

Latexx Partners

Going from strength to strength

LTX MK / LATX.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

- In line; maintain OUTPERFORM.** As highlighted in our preview last Tuesday, Latexx's FY09 results were in line with our expectations, with net profit coming in at RM52.1m, very close to our RM51.9m forecast (no consensus estimates are available). One thing that disappointed was the absence of a final dividend as we had expected a dividend of 2 sen on top of the two interim dividends of 1 sen each in 1Q and 3Q. We retain our earnings forecasts and introduce a forecast for FY12. Also intact are our OUTPERFORM call and target price of RM5.44, pegged to 11.6x P/E or a 30% discount to Top Glove's target P/E of 16.5x. Potential share price triggers include this set of strong results and improving earnings ability, driven by its major expansion plans and move towards premium products.
- 21% earnings growth.** Latexx's 4Q bottomline advanced 21% qoq and 157% yoy to a new record. We gather that profits were stoked by the company's aggressive capacity expansion which allowed for higher nitrile sales. EBITDA margins also improved from just 10.8% in 2008 to 20.3% in 2009. The total number of gloves sold in 4Q was 1.15bn pieces, 19% higher than 3Q09's 970m pieces and 54% more than 4Q08's 750m. In total, the group sold 3.82bn pieces in 2009, 43% higher than 2008's 2.68bn.
- Upside to earnings forecasts?** As the results were in line, we make no change to our FY10-11 earnings forecasts. We also introduce our FY12 numbers. However, we highlight that there is upside to our numbers as they do not include the impact of its protein-free natural rubber (NR) glove JV announced recently, which could provide a further boost to earnings and margins from 2Q10 onwards. Management has not finalised the details of the agreement but the JV is expected to also benefit the company in terms of technological boost and a competitive advantage in the global market.
- Reiterate OUTPERFORM.** We continue to like Latexx for its aggressiveness and its move towards premium products. Our OUTPERFORM call remains intact, along with our target price of RM5.44, which we continue to base on a 30% discount to Top Glove's target P/E of 16.5x. Potential share price triggers include this set of strong results and improving earnings ability, driven by its major expansion plans and move towards premium products. Latexx's 3-year EPS CAGR of 43.2% is the highest in the industry.

Results comparison

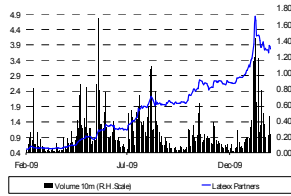
FYE Dec (RM m)	4QFY09	4QFY08	yoy % chg	qoq % chg	4QFY09 Cum	4QFY08 Cum	yoy % chg	Prev. FY09F	Comments
Revenue	102.8	69.9	47.2	27.2	328.4	223.3	47.1	323.4	Revenue up yoy due to higher sales
Operating costs	(81.6)	(60.3)	35.3	28.7	(261.6)	(199.2)	31.3	(256.5)	Increase in glove production
EBITDA	21.2	9.5	122.8	21.8	66.8	24.0	178.2	66.9	Margins improved due to better product mix
EBITDA margin (%)	20.6	13.6	51.3	(4.3)	20.3	10.8	89.1	20.7	as nitrile sales increased
Depn & amort.	(2.4)	(1.6)	52.8	24.6	(8.4)	(5.6)	50.6	(8.3)	Additional 8 lines completed in early Oct
EBIT	18.8	7.9	136.8	21.4	58.4	18.4	216.8	58.5	
Interest expense	(1.4)	(1.2)	17.5	16.6	(6.3)	(3.3)	92.4	(6.6)	Total borrowings of RM91.7m
Interest & invt inc	0.0	0.0	266.7	10.0	0.1	0.0	200.0	0.0	Cash balance of RM34.2m as at end-09
Pretax profit	17.4	6.7	158.8	21.8	52.2	15.2	243.6	51.9	In line on annualised basis
Tax	(0.1)	(0.0)	5,650.0	5,650.0	(0.1)	(0.0)	1,412.5	(0.0)	Minimal tax payments due to utilisation of
Tax rate (%)	0.7	0.0			0.2	0.1	340.2	0.1	capital and reinvestment allowances
Net profit	17.3	6.7	157.2	21.0	52.1	15.2	243.0	51.9	In line on annualised basis
EPS (sen)	8.9	3.4	157.2	21.0	26.7	7.8	243.0	26.3	In line on annualised basis

Source: Company, CIMB Research

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	223.3	328.4	565.1	682.8	807.3
EBITDA (RM m)	24.1	66.8	122.4	157.9	188.4
EBITDA margins (%)	10.8%	20.3%	21.7%	23.1%	23.3%
Pretax profit (RM m)	15.2	52.2	100.8	129.8	153.7
Net profit (RM m)	15.2	52.1	100.6	129.5	153.3
EPS (sen)	7.8	26.2	49.7	64.0	75.7
EPS growth (%)	212.4%	236.4%	89.5%	28.8%	18.4%
P/E (x)	48.4	14.4	7.6	5.9	5.0
FD core EPS (sen)	5.5	19.0	36.6	47.1	55.8
FD core P/E (x)	68.2	19.9	10.3	8.0	6.8
Gross DPS (sen)	0.0	2.0	8.0	11.0	14.0
Dividend yield (%)	0.0%	0.5%	2.1%	2.9%	3.7%
P/BV (x)	6.1	4.3	2.9	2.0	1.5
ROE (%)	13.4%	35.8%	46.5%	40.4%	34.2%
Net gearing (%)	47.0%	33.7%	31.5%	16.4%	3.2%
P/FCFE (x)	88.4	17.9	167.2	17.0	9.4
EV/EBITDA (x)	32.8	12.1	6.9	5.2	4.1
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			N/A	N/A	N/A

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div	
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)	
				(Local)	(US\$ m)	CY2010	CY2011	CY2010	CY2010	CY2010	
Latexx	LTX MK	O	3.77	5.44	222	7.6	5.9	43.2	2.9	46.5	2.1
Adventa	ADV MK	O	3.35	5.44	142	10.8	8.1	31.5	1.8	19.7	2.9
Hartalega	HART MK	O	7.20	12.11	507	10.6	8.8	37.0	3.9	42.2	3.3
Kossan	KRI MK	O	6.07	8.95	282	8.5	6.7	34.6	2.0	26.1	2.8
Supermax	SUCB MK	O	5.02	7.96	392	9.6	8.3	37.2	2.1	23.7	2.1
Top Glove	TOPG MK	O	11.16	16.99	996	12.5	10.9	25.6	3.4	29.5	2.7
Simple average						9.9	8.1	34.8	2.7	31.3	2.7

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

For further information, kindly contact Farahnaz Ireena at (603) 2084 9911 or farahnaz.amerhamzah@cimb.com

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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RECOMMENDATION FRAMEWORK #2 **

STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

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