

| Malaysia

Overweight (no change)

Highlighted Companies
Hartalega Holdings
ADD, TP RM24.80, RM17.76 close

Hartalega (HART) has the highest profit margins in the glove sector, given its industry-leading technology in the nitrile glove segment. It currently has a total annual production capacity of 41bn pieces, with a product mix of 96% nitrile and 4% latex gloves.

Supermax Corp
ADD, TP RM13.20, RM8.95 close

Supermax adopts a manufacturing-cum-distribution business model, as it sells 98% of its gloves under its own brand via its own distribution centres and third-party distributors. This allows it to garner higher margins vs. its peers. Its current production capacity stands at 26.2bn pieces p.a. It plans to grow its capacity to 48.4bn pieces p.a. by end-CY22F.

Top Glove Corporation
ADD, TP RM10.00, RM8.32 close

We expect Top Glove (TOPG) to be a key beneficiary of the robust glove demand globally in view of its position as the world's largest glove manufacturer with a total annual production capacity of 78.7bn pieces. TOPG plans to further expand its glove production capacity by 35.4% to 106.6bn pieces p.a. by end-CY22F.

Summary Valuation Metrics

P/E (x)	Dec-20F	Dec-21F	Dec-22F
Top Glove Corporation	14.50	7.88	14.97
Supermax Corp	12.88	8.84	12.55
Hartalega Holdings	29.67	21.92	24.16
P/BV (x)	Dec-20F	Dec-21F	Dec-22F
Top Glove Corporation	10.22	6.23	5.15
Supermax Corp	9.31	5.64	4.44
Hartalega Holdings	18.13	13.62	11.12
Dividend Yield	Dec-20F	Dec-21F	Dec-22F
Top Glove Corporation	3.53%	6.44%	3.32%
Supermax Corp	3.10%	4.53%	3.19%
Hartalega Holdings	2.03%	2.74%	2.48%

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Rubber Gloves

Concerns over potential windfall tax

- Heading into Budget 2021, there are growing concerns of a potential windfall tax on glove companies.
- In our view, implementation of a windfall tax of any sort will have negative implications on the sector, particularly its long-term prospects.
- Maintain Overweight call for now due to its strong earnings growth prospects.

Concerns that glove sector could be hit by some sort of windfall tax

With the Malaysian government set to table Budget 2021 on 6 Nov, there are growing concerns that the government would implement some sort of windfall tax on glove companies to shore up its coffers amid the ongoing economic uncertainties. This is in view of the recent 'supernormal' profits enjoyed by the glove sector, given the surge in both demand and average selling prices of gloves due to the Covid-19 pandemic.

Execution of windfall tax difficult, expecting one-off contribution

In our view, implementation of a windfall tax on the glove sector will be difficult to execute given the lack of standardised pricing for gloves due to the variety in types, specifications and product grades as well as intended target markets. We gather that several smaller glove makers had been posting minimal profits or consistently incurring losses prior to Covid-19. Should a 'windfall tax' or of any sort on the glove sector materialise, we believe it would likely be a one-off collection/payment to the government

Sensitivity analysis based on 5% increase in tax rate

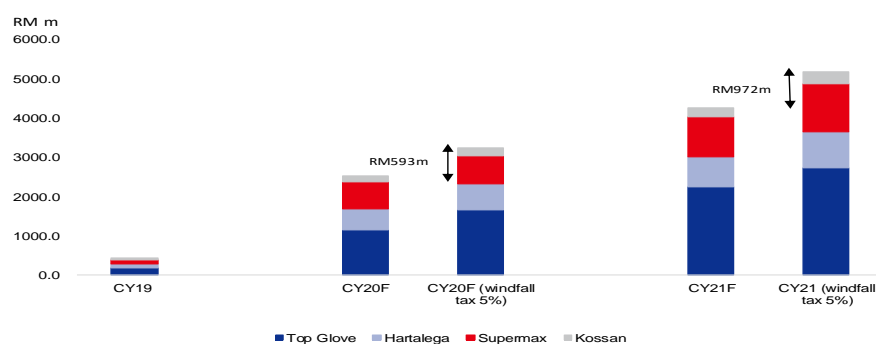
For illustration purposes, we conducted a sensitivity analysis on the potential impact of a higher corporate tax rate. We found that a 5% rise in corporate tax rate could cut the sector's CY20F net profit by 6.5% and allow the government to raise extra RM593m in taxes (CY20F). Based on our estimates, glove companies we cover are already slated to pay total corporate income tax of RM2.8bn/RM4.7bn for CY20/21F (+481%/+68.9% yoy), based on our forecasts.

