

8 September 2020

Consumer Non-cyclical | Rubber Products

Comfort Gloves (CG MK)

Buy (Maintained)

1HFY21 Earnings Beat Expectation; Keep BUY

Target Price (Return): MYR5.70 (38.0%)
 Price: MYR4.13
 Market Cap: USD580m
 Avg Daily Turnover (MYR/USD) 184m/43.8m

- **Stay BUY with higher TP of MYR5.70 from MYR4.80, 38% upside with c.1% yield.** Our TP is based on 2021F P/E of 18x – a 33% discount against peers’ average. This is to reflect its smaller market cap/liquidity vs peers. 1HFY21 earnings beat expectations due to better-than-expected ASP. After adjusting for the higher ASP, we increase our earnings forecasts and TP.
- **Earnings beat expectation.** Comfort Glove’s 1HFY21 net profit of MYR59.1m is above expectations as it makes up 78% of our FY21 full-year earnings estimate. A comparison against consensus is not available due to lack of coverage on the stock. The positive deviation is due to better-than-expected ASP. From the company website, we gather that Comfort Gloves has increased its monthly ASP by 5-10% consecutively every month since COVID-19 started.
- **1HFY21 net profit increased 281% YoY.** Revenue grew 48% YoY in 1HFY21 to MYR350.9m due to an increase in sales volume and significantly better ASP. The company also enjoyed better economies of scale which caused its EBITDA margin to increase to 26.7% (1HFY20: 13.2%).
- **2QFY21 net profit improved 162% QoQ and 501% YoY.** Revenue grew by 30% QoQ and 68% YoY in 2QFY21 to MYR198m. This is due to the increase in sales volume and much better ASP. The EBITDA margin improved to 32.4% as compared to 1QFY21’s 19.4% and 2QFY20’s 12.6%.
- **Prospects.** Customers have locked in volume commitments for the next 18 months. However, we believe that the ASP will only be decided 1-2 months before delivery as per industry norms. Comfort Gloves intends to expand its capacity by 10% by 4QFY21 on top of the 10% expansion in 2QFY21.
- **BUY with a higher TP of MYR5.70.** We have increased FY21-23F earnings by 63-103% to reflect higher ASP. This is in line with the industry trend. The higher TP is in line with better earnings estimates. In the near term, we expect Comfort Gloves to register a stronger set of results in 3QFY21 in line with the higher ASP trend in the industry. In the long run, the company is a beneficiary of the long-term uptrend of gloves consumption globally.
- **Risks.** The biggest risk is faster-than-expected discovery of a safe and effective COVID-19 vaccine available globally. Our base case scenario is that the ASP should normalise in the long run once a safe and effective vaccine is available globally (refer to Page 3 for details). Other risks are higher-than-expected supply from China, lower-than-expected sales volume, and volatile currency movements/raw material prices. Our ASP assumption of USD31.70-USD33.40 per box of 1,000 pieces of gloves for FY21-23F are already at discounts of 33-73% vs current market prices for gloves of USD50.00-90.00 per box to impute the risk of a vaccine causing a decline in gloves ASP.

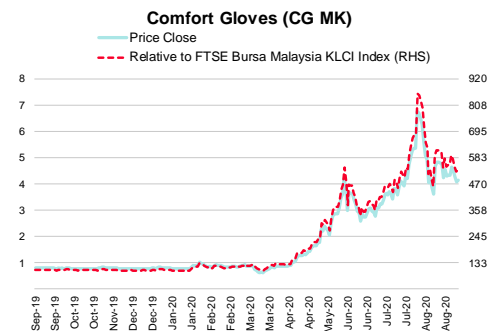
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	422.8	(26.5)	13.8	348.9	422.8
Relative	427.4	(22.6)	16.4	346.7	428.3
52-wk Price low/high (MYR)				0.61	– 6.76



