.5	13.4	32.7	62.8	52.8
Depreciation	-141	-189	-235	-284	-339
Amortisation	0	0	0	0	0
EBIT (Adj)	**550**	**495**	**2,019**	**10,850**	**7,756**
EBIT Margin (Adj) (%)	13.0	10.3	29.6	61.3	50.8
Net interest	-23	-69	-50	11	94
Associates	2	-3	5	5	5
Non-Op/Except/Other Adj	0	0	0	0	0
Pre-tax profit	**529**	**424**	**1,974**	**10,866**	**7,856**
Tax	-91	-56	-296	-1,630	-1,178
Extraord./Min.Int./Pref.div.	-4	-3	-34	-98	-85
Reported net profit	**434**	**365**	**1,644**	**9,138**	**6,592**
Net Margin (%)	10.3	7.6	24.1	51.6	43.2
Core NPAT	434	365	1,644	9,138	6,592

Per share data	2018	2019	2020E	2021E	2022E
Reported EPS (RM)	0.17	0.14	0.61	3.38	2.44
Core EPS (RM)	0.17	0.14	0.61	3.38	2.44
DPS (RM)	0.09	0.08	0.30	1.69	1.22
CFPS (RM)	0.13	0.21	0.65	2.97	2.68
FCFPS (RM)	-0.05	-0.02	0.37	2.65	2.32
BVPS (RM)	0.93	0.99	1.23	2.92	4.14
Wtd avg ord shares (m)	2,560	2,555	2,704	2,704	2,704
Wtd avg diluted shares (m)	2,560	2,555	2,704	2,704	2,704

Growth rates	2018	2019	2020E	2021E	2022E
Sales revenue (%)	23.6	13.9	41.9	159.7	-13.7
EBIT (Adj) (%)	46.6	-9.9	307.6	437.4	-28.5
Core NPAT (%)	31.3	-16.0	350.9	455.9	-27.9
Core EPS (%)	28.7	-15.9	326.1	456.0	-27.9

Balance Sheet (RMm)	2018	2019	2020E	2021E	2022E
Cash & cash equiv.	165	166	613	3,208	6,264
Accounts receivables	646	592	933	2,424	2,092
Inventory	508	630	590	807	881
Net fixed & other tangibles	2,347	2,893	3,407	3,985	4,636
Goodwill & intangibles	1,304	1,256	1,256	1,257	1,257
Financial & other assets	300	151	91	91	91
Total assets	**5,271**	**5,688**	**6,890**	**11,772**	**15,222**
Accounts payable	500	492	587	804	877
Short-term debt	883	1,041	426	441	456
Long-term debt	1,330	1,379	994	1,029	1,064
Provisions & other liab	164	221	228	228	228
Total liabilities	**2,877**	**3,134**	**2,236**	**2,502**	**2,625**
Shareholders' equity	2,378	2,537	4,629	9,197	12,490
Minority interests	15	17	26	72	105
Total equity	**2,394**	**2,554**	**4,655**	**9,269**	**12,596**
Net debt (Adj)	**2,048**	**2,255**	**808**	**-1,737**	**-4,743**
Net debt to equity (Adj) (%)	85.6	88.3	17.4	-18.7	-37.7

Valuation ratios	2018	2019	2020E	2021E	2022E
PE (x)	na	na	44.7	8.0	11.2
PB (x)	29.3	27.4	22.1	9.3	6.6
EV/EBITDA (x)	na	na	34.1	6.7	8.9
FCF yield (%)	-0.2	-0.1	1.4	9.7	8.5
Dividend yield (%)	0.3	0.3	1.1	6.2	4.5
Payout ratio (%)	50	53	49	50	50
ROE (%)	19.8	14.8	56.0	162.7	69.0

Cashflow (RMm)	2018	2019	2020E	2021E	2022E
EBITDA	691	684	2,254	11,134	8,096
Working capital	-338	-75	-206	-1,492	331
Other	-11	-83	-291	-1,625	-1,173
Operating cashflow	**342**	**526**	**1,757**	**8,017**	**7,254**
Capex	-458	-568	-749	-862	-991
Net acq/disposals	25	118	0	0	0
Other	-1,263	-43	12	57	142
Investing cashflow	**-1,696**	**-493**	**-738**	**-804**	**-849**
Dividends paid	-196	-217	-811	-4,569	-3,299
Financing cashflow	**1,283**	**-35**	**-573**	**-4,618**	**-3,349**
Net change in cash	**-71**	**-2**	**447**	**2,595**	**3,056**
Free cashflow to s/holders	**-116**	**-42**	**1,008**	**7,155**	**6,263**

For definitions of the items in this table, please click here.

Figure 69. Changes to key assumptions

	New			Previous			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Volume (bn)	**62.5**	**80.0**	**88.0**	**62.5**	**72.0**	**76.0**	**0%**	**11%**	**16%**
YoY growth	*16%*	*28%*	*10%*	*16%*	*15%*	*6%*			
ASP (US$)	**26.0**	**52.7**	**41.3**	**24.1**	**32.5**	**26.4**	**8%**	**62%**	**57%**
YoY growth	*20%*	*103%*	*-22%*	*12%*	*35%*	*-19%*			

Source: Citi Research

Figure 70. Top Glove's capacity expansion plans

Factories	To commence production by (Calendar Quarter)	Country	Glove type	Number of production lines 1 Double Former (DF) Line = 2 Equivalent Single Former (SF) Lines	Capacity (pcs per annum)
Current: 34 glove factories			All	700 Equivalent Single Former Lines	80.2 bn
F40 1st Phase ***NEW FACTORY***	3rd qtr 2020	Klang, Malaysia	Nitrile	11 DF lines	3.1 bn
F41 1st Phase Block 1 ***NEW FACTORY***	3rd qtr 2020	Binh Duong, Vietnam	PVC	10 DF lines	2.4 bn
F20A Line Refurbishment	3rd qtr 2020	Klang, Malaysia	Latex	Upgrading of Production	1.9 bn
F37 Block A Lines Refurbishment	3rd qtr 2020	Kluang, Malaysia	Latex	2 DF lines	0.5 bn
F36 Lines Refurbishment	3rd qtr 2020	Kota Bharu, Malaysia	Surgical / Nitrile	2 DF lines + 3 SF lines	0.9 bn
Total new capacity in CY2020				25 DF lines + 3 SF lines	8.8 bn (+11.0%)
Grand total by December 2020 : 36 glove factories				**753 Equivalent Single Former Lines**	**89.0 bn**
F40 2nd Phase	1st qtr 2021	Klang, Malaysia	Nitrile	8 DF lines	2.3 bn
F8A 1st Phase ***NEW FACTORY***	1st qtr 2021	Sadao, Thailand	Nitrile	14 DF lines	4.0 bn
F38 Block A2 1st Phase ***NEW FACTORY***	1st qtr 2021	Kulim, Malaysia	Nitrile	8 DF lines	2.3 bn
F31 Block C New Lines	2nd qtr 2021	Klang, Malaysia	Nitrile	7 DF lines	1.9 bn
F35 Block A ***NEW FACTORY***	2nd qtr 2021	Klang, Malaysia	Surgical/Nitrile	6 DF lines	1.7 bn
F37 Block A New Lines	2nd qtr 2021	Kluang, Malaysia	Nitrile	3 DF lines	0.8 bn
F37 Block D New Lines	2nd qtr 2021	Kluang, Malaysia	Nitrile	3 DF lines	0.8 bn
F38 Block A2 2nd Phase	3rd qtr 2021	Kulim, Malaysia	Nitrile	4 DF lines	1.1 bn
F41 1st Phase Block 2	3rd qtr 2021	Binh Duong, Vietnam	PVC	10 DF lines	2.4 bn
Total new capacity in CY2021				63 DF lines	17.3 bn(+19.4%)
Grand total by December 2021 : 39 glove factories				**879 Equivalent Single Former Lines**	**106.3 bn**

Source: Company, Citi Research

Bull/Bear: Top Glove (TPGC.KL)

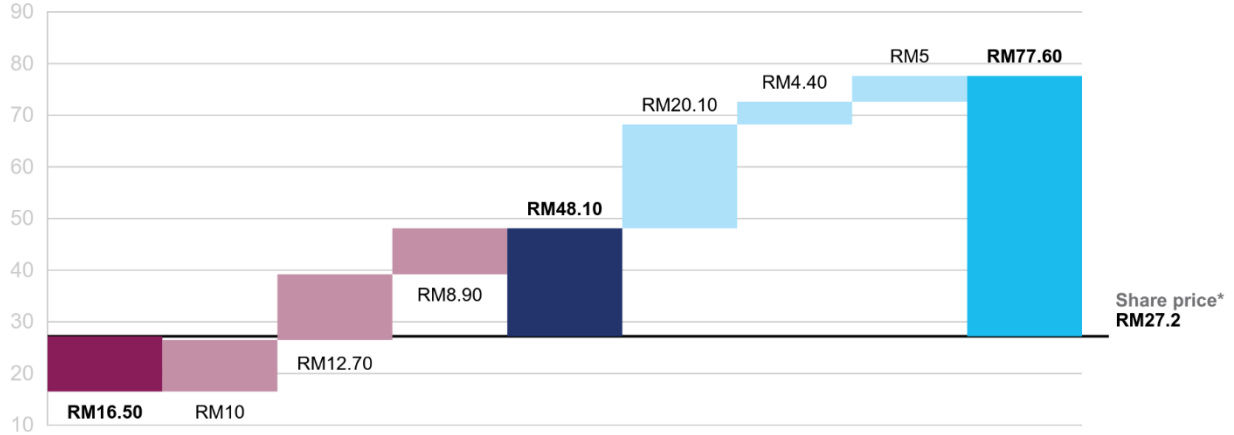
Bull/Bear: Top Glove (TPGC.KL)

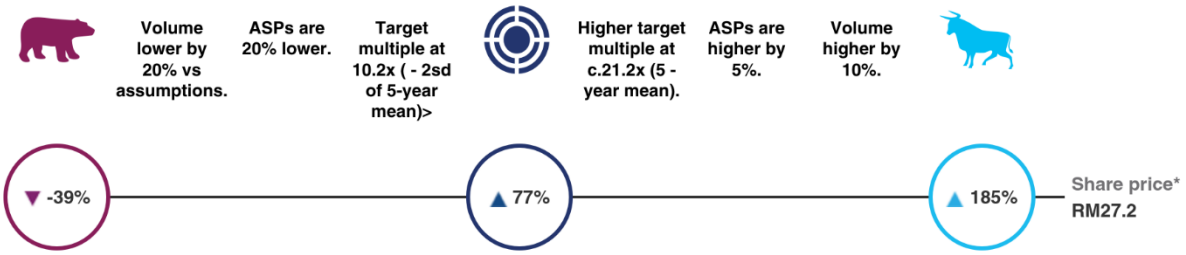
RM48.1 target price

77% expected share price return

Buy rating

224pp Bull/Bear Spread





Source: Citi Research

*Share price as of 10 Aug 2020 17:00

RM77.6

- Volume 10% higher than our base assumptions, ASPs continue to move higher (+5% vs assumption) and target multiple at 5-year mean PE (21.2) . Bull case: RM77.60.

