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22 July 2009

Supermax

Stretching its market share

RECOM	Buy
PRICE	RM2.15
MKT CAPITALISATION	RM570.3m
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

Investment highlights

- **No major surprises.** There were no major surprises from Supermax's luncheon talk yesterday. Management dwelt on the group's 1H09 performance, current focus and long-term expansion plans.
- **A strong 1H.** Supermax recorded a strong performance in 1H09, with sales coming in at 6.0bn gloves compared to 5.1bn gloves in 1H08. Its net profit soared 53% yoy to RM45.5m. We gathered that 55% or RM25.0m of this came from income from its distribution centres as well as own brand manufacturing (OBM). About 45% or RM20.5m was derived from own equipment manufacturing (OEM).
- **Margin expansion.** The 1H09 earnings jump was largely supported by margin expansion. Net profit margin expanded from 7.7% in 1H08 to 11.9%, aided by management's focus on extracting greater efficiency from its manufacturing facilities as well as higher contributions from its overseas distribution centres. Moreover, with APLI out of its way, Supermax did not have to book losses from the company.
- **Stretching its market share.** We believe Supermax's prospects will continue to improve as demand for the company's products should remain strong. The group has always been active in participating in international trade shows and exhibitions worldwide and is currently the third biggest glove brand in the US dental market. It plans to penetrate new emerging markets such as India and Russia as part of its long-term expansion plans.
- **Maintain Buy.** We make no changes to our earnings forecasts or our target price of RM2.87, which we continue to peg to a 50% discount to our target market P/E of 15x. Also intact is our trading-oriented BUY recommendation, which is predicated on the improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Key stock statistics

FYE Dec	2008	2009F
EPS (sen)	17.7	34.9
P/E (x)	12.1	6.2
Dividend/Share (sen)	3.2	7.0
NTA/Share (RM)	1.5	1.5
Book Value/Share (RM)	1.3	1.1
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)	RM2.28/RM0.78	
Major Shareholders:	%	
Dato' Seri Thai Kim Sim, Stanley	20.4	
Datin Seri Tan Bee Geok, Cheryl	15.0	
Lembaga Tabung Haji	10.0	

Per share data

FYE Dec	2006	2007	2008	2009F
Book Value (RM)	2.3	1.4	1.3	1.1
Cash Flow (sen)	13.2	26.4	37.4	39.0
Earnings (sen)	18.0	21.1	17.7	34.9
Dividend (sen)	4.5	4.9	3.2	7.0
Payout Ratio (%)	18.1	17.0	13.4	15.0
P/E (x)	12.0	10.2	12.1	6.2
P/Cash Flow (x)	16.3	8.1	5.7	5.5
P/Book Value (x)	0.9	1.6	1.6	2.0
Dividend Yield (%)	2.1	2.3	1.5	3.2
ROE (%)	17.7	22.6	19.1	21.8
Net Gearing (%)	76.3	57.0	70.9	51.1

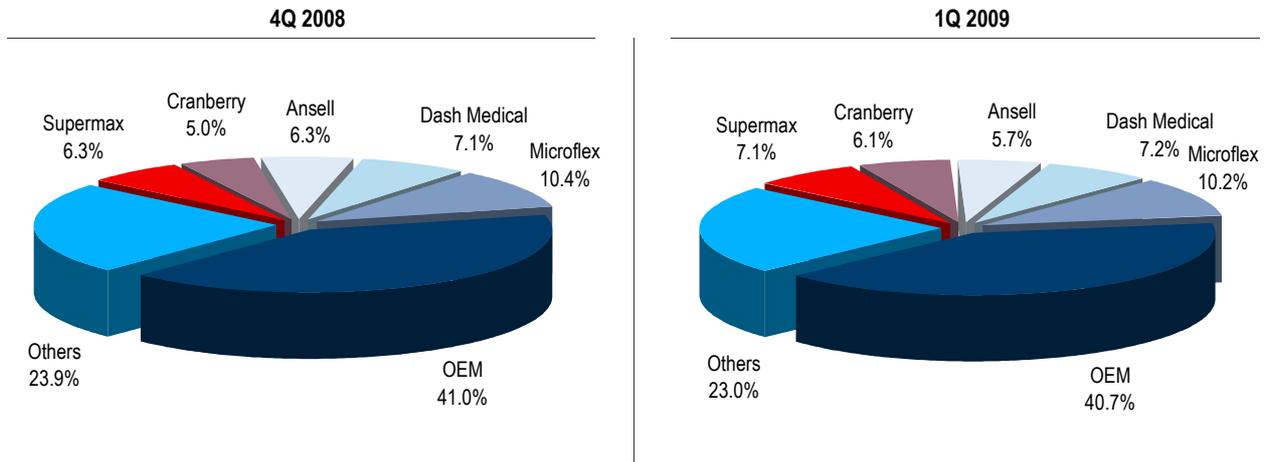
Source: Company, CIMB estimates, Bloomberg

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Recent developments

Increasing market share in the US. Supermax's global brand and products remain synonymous with quality and reliability in the global marketplace and continue to gain market share every year. It is currently the third biggest glove brand in the US dental market. As reported in Strategic Dental Marketing, Supermax's share increased from 6.3% in 4Q08 to 7.1% in 1Q09. We gathered that this was driven largely by the group's ongoing efforts to penetrate into the US market by participating in international trade shows and exhibitions.

