

Latexx Partners Bhd

09 Aug 2010

KDN: PP10837/03/2011 (029371)

BUY

Current Price	RM3.59
New Target Price	RM4.84
Previous Target Price	-
Previous Recommendation	BUY
Upside To Target	+34.8%

Stock Codes

Masa	LATEXX/7064
Bloomberg	LTX MK

Stock & Market Data

FBMKLCI	1,360.45
Listing	Main Market
Sector	Rubber Glove
Syariah Compliance	YES
Par Value	RM0.50
Issued Shares	211.1mn
Market Capitalisation	RM757.7mn
YTD Chg In Share Price	+16.94%
52-week Hi/Lo	RM4.95/RM1.84
3M Average Volume	864,618 shares

Majority Shareholders

BT Capital Sdn Bhd (23.49%)
Best Time Venture Sdn Bhd (5.88%)
Lembaga Tabung Haji (5.56%)
Lian Aik Teong (4.69%)
Bok Tek Low (4.62%)

Historical Price Ratios

FYE	FY06	FY07	FY08	FY09
PER (x)	12.7	21.1	6.2	11.7
PBV (x)	1.1	1.3	0.8	3.6
ROE (%)	9.1	6.4	13.4	35.8

Share Performance

	1mth	3mth	12mth
Absolute	+0.6%	+1.7%	+85.1%
vs. KLCI	-3.4%	-0.4%	+61.0%

Share Price Performance Chart



2QFY10 Within Expectations

- **In-line.** Latexx's 2QFY10 reported net profit was in-line with MIMB's estimate but below consensus. Latexx declared 2nd interim GDPS of 2.5 sen in 2QFY10 which resulted total GDPS declared of 5.0 sen in 1H10.
- **Impressive growth rates of 89% YoY and 4% QoQ.** 2QFY10 net earnings increased to RM21.6mn from RM11.4mn a year ago, mainly due to (i) higher sales volume led by the aggressive marketing strategy (revenue increased by 81% YoY to RM134.5mn from RM74.4mn previously), (ii) the recent capacity expansion, (iii) fine-tuning of glove production lines and (iv) overall cost savings. Thus, we believe that Latexx is on track to meet our end-2010 earnings forecast of RM85.3mn.
- **Expansion programme is progressing well.** Latexx's has successfully completed to install another 4 double-former and 2 single-former production lines. The commissioning of the production lines was also done accordingly to schedule. This would boost Latexx's installed annual capacity to 9bn pieces p.a. by 2011. Moreover, the JV with Dutch company is progressing well and is on target to be commercialised by 4QFY10.
- **Maintain BUY call, TP unchanged at RM4.84.** Latexx's prospects is bright as the outlook of Rubber Glove industry remains favourable, this was driven by the increased in global demand especially for examination and medical application gloves. Additionally, the net gearing of Latexx is still decent at 0.17x. Thus, we reiterate our BUY call on Latexx with TP of RM4.84/share based on PER of 11.6x.

Investment Statistics

YE 31 Dec (RM mn)	2008	2009	2010F	2011F
Net Profit	15.2	52.1	85.3	110.1
Growth	na	243.0%	63.7%	29.1%
Consensus	189.6	208.8	99.5	135.0
EPS (sen)	7.2	24.7	40.5	52.2
DPS (sen)	0.0	2.0	4.0	8.0
NTA/Share (RM)	0.5	0.8	1.2	1.6
Net Cash/(Debt)	2.7	41.0	52.1	100.2
Net Debt/Equity	0.0x	-0.2x	-0.2x	-0.3x
PER	49.9x	14.5x	8.6x	6.7x
Dividend Yield	0.0%	0.6%	1.1%	2.2%
ROE	13.4%	35.8%	38.8%	33.7%
ROA	7.4%	18.3%	21.6%	21.2%
P/NTA	7.0x	4.7x	3.0x	2.2x
EV/EBITDA	36.2x	13.9x	7.6x	5.7x

Table 1: Income Statement

Y/E: Dec (RMmn)	2Q FY09	1Q FY10	2Q FY10	Q-o-Q Chg	Y-o-Y Chg	6M FY09	6M FY10	Y-o-Y Chg
Turnover	74.4	126.2	134.5	7%	81%	144.7	260.7	80%
EBITDA	12.9	24.6	25.5	4%	97%	24.2	50.1	107%
Interest & other incomes	0.0	0.0	0.0	-29%	107%	0.0	0.1	97%
Interest expense	(1.5)	(1.4)	(1.4)	3%	-7%	(3.6)	(2.8)	-24%
Associates	0.0	0.0	0.0	n.a	n.a	0.0	0.0	n.a
Exceptional items	0.0	0.0	0.0	n.a	n.a	0.0	0.0	n.a
Pre-tax profit	11.4	23.2	24.1	4%	111%	20.6	47.4	130%
Taxation	(0.0)	(2.5)	(2.6)	1%	128100%	(0.0)	(5.1)	254750%
Minority interest	0.0	0.0	0.0	-100%	-100%	0.0	(0.0)	n.a
Net profit	11.4	20.7	21.6	4%	89%	20.6	42.3	106%
EPS (sen)	5.9	10.5	10.4	-1%	77%	10.6	20.6	95%
DPS (sen)	0.0	2.5	2.5	0%	n.a	1.0	5.0	400%
NTA/share (RM)	0.71	0.82	0.94	15%	32%	0.7	0.9	32%
EBITDA margin	17%	20%	19%			17%	19%	
Pre-tax margin	15%	18%	18%			14%	18%	
Effective tax rate	0%	11%	11%			0%	11%	