RM48.1

- Base case TP: RM48.10.

RM16.5

- Volume 20% lower than base assumption, ASP normalizes, c.20% lower than our assumptions. Target multiple at -2sd of 5-year mean (10.2x). Bear case: RM16.50.

Top Glove

Company description

Top Glove is the world's largest rubber glove manufacturer by capacity. The company produces a comprehensive range of products from natural latex gloves, nitrile gloves, to surgical and PVC/vinyl gloves. As at Jul-2020, the group had >700 production lines with annual capacity of c.80bn pieces of gloves. Top Glove's production mix consists of 22% powdered latex gloves, 20% powder-free latex, 47% nitrile, 8% vinyl/TPE, and 3% surgical. Its latex concentrate plants in Thailand supply 60-70% of Top Glove's feedstock requirements. Top Glove aims to achieve 30% global market share by 2020 from c.25% currently.

Investment strategy

We rate Top Glove shares as Buy (1). Amid the global Covid-19 outbreak, Top Glove as a proxy to the gloves sector with inexpensive but effective gloves is benefiting from a surge in demand. It has the largest capacity and the widest client reach, positioning it well to absorb additional orders. Top Glove’s lead time is now >500 days (>18 months) for certain products, vs. 1-2 months during the pre-Covid days. The acute demand-supply imbalance has enabled the Group to aggressively raise ASPs. In a benign cost environment, the resulting incremental revenue falls through to the bottom line, driving an unprecedented margins and earnings upcycle.

Valuation

Our target price for Top Glove is RM48.10, derived from what we think is a conservative 15.7x CY21E EPS based on 1SD below the stock’s five-year mean. While we expect robust earnings on the back of margin expansion even in CY21E, the market may look further out and begin to bake in normalized demand and ASP. Our target PE is closer to Malaysia's market multiple.

Risks

Key risks that could cause the Top Glove stock to trade below our target price include: [1] A sharper-than-expected decline in ASPs when Covid-19 de-escalates; a 10% decline in ASP cuts earnings by 16% for FY8/21E; [2] sharp volatility in raw material costs and the Ringgit, which would hamper accurate adjustments of selling prices. Our model suggests that every 1% depreciation in USD vs. our assumptions would lower earnings by 1-2%; and [3] Oversupply as industry players may decide to accelerate capacity rollout amidst the strong demand, with new players also potentially coming in.

Company Focus

Hartalega (HTHB.KL)

ASPs Rapidly Catching Up, Consensus Expectations Too Low

Buy	
Price (10 Aug 20 17:00)	RM18.36
Target price	RM26.70
Market Cap	RM62,931M
	US$15,028M
Expected share price return	45.4%
Expected dividend yield	2.1%
Expected total return	47.5%

- **Conclusion(s)** — Buy, we recently raised Hartalega's TP to RM26.70 (see: Hartalega (HTHB.KL): Stellar 1Q21, ASP Guidance Points to Even Better Quarters Ahead). The Group's ASP outlook going into 2HCY20 has been aggressively revised upwards in order to catch up with peers. Whilst valuation is not as attractive as Top Glove's, consensus is still vastly underappreciating the revised guidance, our FY21/22/23E estimates are 27%/83%/22% higher than the Street with room for ASPs to move even higher; Hartalega is also a relative laggard from a share price standpoint.

- **What's New** — We had previously noted that unlike Top Glove which started raising ASPs as early as May, Hartalega's price adjustments were set to be reflected only in Sep-Q onwards. That remains status quo, but management is now looking at a far more aggressive pace of ASP adjustments; the c.5% QoQ blended ASP increase in 1QFY21 is set to be followed by a 30% QoQ ASP increase next quarter, and at least another 30% in 3QFY21. Even then, the Group's ASPs remain at a discount to peers; further hikes going into CY21 therefore cannot be ruled out, especially as spot orders are still strong. Hartalega is allocating c.5-7% of its capacity for this, which is sold out until Mar-21; the group overall capacity is locked up for the better part of CY21E. Our blended ASP assumptions are at US$35.3/42.6/29.1 for FY21/22/23E; we model QoQ ASP increase of 20%/40%/20% (normal orders) in the upcoming three quarters before normalizing. Capacity wise, remaining lines from Plant 6 and 6 lines from Plant 7 will push capacity towards c.42bn (+14% from current capacity of 37bn) by March 2021, whereas its NGC 2.0 expansion has now been accelerated by a quarter (first line by 1QCY22). More important, Hartalega is exploring the option to acquire a new landbank to bridge the capacity gap between Plant 7 and NGC 2.0 (Kossan did something similar); management reiterated that organic expansion is preferred over M&A. Also see: Hartalega (HTHB.KL) - Takeaways from Management VC post 1QFY21.

- **Implications** — We model for Hartalega's PATMI to increase almost five-fold YoY to RM2.1bn in FY21E, further rising to RM3.1bn in FY22E. Our target PE is at 31.2x (5-year mean) pegged to end-CY21E EPS. Strong earnings are expected in the upcoming quarters; consensus estimates are likely to move higher in the coming months. On our estimates Hartalega trades at an undemanding c.21.4x CY21E PER, reaffirm Buy.

Statistical Abstract

Year to 31 Mar	Net Profit (RMM)	Diluted EPS (¢)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2019A	455	13.5	3.4	136.0	27.4	21.4	0.4
2020A	435	12.8	-4.8	142.9	24.5	18.1	0.4
2021E	2,175	64.3	400.3	28.6	18.3	73.3	2.1
2022E	3,137	92.7	44.2	19.8	13.4	77.9	3.0
2023E	1,361	40.2	-56.6	45.6	12.0	27.6	1.3

Source: Powered by dataCentral

HTHB.KL: Fiscal year end 31-Mar — **Price: RM18.36; TP: RM26.70; Market Cap: RM62,931m; Recomm: Buy**

Profit & Loss (RMm)	2019	2020	2021E	2022E	2023E
Sales revenue	2,827	2,924	5,479	6,984	5,255
Cost of sales	-2,019	-2,064	-2,455	-2,708	-3,175
Gross profit	808	860	3,024	4,276	2,080
Gross Margin (%)	28.6	29.4	55.2	61.2	39.6
EBITDA (Adj)	**669**	**721**	**2,854**	**4,068**	**1,859**
EBITDA Margin (Adj) (%)	23.7	24.6	52.1	58.2	35.4
Depreciation	-100	-125	-130	-147	-168
Amortisation	0	0	0	0	0
EBIT (Adj)	**558**	**564**	**2,725**	**3,921**	**1,691**
EBIT Margin (Adj) (%)	19.7	19.3	49.7	56.1	32.2
Net interest	-7	-8	-2	4	13
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	0	0	0	0	0
Pre-tax profit	**551**	**556**	**2,722**	**3,925**	**1,704**
Tax	-96	-120	-544	-785	-341
Extraord./Min.Int./Pref.div.	0	-1	-2	-3	-1
Reported net profit	**455**	**435**	**2,175**	**3,137**	**1,361**
Net Margin (%)	16.1	14.9	39.7	44.9	25.9
Core NPAT	455	435	2,175	3,137	1,361

Per share data	2019	2020	2021E	2022E	2023E
Reported EPS (¢)	13	13	64	93	40
Core EPS (¢)	13	13	64	93	40
DPS (¢)	8	8	39	56	24
CFPS (¢)	19	19	57	90	52
FCFPS (¢)	6	12	46	77	36
BVPS (¢)	67	75	100	137	153
Wtd avg ord shares (m)	3,372	3,385	3,385	3,385	3,385
Wtd avg diluted shares (m)	3,372	3,385	3,385	3,385	3,385

Growth rates	2019	2020	2021E	2022E	2023E
Sales revenue (%)	17.5	3.4	87.4	27.5	-24.8
EBIT (Adj) (%)	5.0	1.1	383.2	43.9	-56.9
Core NPAT (%)	3.7	-4.5	400.3	44.2	-56.6
Core EPS (%)	3.4	-4.8	400.3	44.2	-56.6

Balance Sheet (RMm)	2019	2020	2021E	2022E	2023E
Cash & cash equiv.	150	305	591	1,335	1,760
Accounts receivables	458	503	837	1,067	803
Inventory	276	276	363	401	447
Net fixed & other tangibles	2,072	2,197	2,418	2,721	3,103
Goodwill & intangibles	23	29	30	30	31
Financial & other assets	13	7	7	7	7
Total assets	**2,992**	**3,318**	**4,246**	**5,563**	**6,152**
Accounts payable	260	276	306	339	377
Short-term debt	149	85	90	97	99
Long-term debt	195	189	209	227	230
Provisions & other liab	129	223	237	237	237
Total liabilities	**733**	**773**	**842**	**900**	**943**
Shareholders' equity	2,256	2,541	3,398	4,653	5,198
Minority interests	3	4	6	9	11
Total equity	**2,259**	**2,545**	**3,404**	**4,663**	**5,209**
Net debt (Adj)	**194**	**-31**	**-292**	**-1,012**	**-1,431**
Net debt to equity (Adj) (%)	8.6	-1.2	-8.6	-21.7	-27.5

Valuation ratios	2019	2020	2021E	2022E	2023E
PE (x)	na	na	28.6	19.8	45.6
PB (x)	27.4	24.5	18.3	13.4	12.0
EV/EBITDA (x)	94.3	87.5	22.0	15.3	33.2
FCF yield (%)	0.3	0.7	2.5	4.2	2.0
Dividend yield (%)	0.4	0.4	2.1	3.0	1.3
Payout ratio (%)	60	61	60	60	60
ROE (%)	21.4	18.1	73.3	77.9	27.6

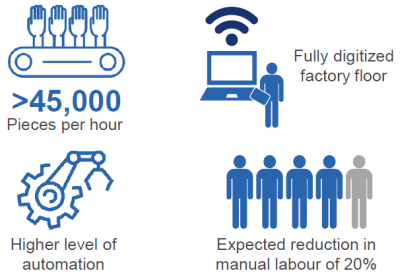
Cashflow (RMm)	2019	2020	2021E	2022E	2023E
EBITDA	658	689	2,854	4,068	1,859
Working capital	4	-29	-391	-236	257
Other	-35	-1	-544	-785	-340
Operating cashflow	**627**	**659**	**1,919**	**3,047**	**1,776**
Capex	-431	-251	-350	-450	-550
Net acq/disposals	1	-247	0	0	0
Other	2	247	7	14	23
Investing cashflow	**-429**	**-250**	**-343**	**-436**	**-527**
Dividends paid	-286	-249	-1,306	-1,881	-818
Financing cashflow	**-207**	**-254**	**-1,290**	**-1,866**	**-823**
Net change in cash	**-8**	**155**	**286**	**745**	**426**
Free cashflow to s/holders	**196**	**408**	**1,569**	**2,597**	**1,226**

For definitions of the items in this table, please click here.