Source: Bloomberg

Forecasts and Valuation	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
Total turnover (MYRm)	474	511	712	822	1,001
Recurring net profit (MYRm)	28	33	155	185	251
Recurring net profit growth (%)	(29.0)	19.0	367.4	19.5	35.2
Recurring P/E (x)	86.31	71.81	15.52	12.99	9.61
P/B (x)	8.7	7.7	5.0	3.6	2.6
P/CF (x)	215.36	32.01	13.49	10.01	7.77
Dividend Yield (%)	0.2	0.4	0.5	0.6	0.7
EV/EBITDA (x)	46.83	35.99	10.17	7.91	5.25
Return on average equity (%)	10.7	11.3	39.1	32.2	31.6
Net debt to equity (%)	24.0	16.0	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
Malaysia	Recurring EPS	0.05	0.06	0.27	0.32	0.43
Consumer Non-cyclical	DPS	0.01	0.02	0.02	0.02	0.03
Comfort Gloves	BVPS	0.48	0.54	0.83	1.15	1.57
CG MK	Return on average equity (%)	10.7	11.3	39.1	32.2	31.6
Buy						
	Valuation metrics	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
Valuation basis	Recurring P/E (x)	86.31	71.81	15.52	12.99	9.61
18x 2021F P/E	P/B (x)	8.7	7.7	5.0	3.6	2.6
	FCF Yield (%)	(2.2)	0.8	6.0	8.6	11.5
Key drivers	Dividend Yield (%)	0.2	0.4	0.5	0.6	0.7
i. Expansion in production capacity;	EV/EBITDA (x)	46.83	35.99	10.17	7.91	5.25
ii. Increase in demand for gloves among developing nations.	EV/EBIT (x)	67.03	53.40	11.23	8.65	5.64
	Income statement (MYRm)	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
Key risks	Total turnover	474	511	712	822	1,001
These include:	Gross profit	57	65	231	276	371
i. Faster-than-expected discovery of a safe and effective COVID-19 vaccine available globally;	EBITDA	53	68	228	270	357
ii. Higher-than-expected supply from China;	Depreciation and amortisation	(16)	(22)	(22)	(23)	(25)
iii. Lower-than-expected sales volume; and	Operating profit	37	46	207	246	332
iv. Volatile currency movements/raw material prices.	Net interest	(1)	(4)	(3)	(2)	(2)
	Pre-tax profit	35	42	204	244	330
Company Profile	Taxation	(8)	(8)	(49)	(59)	(79)
Comfort Gloves is involved in the manufacturing and trading of natural and synthetic speciality examination gloves. These gloves are exported to North America, Oceania, the Middle East, Europe, South America, Africa and the Asia-Pacific.	Reported net profit	28	33	155	185	251
	Recurring net profit	28	33	155	185	251
	Cash flow (MYRm)	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
	Change in working capital	(38.6)	11.1	(50.0)	(29.1)	(47.0)
	Cash flow from operations	11.2	74.4	178.5	240.4	309.7
	Capex	(63.7)	(56.4)	(33.0)	(33.0)	(33.0)
	Cash flow from investing activities	(63.4)	(56.4)	(33.0)	(33.0)	(33.0)
	Dividends paid	(5.6)	(8.7)	(11.5)	(14.4)	(17.3)
	Cash flow from financing activities	47.2	(6.1)	(24.5)	(24.4)	(27.3)
	Cash at beginning of period	28.6	23.4	34.9	155.6	338.4
	Net change in cash	(4.9)	11.9	121.0	183.0	249.4
	Ending balance cash	23.7	35.3	155.9	338.6	587.7
	Balance sheet (MYRm)	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
	Total cash and equivalents	23	35	156	338	587
	Tangible fixed assets	236	271	282	292	300
	Total assets	455	483	686	919	1,242
	Short-term debt	64	57	44	34	24
	Total long-term debt	26	27	27	27	27
	Total liabilities	177	172	204	251	324
	Total equity	278	311	482	668	918
	Total liabilities & equity	455	483	686	919	1,242
	Key metrics	Jan-19	Jan-20	Jan-21F	Jan-22F	Jan-23F
	Revenue growth (%)	12.5	7.7	39.4	15.5	21.8
	Recurrent EPS growth (%)	(25.7)	20.2	362.6	19.5	35.2
	Gross margin (%)	12.1	12.7	32.4	33.5	37.1
	Operating EBITDA margin (%)	11.1	13.2	32.1	32.8	35.6
	Net profit margin (%)	5.9	6.5	21.8	22.5	25.0
	Dividend payout ratio (%)	20.1	26.4	7.4	7.8	6.9
	Capex/sales (%)	13.4	11.0	4.6	4.0	3.3
	Interest cover (x)	25.0	11.4	72.4	100.2	161.1

