

17 December 2019

Comfort Gloves (CG MK)

Progressing Steadily; Maintain BUY

Consumer Non-cyclical | Rubber Products

Buy (Maintained)

Target Price (Return)	MYR1.08 (+42%)
Price:	MYR0.76
Market Cap:	MYR443m
Avg Daily Turnover	0.29m/0.07m

- **Reiterate BUY and MYR1.08 TP, 45% expected total return**, on FY21F P/E of 18x. Our valuation is lower than peers' 25x 1-year forward average P/E. 9MFY20 (Jan)'s earnings were broadly in line, as we anticipate higher sales ahead. We remain positive on its earnings prospects, premised on ongoing capacity expansion and research & development effort to grow sales, and increasing demand for specialty gloves. As the bespoke gloves manufacturer, we believe the progressive capacity expansion is timely to fulfil rising demand.

- **Broadly within expectations.** Comfort Gloves' 9MFY20 earnings of MYR22.9m were broadly in line, at 72% of our full-year estimates. Net profit expanded 24% YoY, as it recorded higher sales (+8% YoY) and lower effective tax of 19% (9MFY19: 26%). Also, the group incurred higher logistics expenses in the prior year, which contributed to the low base effect. QoQ, while revenue grew 14%, 3QFY20 earnings inched up 4%. We believe this could be contributed by higher raw materials costs, gas tariff hike, and higher effective tax rate of 21% (2QFY20: 15%).

- **No dividends were declared, as expected.** As at 3QFY20, net gearing moved up to 0.24x, from 0.21x, from an increase in borrowings. Assuming cash is largely ploughed back for business expansion purposes, we expect FY20F DPS of 2 sen (2.6% yield), just a tad higher than FY18's 1.5 sen.

- **Earnings remain unchanged.** We expect better earnings performance ahead, as we anticipate potential higher sales volume to come from rising demand for nitrile gloves.

- **Anticipate six new lines to come in by 1QFY21.** Comfort Gloves has 49 production lines in the two plants in Simpang and Matang, Taiping that can produce up to 430m pieces of gloves/month. As at 3QFY20, it has allocated MYR32.7m in capex for the construction of a water treatment plant, solar system, a warehouse and a production plant consisting of six production lines. The six new lines are expected to come in by 1QFY21, which can collectively produce up to 490m pieces of gloves/month. Beyond current expansion, we believe more capacity may be added in the future, as it had acquired about 39 acres of land in Perak in 2018 that can potentially house more capacity ahead. As demand for nitrile and specialty gloves increase, the potential capacity expansion could help to capture more market share moving forward, in our view, given its niche in the premium specialty gloves segment.

- **Risks to our call** are higher-than-expected increases in raw material prices, and heightened competition among the rubber glove players.

Analyst

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Share Data

Avg Daily Turnover (MYR/USD)	0.29m/0.07m
52-wk Price low/high (MYR)	0.75 – 0.945
Free Float (%)	24
Shares outstanding (m) @MYR0.10 par	583
Expected Share Price Return	42.1%
Expected Dividend Return	2.6%
Expected Total Return	44.7%

Shareholders (%)

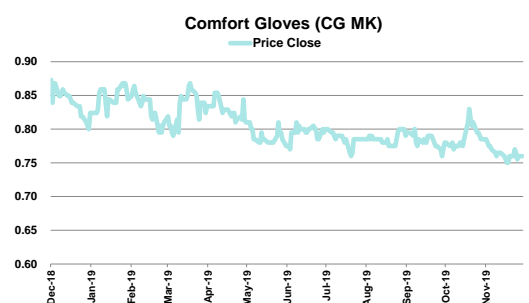
Cheang Phoy Ken	18.5
Keen Setup	14.4

Additional Data

Bursa Code	2127
Listing Market	Main
Beta	1.04
3-Month Average Volume ('000)	376
ROA (%)	6.7%

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.1)	(3.2)	(5.0)	(5.0)	(19.1)
Relative	(5.0)	(1.6)	(3.0)	(0.8)	(13.6)



Forecasts and Valuation	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F
Total turnover (MYRm)	421.2	474.0	481.9	555.2	629.4
Recurring net profit (MYRm)	39.3	27.9	32.0	35.1	40.0
Recurring net profit growth (%)	48.4	(29.0)	14.7	9.7	14.1
Recurring P/E (x)	11.8	15.9	13.9	12.6	11.1
P/BV (x)	1.9	1.6	1.4	1.3	1.1
P/CF (x)	14.5	39.8	7.3	8.9	8.4
Dividend Yield (%)	1.3	2.0	2.6	2.6	3.3
EV/EBITDA (x)	7.6	9.3	7.9	6.9	6.5
Return on average equity (%)	17.4	10.7	10.9	10.6	10.8
Net debt to equity (%)	(0.1)	0.2	0.2	0.1	0.1
Interest coverage (x)	140.1	25.0	14.2	17.5	23.0