Figure 71. Hartalega's NGC 2.0 plans

NGC 2.0: Replicating NGC - a proven entity

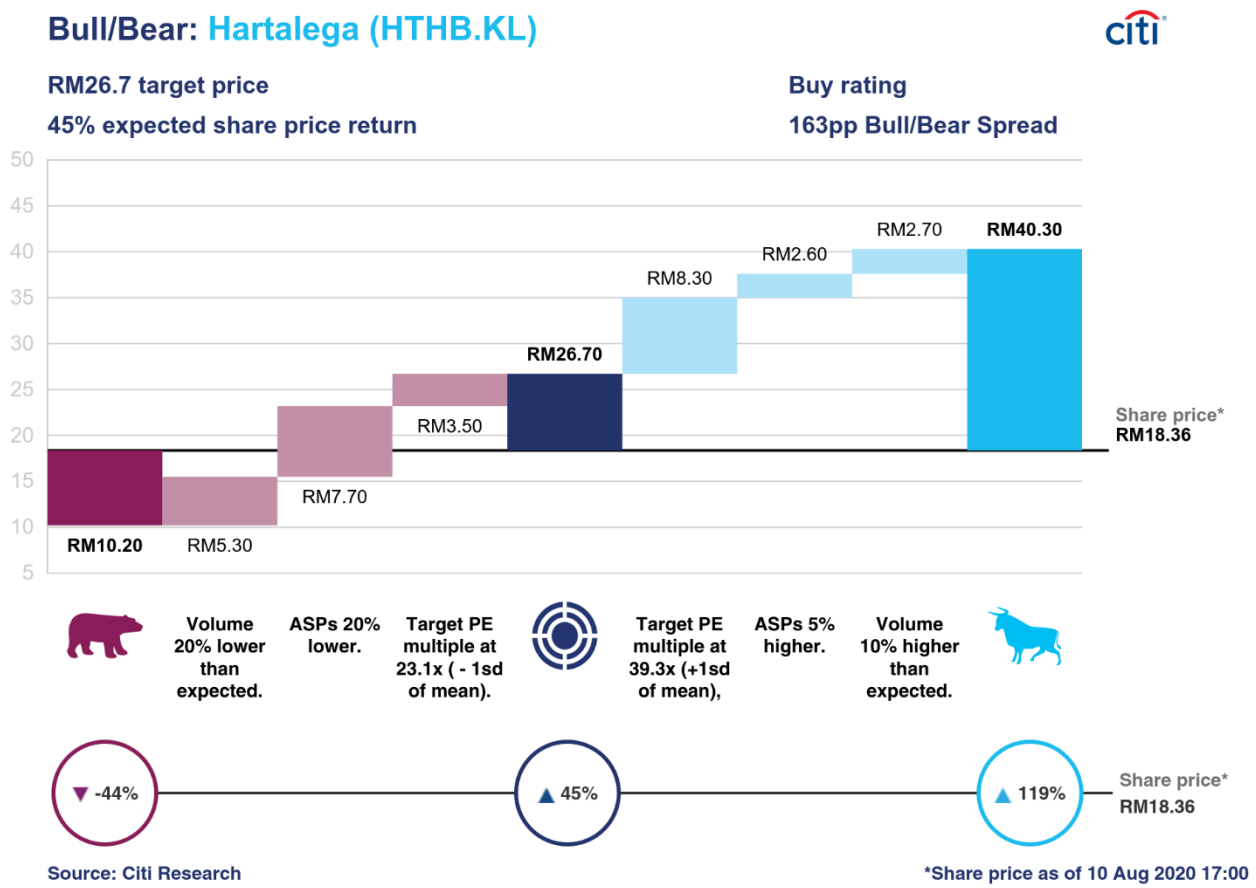
Facility	Projected Installed Capacity
Bestari Jaya	12.9 bil
NGC	30.8 bil
	43.7 bil
NGC 2.0	32.3 bil
Total	**76.0 bil**



- Target to commence the first line towards **Q1 of CY2022**
- As a responsible industry player, management is cognizant of maintaining a healthy supply and demand balance in our expansion plans

Source: Company, Citi Research

Bull/Bear: Hartalega (HTHB.KL)



RM40.3

- 10% higher volume as demand remains robust, ASP surprises on the upside by 5%, target multiple at 39.3x (+1sd of mean). Implied valuation: RM40.30.

RM26.7

- Base case TP: RM26.70.

RM10.2

- Volume lower than expected due increased competition (-20% lower than assumptions), ASP lower by 20% as demand normalizes, target PE at 23.1x (-1sd) of mean. Implied valuation: RM10.20.

Hartalega

Company description

Hartalega is the world's second largest glove manufacturer by capacity with c.36bn pieces per annum in capacity. The company operates from two main sites in Bestari Jaya and Sepang, the latter houses Hartalega's Next Generation Complex (NGC) which has been key to the company's growth. Hartalega was one of the pioneers of the lightweight nitrile glove, which is preferred by developed countries like the US relative to natural laxtex gloves. c.95% of Hartalega's revenue is derived from the sale of nitrile gloves. With the recent purchase of a new landbank, Hartalega will be embarking on its next expansion phase dubbed as NGC 2.0 once Plant 7 of the NGC 1.0 is fully rolled out.

Investment strategy

We have a Buy on Hartalega. Due to the Covid-19 outbreak, demand for medical supplies, including gloves, has spiked sharply. While capacity constraints may well limit how much additional volume can be absorbed by the company especially in 2H CY20, the strong demand environment has allowed for ASP hikes to be pushed through across industry players, including Hartalega. With peers raising prices aggressively, Hartalega is playing catch-up and the tone on ASP has changed significantly. As a result, we expect margins to also move higher, driving an earnings super-cycle.

Valuation

Our target price for Hartalega of RM26.70 is based on 31.2x end-CY21E EPS, set at its 5-year historical mean. The current upcycle will eventually normalize, and as such we don't believe a premium vs mean is justified given the significantly bigger earnings base. We have used PER methodology across our glove coverage universe given that the industry has historically traded on PER with earnings being the biggest share price driver of glove stocks. The company’s earnings are tied to a certain degree to fluctuations in FX, input prices and capacity which affects the multiples used.

Risks

Key downside risks that could push the Hartalega stock below our target price include: [1] A rapid de-escalation of Covid-19, resulting in a normalization in demand and ASPs, [2] Volatility in feedstock prices and FX, and [3] Oversupply as industry players aggressively add capacity to meet demand.

Company Focus

Kossan Rubber Industries (KRIB.KL)

Conservative No More, Two New Plants to Boost CY21 Capacity

- Target Price Change
- Estimate Change

Buy	
Price (10 Aug 20 17:00)	RM17.90
Target price	RM31.20
from RM16.20	
Market Cap	RM22,893M
	US$5,467M
Expected share price return	74.3%
Expected dividend yield	1.4%
Expected total return	75.7%

- **Conclusion** — TP raised to RM31.20 (Street-high, from RM16.20), reaffirm Buy. The Kossan stock has doubled since the start of July, but we still see further upside; two important developments: [1] the company guided aggressive Jul/Aug ASPs and alluded to further price hikes as the Group moves closer to market levels, and [2] two new plants are set to be built near-term to bridge the gap between Plant 19 and the group's expansion in Bidor, Perak, putting the group in a better position to capitalize on strong demand. These are now reflected in our estimates; minimal tweak to FY20E (-3%); FY21/22E higher by 93%/91%.

- **What's New** — Alongside Hartalega, Kossan too was initially guarded in its ASP guidance but has recently turned more bullish. Jul-20 blended ASP is at least 20% higher vs 2Q20 whereas Aug-20 ASP is at least 40% higher vs 2Q20. Whilst no explicit guidance has been given for Oct deliveries onwards, Kossan made it clear that its prices will eventually match peers', implying that further ASP increases are likely. c.10% of Kossan's capacity is now allocated to spot orders (priced at least at US$60), most are still for existing clients. We now model for normal order ASPs to move higher QoQ by 30%/20%/15% in 3Q/4QFY20 and 1QFY21, before normalizing; our FY20/21/22E blended ASP assumptions stand at US$29.1/40.4/28.9. Capacity wise, Kossan will now utilize an existing landbank next to its P19 to build a small factory housing c.1.4bn capacity (5 lines) to be ready by 1HCY21. Unsurprisingly, the Group confirmed that a separate factory with a 5bn capacity is set to be built on the Group's most recent land purchase (see: Kossan Rubber Industries (KRIB.KL) - Acquiring Freehold Land with Buildings for RM40mn). This will be done in two phases, 2bn by 1HCY21, and the rest by 1HCY22. With the two additional plants, the expansion in Bidor looks to have been pushed; first plant is now scheduled to be ready only by 2HCY22 (previous guidance: end CY21). With these two additional plants, our FY21/22E volume assumptions are higher by 7%/13%.

- **Implications** — Target PE maintained at c.20x (5-year mean), pegged to end-CY21E PER to derive our new TP. Kossan trades at c.11x CY21E PE on our estimates; we are above the street by 18%/136%/73% for FY20/21/22E. 2Q20 numbers due on August 24th; FY20E is set to be back-half heavy, as bulk of the ASP revisions and spot orders will only be reflected in Sep-quarter onwards.

