02 August 2017

Rubber Gloves

Growth priced in

Neutral

- **Against the backdrop of healthy global glove demand (6%-8%), we expect sector earnings to be capacity-driven. Near-term demand catalysts include lower ASP in tandem with moderating raw material costs as well as the switching trend from China's vinyl gloves to rubber gloves, of which Malaysian manufacturers are the key beneficiaries.**

- **While the recent sharp reversal in latex prices suggests margin upside, we caution that this may be limited by the RM's strengthening vis-à-vis the USD (+4.5% to RM4.29 from RM4.49 at the start of the year*).***

- **The glove manufacturers' accelerating capex (3-year CAGR of 9%) will be supported by their strong balance sheets (net cash or even if leveraged, low net gearing of ~11%) and growing operating cash flows (RM250mil-450mil p.a.). Despite the higher capital spend, average dividend payout is also edging higher to 50%.**

- **Valuations for the glove companies under our coverage are currently at the higher end of their 3-year trend averages (+0.5SD to +1.5SD above mean). This follows the upward march in their share prices (YTD, +22% on average), particularly since latex prices started coming off the boil in May. We thus believe that the market has priced in the upside from a more favourable operating environment.**

- **In the absence of any tangible earnings catalyst ahead, we reiterate our NEUTRAL call on the sector with HOLD calls on Top Glove (TOPG MK, TP: RM5.50), Kossan (KRI MK, TP: RM7.70) and Hartalega (HART MK, TP: RM6.70).**

Key recommendations & forecasts

Company	Bloomberg	Year end	Rec	Price	Target price	FY7F/18F PE	FY17F/18F yield
Top Glove Corporation	TOPG MK	Aug	Hold	RM 5.78	RM 5.50	22.6	2.2
Kossan Rubber Industries	KRI MK	Dec	Hold	RM 7.10	RM 7.70	23.6	1.9
Hartalega Holdings	HART MK	Mar	Hold	RM 7.06	RM 6.70	30.5	1.6

Source: Company, KAF

Sustained demand growth

According to the latest MREPC data, the number of rubber gloves exported from Malaysia in 1Q17 had jumped by 19% compared to the same period in 2016. In value terms, growth was higher, at 29%.

Unsurprisingly, the higher export quantities were led by synthetic gloves, more specifically, the nitrile (NBR) variants (+29%). That said, natural rubber (NR) glove exports, which increased 6% YoY in 2016, also maintained their growth momentum in 1Q17 (+8%). NBR gloves currently make up 60% of Malaysia's total export volumes, having risen from 55% in 1Q16 and 57% in 4Q16.

The strong export volumes reflect the healthy order lead times of the domestic glove manufacturers. We understand that the three glove makers under our coverage are in an oversold position with most of their current capacity having been sold forward by between 1.5 and 4 months. Note that these players are the industry leaders and have a collective market share of 38%.

Analyst

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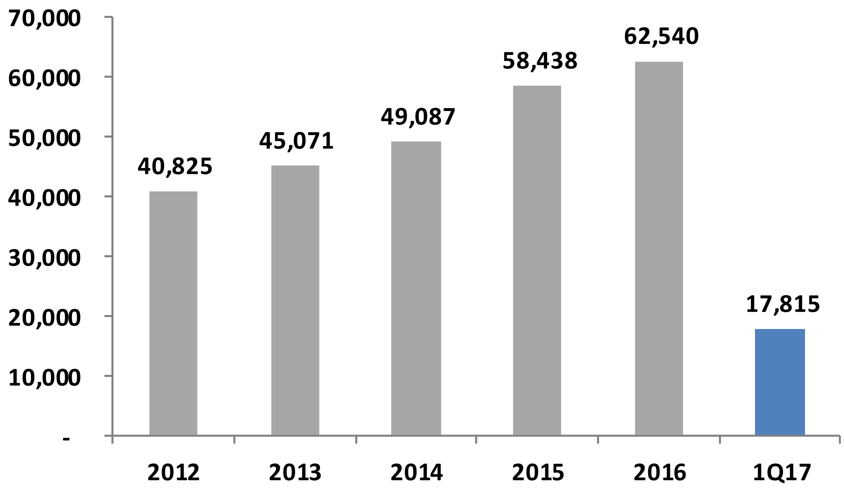
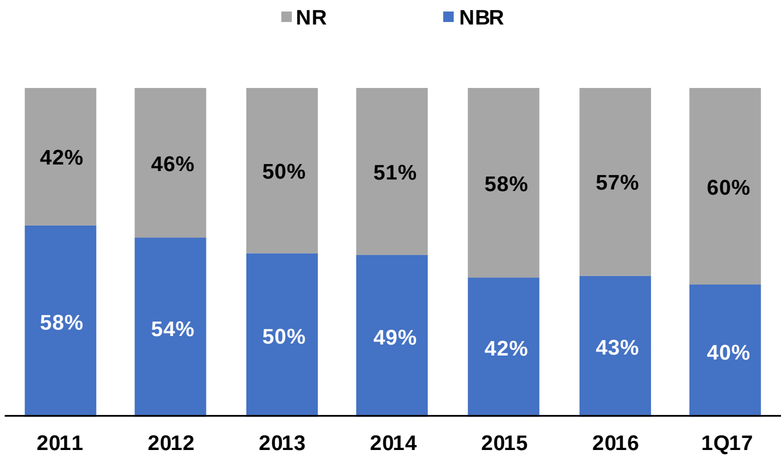
Besides the usual reasons of increasing healthcare awareness and hygiene standards worldwide, rubber glove consumption has also been supported by increasing usage in the non-medical industries. While examination gloves remain the most popular product (90% of total export volumes), non-medical gloves have also staged strong growth during the first quarter of this year. Save for household gloves, all other gloves (e.g. industrial, cleanroom, high risk and food grade gloves) posted double digit YoY volume increases.

