INDUSTRY QUICK COMMENT

Sunday's vote on US healthcare reform resulted in the passing of the Senate version of the healthcare bill. Immediate impacts that could spur demand for gloves include among others, increased funding for community health centers. We see this as a mild positive for glovemakers in 2010 as reforms come online, which feeds into a mid- to long-term industry-wide theme as uninsured Americans seek out healthcare and existing citizens benefit from better coverage. In our view, Kossan and Supermax are key beneficiaries given high US sales exposure, and we reiterate Buy calls on the sector.

Research analyst: Jacinda Loh **60-3-2027-6889** **jacinda.loh@nomura.com**

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Healthcare reform bill passed; positive for glove stocks' sentiment

As highlighted in our Malaysia Rubber Gloves Anchor Report dated 10 March 2010, we pointed out the potential to grow the US market further with a key catalyst being the overhaul of the trillion dollar US healthcare system.

Sunday's historic House vote on US healthcare reform, which resulted in the passing of the Senate version of the healthcare bill in a narrow 219-212 vote, is expected to have widespread ramifications that extend beyond geographical boundaries. BBC News expects the bill to be signed into law shortly after yesterday's passing of the bill. Logically speaking, any good news on healthcare reform should benefit all the glovemakers under our coverage. However, the extent would depend on the level of direct and quantifiable impacts and the level of US exposure of the individual glove players, in our view.

Immediate-term impacts like spending on Community Health Centers (CHCs) to directly affect demand for medical disposables

Immediate-term impacts - increased insurance coverage for the 32 mn Americans not currently insured, bans on restrictive annual and lifetime limits on insurance coverage, elimination of co-payments for preventive services, increased funding for community health centers - appear to point towards one outcome. That is, increased demand for healthcare coming on-line from this point forward. We think this is positive for sentiment, although we do not expect US contributions to glovemakers' sales to significantly affect the bottom line at least in 2010, given health reforms take time to implement and for effects to be felt through the healthcare system. However, we do remain positive on the long-term healthcare theme as better coverage kicks in and as the US population ages.

According to US Census data in 2008, about 120-130mn people in the US are above 45 years of age (43% of total population). Another 80+mn are in the 25 to 44 category. The aging population in the coming years is also expected to drive demand in the longer term, in addition to the reform plans that have been passed.

While some of the reforms may have less-than-ideal outcomes for pharmaceutical and health insurance companies like the imposition of an annual fee according to market share, we see glove makers as only standing to benefit at the moment from these healthcare developments, given that gloves are relatively price-inelastic necessities. (NB: Even at its peak prices, it is estimated that a pair of latex gloves costs US 7 cents.)

Investments targeted to be made	Amount to be spent
Investments in CHCs / National Health Service Corps Fund	US$ 7.0 bn between 2010-2014
Expanding Access to	US$ 2.5bn between 2010-2014

Primary Care services and General Surgery Services	

*Source: US Congressional Budget Office 20 March 2010

<u>All companies with US exposure to benefit; Kossan and Supermax key beneficiaries</u>

Besides the positive sentiment generated by the passing of the reform bill, we see all the companies as being key long-term beneficiaries given their US sales exposure, with Kossan and Supermax being more well-placed to capitalize on demand upticks. Given that Supermax pursues an OBM model, its distribution arm, Supermax Inc, has existing ties with hospitals, nursing homes and dental clinics. We believe this allows it to more directly tap in to any increased demand coming from those networks.

Name	% of US Sales
Kossan	50%
Supermax	42%
Top Glove	26%

Source: Company data, Nomura research

We reiterate our Buy ratings on Top Glove, Kossan and Supermax at PTs of RM15.16, RM9.51 and RM8.74, respectively.

Valuation Methodology and Investment Risks: Top Glove - We value Top Glove by ascribing an FY11F P/E of 14.5x to FY11F EPS of RM1.045, close to its three-year average P/E and equal to the one-year forward market P/E of 14.5x, to arrive at our PT of RM15.16. Downsides to our call is mostly industry-related and includes 1) overcapacity and price wars occurring sooner than expected (ie by end FY-10); 2) if the government removes natural gas subsidies on an immediate basis instead of a gradual approach, and ; 3) a sharp, quick appreciation of the ringgit. Kossan - We peg Kossan's target 10x FY11F P/E multiple at its ~ 30% historical discount to Top Glove's FY11F P/E of 14.5x. Applied to our FY11F EPS of RM0.95, we arrive at our PT of RM9.51. Potential downside to our view includes delays / hiccups to the new product launch, which could affect Kossan's strategy to gain market share from other nitrile players and the higher-end segment. Industry downsides are similar to those that apply to Top Glove. Supermax - We peg Supermax's target P/E of 11.5x at a 21% discount to Top Glove, derived from its historical discount of ~30% to Top Glove; however, we argue that it should see an upward rerating given its write-off of the APLI investment. Applying this to FY11F EPS of RM0.75, we derive our PT of RM8.74. Donwside to our call is industry-related similar to Top Glove, as well as adverse and rapid currency movements that could affect income from its overseas distribution arms.

Note: Ratings and Price Targets are as of the date of the most recently published report (http://www.Nomura.com) rather than the date of this email.

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Mentioned Stocks:

Mentioned Company	Ticker	Price	Price Date	Stock Rating	Disclosures
Kossan Rubber Industries	KRI MK	MYR 7.4	19 Mar 2010	Buy	
Supermax Corp Bhd	SUCB MK	MYR 5.92	19 Mar 2010	Buy	
Top Glove Corp	TOPG MK	MYR 12.58	19 Mar 2010	Buy	

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Nomura Securities Malaysia Sdn. Bhd. Tel: +60 3 2076 6811

Suite No 16.5, Level 16, Menara IMC, 8 Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia Fax: +60 3 2076 6888

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