Statistical Abstract

FYE 31 Dec	Net Profit (RMM)	EPS (¢)	P/E (x)	D. Yld (%)
2017A	182	14.2	125.7	0.3
2018A	200	15.6	114.6	0.3
2019A	225	17.6	101.9	0.3
2020E	781	61.1	29.3	1.4
2021E	2,005	156.8	11.4	3.5
2022E	914	71.4	25.1	1.6

Source: Powered by dataCentral

Earnings Revision

FYE 31 Dec	Net Profit (RMM)	EPS (¢)	% chg	DPS (¢)
2020E	781	61.1	-2.9	24.4
Prev	805	62.9		25.2
2021E	2,005	156.8	93.3	62.7
Prev	1,037	81.1		32.4
2022E	914	71.4	91.1	28.6
Prev	478	37.4		15.0

Source: Powered by dataCentral

KRIB.KL: Fiscal year end 31-Dec — **Price: RM17.90; TP: RM31.20; Market Cap: RM22,893m; Recomm: Buy**

Profit & Loss (RMm)	2018	2019	2020E	2021E	2022E
Sales revenue	2,141	2,217	3,392	5,474	4,356
Cost of sales	-1,223	-1,328	-1,422	-1,750	-1,906
Gross profit	918	889	1,970	3,724	2,450
Gross Margin (%)	42.9	40.1	58.1	68.0	56.2
EBITDA (Adj)	**328**	**371**	**1,105**	**2,660**	**1,291**
EBITDA Margin (Adj) (%)	15.3	16.7	32.6	48.6	29.6
Depreciation	-77	-90	-101	-118	-136
Amortisation	0	0	0	0	0
EBIT (Adj)	**264**	**288**	**1,004**	**2,543**	**1,154**
EBIT Margin (Adj) (%)	12.3	13.0	29.6	46.5	26.5
Net interest	-15	-11	-18	-11	-1
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	0	0	0	0	0
Pre-tax profit	**249**	**276**	**986**	**2,531**	**1,154**
Tax	-45	-49	-197	-506	-231
Extraord./Min.Int./Pref.div.	-5	-3	-8	-20	-9
Reported net profit	**200**	**225**	**781**	**2,005**	**914**
Net Margin (%)	9.3	10.1	23.0	36.6	21.0
Core NPAT	200	225	781	2,005	914

Per share data	2018	2019	2020E	2021E	2022E
Reported EPS (¢)	16	18	61	157	71
Core EPS (¢)	16	18	61	157	71
DPS (¢)	6	6	24	63	29
CFPS (¢)	15	21	53	136	99
FCFPS (¢)	-10	5	30	109	68
BVPS (¢)	103	111	150	244	287
Wtd avg ord shares (m)	1,279	1,279	1,279	1,279	1,279
Wtd avg diluted shares (m)	1,279	1,279	1,279	1,279	1,279

Growth rates	2018	2019	2020E	2021E	2022E
Sales revenue (%)	9.3	3.6	53.0	61.4	-20.4
EBIT (Adj) (%)	12.0	8.8	248.9	153.3	-54.6
Core NPAT (%)	9.7	12.5	247.7	156.7	-54.4
Core EPS (%)	9.7	12.5	247.7	156.7	-54.4

Balance Sheet (RMm)	2018	2019	2020E	2021E	2022E
Cash & cash equiv.	146	162	224	809	1,313
Accounts receivables	436	415	645	1,041	828
Inventory	249	322	327	402	447
Net fixed & other tangibles	1,269	1,329	1,528	1,760	2,024
Goodwill & intangibles	7	7	5	5	5
Financial & other assets	41	144	200	200	200
Total assets	**2,148**	**2,379**	**2,929**	**4,217**	**4,817**
Accounts payable	207	253	262	321	360
Short-term debt	279	402	186	187	189
Long-term debt	229	162	433	437	440
Provisions & other liab	91	109	95	95	95
Total liabilities	**806**	**926**	**975**	**1,040**	**1,083**
Shareholders' equity	1,315	1,424	1,919	3,122	3,670
Minority interests	28	27	35	55	64
Total equity	**1,342**	**1,451**	**1,954**	**3,177**	**3,734**
Net debt (Adj)	**362**	**402**	**395**	**-185**	**-684**
Net debt to equity (Adj) (%)	27.0	27.7	20.2	-5.8	-18.3

Valuation ratios	2018	2019	2020E	2021E	2022E
PE (x)	na	na	29.3	11.4	25.1
PB (x)	17.4	16.1	11.9	7.3	6.2
EV/EBITDA (x)	70.7	62.7	21.0	8.6	17.4
FCF yield (%)	-0.5	0.3	1.7	6.1	3.8
Dividend yield (%)	0.3	0.3	1.4	3.5	1.6
Payout ratio (%)	38	34	40	40	40
ROE (%)	16.2	16.4	46.7	79.5	26.9

Cashflow (RMm)	2018	2019	2020E	2021E	2022E
EBITDA	341	378	1,105	2,660	1,291
Working capital	-91	-5	-227	-411	205
Other	-57	-99	-197	-506	-231
Operating cashflow	**193**	**275**	**681**	**1,743**	**1,265**
Capex	-315	-208	-300	-350	-400
Net acq/disposals	0	0	0	0	0
Other	1	-12	4	10	21
Investing cashflow	**-314**	**-220**	**-296**	**-340**	**-379**
Dividends paid	-38	-77	-312	-802	-366
Financing cashflow	**59**	**-38**	**-324**	**-819**	**-383**
Net change in cash	**-63**	**16**	**62**	**585**	**504**
Free cashflow to s/holders	**-122**	**67**	**381**	**1,393**	**865**

For definitions of the items in this table, please click here.

Figure 72. Changes to key assumptions

	New			Previous			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Volume (bn)	**26.0**	**31.0**	**34.0**	**26.0**	**29.0**	**30.0**	**0%**	**7%**	**13%**
YoY growth	*21%*	*19%*	*10%*	*21%*	*12%*	*3%*			
ASP (US$)	**29.1**	**40.4**	**28.9**	**29.2**	**30.5**	**24.9**	**0%**	**32%**	**16%**
YoY growth	*33%*	*39%*	*-28%*	*33%*	*5%*	*-19%*			

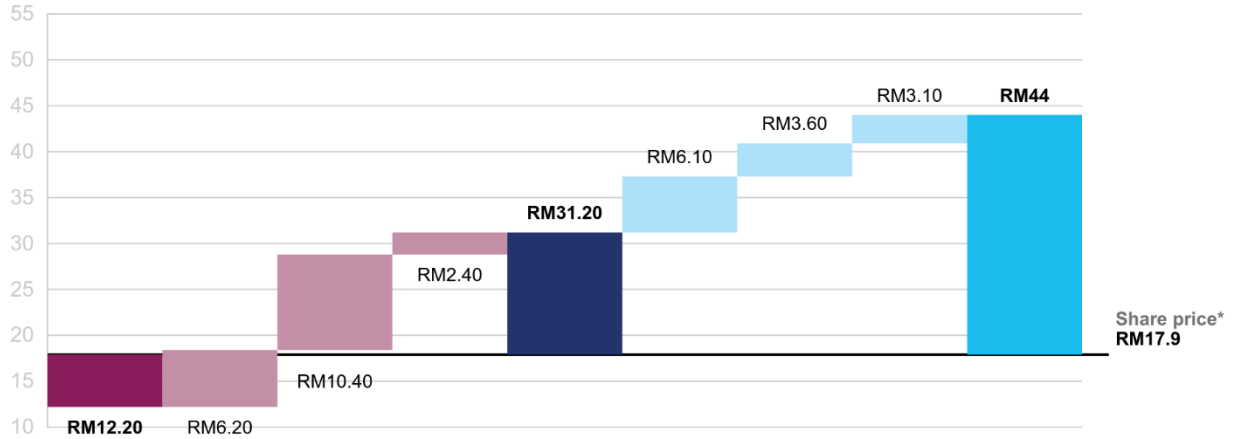
Source: Citi Research estimates

Bull/Bear: Kossan Rubber Industries (KRIB.KL)

Bull/Bear: Kossan Rubber Industries (KRIB.KL)

RM31.2 target price | **Buy rating**

74% expected share price return | **178pp Bull/Bear Spread**



Volume lower by 20% due to weaker demand.

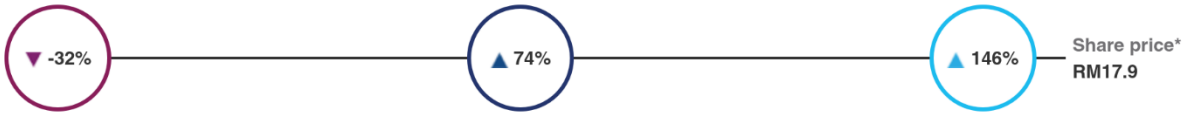
ASP normalizes, 20% lower.

Multiple de - rates: target PE at c.16.7x (-1sd of mean)

Target PE at 23.1x (+1sd of 5 - year mean).

ASPs 5% higher due to growing spot orders.

Volume surprises on the upside, 10% higher.



Source: Citi Research

*Share price as of 10 Aug 2020 17:00

RM44

- Positive surprise in volume, c.10% higher than expected; ASP 5% higher than expected, target PE at 23.1x (+1sd of 5-year mean). Implied valuation: RM44.00.

RM31.2

- Base case TP: RM31.20.

RM12.2

- Volume 20% lower than expected, ASP 20% lower due to demand normalization, multiple de-rating (16.7x target multiple, at -1sd of 5-year mean). Implied valuation: RM12.20.

Kossan Rubber Industries

Company description

Kossan was founded back in 1979, with gloves-manufacturing (c.90% of revenue) and technical rubber products (TRP, c.10% of revenue) being its core businesses. It currently has c.30bn per annum in glove capacity, which makes it the fourth largest glove manufacturer in the world. Kossan exports to over 180 countries worldwide with over 350 active customers. The company has three main sites with 15 factories within Klang Valley for its glove segment with 85% of its volume in medical gloves, mainly nitrile. Kossan has four factories for its TRP business.

Investment strategy

We rate at Buy the Kossan stock at, which has generally lagged its other domestic peers this year. We see room for the stock to re-rate; we model strong earnings trajectory from 3Q20 onwards, underpinned by ASP hikes amid the strong demand backdrop for medical supplies. Given the aggressive ASP revisions by peers, we expect Kossan to play catch-up. In a benign cost environment, incremental revenues would flow through to the bottom line, resulting in a robust earnings momentum, on our analysis.