Chart 1 : Malaysia's total glove exports quantity (mil pairs)



Source: MREPC, KAF

Chart 2 : Breakdown of Malaysia glove exports quantity by type



Source: MREPC, KAF

Table 1 : YoY change in glove exports by usage for Jan-Mar 2017

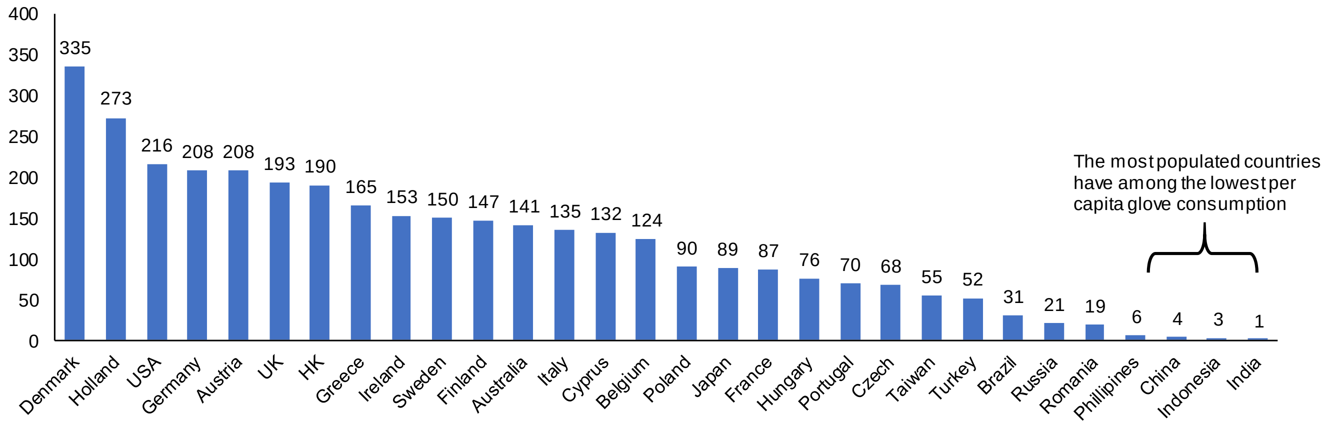
Examination	+20%
Surgical	+7%
Industrial	+10%
Household	-1%
Cleanroom	+24%
High risk	+43%
Food grade	+39%
Others	-94%

Source: MREPC, KAF

In the near-term, we also see demand being boosted by lower ASP following the decline in raw materials from their recent peaks in February. According to our channel checks, some customers had refrained from accumulating inventory in recent quarters having anticipated the price correction. With higher uptake from sustained re-stocking activities, we expect larger sales volume in the upcoming quarters.

Another key catalyst to demand is the switching trend from vinyl gloves which China is a dominant player in, to rubber gloves. This bodes well for the local glove manufacturers given that Malaysia is the leading supplier of rubber gloves with a 63% global market share. China's greater push for the use of more environmentally-friendly fuel sources (e.g. natural gas instead of coal) in line with the Paris Agreement on climate change has displaced many of its local glove manufacturers. The upshot of this emissions crackdown is greater rubber glove consumption as vinyl glove prices soared 30% due to the increased compliance costs.

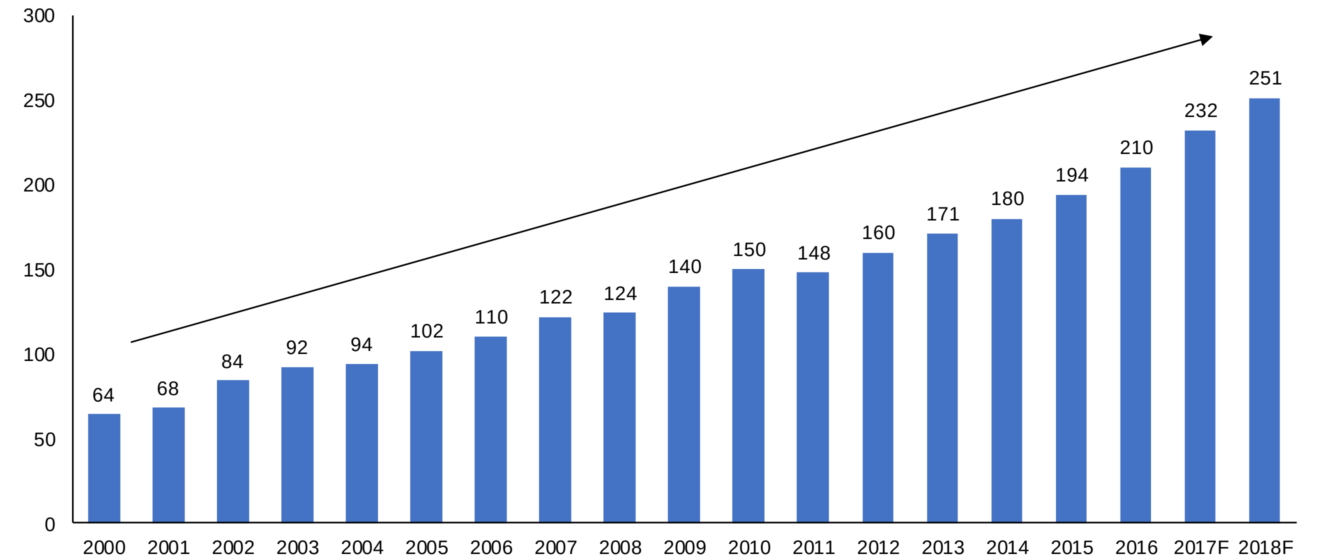
Chart 3 : Glove consumption per capita by country



Source: Hartalega, KAF

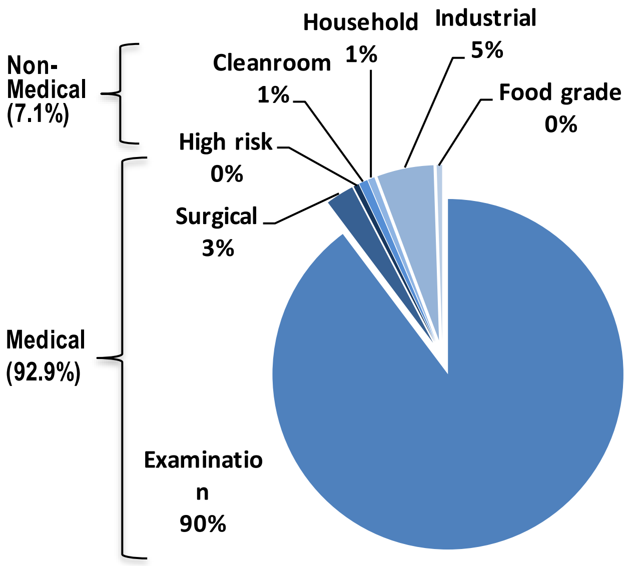
All in, the consensus from the rubber glove manufacturers is for global glove consumption to continuously rise by 6%-8% p.a. moving forward. This means that in 2017, demand should surpass the 200 bil pcs mark for the first time.

Chart 4 : Global glove demand



Source: Hartalega, KAF

Chart 5 : Breakdown of Malaysia glove exports quantity by usage in 2016



Source: MREPC, KAF

Margin upside from correction in latex prices…

NR prices had more than doubled in the past year, rising from an average of RM3.59 in December 2015 to RM6.16 (+72%) a year later. The upward trajectory had carried through to this year, with NR prices peaking at RM8.17 in February 2017. Since then, it has reversed sharply to a low of RM4.95 in July - a peak-to-trough drop of 39%. After a brief run over the past two weeks, prices have once again weakened to close at RM5.00 yesterday, a YTD decline of 23%.