Source: Company data, RHB

Figure 1: 2QFY20 results snapshot

FYE Jan (MYRm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)	Comments
Revenue	117.6	152.9	198.0	29.5	68.3	237.6	350.9	47.7	Significant increase in ASP and better sales volume
EBITDA	14.8	29.7	64.1	115.9	331.8	31.2	93.8	200.2	
<i>EBITDA Margin (%)</i>	12.6	19.4	32.4			13.2	26.7		
Depreciation	(5.5)	(6.4)	(6.5)	2.1	18.3	(10.3)	(12.9)	25.4	
EBIT	9.3	23.3	57.6	147.1	517.3	20.9	80.9	286.3	
<i>EBIT Margin (%)</i>	7.9	15.2	29.1	90.9	266.8	8.8	23.1	161.6	
Interest expense	(0.9)	(1.1)	(0.7)	(34.5)	(24.4)	(2.0)	(1.8)	(11.1)	
El/Others	0.0	0.3	(0.1)	nm	nm	(0.6)	0.2	nm	
Pretax profit	8.4	22.2	56.9	155.8	576.3	19.0	79.1	317.2	
<i>Pretax Margin (%)</i>	7.2	14.5	28.7			8.0	22.6		
Tax	(1.3)	(5.9)	(14.1)	138.7	988.0	(3.4)	(20.0)	481.3	
<i>Effective tax rate (%)</i>	15.4	26.5	24.8			18.1	25.3		
Minority Interest	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m	
Net Profit	7.1	16.3	42.8	161.9	501.4	15.5	59.1	280.9	1HFY21 makes up 78% of our FY21 estimate
Core Profit	7.1	16.3	42.8	161.9	501.4	15.5	59.1	280.9	

Source: Company Data

Figure 2: Key assumptions

Key assumptions	FY21F	FY22F	FY23F
Installed capacity (m ppa)	5,880	6,600	8,040
ASP change YoY	29%	3%	0%
Average USD/MYR	4.225	4.025	4.025
Utilisation rate	90%	90%	90%

Source: RHB

Our base case assumption for COVID-19 vaccine development. Our base case scenario is that a safe and effective vaccine would be available in 1H2021 under Emergency Use Authorisation (EUA). Eventually, this should lead to lower gloves demand in 2H2021, assuming COVID-19 new cases decline by then. As 85% of the gloves demand is from the medical segment, a decline in COVID-19 cases should lower the demand from this segment. However, it is impossible to determine if any of the vaccine candidates currently under trial will work as even the most promising Phase 2 results can still end up as a failure in Phase 3 as denoted by the [US Food & Drug Administration](#).

We will be monitoring the progress of the vaccine development closely as one of the potential leading indicators for lower COVID-19 new cases in the future.

Five leading vaccine players are in Stages 2/3, and we think it is possible that the first dose would be available in 1H2021. The vaccine players include Sinovac, Sinopharm, AstraZeneca, Moderna and Pfizer. Based on Citeline data, we gather that these five companies aim to deliver the first dose of the COVID-19 vaccine with different targets ranging from September-December. Out of the five candidates which are in or about to enter Phase 3 trials, AstraZeneca aims to roll out its vaccine in September, which is the earliest compared to its peers. AstraZeneca's CEO, Pascal Soriot, noted that the pharma giant is on track to begin rolling out up to 2bn doses of a coronavirus vaccine in September if ongoing trials prove successful.

Other risks. Other risks are higher-than-expected supply from China, lower-than-expected sales volume, and volatile currency movements/raw material prices.

Earnings sensitivity to change in ASP. For every 1% change in ASP, we expect Comfort Gloves' FY21-23F earnings to change by 3.5-6.7% in the corresponding direction.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-14	Buy	4.80	3.84
2020-05-28	Neutral	3.18	3.45
2019-12-17	Buy	1.08	0.76
2018-12-19	Buy	1.21	0.86
2018-10-01	Neutral	0.87	0.93
2018-06-28	Neutral	0.76	0.80

Source: RHB, Bloomberg

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