


AmResearch
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RUBBER GLOVES

Ebola - the latest health scare
NEUTRAL

(Maintained)

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Rationale for report : Sector update
Investment Highlights

- The latest global health scare - the Ebola virus disease (EVD) - has been placed under the spotlight following a step up in the number of cases/fatalities. In its latest statement dated yesterday, the World Health Organization (WHO) said that 1,603 cases and 887 deaths were recorded since the outbreak began in March 2014.
- The current occurrence – the largest and deadliest ever recorded – is centred in three West African nations, namely Guinea, Sierra Leone and Liberia. There have been more than two dozen outbreaks over the past 40 years but each time, no more than 200 lives were taken and the spread had been brought under control.
- According to the WHO, the Ebola virus is introduced to the human population through close contact with infected wild animals (e.g. fruit bats). The virus is known to spread among humans through direct contact of bodily fluids (e.g. blood and secretions) of infected people. Ebola is not an air-, food-, or water-borne illness.
- That said, the ability for the virus to transmit between humans makes it rather potent and deadly. The current outbreak's mortality rate is 70% although Ebola fatality rates are known to go as high as 90%. As a comparison, death rates of the recent H7N9 avian flu in China was 36% while that of the H1N1 swine flu in 2009 was 21%.
- We also understand that there is currently no licensed vaccine for Ebola, although several are being tested for clinical use.
- The two points above suggest that prevention would be the top priority for the authorities. As such, we believe that there would be a surge in demand for rubber gloves should the outbreak becomes a global pandemic. While the rise in consumption may mainly come from the affected African countries (where glove usage is relatively low), we expect some spill-over in demand from other developed countries as they engage in stockpiling activities (akin to the SARS crisis in 2003).
- We further opine that Top Glove Corp (HOLD, FV: RM4.80/share) and Supermax Corp (HOLD, FV: RM2.65/share) will be the largest beneficiaries of a rise in demand given:- (1) their lower capacity utilisation rates of 70%-75%; (2) higher proportion of latex gloves (the African region's preferred material) in their product mix; as well as (3) relatively larger presence in the African continent (3%-4% revenue contribution).
- Pending further developments, we maintain our earnings forecasts and NEUTRAL stance on the sector. Our checks with the various managements revealed that there has yet to be any significant rise in glove demand.
- The positive impact of the Ebola outbreak on the domestic rubber gloves sector was also reflected in the jump in the rubber glove players' share prices. In the last two days, the stocks have risen by an average of 5%, with Top Glove's 5.4% and Supermax's 9.7% leading the way.