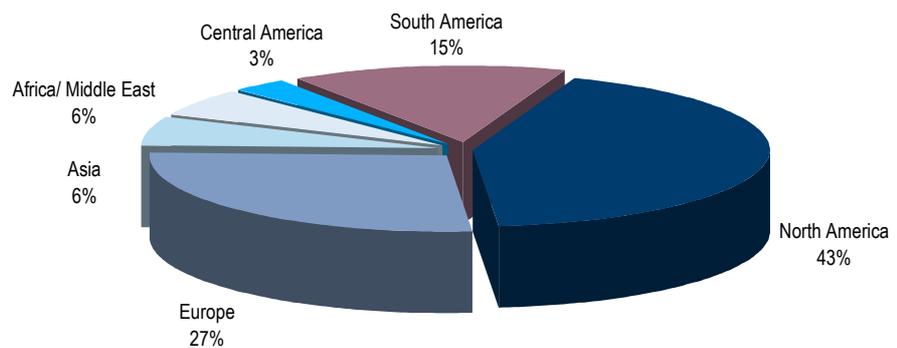
Figure 1: Dental market share in US



Source: Strategic Dental Marketing (USA), Company, CIMB Research

Penetrating India and Russia. 43% of Supermax sales go to the North America region, followed by Europe at 27%, South America 15%, Africa and Middle East 6%, Asia 6% and Central America 3%. Taking into account its success in emerging markets like Brazil, the group plans to penetrate new emerging markets such as India and Russia as part of its long-term expansion plans. This will be largely supported by its glove city project which is expected to kick off in 2011.

Figure 2: Sales by region



Source: Company, CIMB Research

Earnings outlook

No change to earnings. We believe Supermax's prospects will continue to improve as demand for the company's products should remain strong. Due to the stronger-than-expected demand in 1H09, the group is now confident of achieving a minimum of 30 sen EPS for FY09 which is at least 9% above its earlier estimate of 27 sen and consensus estimates of 27.5 sen. In light of this, we make no changes to our earnings forecasts as we think that the company will be able to achieve an EPS of 34.9 sen this year. There could even be upside to our estimate if demand surpasses expectations in 4Q. Furthermore, we believe, the company, which operates on a 55:45 OBM:OEM model, will benefit from its ability to command higher prices and expand its margins, especially in situations where demand exceeds supply like the ongoing A(H1N1) flu outbreak.

Figure 3: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	400.3	574.3	811.8	828.1
Operating Profit (EBIT)	40.8	55.4	70.2	101.5
Depreciation	(13.0)	(19.9)	(28.9)	(28.1)
Interest Expenses	(12.7)	(15.3)	(20.3)	(11.6)
Pretax Profit	47.3	58.6	52.0	108.8
Effective Tax Rate (%)	16.0	4.4	9.6	15.0
Net Profit	39.7	55.9	47.0	92.5
Operating Margin (%)	10.2	9.6	8.7	12.3
Pretax Margin (%)	11.8	10.2	6.4	13.1
Net Margin (%)	9.9	9.7	5.8	11.2

Source: Company, CIMB estimates

Recommendation

Maintain BUY. We maintain our trading-oriented BUY call on the stock. Also intact is our target price of RM2.87, which is pegged to a 50% discount to our target market P/E of 15x. Potential re-rating catalysts include improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Figure 4: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	811.8	828.1	861.2	904.2
EBITDA (RM m)	75.3	99.1	129.6	138.3	156.0
EBITDA margins (%)	13.1	12.2	15.6	16.1	17.3
Pretax profit (RM m)	58.6	52.0	108.8	119.4	127.3
Net profit (RM m)	55.9	47.0	92.5	101.5	108.2
EPS (sen)	21.1	17.7	34.9	38.3	40.8
EPS growth (%)	+17%	-16%	+97%	+10%	+7%
P/E (x)	10.2	12.1	6.2	5.6	5.3
Core EPS (sen)	21.1	24.0	34.9	38.3	40.8
Core EPS growth (%)	+17%	+14%	+45%	+10%	+7%
Core P/E (x)	10.2	9.0	6.2	5.6	5.3
Gross DPS (sen)	4.9	3.2	7.0	7.7	8.2
Dividend yield (%)	2.3	1.5	3.2	3.6	3.8
P/NTA (x)	2.3	1.5	1.4	1.2	1.0
ROE (%)	22.6	14.1	21.8	21.3	19.4
Net gearing (%)	57.0	70.9	51.1	29.1	29.7
P/CF (x)	8.1	5.7	5.5	5.5	5.0
EV/EBITDA (x)	9.5	8.4	6.2	6.2	5.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.27	1.21	1.32

Source: Company, CIMB Research, Reuters Estimates

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