Likewise, NBR prices, too, are off their peaks and are currently hovering at USD1,200/tonne after rising 74% to a high of USD1,500/tonne in March 2017 from July 2016's low of USD863.

The similarity of NR and NBR price trends should not be surprising given that both are viewed as substitutes by the global automotive sector, which consumes 70% of global rubber. China's auto market share of ~30% (measured in terms of production units) makes it a good proxy of global automotive trends.

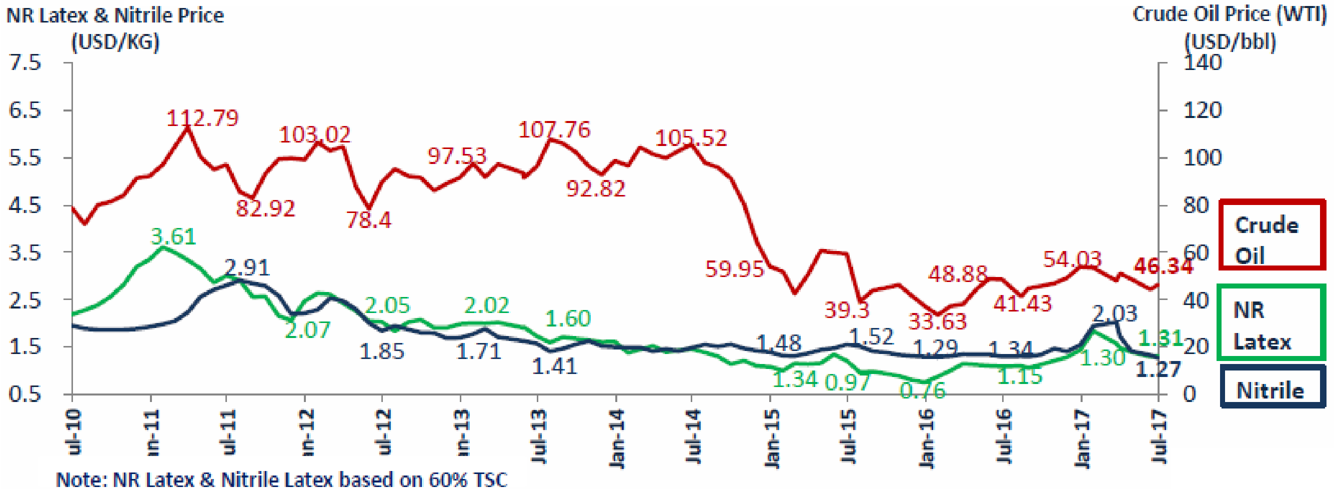
To mitigate the steep price increases and protect their margins, the glove makers have been consistently revising their prices upwards. For instance, Top Glove had increased its ASP 6 times for NR gloves and 4 for NBR gloves from September 2016 to February 2017 while Hartalega had done so thrice – in January, March and April this year.

Looking ahead, we expect both NR and NBR prices to remain range-bound, i.e. at RM6.00/kg for NR and USD1,200 for NBR. While we anticipate latex prices to tick upwards in 2H amid a recovery in demand from the automotive players as well as an active reduction in production in response to the consumption downtrend, the overall latex glut would keep a lid on prices.

The lows seen in July had reportedly come on the back of lower demand by tyre makers amidst a slow-down in production during the summer months as well as news of higher NR stock levels in China warehouses. According to the Malaysian Rubber Board, NR stocks in Qingdao had inched higher from 215,900 tonnes on 26 May to 217,000 tonnes on 9 June.

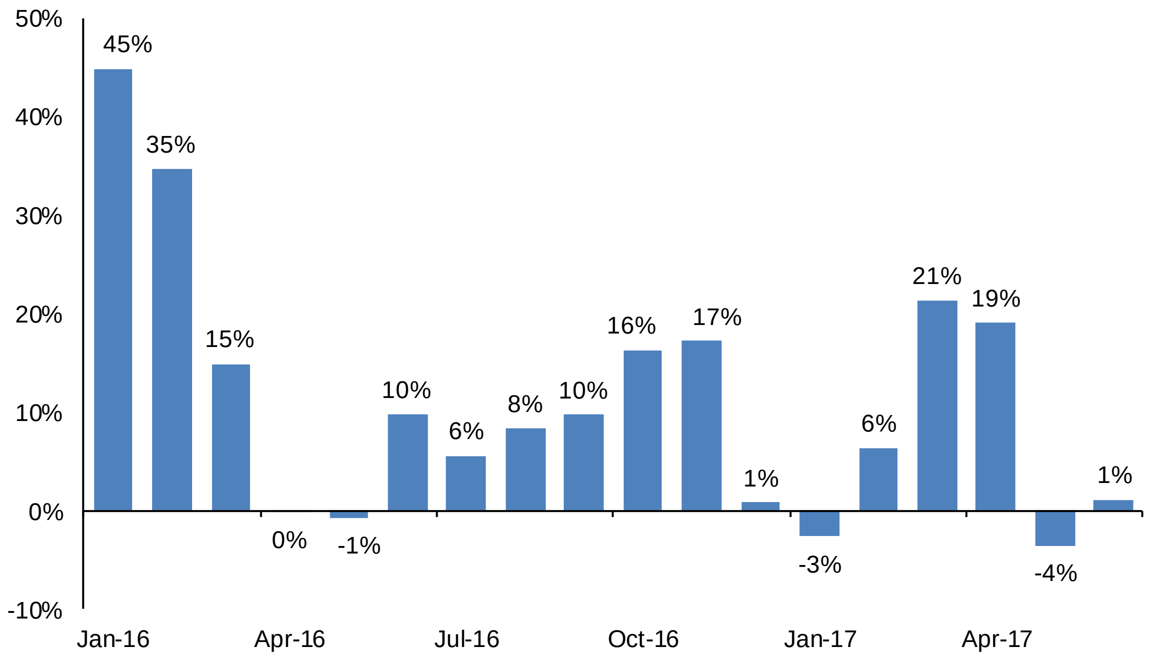
The recent pullback and stabilisation of raw material prices is positive for the glove manufacturers as they will not only provide greater pricing visibility to customers but also aid in margin expansion given that latex input costs make up 45%-50% of total production costs. While the industry has a cost pass-through pricing mechanism, which should result in lower ASP as cost savings are passed on, the quantum is imperfect and there is usually a time lag.

