

Results Note – Latexx Partners *Outperform* (TP: RM5.75)

Impressive Earnings Due to Sustainable Demand

- Latexx Partners's reported 1HFY12/10 net profit of RM42.3m came in slightly below our forecast, accounting 43.2%; however we anticipate there will be a stronger growth in the second half due to rising selling price for lower-end products amid sustainable world demand for medical gloves. A second interim dividend of 2.5sen per share was declared, bringing the YTD DPS declared to 5sen.
- **Net profit up 88.6% on higher sales volume**
Revenue grew 80.8% yoy, driven by significant growth in recent capacity expansion and fine tuning of glove production lines coupled with aggressive marketing strategy. Net profit, however, climbed 88.6%, mainly due to increased sales volume and improved overall efficiency achieved giving rise to lower overheads, operational and supervision costs.
- **Management guidance for the remaining quarters**
Going forward, the group anticipates the growth FY 2010 will remain sustainable in tandem with the growth of world demand for medical gloves in the health sector. Meanwhile, the construction of an additional production plant adjacent to existing production facilities has been completed and it will increase total capacity to 9bn pieces p.a. by 2011.
- **Maintain OUT PERFORM**
We maintain Out Perform call with an unchanged PER-based target price at RM5.75 based on FY11 PER of 8.6x, i.e. at 40% discount to Top Glove's target FY11 PER of 14.4x to our FY11 EPS. Our bullish projection is driven by 1) higher capacity, 2) increasing health awareness and regulatory reforms in countries like US, China and India and 3) higher sales of high-margin products. Nevertheless, Latexx Partners still remains one of our top picks in the second half 2010. However, we still remain cautious on the continuous increase in average latex price and the weakening of US dollar.

Investment Data

Bloomberg	LTX.MK	Major shareholders (as at May-10):	%
Price (16/07/10)	RM3.59	BT Capital	23.2
Expected capital gain	60.2%	Best Time Venture	5.9
Expected yield	1.7%	Lembaga Tabung Haji	5.6
Expected return	61.9%	Lian Aik Teong	5.1
		Est. Free Float	60.2
Market capitalisation	RM757.8m	12-month consensus	
Share in issue @ RM0.50 par	211.1m	Buys	2
52 week high/low	RM4.95/RM1.88	Holds	0
3m average daily volume	1.4m shares	Sells	0
		FY10 Estimate (EPS sen)	41.5
		FY11 Estimate (EPS sen)	57.0
Stock Rating	Old Outperform	New Outperform	
Target Price	RM5.75	RM5.75	KLCI 1,360.45 pts

Financial Summary

FY Dec (RM m)	2008	2009	2010F	2011F	2012F
Turnover	223.3	328.4	606.6	839.1	985.2
EBITDA	24.1	66.8	127.4	149.2	168.3
Pretax Profit	15.2	51.8	98.9	142.6	160.3
Core Net Profit	15.2	51.3	97.9	140.4	157.1
EPS(sen)	7.2	24.3	46.4	66.5	74.4
EPS Growth (%)	213.4	237.5	90.7	43.5	11.8
PER (x)	49.9	14.8	7.7	5.4	4.8
P/NTA (x)	7.0	4.5	2.8	2.1	1.7
Gross DPS (sen)	-	2.0	3.2	6.0	7.4
Dividend Yield (%)	-	0.6	0.9	1.7	2.1
ROE (%)	13.4	35.8	46.5	40.4	35.9
Net Gearing (x)	0.5	0.4	0.4	0.3	0.2

Sources: Bloomberg, Alliance Research

RESULTS REVIEW						
FY Dec	2009	2010	2010	QoQ	YoY	Comments
(RM m)	2Q	1Q	2Q	%	%	
Revenue	74.4	126.2	134.5	6.6	80.8	Driven by higher sales volume due to recent capacity expansion
Operating expenses	-61.5	-101.6	-109.0	7.3	77.2	QoQ increase due to higher marketing expenses on aggressive marketing strategy implemented; YoY increase mitigated by improved operational efficiency
Operating profit	12.9	24.6	25.5	3.7	97.7	Attributed to the increase in sales volume
Finance costs	-1.5	-1.4	-1.4	0.0	-6.7	-
Pretax profit	11.4	23.2	24.1	3.9	111.4	-
Taxation	-	-2.5	-2.6	4.0	NM	-
Net profit	11.4	20.7	21.5	3.9	88.6	Mainly driven by increased sales volume, but YoY increase was also helped by better operational efficiency
EPS (sen)	5.9	10.5	10.4	-1.0	76.3	Sustainable due to strong world demand for medical gloves
Operating margin (%)	17.3	19.5	19.0	-0.5 pts	1.6 pts	-
Pretax margin (%)	15.3	18.4	17.9	-0.5 pts	2.6 pts	-

Recommendation Framework

STOCK RECOMMENDATIONS

- OUTPERFORM** : The stock's total return is expected to exceed KLCI's total return by 10% or more in the next 12 months.
- MARKET PERFORM** : The stock's total return is expected to be within +10% or -10% of KLCI's total return.
- UNDERPERFORM** : The stock's total return is expected to be below KLCI's total return by 10% or more in the next 12 months.
- TRADING BUY** : The stock's total return is expected to exceed KLCI's total return by 10% or more within the next 3 months.
- TRADING SELL** : The stock's total return is expected to be below KLCI's total return by 10% or more within the next 3 months.
- NOT RATED** : Stock is not within our regular coverage

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to outperform the KLCI over the 12 months.
- NEUTRAL** : The industry as defined by the analyst is expected to perform in line with KLCI over the 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst is expected to underperform the KLCI over the next 12 months.
- total return** = **capital gain + dividend yield**

Common Abbreviation

Adex = Advertising Expenditure	FCF = Free Cashflow	PEG = PE ratio to growth
bn = billion	FV = Fair Value	PER = PE ratio
BV = Book Value	FY = Financial Year	QoQ = Quarter on Quarter
CF = Cashflow	KLCI = Kuala Lumpur Composite Index	OP = Outperform
CAGR = Compounded Annual Growth rate	m = million	RM = Ringgit
Capex = Capital Expenditure	MoM = month on month	RM bn = RM billion
CY = Calendar Year	MP = Market Perform	RM m = RM million
Div yld = Dividend Yield	NAV = Net Assets Value	ROA = Return on Assets
DCF = Discounted Cashflow	NM = Not Meaningful	ROE = Return on Equity
		ROSF = Return on shareholders funds
DPS = Dividend Per Share	NTA = Net Tangible Assets	TP = Target Price
EBIT = Earnings Before Interest & Tax	NR = Not Rated	UP = Under Perform
EBITDA = EBIT before Depreciation and Amortisation	p.a. = per annum	
EPS = Earnings per share	PAT = Profit after tax	WACC = Weighted Average Cost of Capital
		YoY = Year on Year
EV = Enterprise Value	Pretax profit = Profit before tax	YTD = Year to date
1QFY12/07 = 1 st Quarter for FY Dec 07	PE = Price Earnings Ratio	
2HFY12/07 = 2 nd Half for FY Dec 07		

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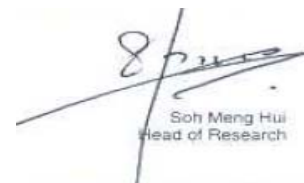
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