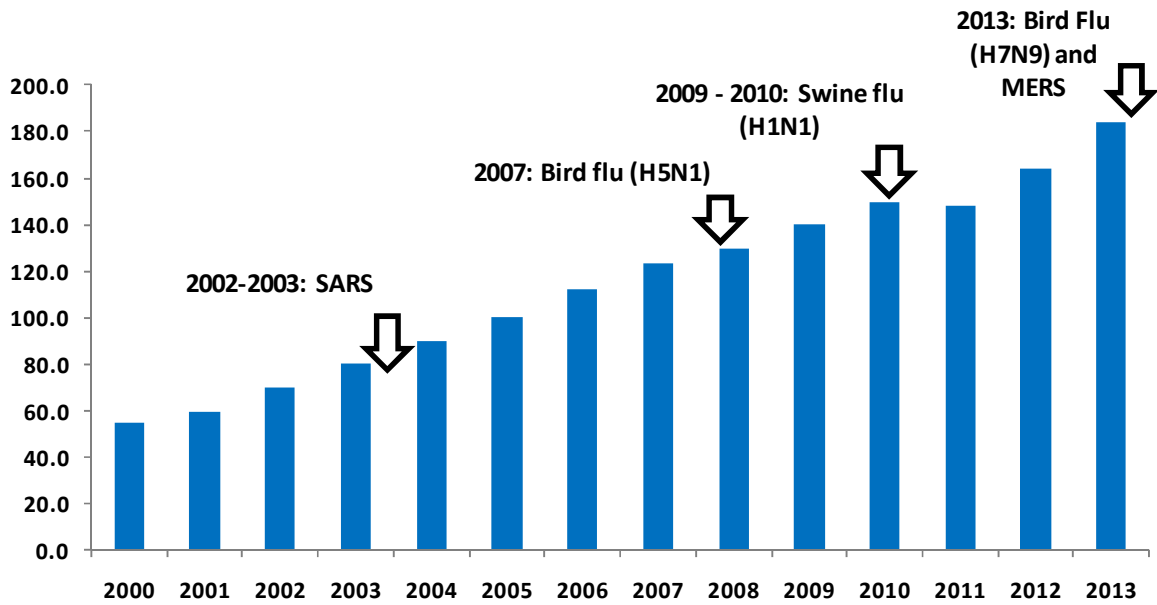
TABLE 1 : SECTOR VALUATION MATRIX

Company	Rating	Fair Value (RM)	Last Price (RM)	Market Cap (RM mil)	EPS (sen)		P/E (x)		P/BV (x)		ROE (%)		EPS Growth (%)		Div Yield (%)	
					FY14/15F	FY15/16F	FY14/15F	FY15/16F	FY14/15F	FY15/16F	FY14/15F	FY15/16F	FY14/15F	FY15/16F	FY14/15F	FY15/16F
Top Glove	HOLD	4.80	4.88	3,028.5	28.7	30.0	17.0	16.3	2.1	2.0	12.9	12.8	(9.7)	4.6	3.3	3.3
Kossan	BUY	5.00	4.18	2,673.1	28.0	33.1	14.9	12.6	3.3	2.9	23.6	24.2	31.2	18.4	2.4	3.1
Hartalega*	HOLD	5.40	6.71	5,014.4	29.9	35.9	22.4	18.7	5.3	4.5	24.5	26.1	(4.9)	20.0	2.2	2.5
Supermax	HOLD	2.65	2.38	1,611.7	21.5	25.0	11.1	9.5	1.6	1.5	15.3	16.3	22.1	16.0	2.7	3.2
Simple Average					27.0	31.0	16.4	14.3	3.1	2.7	19.1	19.8	9.7	14.7	2.6	3.0

* YE Mar

Source: Bloomberg, Company, AmResearch

CHART 1: GLOBAL RUBBER GLOVE DEMAND (BIL PCS)