Chart 6 : Correlation between NR, NBR and crude oil prices (USD/kg)



Source: Top Glove, KAF

Chart 7 : NBR's premium/(discount) to NR latex



Source: Hartalega, KAF

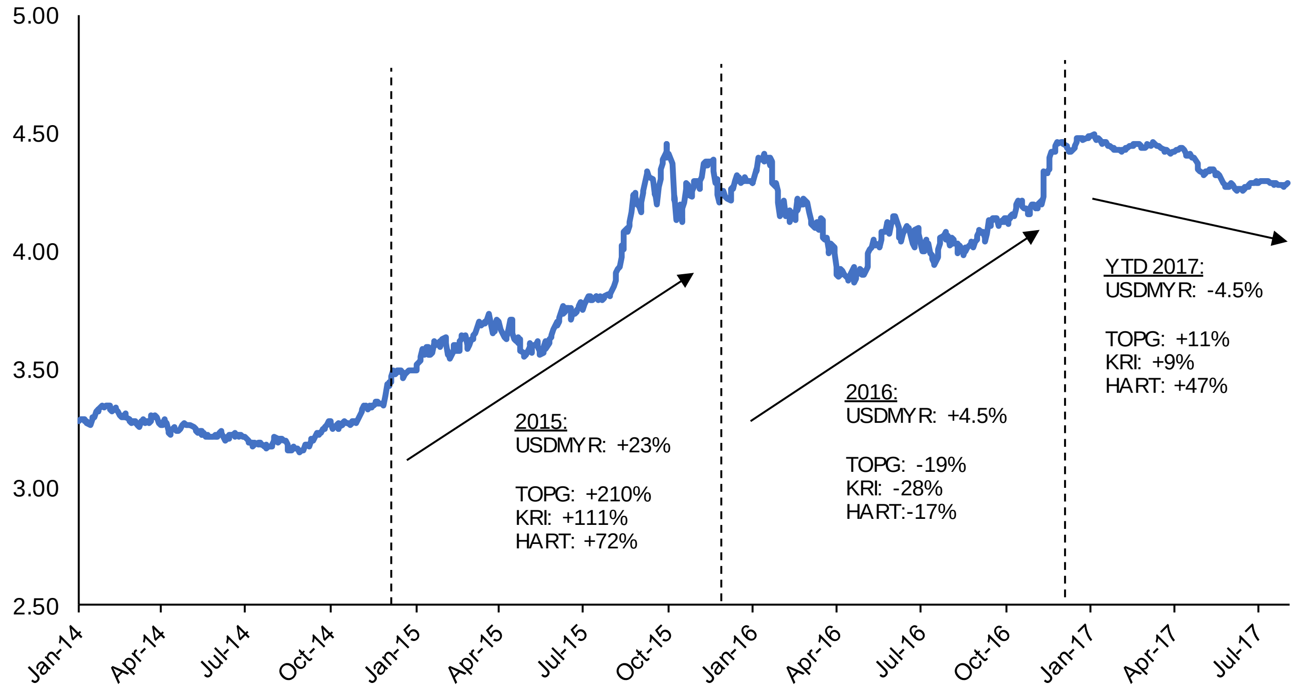
...but capped by the RM's strength

Spurred primarily by the US Fed's rate hikes, the USD has been appreciating against the RM over the past two years, save for a brief and steep decline in early 2016. The USD's rally (+36% since 2014's low of RM3.15 to the current RM4.29) has been favourable for the glove makers given the industry's export-orientation and USD-denominated sales receipts. Thanks to this positive external factor, margins were inflated by 2-4 ppts and earnings reached new records.

Fortunes however, appear to have reversed this year as the RM has been strengthening against the USD (YTD: +4.5%), placing downward pressure on margins. Bloomberg consensus on USD:RM rate for 2017 is RM4.30 and for 2018, RM4.17.

On a brighter note, the weaker USD means that the glove manufacturers may not have to reduce ASP in line with the retracement in raw material prices. This may also diminish the risk of price competition similar to that in early-2016, when the thirst for market share expansion was accompanied by frequent downward ASP revisions given the larger margin buffer.

Chart 8 : USD:RM trend since 2014



Source: Bloomberg, KAF

Strong balance sheet and cash flows to support accelerating capex cycle

Given the counteracting effects of both of the above i.e. declining latex prices and strengthening RM, we do not expect earnings ahead to vary significantly.

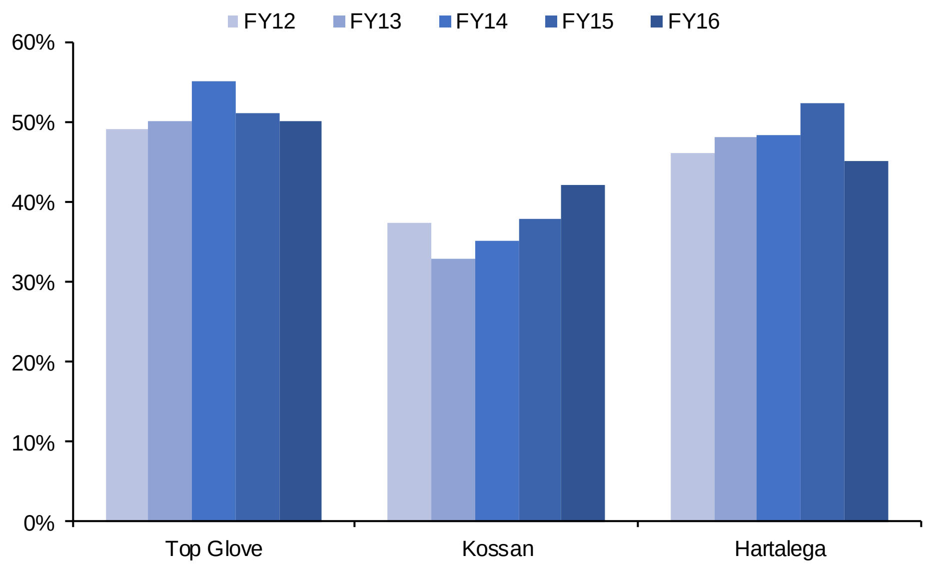
We maintain our view that sector earnings will continue to be capacity-driven against the backdrop of healthy global glove demand (6%-8%). The three glove makers under our coverage have collectively earmarked capex of RM691mil for 2017 (+8%) to raise installed capacity by 12% (~10 bil pcs). This is for the construction of new nitrile glove plants as well as automation outlays (e.g. vision camera systems, auto packing machines) but excludes any potential M&A activities or horizontal/vertical ventures (e.g. Top Glove's plan to move into condom manufacturing).

Any concerns over overcapacity at this current juncture may be premature as the current oversold positions and intact pricing mechanism point to the glove manufacturers' stronger bargaining power amid a demand-supply disequilibrium in favour of the former.