Glove makers may move their expansion overseas

If a windfall tax materialises, we believe Malaysian glove makers may opt to expand overseas. This is particularly in countries which: i) offer better incentives (tax, loan interest subsidy etc.), and iii) sufficient labour workforce. This could result in potential opportunity loss for the government from the lower future investment by the glove players and its spillover benefit (recurring tax collections, job creation etc). We estimate that the four glove makers under our coverage will invest capex of up to RM15bn locally in the next 5 years.

Retain Overweight, pending updates on this matter

We make no changes to our Overweight call on the sector pending the Budget announcement. We continue to like the sector, given the defensive nature of its earnings and that it is a key beneficiary of robust global glove demand owing to Covid-19. Downside risks: implementation of windfall tax on glove companies and sharp decline in ASPs.

Figure 1: normal tax payment vs. 5% additional windfall tax payment


SOURCES: CGS-CIMB RESEARCH, COMPANY

Concerns over potential windfall tax

A potential scenario >

Based on our sensitivity analysis, a 1%-pt increase in corporate tax rate will result in a 1.3-1.4% decline in CY21F net profit and TP of each glove stock under our coverage. Assuming that the government imposes a windfall tax in terms of a 5% increase in corporate tax rate for the glove makers under our coverage, this will lower our CY21F net profit forecast for the glove sector by 6.5% while adding RM593m to the government's tax revenue. Note that this is assuming that glove makers do not raise their average selling prices (ASPs) to pass the additional increase in required tax payments.

Figure 2: Changes in tax payments

Company	CY19		CY20F		CY21F		
	Corporate tax payment (RMm)	Corporate tax payment (RMm)	Additional 5% tax rate	Change (%)	Corporate tax payment (RMm)	Additional 5% tax rate	Change (%)
Hartalega	169.9	560.7	688.8	23%	782.7	957.6	22%
Top Glove	114.7	1250.7	1543.8	23%	2403.5	2949.7	23%
Supermax	101.1	700.5	829.1	18%	1048.8	1239.4	18%
Kossan	48.5	164.3	207.6	26%	228.7	288.9	26%
Total	434.3	2676.2	3269.3	22%	4463.6	5435.6	22%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Changes in net profit of each glove stock under our coverage

Company	CY19		CY20F		CY21F		
	Net profit (RMm)	Net profit (RMm)	Change in net profit (+5% tax rate)	Change (%)	Net profit (RMm)	Change in net profit (+5% tax rate)	Change (%)
Hartalega	407.8	2002.4	1874.3	-6.4%	2715.3	2540.4	-6.4%
Top Glove	437.2	4611.9	4318.7	-6.4%	8521.4	7975.1	-6.4%
Supermax	104.6	1870.2	1741.7	-6.9%	2764.9	2574.2	-6.9%
Kossan	224.7	700.5	657.3	-6.2%	975.0	914.8	-6.2%
Total	1174.2	9185.0	8592.0	-6.5%	14976.5	14004.5	-6.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Sector comparisons (CGS-CIMB's Malaysia glove sector coverage)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY20F	CY21F		CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Hartalega Holdings	HART MK	Add	17.76	24.80	14,643	29.4	21.9	71.6%	18.1	13.6	70.2%	70.6%	2.0%	2.7%
Kossan Rubber Industries	KRI MK	Add	7.15	8.50	4,399	26.3	18.9	37.3%	10.0	7.6	42.9%	45.6%	1.5%	2.1%
Supermax Corp	SUCB MK	Add	8.95	13.20	5,530	12.9	8.8	104.3%	9.3	5.6	95.2%	78.8%	3.1%	4.5%
Top Glove Corporation	TOPG MK	Add	8.32	10.00	16,298	14.5	7.9	36.0%	10.2	6.2	92.9%	98.1%	3.5%	6.4%
Weighted average						20.9	14.2	58.1%	12.9	8.9	79.7%	80.0%	2.7%	4.4%

SOURCES: CGS-CIMB, BLOOMBERG

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be

changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2020		
795 companies under coverage for quarter ended on 30 September 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** - Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TNR** – Very Good, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.