Valuation

Our TP for Kossan is RM31.20, pegged at 19.9x end-CY21 EPS based on the stock's five-year mean. With strong earnings potential already reflected in our estimates, we do not believe a premium to the mean is fair as the current demand/ASP upcycle will eventually subside. We use a PER methodology across our glove coverage universe given that the industry has historically traded on PER with earnings being the biggest driver of share prices. The company's earnings are tied to a certain degree to fluctuations in FX, input prices and capacity, which affects the multiples used.

Risks

Key risks that could push the Kossan shares below our target price include: [1] Rapid de-escalation of Covid-19, resulting in a faster-than-expected normalization of demand/ASP [2] Volatility in feedstock prices (c.40-50% of COGS) and FX. [3] Oversupply, as industry players may aggressively ramp capacity to capitalize on the current demand environment.

Company Focus

Supermax (SUPM.KL)

Reaping Benefits from a Unique Biz Model

Buy	
Price (10 Aug 20 17:00)	RM21.20
Target price	RM24.90
Market Cap	RM28,839M
	US$6,887M
Expected share price return	17.5%
Expected dividend yield	4.6%
Expected total return	22.0%

- **Conclusion(s)** — Supermax, the world's fifth largest glove-maker by capacity, is set to be one of the biggest beneficiaries in this cycle owing to the group's OBM-centric and manufacturing-cum-distribution business model. Being closer to the end-markets via its 7 distribution centers globally has and will continue to allow the Group to capture bulk of the significant ASP increase at both manufacturing and distribution levels, resulting in faster and more aggressive ASP trend. We recently raised our estimates and TP post 4Q20 results (see: Supermax (SUPM.KL) - A Record-Breaking 4Q20, Best Yet to Come); reaffirm Buy.

- **What's New** — The Group has seen two stellar quarters with the best prints still yet to come as demand for gloves spiked amid the pandemic. Upcoming quarters are set to be significantly better, as factory prices only started to increase from April onwards (for June/July deliveries), with distribution prices also rising sharply. Unlike its peers, Supermax opted to not lock in capacity with large US/UK distributors in March at the factory level; instead the Group is now selling mainly via its own distribution centres and independent distributors at distribution prices (2-3x higher than OEM prices pre-Covid). Current order-book stands at c.20bn (3x vs Jan-20), with lead-time at 10-12 months. Capacity wise, the Group will hit c.26.2bn by end-CY20 once Plant 12's Block B is commissioned. On top of that, Supermax is building as many as 5 plants at the same time. Target capacity is 48.4bn by end-CY21 (double current capacity), although the earliest timeframe during which new capacity from the 5 plants will come in will be sometime in 3Q/4QCY21. Similar to peers, new capacity is allocated for spot orders (c.10% of overall). Our ASP assumptions stand at US$27.2/56.7/44.1 for FY20/21/22E. Supermax recently announced its intention to go into the manufacturing of surgical masks, similar to what Top Glove did.

- **Implications** — Supermax is by far the best performing stock within our coverage, but we remain Buyers. For one, the outperformance came from a lower valuation base (the stock used to trade at low teens PE pre-Covid). Supermax's earnings potential is also by far the highest among peers due to its manufacturing cum distribution model; the Group could continue to surprise positively from an earnings standpoint. Despite the strong share price return, the stock trades at c.11.5x our CY21E PER; undemanding. Our FY21/22E estimates are 143%/173% above the Street.

Statistical Abstract

Year to 30 Jun	Net Profit (RMM)	Diluted EPS (RM)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2019A	123	0.09	16.1	na	25.2	11.5	0.1
2020A	526	0.40	328.2	53.5	17.7	38.9	0.8
2021E	2,824	2.13	437.3	10.0	9.0	119.5	4.5
2022E	2,057	1.55	-27.2	13.7	6.4	54.7	2.9
2023E	932	0.71	-54.0	29.7	5.6	20.0	1.3

Source: Powered by dataCentral

SUPM.KL: Fiscal year end 30-Jun — **Price: RM21.20; TP: RM24.90; Market Cap: RM28,839m; Recomm: Buy**

Profit & Loss (RMm)	2019	2020	2021E	2022E	2023E
Sales revenue	1,538	2,132	5,611	4,906	4,239
Cost of sales	-1,352	-1,446	-2,062	-2,333	-3,093
Gross profit	186	686	3,549	2,573	1,146
Gross Margin (%)	12.1	32.2	63.3	52.4	27.0
EBITDA (Adj)	**231**	**762**	**3,637**	**2,676**	**1,264**
EBITDA Margin (Adj) (%)	15.0	35.8	64.8	54.5	29.8
Depreciation	-45	-76	-88	-103	-117
Amortisation	0	0	0	0	0
EBIT (Adj)	**186**	**686**	**3,549**	**2,573**	**1,146**
EBIT Margin (Adj) (%)	12.1	32.2	63.3	52.4	27.0
Net interest	-19	-16	-2	5	9
Associates	6	18	18	18	18
Non-Op/Except/Other Adj	0	0	0	0	2
Pre-tax profit	**172**	**689**	**3,566**	**2,597**	**1,176**
Tax	-49	-153	-713	-519	-235
Extraord./Min.Int./Pref.div.	0	-10	-29	-21	-9
Reported net profit	**123**	**526**	**2,824**	**2,057**	**932**
Net Margin (%)	8.0	24.7	50.3	41.9	22.0
Core NPAT	123	526	2,824	2,057	932

Per share data	2019	2020	2021E	2022E	2023E
Reported EPS (RM)	0.09	0.40	2.13	1.55	0.71
Core EPS (RM)	0.09	0.40	2.13	1.55	0.71
DPS (RM)	0.01	0.18	0.96	0.62	0.29
CFPS (RM)	0.17	0.98	2.27	1.52	0.61
FCFPS (RM)	0.08	0.83	2.04	1.30	0.38
BVPS (RM)	0.84	1.20	2.37	3.30	3.77
Wtd avg ord shares (m)	1,331	1,327	1,327	1,327	1,307
Wtd avg diluted shares (m)	1,331	1,327	1,327	1,327	1,307

Growth rates	2019	2020	2021E	2022E	2023E
Sales revenue (%)	17.9	38.6	163.2	-12.6	-13.6
EBIT (Adj) (%)	9.6	269.5	417.3	-27.5	-55.5
Core NPAT (%)	15.4	326.9	437.3	-27.2	-54.7
Core EPS (%)	16.1	328.2	437.3	-27.2	-54.0

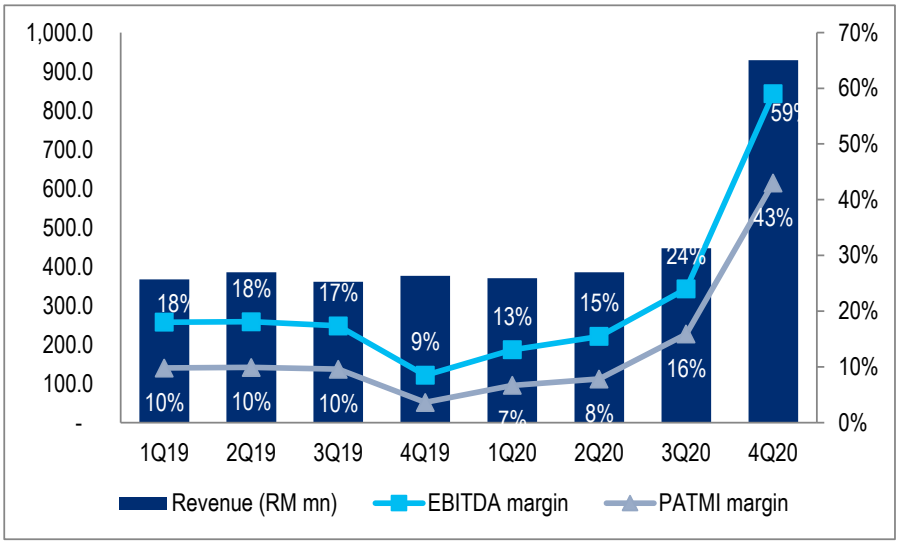
Balance Sheet (RMm)	2019	2020	2021E	2022E	2023E
Cash & cash equiv.	174	1,181	2,507	3,361	3,448
Accounts receivables	150	247	616	539	466
Inventory	183	253	283	320	458
Net fixed & other tangibles	974	1,087	1,377	1,575	1,757
Goodwill & intangibles	29	29	29	29	30
Financial & other assets	327	455	455	455	455
Total assets	**1,836**	**3,252**	**5,267**	**6,278**	**6,613**
Accounts payable	175	1,068	1,537	1,344	1,161
Short-term debt	350	226	263	218	173
Long-term debt	42	102	29	24	19
Provisions & other liab	142	247	247	247	247
Total liabilities	**709**	**1,643**	**2,076**	**1,833**	**1,600**
Shareholders' equity	1,119	1,586	3,141	4,374	4,933
Minority interests	8	22	51	71	81
Total equity	**1,127**	**1,608**	**3,192**	**4,446**	**5,013**
Net debt (Adj)	**218**	**-853**	**-2,215**	**-3,119**	**-3,256**
Net debt to equity (Adj) (%)	19.4	-53.0	-69.4	-70.2	-64.9

Valuation ratios	2019	2020	2021E	2022E	2023E
PE (x)	na	53.5	10.0	13.7	29.7
PB (x)	25.2	17.7	9.0	6.4	5.6
EV/EBITDA (x)	na	37.2	7.5	9.7	20.2
FCF yield (%)	0.4	3.9	9.6	6.1	1.8
Dividend yield (%)	0.1	0.8	4.5	2.9	1.3
Payout ratio (%)	16	45	45	40	40
ROE (%)	11.5	38.9	119.5	54.7	20.0

Cashflow (RMm)	2019	2020	2021E	2022E	2023E
EBITDA	231	762	3,637	2,676	1,264
Working capital	33	726	70	-153	-247
Other	-35	-191	-695	-501	-215
Operating cashflow	**228**	**1,297**	**3,013**	**2,022**	**802**
Capex	-116	-192	-300	-300	-300
Net acq/disposals	0	0	0	0	0
Other	0	0	9	15	17
Investing cashflow	**-116**	**-192**	**-291**	**-285**	**-283**
Dividends paid	-39	0	-1,270	-823	-372
Financing cashflow	**-104**	**-148**	**-1,331**	**-883**	**-430**
Net change in cash	**8**	**957**	**1,391**	**854**	**89**
Free cashflow to s/holders	**113**	**1,105**	**2,713**	**1,722**	**502**

For definitions of the items in this table, please click here.