The glove manufacturers' accelerating capex (3-year CAGR of 9%) will be supported by their strong balance sheets (net cash or even if leveraged, low net gearing of ~11%) and growing operating cash flows (between RM250mil and RM450mil p.a.).

Encouragingly, despite the higher capital spend, average dividend payout is also on the rise. At present, Top Glove has an official dividend policy stating a minimum payout of at least 50% of its net profit. Kossan and Hartalega's were respectively, 42% and 49% in their latest financial years but have hinted at achieving a 50% payout in the near term. Hartalega's policy is a minimum payout ratio of 45%. Forward yields of 2%-3% are decent for growth companies.

Chart 9 : Historical dividend payout ratios



Source: Companies, KAF

Financials

Despite updating our key assumptions to better reflect current market expectations, i.e. NR at RM6.00/kg, NBR at USD1,200/tonne and USD:RM at RM4.30 (from RM6.20/kg, USD1,250/tonne and RM4.50, respectively), our overall sector earnings estimates are virtually unchanged (±1%).

This comes as the downward earnings revision from our lower USD assumption is largely negated by upward revisions in installed capacity and to a smaller extent, more favourable input prices. We have pencilled in average core net profit growth of 11%-15% (3-year CAGR of 11%).

Sector margins are also expected to remain stable moving forward in the absence of any cost surprises. Our average EBITDA margin for the sector is ~19%, with Hartalega's at the upper end at 24% and Top Glove's being the lowest at 15%. Ongoing automation activities and introduction of more value-added products (e.g. specialty gloves or proprietary formulations) should help cushion the impact of negative external factors while other cost headwinds may be mitigated by its pricing mechanism. Tailwinds ahead include the scheduled half-yearly natural gas prices increase, minimum wage and foreign worker levy reviews next year.

Table 2 : Natural gas tariff schedule

Tariff Category	Annual Gas Consumption (MMBtu)	Previous tariffs (RM/mmbtu)					Existing tariff (RM/MMBtu)	Revised tariff (RM/MMBtu)	Revised tariff with additional RM0.40 rebate (RM/MMBtu)
		Before May 2014	May-14	Nov-14	Jul-15	Jan-16	Jul-16	Jan-17	1 Jan - 30 Jun 2017
A	Residential	19.52	19.52	19.52	19.52	19.52	19.52	19.26	18.86
B	0 - 600	20.61	20.61	21.00	20.30	23.78	25.20	24.86	24.46
C	601 - 5,000	13.98	17.64	18.19	20.40	23.90	25.33	24.99	24.59
D	5,000 - 50,000	14.61	18.14	18.55	20.60	24.14	25.58	25.24	24.84
E	50,001 - 200,000	16.07	19.00	19.44	21.50	25.19	26.69	26.33	25.93
F	200,001 - 750,000	16.07	19.18	19.63	21.50	25.19	26.69	26.33	25.93
L	Above 750,000	16.45	19.65	20.11	22.22	26.03	27.58	27.21	26.81
Average		16.07	19.32	19.77	21.80	25.53	27.05	26.71	26.31
Average Change (%)			20.2	2.3	10.3	17.1	6.0	-1.3	-2.7

Source: Gas Malaysia, Bursa Malaysia, KAF

Table 3 : Approved average Base Tariffs for the Regulatory Period beginning January 2017 to December 2019

Effective period	Base tariff (RM/mmbtu)	Change HoH (%)
January to June 2017	26.71	-1.3
July to December 2017	28.05	5.0
January to June 2018	30.9	10.2
July to December 2018	31.92	3.3
January to June 2019	32.69	2.4
July to December 2019	32.74	0.2

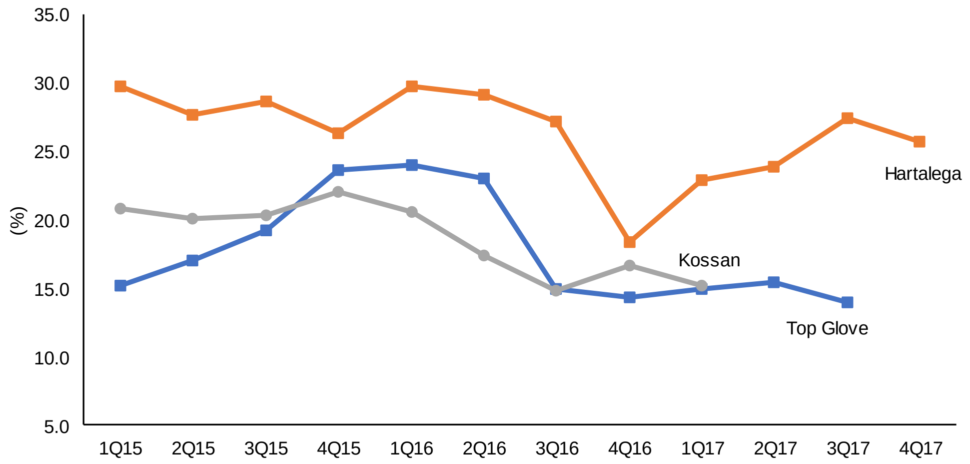
Source: Gas Malaysia, Bursa Malaysia, KAF

Table 4 : Foreign worker levy rates by sectors effective March 2016

	Old rates	Proposed rates	Final rates	Difference
Manufacturing	RM 1,250	RM 2,500	RM 1,850	+ RM 600 (+48%)
Construction	RM 1,250	RM 2,500	RM 1,850	+ RM 600 (+48%)
Plantation	RM 590	RM 1,500	RM 640	+ RM 50 (+9%)
Agriculture	RM 410	RM 1,500	RM 640	+ RM 230 (+56%)
Service	RM 1,850	RM 2,500	RM 1,850	Unchanged

