

Equity Beat

1Q10 Results Review

Latexx Partners Bhd

Growing with 'Partners'

Not Rated

- Latexx Partners (Latexx)' 1Q10 net profit surged +126.6%yoy or +25.6%qoq to RM20.7m, accounting for 20.6% of the consensus full year estimates. The growth rate was in line with Supermax's recently announced 1Q10 number of +161.2%yoy or +16.7%qoq.
- We believe that these commendable performance shows that (i) global glove demand remained strong; and (ii) cost-passing power remained intact, translating into sustainable earnings margin despite higher latex prices and weaker US Dollar.
- Latexx is currently not in our active coverage.

However, from a valuation perspective, we believe that most of the earnings stories have already been priced in. Given Latexx's smaller market cap and production capacity, it should be trading at a 15%-30% discount to the PER for Hartalega, Kossan and Top Glove, implying a PER of about 12x. Assuming an annualized diluted EPS10 of 32 sen, Latexx is fairly priced at current level.

STOCK INFO

Price (3 May 10)	RM3.85	KLCI	1,346.89
Issued shares (mil)	206.42	Bursa / Bloomberg	7064 / LTX MK
Par Value (RM)	0.50	Board / Sector	Main/ Glove
Market cap. (RM'm)	794.72	Syariah Compliant	Yes
Price over NA	3.91x		
52-wk price Range	RM0.80– RM4.95	Major Shareholders	
Beta (against KLCI)	1.38	BT Capital S/B	23.94%
3-mth Avg Daily Vol	1.94m	Best Time Venture	6.01%
3-mth Avg Daily Value	RM7.47m	Lian Aik Teong	5.18%

Strong glove sales. Latexx's 1Q10 revenue grew by +79.4%yoy or +22.6%qoq to RM126.2m, underpinned by continuous strong glove demand, contribution from the additional 3 double formers production lines, which commenced its operation early this year, and aggressive marketing strategy. Note that, Latexx's revenue grew by +47.1%yoy in FY09.

Cost passing power intact. Latexx's pre-tax margin expanded by +5.4%-pts yoy or +2.0%-pts qoq to all-time high of 18.4%. This was despite average latex price surged by +69.6%yoy or +32.2%qoq to RM7.03/kg in 1Q10. YTD, latex price gained +23.8% to RM7.49/kg. Besides, average US Dollar depreciated by -7.3%yoy or -0.9%qoq against Ringgit in 1Q10 to RM3.3717/USD. YTD, US Dollar weaken by -6.2% to RM3.2137/USD. Cost passing regime still in favour to the glove makers, supported by the demand-supply imbalances.

Production capacity of 6b pieces of glove in FY10. As at FY09, Latexx's glove production capacity was 4.5b pieces of glove per annum. Management plans to expand its capacity to 6b (+33%) and 9b (+50%) pieces of glove in FY10 and FY11 respectively. In term of the growth rate, Latexx is the most aggressive one among its peers.

First interim tax exempt dividend of 2.5 sen was declared with ex-date and payable date on 16 June 10 and 5 July

FYE Dec	FY06	FY07	FY08	FY09
Revenue (RM'm)	141.0	150.8	223.3	328.4
EBIT (RM'm)	7.2	6.0	18.5	58.5
Pretax Profit (RM'm)	3.9	4.9	15.2	52.2
Net Profit (RM'm)	3.9	4.9	15.2	52.1
EPS (sen)	2.0	2.5	7.7	26.5
EPS growth (%)	-7.6%	23.7%	212.6%	243.0%
PER(x)	193.0	156.0	49.9	14.5
Net Dividend (sen)	-	-	-	2.0
Net Dividend Yield (%)	-	-	-	0.5%

Source: Company

10 respectively.

Hartalega and Kossan's 1Q10 results tend to be good. Taking into consideration Supermax and Latexx's commendable results, there is a likelihood of strong 1Q10 results from Hartalega and Kossan also, which are expected to be announced this month.

Remains optimistic. Management is confident that the growth in FY10 will be sustained in tandem with the growth of the world medical gloves demand. Latexx is currently not in our active coverage. However, from a valuation perspective, we believe that most of the earnings stories have already been priced in, including the earnings upside resulting from the capacity expansion plan this year. Still, given Latexx's smaller market cap and production capacity, it should be trading at a 15%-30% discount to the PER for Hartalega, Kossan and Top Glove, implying a PER of about 12x. Assuming an annualized diluted EPS10 of 32 sen, we are of the view that Latexx is **fairly priced** at current level.

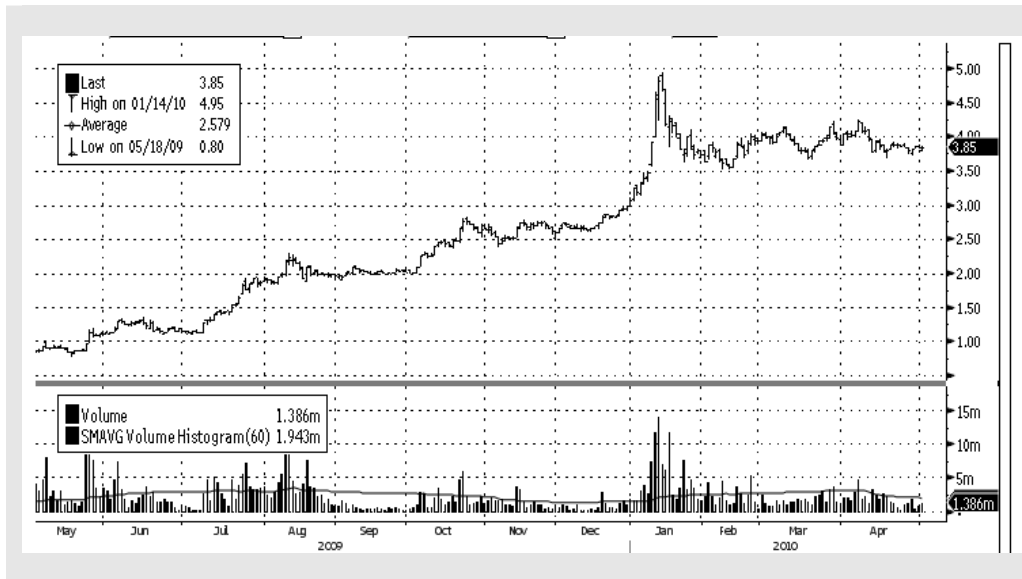
An Analyst Briefing will be held this Friday, 7 May 2010. 

LATEXX PARTNERS: 1QFY10 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly			Comments
	1QFY10	%YoY	%QoQ	
Revenue	126.2	79.4%	22.6%	Sustainable glove demand and contribution from the additional production capacity.
Op expenses	-101.6	72.0%	20.9%	
Finance costs	-1.4	-35.8%	-5.2%	
Pre-tax profit	23.2	154.2%	37.2%	Due to higher sales volume and improved overall efficiency achieved giving rise to lower overheads, operational and supervision costs.
Tax	-2.5	>100%	>100%	
Net Profit	20.7	126.6%	25.6%	
EPS (sen)	10.5	123.8%	18.7%	
Diluted EPS (sen)	7.9	126.6%	-2.0%	Potential dilutive effect due to warrants.
Avg latex price (RM/kg)	703.38	69.6%	32.2%	
USDMYR	3.3717	-7.3%	-0.9%	
		+/- ppts	+/- ppts	
Pre-tax margin (%)	18.4%	5.4	2.0	As above.

Sources: Company, MIDF Research

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.