Figure 73. Supermax's quarterly revenue and margin trends; 4Q20 saw net profit margin ballooning to c.43%



Source: Company, Citi Research

Bull/Bear: Supermax (SUPM.KL)

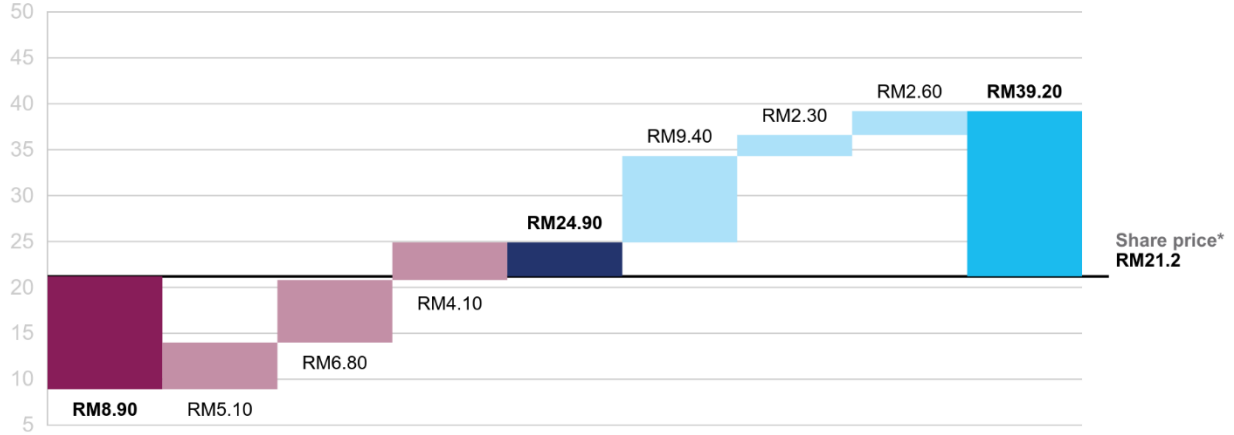
Bull/Bear: Supermax (SUPM.KL)

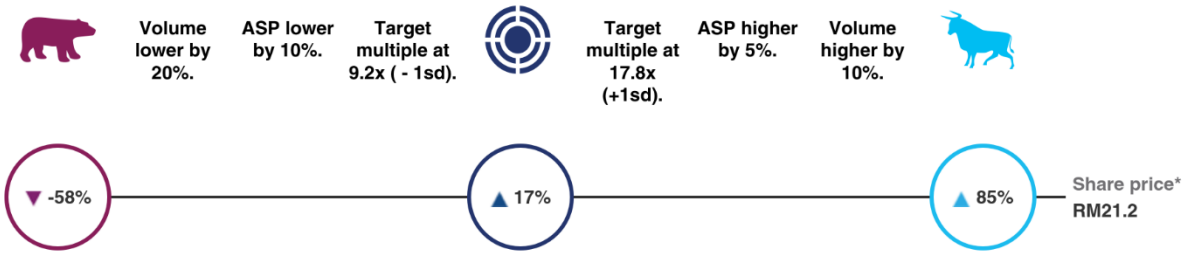
RM24.9 target price

17% expected share price return

Buy rating

143pp Bull/Bear Spread





Source: Citi Research

*Share price as of 10 Aug 2020 17:00

RM39.2

- Higher volume (+10%), ASP surprises on the upside (5% higher) and target multiple at 17.8x (+1sd of 5-year mean). Bull case: RM39.20.

RM24.9

- Base case TP : RM24.90.

RM8.9

- Volume disappoints, 20% lower than expectations; ASP normalizes, c.10% lower than assumptions; multiple compresses to -1sd at c.9.2x. Bear case: RM8.90.

Supermax

Company description

Supermax is currently the world's fifth-largest glove manufacturer with c.24bn capacity, mostly in Malaysia. The company started as a trader of gloves in 1987, before venturing into the glove manufacturing business via JVs in 1991. Listed on Bursa in August 2000, Supermax was transferred to the Main Market in October 2003, and now exports to over 160 countries globally. In 2014, the company announced its intention to go into contact lens manufacturing business. Besides producing for OEM customers, Supermax is one of the largest OBM glove producers in Malaysia (70% of sales). It has distribution centers in the US, Brazil, Belgium, Australia, and Canada.

Investment strategy

We have a Buy recommendation on Supermax. Amid the ongoing pandemic which has resulted in strong demand for medical gloves, the Group's unique manufacturing cum distribution means Supermax is set to be one of the biggest beneficiaries in the current up-cycle. Via its distribution centres in 7 countries, the Group is much closer to end markets relative to peers, which has allowed Supermax to capture the bulk of the significant ASP increase both at manufacturing and distribution level.

Valuation

Our TP of RM24.90 is derived by pegging a13.5x target PE (5-year mean) to Supermax's end CY21E EPS. With strong earnings already reflected in our above-the-Street estimates, we believe a mean multiple is fair taking into account the one-off nature of the current upcycle, with CY21E earnings likely close to if not at peak levels.

Risks

Key risks that could cause the Supermax stock to trade below our target price are: [1] A rapid de-escalation of COVID-19, resulting in a faster-than-expected normalization of demand/ASP; [2] Volatility in feedstock prices (c.40-50% of COGS) and FX; [3] Oversupply, as industry players may aggressively ramp capacity to capitalize on the current demand environment.

Company Focus

Sri Trang Agro (STA.BK)

An Inexpensive Proxy to the World's Third Largest Glove-maker

- Target Price Change
- Estimate Change

Buy	
Price (10 Aug 20 17:00)	Bt29.00
Target price	Bt71.00
from Bt39.80	
Market Cap	Bt44,544M
	US$1,426M
Expected share price return	144.8%
Expected dividend yield	2.4%
Expected total return	147.2%

- **Conclusion(s)** — TP raised to a Street High of Bt71.00 (from Bt39.80), mainly on higher valuation for the downstream division, reaffirm Buy.

- **What's New — Midstream:** No change to full-year volume target of 1.1m tonnes (flattish YoY); 2Q20 volume is unlikely to excite due to lockdowns but would be the bottom. Tire makers have since resumed operations but are drawing out inventories of pre-Covid days; management expects sequential improvement in 3Q20 and 4Q20 for its midstream division. STA believes overall industry volume may be down as much as 20% this year, but the Group would fare better amid the supply-side consolidation as peers continue to be hampered by cash flow issues. Margins could however take a hit in 2Q20 from inventory losses as strong demand for natural latex has resulted in farmers producing less block rubber (feedstock for TSR). This was further made worse by lower rubber output in May. The Group however expects supply to normalize, and retains its GP guidance of 9-10% for 2H20; we lower our GP margin assumptions to 9.5%/10.5%/10.5% across FY20-22E for the division. **Downstream:** We update our ASP assumptions for STGT as the previous 5% MoM guidance is now the bare minimum (see: Alert: Sri Trang Agro (STA.BK) - Takeaways from Dialogue with STGT Management); we model 10% MoM increase from Aug onwards until Dec-20, we also reflect spot order allocations (10% capacity, US$70 ASP). Our new FY20/21/22E blended ASP assumptions stand at US$27.6/37.4/26.6 (21-55% higher) per 1,000 pieces. As a result, our downstream earnings are higher by as over our forecast period. STGT's capacity is now full until 3Q21 (previously 2Q21), with the world's #3 glove-maker running at full capacity since 2Q20. At the STA level, FY20-22E earnings are raised by 50-136%, again mainly from higher STGT contribution.

- **Implications** — Our SOTP TP is raised to Bt71.00. We value the midstream division at an unchanged 5x CY21E EPS and the downstream division on discounts to Kossan and consensus P/E. We then use a 30% holdco discount. Bulk of STA's value is still derived from SRGT; we ascribe a higher holdco than the previous 10% as the muted outlook at STA's midstream may see investors preferring to take a direct exposure via STGT. Better-than-expected performance at midstream, or a swift recovery in auto sales are catalyst for STA to re-rate. Our PATMI estimates for STA are 20%/111%/7% ahead of the Street over FY20-23E. STA and STGT will report results on Aug 14th, after market close.

Statistical Abstract

FYE 31 Dec	Net Profit (BtM)	EPS (Bt)	P/E (x)	D. Yld (%)
2017A	-1,437	-1.05	na	1.4
2018A	2,064	1.34	21.6	0.9
2019A	-151	-0.10	na	0.7
2020E	4,600	2.99	9.7	2.4
2021E	9,305	6.06	4.8	5.2
2022E	4,632	3.02	9.6	2.6

Source: Powered by dataCentral

Earnings Revision

FYE 31 Dec	Net Profit (BtM)	EPS (Bt)	% chg	DPS (Bt)
2020E	4,600	2.99	50.0	0.70
Prev	3,067	2.00		0.70
2021E	9,305	6.06	136.4	1.50
Prev	3,936	2.56		0.75
2022E	4,632	3.02	50.9	0.75
Prev	3,069	2.00		0.75

Source: Powered by dataCentral

STA.BK: Fiscal year end 31-Dec — **Price: Bt29.00; TP: Bt71.00; Market Cap: Bt44,544m; Recomm: Buy**

Profit & Loss (Btm)	2018	2019	2020E	2021E	2022E
Sales revenue	73,493	60,286	72,540	84,391	78,487
Cost of sales	-66,385	-55,432	-58,543	-61,086	-64,193
Gross profit	7,108	4,854	13,997	23,305	14,294
Gross Margin (%)	9.7	8.1	19.3	27.6	18.2
EBITDA (Adj)	**1,860**	**286**	**8,921**	**17,988**	**8,788**
EBITDA Margin (Adj) (%)	2.5	0.5	12.3	21.3	11.2
Depreciation	-2,309	-2,406	-2,553	-2,716	-2,944
Amortisation	0	0	0	0	0
EBIT (Adj)	**3,050**	**656**	**9,051**	**18,118**	**8,918**
EBIT Margin (Adj) (%)	4.2	1.1	12.5	21.5	11.4
Net interest	-887	-856	-865	-810	-773
Associates	224	132	300	300	300
Non-Op/Except/Other Adj	0	-2	0	0	0
Pre-tax profit	**2,387**	**-70**	**8,486**	**17,608**	**8,446**
Tax	-241	16	-722	-1,501	-722
Extraord./Min.Int./Pref.div.	-82	-96	-3,164	-6,803	-3,091
Reported net profit	**2,064**	**-151**	**4,600**	**9,305**	**4,632**
Net Margin (%)	2.8	-0.3	6.3	11.0	5.9
Core NPAT	2,064	-151	4,600	9,305	4,632