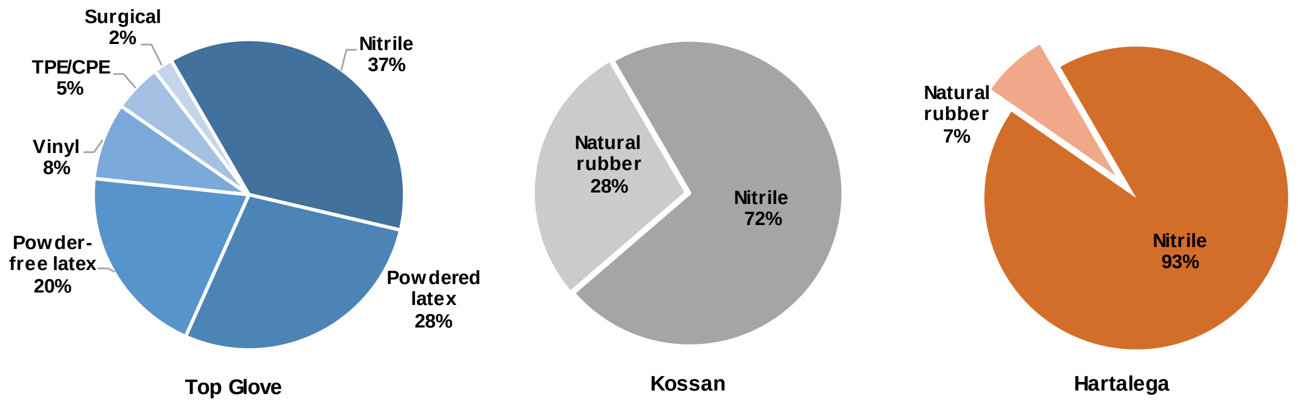
Source: easymanpower.co, KAF

Chart 10 : Historical quarterly EBITDA margin trends



Source: Companies, KAF

Chart 11 : Latest product mix



Source: Companies, KAF

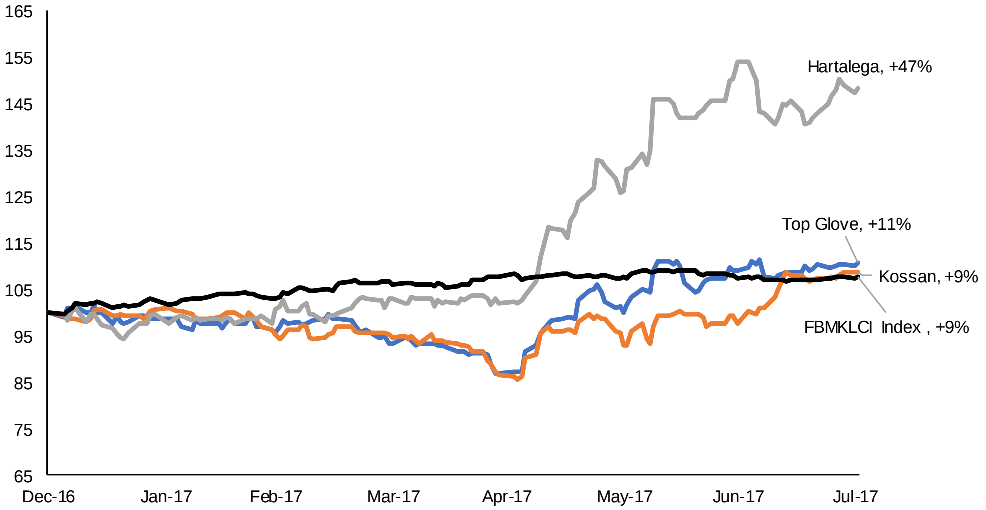
Valuations and recommendations

Valuations for the glove companies under our coverage are currently at the upper end of their respective 3-year PE bands (+0.5SD to +1.75SD above mean). This follows the YTD upward march in share prices of 47% for Hartalega, 11% for Top Glove and 9% for Kossan, particularly since latex prices started coming off the boil in May. At current price levels, the sector is trading at a forward PE of 26x.

While this is still below the sector's all-time high valuations recorded in December 2015 (average of 31x), we do not expect share prices to make more headway given the lack of tangible earnings catalysts and newsflow ahead. The recent rally also indicates that the market has priced in the positives for the sector.

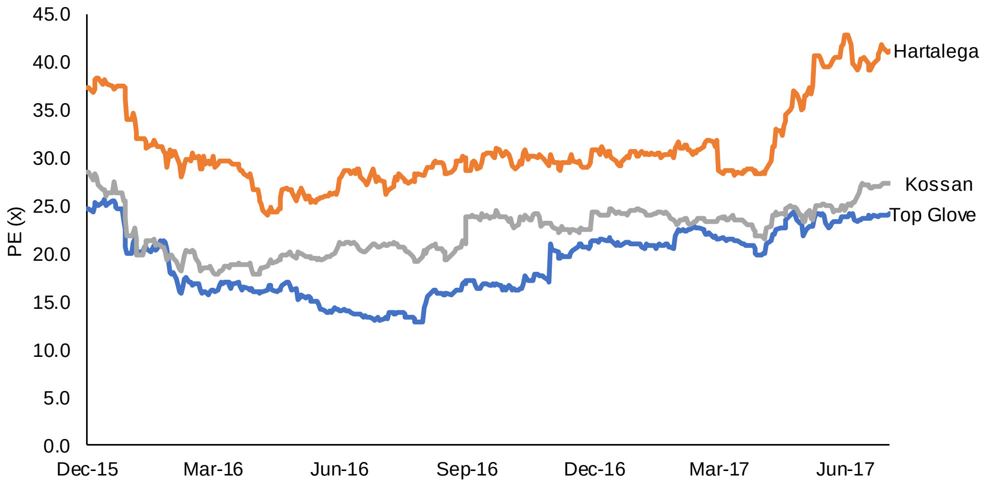
To recap, peak valuations for the rubber glove sector were in December 2015, when sector PE multiples expanded to >2SD above the mean. The optimum operating environment then – strengthening USD, benign latex prices as well as robust demand – had spurred meteoric share price appreciation for the glove manufacturers. Over 2015, Top Glove's share price had doubled while Kossan's and Hartalega's jumped 107% and 69%.

Chart 12 : Relative share price performance vs. FBM KLCI (YTD)



Source: Bloomberg, KAF

Chart 13 : Relative PE ratios



Source: Bloomberg, KAF

Top Glove Corp (TOPG MK, Hold, TP: RM5.50)

We maintain HOLD on Top Glove with a TP of RM5.50, premised on a target PE of 19x over FY18F EPS.

We expect Top Glove's earnings momentum to return in 4QFY17 (FYE Aug) and carry through to FY18F on the back of its new capacity at F30 (2.8bil NBR pcs) and more favourable input prices. The group is also the largest beneficiary of lower NR prices given its larger exposure (NBR:NR:others product split of 37:48:15) and dominance in the segment.

Imputing our new assumptions, our FY17F and FY18F earnings projections are reduced by 9% and 2%. The main factor for the former's sharper downward revision is the lowering of our USD:RM rate. An earnings wildcard is the group's accelerating M&A ambitions.

As an aside, we note that Top Glove's customers are generally smaller sized companies with none making up more than 4% of its revenue. As such, it has greater pricing power over its customers in a reducing ASP environment not unlike the current situation. Nonetheless, should its competitors move to capture market share by reducing glove prices by larger-than-expected quanta, Top Glove may be on the losing end given its thinner margins (EBITDA margin of ~15% vs Kossan's 18% and Hartalega's 23%).

Top Glove is presently valued at an FY18F PE of 20x, ~1SD above its 3-year mean. We have pegged the stock at a slightly lower PE to reflect the uncertainty in its M&A ventures although this is still above its 3-year trend average in recognition of its upward earnings trajectory.