Balance Sheet

YE 31 Dec (RM mn)	2008	2009	2010F	2011F
Fixed Assets	119	176	215	262
Lease Receivables	0	0	0	0
Intangible Assets	20	20	20	20
Other Fixed Assets	7	7	7	7
Inventories	36	38	85	103
Receivables	38	56	96	116
Other Current Assets	6	2	2	2
Cash	10	34	30	75
Total Assets	236	334	455	585
Payables	34	53	90	108
ST Borrowings	37	42	27	24
Other ST Liability	14	18	18	18
LT Borrowings	30	49	49	49
Other LT Liability	1	1	1	1
Minority Interest	0	0	0	0
Net Assets	121	171	269	385
Share Capital	195	198	212	226
Reserves/Others	(74)	(27)	58	159
Shareholders' Fund	121	171	269	385

Cashflow Statement

YE 31 Dec (RM mn)	2008	2009	2010F	2011F
PBT	15	52	85	110
Depreciation	6	8	10	12
Taxation	0	0	0	-1
Minority	-	-	-	-
Chg In Working Capital	-17	-1	-49	-20
Others	-5	-11	7	6
Operating Cashflow	-1	47	53	107
Capex	-23	-65	-49	-59
Investment	0	0	-	-
Others	0	41	-	-
Investing Cashflow	-23	-23	-49	-59
Chg In Debts	29	25	-15	-3
Dividends Paid	-	-4	-8	-16
Share Issue	-	-	-	-
Other	-	-19	15	15
Financing Cashflow	29	2	-9	-4
Net Cashflow	5	26	-4	45
Beginning Cash	0	10	34	30
Forex Translation Differences	3	-	-	-
Ending Cash	8	36	30	75
Free Cashflow	-24	24	5	48

Income Statement

YE 31 Dec (RM mn)	2008	2009	2010F	2011F
Turnover	223	328	565	683
EBITDA	23	59	102	130
Depreciation	-6	-8	-10	-12
Operating Profit	17	51	93	118
Int. & Other Income	0	0	0	0
Interest Expense	-3	-6	-7	-6
Associate	-	-	-	-
PBT	15	52	85	111
Taxation	0	0	0	-1
Minority Interest	-	-	-	-
Net Profit	15	52	85	110

Financial Data & Ratios

YE 31 Dec (RM mn)	2008	2009	2010F	2011F
Growth				
Turnover	48.1%	47.1%	72.0%	20.9%
EBITDA	113.5%	160.0%	74.7%	26.8%
Operating Profit	177.5%	201.8%	81.4%	27.3%
PBT	212.3%	243.6%	63.6%	30.5%
Net Profit	213.0%	243.0%	63.7%	29.1%
Profitability				
EBITDA	10.1%	17.8%	18.1%	19.0%
Operating Profit	7.6%	15.5%	16.4%	17.3%
PBT	6.8%	15.9%	15.1%	16.3%
Net Profit	6.8%	15.9%	15.1%	16.1%
Effective Tax Rate	0.1%	0.2%	0.1%	1.2%
ROA	7.4%	18.3%	21.6%	21.2%
ROE	13.4%	35.8%	38.8%	33.7%
DuPont Analysis				
Net Margin	6.8%	15.9%	15.1%	16.1%
Total Assets Turnover	0.95x	0.98x	1.24x	1.17x
Leverage Factor	1.96x	1.96x	1.69x	1.52x
ROE	12.6%	30.6%	31.7%	28.6%
Leverage				
Total Debt/Total Asset	0.28x	0.27x	0.17x	0.13x
Total Debt/Equity	0.55x	0.54x	0.28x	0.19x
Net Cash/(Debt)	3	41	52	100
Net Debt/Equity	-0.02x	-0.24x	-0.19x	-0.26x
Valuations				
EPS (sen)	7	25	40	52
GDPS (sen)	0	2	4	8
NTA (RM)	0.52	0.76	1.18	1.61
PER	49.9x	14.5x	8.6x	6.7x
Gross Yield	0.0%	0.6%	1.1%	2.2%
P/NTA	6.96x	4.72x	2.97x	2.16x
EV/EBITDA	36.2x	13.9x	7.6x	5.7x

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

BUY	Share price expected to appreciate more than 15% over a 12-month period
TRADING BUY	Share price expected to appreciate 10% or more within a 3- to 6-month period
NEUTRAL	Share price expected to be within +/- 15% over a 12-month period
TAKE PROFIT	Target price reached, may accumulate if share price drops more than 15% below target price
SELL	Share price expected to depreciate more than 15% over a 12-month period
NOT RATED	MIMB does not provide research coverage or rating for this company

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