Per share data	2018	2019	2020E	2021E	2022E
Reported EPS (Bt)	1.34	-0.10	2.99	6.06	3.02
Core EPS (Bt)	1.34	-0.10	2.99	6.06	3.02
DPS (Bt)	0.25	0.20	0.70	1.50	0.75
CFPS (Bt)	6.98	1.02	8.86	11.64	6.30
FCFPS (Bt)	5.17	-1.58	5.82	9.81	3.73
BVPS (Bt)	16.08	15.70	20.06	29.04	33.32
Wtd avg ord shares (m)	1,536	1,536	1,536	1,536	1,536
Wtd avg diluted shares (m)	1,536	1,536	1,536	1,536	1,536

Growth rates	2018	2019	2020E	2021E	2022E
Sales revenue (%)	-17.8	-18.0	20.3	16.3	-7.0
EBIT (Adj) (%)	921.5	-78.5	na	100.2	-50.8
Core NPAT (%)	243.7	-107.3	na	102.3	-50.2
Core EPS (%)	228.1	-107.3	na	102.3	-50.2

Balance Sheet (Btm)	2018	2019	2020E	2021E	2022E
Cash & cash equiv.	4,197	2,382	12,128	26,293	32,192
Accounts receivables	5,692	4,978	4,445	4,528	4,613
Inventory	12,311	13,494	9,385	9,455	9,632
Net fixed & other tangibles	27,393	31,031	33,176	33,226	34,075
Goodwill & intangibles	3,374	3,561	3,561	3,561	3,561
Financial & other assets	2,780	2,886	2,886	2,886	2,886
Total assets	**55,748**	**58,331**	**65,580**	**79,948**	**86,958**
Accounts payable	2,674	2,529	2,038	2,054	2,092
Short-term debt	17,703	19,591	19,459	19,784	20,044
Long-term debt	8,825	9,345	10,478	10,653	10,793
Provisions & other liab	1,447	1,377	1,427	1,477	1,477
Total liabilities	**30,648**	**32,842**	**33,402**	**33,967**	**34,406**
Shareholders' equity	24,705	24,119	30,808	44,612	51,183
Minority interests	395	1,369	1,369	1,369	1,369
Total equity	**25,100**	**25,488**	**32,177**	**45,981**	**52,552**
Net debt (Adj)	**22,330**	**26,555**	**17,809**	**4,144**	**-1,355**
Net debt to equity (Adj) (%)	89.0	104.2	55.3	9.0	-2.6

Valuation ratios	2018	2019	2020E	2021E	2022E
PE (x)	21.6	na	9.7	4.8	9.6
PB (x)	1.8	1.8	1.4	1.0	0.9
EV/EBITDA (x)	37.8	na	7.5	3.1	5.3
FCF yield (%)	17.8	-5.5	20.1	33.8	12.9
Dividend yield (%)	0.9	0.7	2.4	5.2	2.6
Payout ratio (%)	19	-204	23	25	25
ROE (%)	8.7	-0.6	16.7	24.7	9.7

Cashflow (Btm)	2018	2019	2020E	2021E	2022E
EBITDA	5,597	2,490	11,604	20,833	11,863
Working capital	6,391	-614	4,152	-138	-224
Other	-1,259	-303	-2,152	-2,820	-1,968
Operating cashflow	**10,728**	**1,574**	**13,604**	**17,876**	**9,671**
Capex	-2,786	-4,004	-4,666	-2,812	-3,940
Net acq/disposals	0	0	0	0	0
Other	214	82	0	0	0
Investing cashflow	**-2,571**	**-3,922**	**-4,666**	**-2,812**	**-3,940**
Dividends paid	-392	-614	-1,075	-2,304	-1,152
Financing cashflow	**-6,035**	**784**	**808**	**-898**	**167**
Net change in cash	**2,122**	**-1,564**	**9,746**	**14,165**	**5,899**
Free cashflow to s/holders	**7,943**	**-2,430**	**8,938**	**15,064**	**5,732**

For definitions of the items in this table, please click here.

Bull/Bear: Sri Trang Agro (STA.BK)

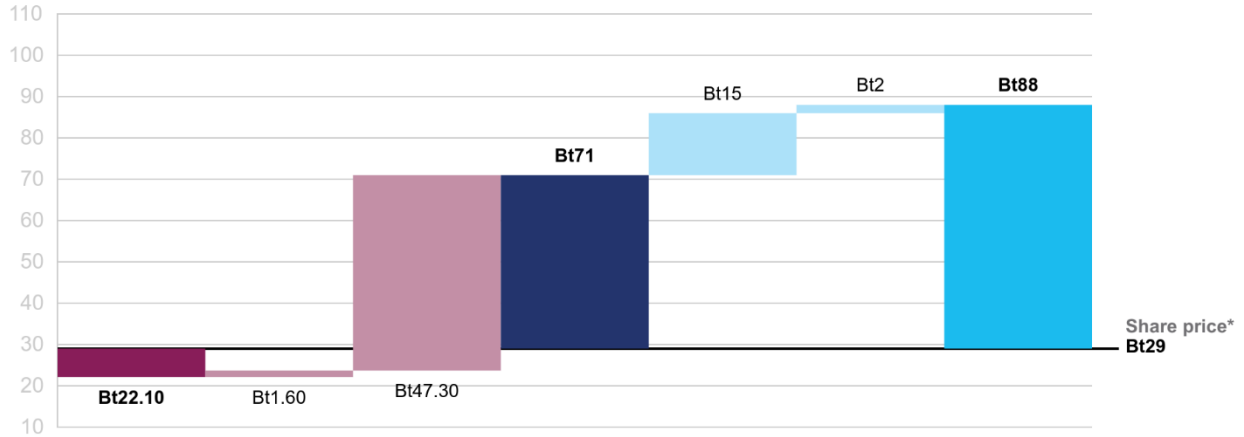
Bull/Bear: Sri Trang Agro (STA.BK)

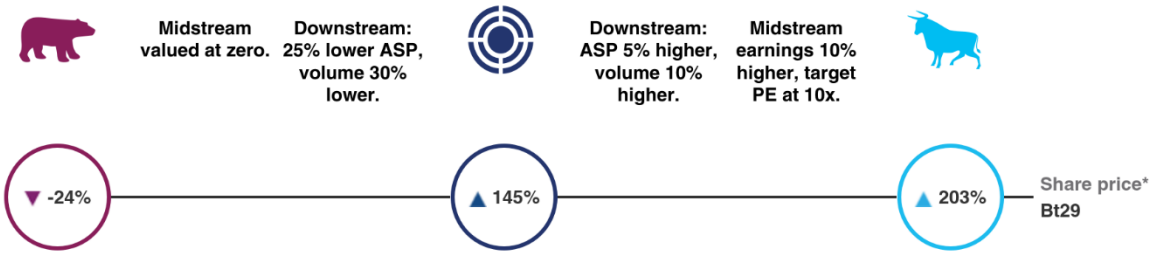
Bt71 target price

145% expected share price return

Buy rating

227pp Bull/Bear Spread





Source: Citi Research

*Share price as of 10 Aug 2020 17:00

Bt88

- Higher natural rubber prices, better-than-expected demand resulting in improved midstream operations; (earnings 10% higher), value at 10x PE. Downstream: ASP higher by 5%, volume surprises on the upside by 10%. Bull case: Bt88.00.

Bt71

- Base case TP: Bt71.00.

Bt22.1

- Midstream operations continue to deteriorate - value at zero. Downstream: ASP normalizes (25% lower), volume 30% lower as demand takes a hit. Bear case: Bt22.10.

Sri Trang Agro

Company description

Established in 1987, STA is the world's leading fully integrated natural rubber company with a market share of 8% of global natural rubber consumption and 7% of global glove consumption. In the midstream operations, STA produces a complete range of natural rubber products; from Technically Specified Rubber (TSR) and Ribbed Smoked Sheets (RSS) to Concentrated Latex and have a total production capacity of 2.86m tpa. Downstream, 56%-owned Sri Trang Gloves (STGT) is the largest glove producer in Thailand and is ranked among the world's leading glove producers with a capacity of 33bn pieces of gloves per annum and produces powdered and powder-free natural rubber and nitrile gloves.

Investment strategy

We rate STA shares as Buy. STA's shift towards the downstream division [1] is margins accretive – the glove-manufacturing division (STGT) can fetch high teens/low 20s GP margins vs midstream's high single digit/low teens, [2] allow STA to ride the steady demand for gloves and dampen the volatility of its midstream ops, and [3] acts as a natural hedge against low rubber prices. Due to the pandemic, demand for STGT's products have spiked sharply, resulting in the company being able to raise prices aggressively. Given flattish costs, the resulting incremental revenue falls through to earnings, driving rapid margin expansion and an earnings upcycle.

Valuation

Our target price of Bt71.00 for STA is derived by valuing STA's midstream and downstream operations, and applying a 30% holding-company discount to the combined value. We value the midstream operation (Bt1.60) at 5x CY21E PER due to weak rubber prices, and ascribe a value of Bt69.40 to the downstream operations (STGT) benchmarked off 15-20% discounts to Bloomberg consensus of 19.2x CY21E EPS and our target multiple for Kossan to account for STGT's short trading history.

Risks

Downside risks that could mean the STA shares fail to achieve our target price include: [1] Further deterioration of its midstream operations, which would drag financials and increase hold co discount [2] A rapid de-escalation of COVID-19 could result in demand/ASP normalizing for the downstream division [3] Continued strengthening of Thai Bt.