Kossan Rubber Industries (KRI MK, HOLD, TP: RM7.70)

We reaffirm HOLD on Kossan with a higher TP of RM7.70, based on rolled forward FY18F PE of 21x.

Kossan's earnings recovery in FY17F will be hamstrung by its limited incremental capacity. Plant 16 – the group's first to be commissioned since July 2015 – has a production capacity of 3 bil NBR pcs but commercial production had only begun last month. More excitingly, the commissioning of another two plants with a collective nitrile capacity of 4.5bil pcs in 1Q and 3Q next year should provide fresh growth impetus for the stock.

Having lowered our depreciation charges to account for the recent change in its expansion plans, the downward earnings adjustments from a lower USD:RM rate was negated.

Kossan is currently trading within +1SD of its 3-year mean with an FY17F and FY18F PE of 24x and 19x. Our higher target PE for Kossan compared to Top Glove is in view of its more stable and accelerating earnings outlook while it is below Hartalega's given its lack of market leadership in either segment.

Hartalega Holdings (HART MK, HOLD, TP RM6.70)

We reiterate HOLD on Hartalega with a higher TP of RM6.70 as we roll-forward our valuation base to CY18 and raise our earnings estimates by 2%-7% to account for its accelerated NGC capacity expansion.

The rising demand for rubber gloves globally (+8%) has spurred the group to bring forward the commercial production of Plant 4 (~4bil NBR pcs) at NGC to August 2017 from 4QFY18.

YTD, the stock has been the best performer among the domestic rubber glove manufacturers, surging 47% YTD to outperform the FBM KLCI and Kossan by 38ppts and Top Glove by 36ppts. This has pushed its CY18 PE to 28x, close to 1SD above its historical mean.

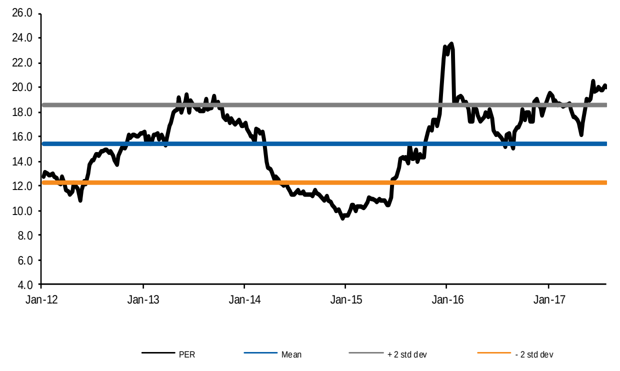
While Hartalega's higher valuation vis-à-vis its peers is justified given its strong earnings growth and above-average financial and operating ratios, we deem the 35% premium to be steep in light of growing competition in its niche NBR segment and concentrated customer base. Our TP of RM6.70 is arrived at after pegging the stock's CY18 EPS at a target PE of 25x.

Table 5 : Peer comparison

Company	Rating	Target Price (RM)	FYE	Price (RM)	Market Cap (RM mil)	EPS growth (%)		PE (x)		PB (x)		ROE (%)		Dvd Yld (%)	
						FY17F	FY18F	FY17F	FY18F	FY17F	FY18F	FY17F	FY18F	FY17F	FY18F
Top Glove	Hold	5.50	Aug	5.78	7,248.0	(11.4)	12.7	22.6	20.1	3.3	3.1	16.0	15.8	2.2	2.5
Kossan	Hold	7.70	Dec	7.10	4,540.2	15.2	21.9	23.6	19.4	4.0	3.6	17.6	19.6	1.9	2.4
Hartalega*	Hold	6.70	Mar	7.06	11,614.4	30.2	12.8	30.5	27.0	6.7	6.4	22.3	24.1	1.6	1.8

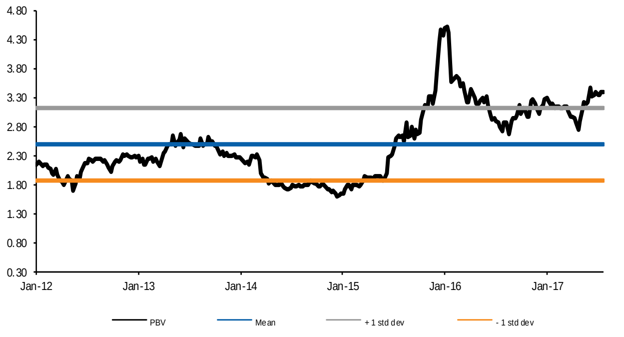
Source: Bloomberg, Company, KAF *estimates are for FY18F and FY19F