Source: MREPC, Companies, AmResearch

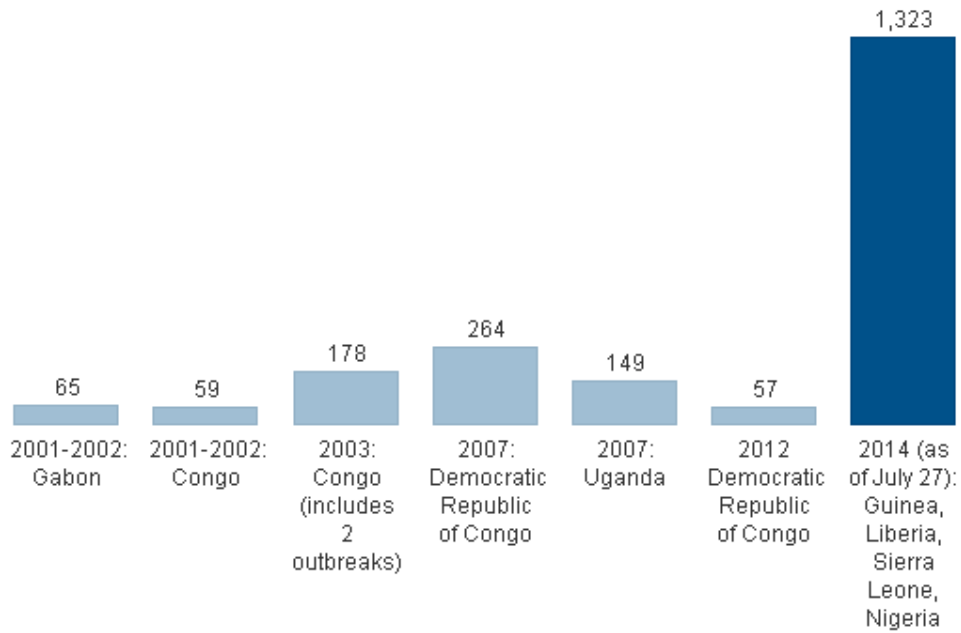
CHART 2: NUMBER OF EBOLA CASES AND DEATHS - AS OF 4 AUGUST 2014

	New	Confirmed	Probable	Suspect	Totals
Guinea					
Cases	13	340	133	12	485
Deaths	12	223	133	2	358
Liberia					
Cases	77	129	234	105	468
Deaths	28	117	97	41	255
Nigeria					
Cases	1	0	3	1	4
Deaths	0	0	1	0	1
Sierra Leone					
Cases	72	540	46	60	646
Deaths	21	234	34	5	273
Totals					
Cases	163	1009	416	178	1 603
Deaths	61	574	265	48	887

1. New were reported between 31 July and 1 August 2014.

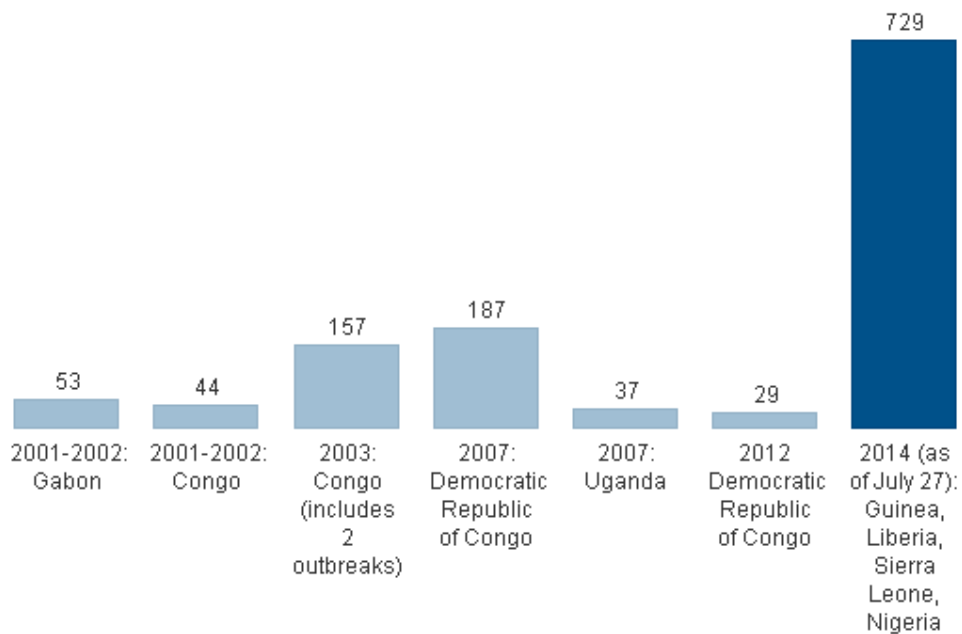
Source: WHO

CHART 3: NUMBER OF EBOLA CASES THROUGH THE YEARS - AS OF 27 JULY 2014



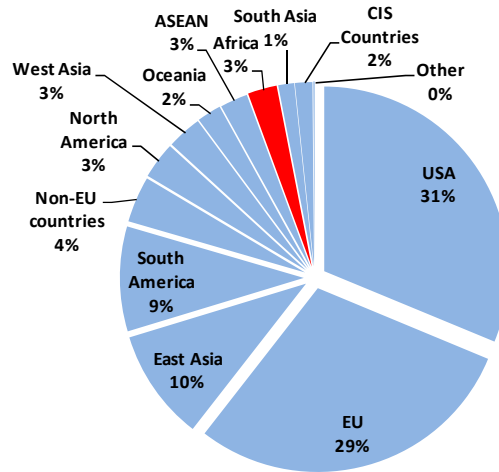
Source: WHO, WSJ

CHART 4: NUMBER OF EBOLA DEATHS THROUGH THE YEARS - AS OF 27 JULY 2014



Source: WHO, WSJ

CHART 5: MALAYSIAN RUBBER GLOVES' EXPORT BY REGION (QUANTITY)



Source: MREPC, AmResearch

CHART 6: EBOLA OUTBREAK LOCATIONS



Source: CDC

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