Appendix A-1

Analyst Certification

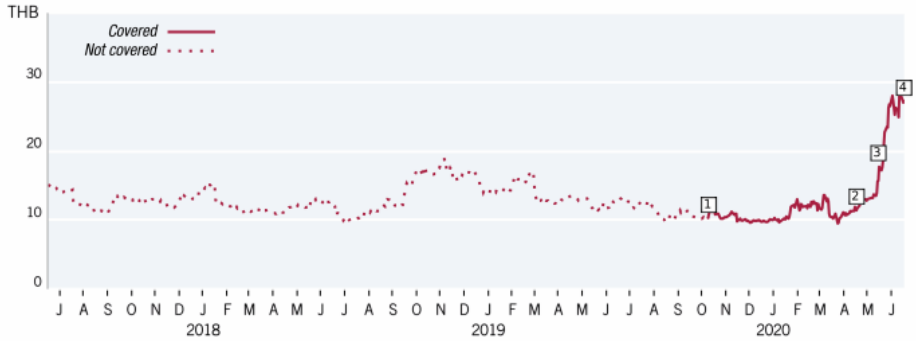
The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Sri Trang Agro (STA.BK)

Ratings and Target Price History
Fundamental Research

Analyst: Megat Fais, CFA
Covered since October 9 2019



	Date	Rating	Target Price	Closing Price
1	09-Oct-19 05:00:00	*1	*13.60	10.30
2	16-Apr-20 05:38:42	1	*15.20	11.40
3	14-May-20 16:21:01	1	*18.90	15.70
4	16-Jun-20 09:57:48	1	*39.80	27.25

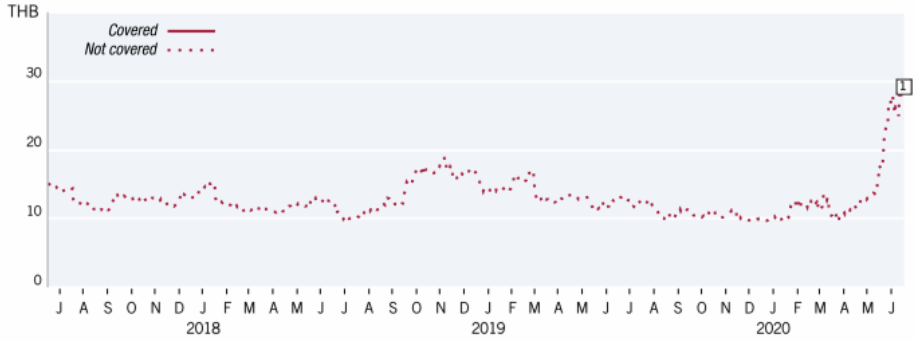
*Indicates Change

Rating/target price changes above reflect Eastern Time

Sri Trang Agro (STA.BK)

Catalyst Watch Research

Analyst: Megat Fais, CFA
Covered since October 9 2019



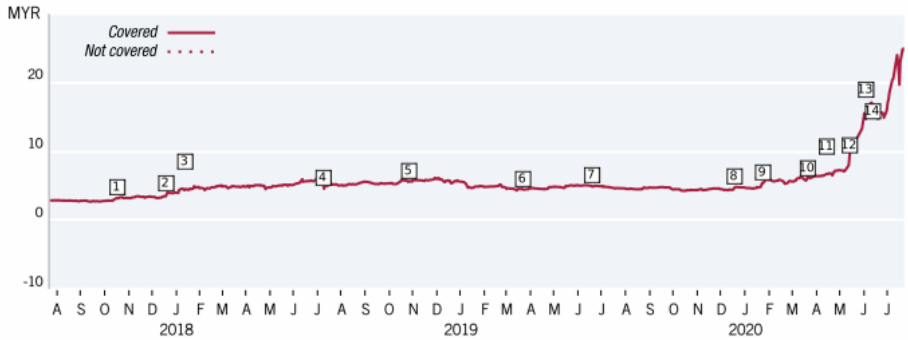
	Date	Expected Direction	Duration	Action	Closing Price
1	16-Jun-20 09:57:48	Upside	30 Days	Open	27.25

Rating/target price changes above reflect Eastern Time

Top Glove (TPGC.KL)

Ratings and Target Price History
Fundamental Research

Analyst: Megat Fais, CFA



	Date	Rating	Target Price	Closing Price
1	18-Oct-17 19:23:01	*3	*2.90	3.17
2	19-Dec-17 03:53:59	3	*3.15	3.74
3	14-Jan-18 23:08:14	3	*3.92	4.50
4	09-Jul-18 15:26:40	3	*4.24	4.57
5	25-Oct-18 10:41:32	3	*4.65	5.55
6	21-Mar-19 16:13:47	3	*4.17	4.46
7	18-Jun-19 11:19:50	3	*4.00	4.87
8	17-Dec-19 20:07:29	3	*4.42	4.66
9	23-Jan-20 22:03:13	*1	*6.40	5.36
10	19-Mar-20 05:12:53	1	*6.65	5.85
11	13-Apr-20 12:33:21	1	*7.75	6.67
12	13-May-20 05:58:52	1	*11.10	9.31
13	02-Jun-20 10:37:14	1	*20.80	14.80
14	11-Jun-20 11:55:18	1	*25.30	16.70

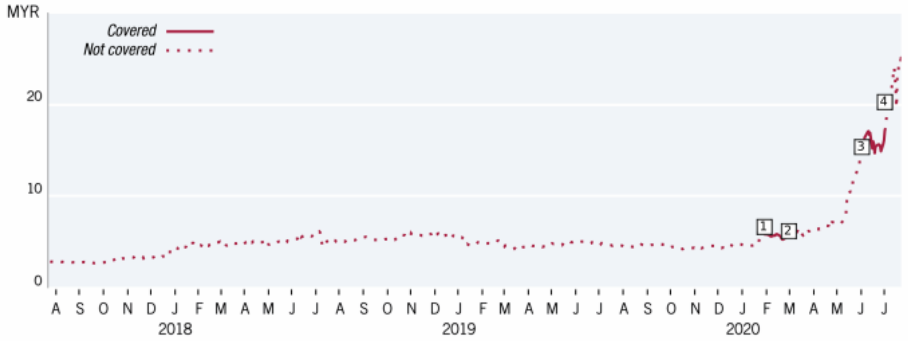
*Indicates Change

Rating/target price changes above reflect Eastern Time

Top Glove (TPGC.KL)

Catalyst Watch Research

Analyst: Megat Fais, CFA



	Date	Expected Direction	Duration	Action	Closing Price
1	28-Jan-20 14:16:20	Upside	30 Days	Open	6.00
2	28-Feb-20 04:13:49	Upside	30 Days	Close	5.64
3	02-Jun-20 10:37:14	Upside	30 Days	Open	14.80
4	01-Jul-20 05:31:51	Upside	30 Days	Close	17.14

Rating/target price changes above reflect Eastern Time

Supermax (SUPM.KL)

Ratings and Target Price History
Fundamental Research

Analyst: Megat Fais, CFA

	Date	Rating	Target Price	Closing Price
1	26-Oct-17 05:00:00	*3	*0.84	0.91
2	21-Nov-17 08:12:57	3	*0.87	0.98
3	23-Apr-18 05:59:46	*1	*1.72	1.36
4	14-May-19 08:59:27	1	*1.79	1.46
5	21-Jun-19 04:53:48	1	*1.97	1.66
6	30-Aug-19 06:54:51	1	*1.85	1.47
7	04-Feb-20 22:06:43	1	*1.90	1.67
8	13-Apr-20 12:33:21	1	*1.95	1.71
9	20-May-20 10:31:35	1	*5.65	4.59
10	10-Aug-20 11:15:46	1	*24.90	21.20

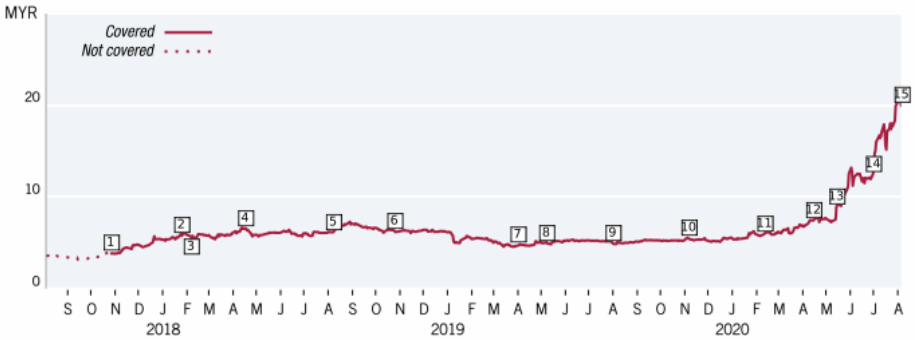
*Indicates Change

Rating/target price changes above reflect Eastern Time

Hartalega (HTHB.KL)

Ratings and Target Price History
Fundamental Research

Analyst: Megat Fais, CFA
Covered since October 26 2017



	Date	Rating	Target Price	Closing Price
1	26-Oct-17 05:00:00	*3	*3.29	3.82
2	25-Jan-18 22:12:20	3	*3.60	5.84
3	06-Feb-18 13:01:45	3	*4.08	5.42
4	16-Apr-18 04:17:15	3	*4.30	6.58
5	07-Aug-18 12:52:23	3	*4.80	6.17
6	24-Oct-18 11:27:55	3	*5.32	6.30
7	01-Apr-19 05:04:22	3	*4.28	4.71
8	08-May-19 03:20:20	3	*4.32	4.95
9	01-Aug-19 06:42:12	3	*4.18	4.87
10	05-Nov-19 08:31:52	3	*4.30	5.47
11	11-Feb-20 09:31:46	3	*5.05	6.00
12	13-Apr-20 12:33:21	3	*6.30	7.42
13	13-May-20 20:16:48	*1	*10.30	8.86
14	29-Jun-20 23:58:25	1	*16.60	12.50
15	04-Aug-20 15:10:47	1	*26.70	19.94

*Indicates Change

Rating/target price changes above reflect Eastern Time

Kossan Rubber Industries (KRIB.KL)

Ratings and Target Price History
Fundamental Research

Analyst: Megat Fais, CFA
Covered since October 26 2017

	Date	Rating	Target Price	Closing Price
1	26-Oct-17 05:00:00	1	*4.11	3.61
2	10-Apr-18 22:32:40	*2	*3.79	3.80
3	24-Dec-18 03:39:09	2	*4.40	4.33
4	26-May-19 20:19:31	*1	*4.60	3.82
5	11-Nov-19 00:03:08	1	*4.80	4.23
6	23-Feb-20 15:55:43	1	*5.30	4.65
7	13-Apr-20 12:33:21	1	*6.10	5.25
8	13-May-20 21:51:39	1	*8.40	7.17
9	06-Jul-20 13:13:28	1	*16.20	10.38

*Indicates Change

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