Chart 14 : Top Glove's 5-year PE band



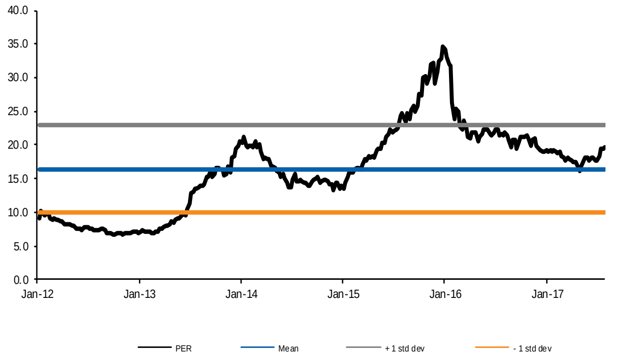
Source: Bloomberg, KAF

Chart 15 : Top Glove's 5-year PB band



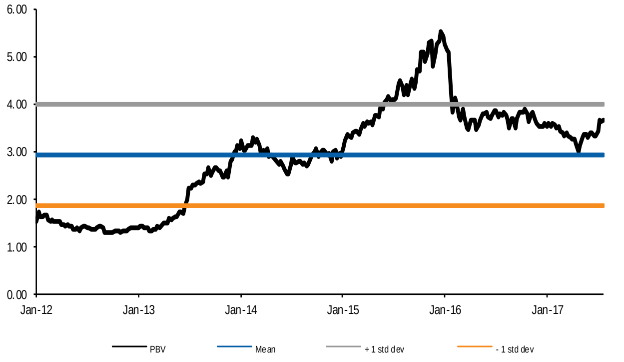
Source: Bloomberg, KAF

Chart 16 : Kossan's 5-year PE band



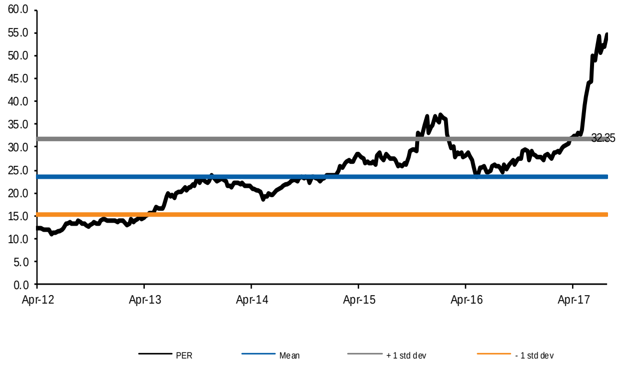
Source: Bloomberg, KAF

Chart 17 : Kossan's 5-year PB band



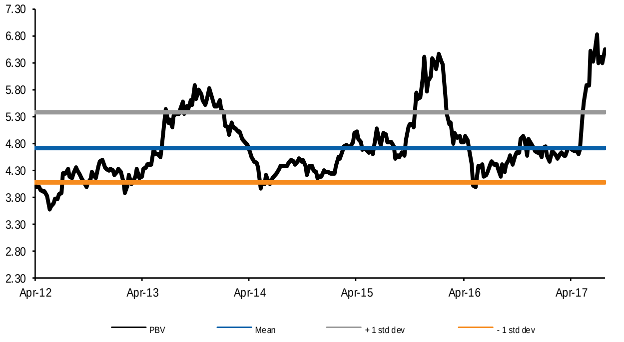
Source: Bloomberg, KAF

Chart 18 : Hartalega's 5-year PE band



Source: Bloomberg, KAF

Chart 19 : Hartalega's 5-year PB band



Source: Bloomberg, KAF

Table 6 : Top Glove's earnings trend – 3Q17 (quarter ending May 2017)

RM m	Quarter							Change		Cumulative		
FYE Aug	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	%QoQ	%YoY	9M16	9M17	% YoY
Turnover	**800**	**694**	**672**	**722**	**786**	**852**	**870**	**2**	**29**	**2,166**	**2,507**	**16**
EBITDA	**190**	**160**	**101**	**103**	**118**	**131**	**122**	**(7)**	**21**	**451**	**371**	**(18)**
EBITDA margin (%)	*24*	*23*	*15*	*14*	*15*	*15*	*14*			*21*	*15*	
Net Interest Expense	(2)	(2)	(1)	(1)	(1)	(1)	(2)	4	21	(4)	(4)	(6)
Depreciation	(27)	(27)	(26)	(27)	(26)	(27)	(29)	5	8	(81)	(82)	2
Pre-Exceptional Profit	**161**	**132**	**73**	**75**	**91**	**103**	**92**	**(11)**	**25**	**366**	**285**	**(22)**
Exceptional	0	0	0	0	0	0	0	n.m.	n.m.	0	0	n.m.
Associates	0	0	1	1	(1)	0	(0)	(205)	(110)	1	(1)	(214)
Pretax Profit	**161**	**132**	**74**	**76**	**90**	**103**	**92**	**(11)**	**24**	**367**	**284**	**(23)**
Pretax margin (%)	*20*	*19*	*11*	*10*	*11*	*12*	*11*			*17*	*11*	
Taxation	(32)	(27)	(11)	(10)	(16)	(20)	(14)	(29)	27	(70)	(50)	(29)
Minorities	(1)	(1)	(0)	(0)	(0)	(0)	0	(211)	(151)	(2)	(0)	(80)
Net Profit	**128**	**105**	**62**	**66**	**73**	**83**	**78**	**(6)**	**24**	**295**	**234**	**(21)**
Net profit margin (%)	*16*	*15*	*9*	*9*	*9*	*10*	*9*			*14*	*9*	

Source: Company, KAF

Table 7 : Hartalega's earnings trend – 4Q17 (quarter ending March 2017)

RM m	Quarter					Change		Cumulative		
Mar YE	4Q16	1Q17	2Q17	3Q17	4Q17	%QoQ	%YoY	FY16	FY17	%YoY
Revenue	**400**	**402**	**437**	**456**	**527**	**15**	**32**	**1,498**	**1,822**	**22**
Operating expenses	(328)	(310)	(332)	(331)	(391)	18	19	(1112)	(1365)	23
EBITDA	**73**	**92**	**105**	**125**	**136**	**8**	**86**	**387**	**458**	**18**
Depreciation and amortisation	(21)	(17)	(17)	(17)	(19)	10	(9)	(71)	(71)	
EBIT	**52**	**75**	**88**	**108**	**116**	**8**	**125**	**316**	**387**	**22**
Interest income	0	0	0	0	0			1	1	
Interest expense	0	(0)	(0)	(0)	(0)			(0)	(1)	
Other income	15	(10)	(4)	(19)	6			(5)	(28)	
Pre-exceptional Profit	**68**	**65**	**83**	**88**	**122**			**312**	**359**	
EIs	3	3	0	(10)	(4)			5	(11)	
Pre-associates profit	71	68	84	78	119			317	349	
Associates	0	0	0	0	0			0	0	
Pre-tax profit	**71**	**68**	**84**	**78**	**119**	**51**	**68**	**317**	**349**	**10**
Taxation	(9)	(12)	(13)	(12)	(29)			(59)	(65)	
Minorities	0	(0)	0	(0)	(0)			(0)	(0)	
Net Profit	**62**	**56**	**71**	**66**	**89**	**35**	**45**	**257**	**283**	**10**
Normalised net profit (ex EI)	**59**	**53**	**71**	**76**	**93**	**22**	**59**	**252**	**294**	**16**

Source: Company, KAF

Table 8 : Kossan's earnings trend - 1Q17 (quarter ending March 2017)

(RM m)	1Q16	2Q16	3Q16	4Q16	1Q17	% Change	
FYE Dec	Mar-15	Jun-16	Sep-16	Dec-16	Dec-16	QoQ	YoY
Turnover	**412**	**404**	**414**	**438**	**500**	**14**	**21**
EBITDA	**85**	**70**	**61**	**73**	**76**	**4**	**(10)**
Amortisation	0	0	0	0	0		
Depreciation	(17)	(17)	(18)	(17)	(18)	7	6
EBIT	**67**	**53**	**44**	**56**	**58**	**3**	**(14)**
Net interest	(3)	(3)	(2)	(3)	(2)	(8)	(5)
Other income	1	0	1	1	1	(6)	32
Pre-Exceptional Profit	**66**	**51**	**43**	**54**	**56**	**4**	**(14)**
Exceptional	0	0	0	0	0		
Associates	0	0	0	0	0		
Pretax Profit	**66**	**51**	**43**	**54**	**56**	**4**	**(14)**
Taxation	(13)	(9)	(8)	(9)	(9)	1	(32)
Minorities	(1)	(1)	(1)	(1)	(1)	(3)	(29)
Net Profit	**51**	**41**	**34**	**45**	**47**	**4**	**(9)**

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

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