Source: Company data, RHB

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Financial Exhibit

Asia	Financial summary	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F
Malaysia	Recurring EPS (MYR)	0.07	0.05	0.06	0.06	0.07
Consumer Non-cyclical	DPS (MYR)	0.01	0.02	0.02	0.02	0.03
Comfort Gloves	BVPS (MYR)	0.40	0.48	0.53	0.60	0.67
Bloomberg CG MK	ROE (%)	17.41	10.66	10.88	10.65	10.83
BUY						
Valuation basis	Valuation metrics	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F
18x FY21F P/E.	Recurring P/E (x)	11.8	15.9	13.9	12.6	11.1
	P/B (x)	1.89	1.59	1.43	1.27	1.13
	FCF Yield (%)	(0.10)	(10.64)	8.28	6.09	7.08
Key drivers	Dividend yield (%)	1.3	2.0	2.6	2.6	3.3
i. Expansion in production capacity;	EV/EBITDA (x)	7.6	9.3	7.9	6.9	6.5
ii. Increase in demand for gloves among developing nations.	EV/EBIT (x)	9.8	13.4	10.6	9.7	8.6
Key risks	Income statement (MYRm)	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F
i. Higher-than-expected increase in raw material prices;	Total turnover	421	474	482	555	629
ii. Stronger competition among manufacturers.	Gross profit	59	57	75	90	99
	EBITDA (adj.)	54	53	61	69	73
	Depreciation & amortisation	(12)	(16)	(15)	(20)	(18)
	Operating profit	41	37	45	49	55
	Net interest	0	(1)	(2)	(3)	(2)
	Pre-tax profit	41	35	42	46	53
	Taxation	(5)	(8)	(10)	(11)	(13)
	Net profit	36	28	32	35	40
	Recurring net profit	39	28	32	35	40
Company Profile	Cash flow (MYRm)	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F
Comfort Gloves is involved in the manufacture and trading of natural and synthetic speciality examination gloves. The gloves are exported to North America, Oceania, the Middle East, Europe, South America, Africa, and the Asia-Pacific region.	Change in working capital	(28)	(35)	(2)	(21)	(22)
	Cash flow from operations	29	11	58	48	51
	Capex	(35)	(64)	(33)	(33)	(33)
	Cash flow from investing activities	(35)	(63)	(33)	(33)	(33)
	Dividends paid	-	(6)	(11)	(11)	(14)
	Cash flow from financing activities	11	47	(21)	(21)	(24)
	Cash at beginning of period	23	29	23	27	21
	Net change in cash	5	(5)	4	(6)	(6)
	Ending balance cash	29	23	27	21	14
Balance sheet (MYRm)	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F	
Total cash and equivalents	29	23	27	21	14	
Tangible fixed assets	307	455	480	517	559	
Total investments	-	-	-	-	-	
Total assets	307	455	480	517	559	
Short-term debt	11	64	54	44	34	
Total long-term debt	-	26	26	26	26	
Total liabilities	62	177	170	170	170	
Total equity	245	278	310	349	390	
Total liabilities & equity	307	455	480	519	561	
Key metrics	Jan-18	Jan-19	Jan-20F	Jan-21F	Jan-22F	
Revenue growth (%)	60.2	12.5	1.7	15.2	13.4	
Recurrent EPS growth (%)	40.9	(25.7)	14.7	9.7	14.1	
Gross margin (%)	13.9	12.1	15.6	16.3	15.7	
Operating EBITDA margin (%)	12.8	11.1	12.6	12.5	11.6	
Net profit margin (%)	8.5	5.9	6.6	6.3	6.4	
Capex/sales (%)	8.3	13.4	6.8	5.9	5.2	
Interest cover (x)	140.1	25.0	14.2	17.5	23.0	

Source: Company data, RHB

Figure 1: 9MFY20 results review

FYE Jan (MYRm)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YTD YoY (%)	Comments
Revenue	127.0	117.6	134.5	14.3	5.9	343.3	372.1	8.4	
EBITDA	14.5	14.8	16.1	8.2	10.6	37.2	47.3	27.2	
Depreciation	(4.2)	(5.5)	(5.8)	5.2	39.6	(11.4)	(16.1)	41.7	
EBIT	10.4	9.3	10.3	10.0	(1.0)	25.8	31.2	20.8	
Interest expense	(0.3)	(0.9)	(0.9)	(2.2)	>100	(0.7)	(2.9)	>100	
Pretax profit	10.0	8.4	9.4	11.3	(6.8)	25.1	28.3	13.0	
Tax	(3.0)	(1.3)	(1.9)	50.4	(34.4)	(6.6)	(5.4)	(17.9)	
Minority interest	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Net profit	7.1	7.1	7.4	4.2	4.9	18.5	22.9	23.9	
Core net profit	7.1	7.1	7.4	4.2	4.9	18.5	22.9	23.9	Higher YoY due to elevated logistics expenses in the prior year. While revenue grew 14% QoQ, we believe higher raw materials costs, gas tariff hike, and higher effective tax rate of 21% led to softer QoQ improvement in earnings.
EPS (sen)	1.3	1.3	1.3	3.2	3.1	3.3	4.0	21.8	
Diluted EPS (sen)	1.2	1.3	1.3	3.2	12.6	3.0	4.0	33.1	
<i>EBITDA margin (%)</i>	<i>11.4</i>	<i>12.6</i>	<i>11.9</i>			<i>10.8</i>	<i>12.7</i>		
<i>EBIT margin (%)</i>	<i>8.2</i>	<i>7.9</i>	<i>7.6</i>			<i>7.5</i>	<i>8.4</i>		
<i>Pretax margin (%)</i>	<i>7.9</i>	<i>7.2</i>	<i>7.0</i>			<i>7.3</i>	<i>7.6</i>		
<i>Effective tax rate (%)</i>	<i>29.6</i>	<i>15.4</i>	<i>20.8</i>			<i>26.2</i>	<i>19.0</i>		
<i>Core net margin (%)</i>	<i>5.6</i>	<i>6.0</i>	<i>5.5</i>			<i>5.4</i>	<i>6.2</i>		

Source: RHB, Company data

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