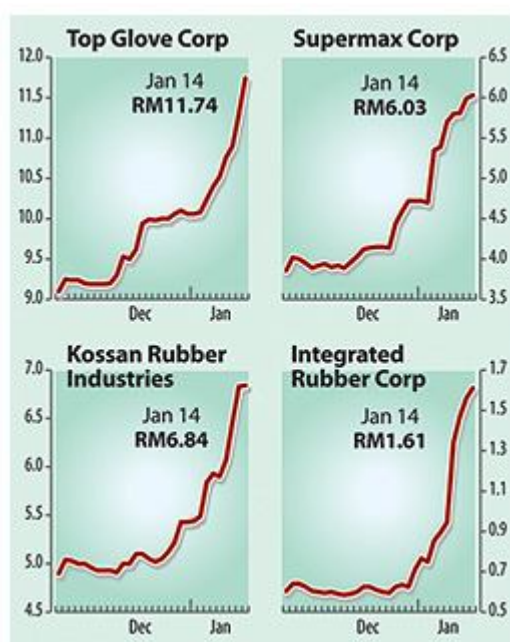


## Are Malaysian rubber glove makers overstretched?

- \* Bulls say rally still has legs, valuations not outrageous
- \* Bears say stocks run ahead of fundamentals, correction due
- \* Supermax, Hartalega and Adventa lead gains; Kossan lags

*By Soo Ai Peng*

KUALA LUMPUR, Jan 14 (Reuters) - While the first wave of the H1N1 infections has ebbed, Malaysian rubber glove makers continue to see their share prices soar, raking in double-digit gains in the first two trading weeks of 2010.



The sharp gains have raised eyebrows after share prices skyrocketed last year **as demand for rubber gloves surged following the global H1N1 pandemic.**

Shares of Top Glove, the world's biggest rubber glove maker by production capacity, jumped by about 156 per cent over the past 12 months, and second-ranked Supermax has surged 560 per cent.

**Malaysia supplies more than 60 per cent of world's rubber latex gloves**, widely used for infectious disease control purposes.

Can the H1N1 flu, a sticky issue for countries, help rubber glove stocks defy the law of gravity?

**STILL CHEAP**

It may be to some extent.

“The rubber glove industry is not cyclical. Unlike commodities, it’s not affected by the business cycle. This is a very good, long-term business,” said Ang Kok Heng, who helps manage about US\$125 million at Phillip Capital Management in Kuala Lumpur.

“The surge in demand is not a one-off thing. The glove industry tends to have a very good retention ratio, that means new customers added because of the H1N1 flu will likely become long-term customers for glove makers,” he said.

Ang said he would only consider to switch out from glove makers when valuations become too expensive. In the case of mid-cap stocks, such as Kossan and Adventa, that means a price-to-earnings (PE) ratio of more than 15 times, he said.

The rally still has legs, said Choo Swee Kee, chief investment officer of TA Investment Management which has about US\$200 million asset under management.

“Good earnings growth has put down valuations. The PE ratio for glove makers ranges between 8 to 15 times, that’s not like way above the market PE,” said Choo.

This week, five out of 14 analysts on Top Glove have revised their annual earnings per share forecasts, hiking them by 9.1 per cent on average, according to StarMine. StarMine’s SmartEstimate shows a predicted earnings surprise of 10.8 per cent for the year to August 2010.

SmartEstimates predict future earnings more accurately than consensus estimates by putting more weight on the recent forecasts of StarMine’s top-rated analysts.

“We expect another 10 to 15 per cent upside. We are holding on to our shares and we will accumulate those with the lowest PE,” Choo said.

Malaysia’s benchmark share index trades at around 15 times 2010 earnings, higher than Top Glove’s 13.5 times and Supermax’s 11.3 times, Thomson Reuters data showed.

Kossan and Adventa, which are smaller in both market share and size than Top Glove and Supermax, trade at single-digit PEs.

### **“VERY OVERBOUGHT”**

Malaysian rubber glove makers are “very overbought, the bull will have to pause a bit,” said Stephen Soo, senior technical analyst at TA Securities.

On technical charts, the Relative Strength Indicator (RSI) for all Malaysian rubber glove makers are hovering around 90, way above the 70 level that marks the overbought territory.

Share prices of rubber glove makers may drop one-third over a period of two weeks when a correction takes place, said Soo.

“The share price gains have run ahead of 2010 earnings,” said a chief investment officer from a bank-backed fund management firm whose company policy does not allow him to be quoted.

While demand was strong, it remained to be seen if **glove makers could ramp up production capacity fast enough to meet it**. There was also a risk that surging raw material costs could dent profit margins, he said.

**Infrastructure constraints, such as natural gas shortages**, could derail companies’ expansion plans, industry players have said.

And the price of rubber latex, from which gloves are made, has risen by more than two-thirds since last July. -- Reuters

*Sourced from:* <http://in.reuters.com/article/specialEvents4/idINSGE60D02R20100114>