



Jason Yap
+60 (3) 9207 7698
Jason.yap@osk.com.my

9MFY09 Results Review

Supermax Corporation

An Exceptional Quarter

The 9MFY09 results far exceeded estimates, mainly boosted by persistently strong demand from the Latin American markets, especially Brazil, an increase in selling prices of gloves, production efficiency and better cost management. We have upgraded our FY09-10 earnings by 22%-30% in line with the company's solid performance and strong rubber glove demand, against a backdrop of minimal capacity expansion by rubber glove manufacturers this year. Maintain Buy with an upgraded target price of RM4.68 from RM3.85 previously.

Trouncing estimates. Supermax's 9MFY09 results were way above consensus and our expectations, with its 9-month cumulative net profit making up 99% and 95% of consensus and our FY09 forecasts. As we stated in our 14 Oct preview of Supermax's 9MFY09 results, the company's 3QFY09 performance shared some similarities with Top Glove's in that both companies have a similar product mix and target almost the same markets, and posted better-than-expected results due to: 1) strong demand from its Latin American markets, especially Brazil, which boosted Supermax's manufacturing and distribution income, 2) an increase of about US\$2.00/1,000 pieces in the selling prices of gloves on tight supply due to the Government's requirement on the stocking up of gloves to combat the H1N1 pandemic; 3) production efficiency; 4) better cost management, and 5) a jump in utilization rate from 70% to 90%. These factors significantly lifted its 3QFY09 net profit to RM40.1m, or up 55.5% q-o-q, while its YTD net profit soared 90.2% to RM85.6m. EBIT margin also improved by 2.4%-pts q-o-q to 16.6%, and by 6.0%-pts YTD to 14.0%.

FY09-10 earnings bumped up by 22%-30%. Our upgrade is in line with the company's better-than-expected performance and the stronger-than-expected demand for rubber gloves. Supermax also announced a tax exempt interim dividend of 5%.

Maintain Buy. Our target price for Supermax is also upgraded to RM4.68 (previously RM3.85) based on the existing PER of 10x FY10 EPS following our FY10 earnings upgrade. Going into 4QFY09, we believe its results would still be robust, mainly because there has been minimal capacity expansion on the part of glove makers this year even as demand for gloves is anticipated to grow by about 10bn pieces, or 7%, annually.

Risks to our view. These include: 1) an increase in latex price in tandem with the rise in prices of other commodities; 2) industries moving towards nitrile gloves in a big way as technology narrows the difference in production costs vis-à-vis natural rubber gloves; and 3) forex risk.

BUY ↔

Target RM4.68
Previous RM3.85
Price RM3.34

RUBBER GLOVE

Supermax's principal activities are in the manufacture of rubber gloves.

Stock Statistics

| | |
|------------------------|------------|
| Bloomberg Ticker | SUCB MK |
| | EQUITY |
| Share Capital (m) | 265.31 |
| Market Cap (RMm) | 886.12 |
| 52 week H L Price (RM) | 3.43 0.78 |
| 3mth Avg Vol ('000) | 2,722.3 |
| YTD Returns | 317.5 |
| Beta (x) | 0.89 |

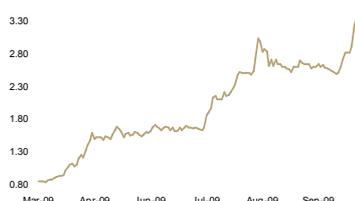
Major Shareholders (%)

| | |
|------------------------|-------|
| Dato' Seri Stanley Tai | 20.40 |
| Datin Seri Cheryl Tan | 14.96 |
| Tabung Haji | 7.68 |

Share Performance (%)

| Month | Absolute | Relative |
|-------|----------|----------|
| 1m | 29.2 | 24.5 |
| 3m | 54.4 | 39.6 |
| 6m | 196.8 | 134.5 |
| 12m | 224.6 | 148.8 |

6-month Share Price Performance



| FYE Dec (RMm) | FY06 | FY07 | FY08 | FY09f | FY10f |
|--------------------|---------|---------|---------|---------|---------|
| Revenue | 389.1 | 582.1 | 833.4 | 1,109.8 | 1,203.5 |
| Net Profit | 40.8 | 59.4 | 46.5 | 117.0 | 124.2 |
| % chg y-o-y | 12.6 | 45.5 | -21.7 | 151.7 | 6.1 |
| Consensus | - | - | - | 86.5 | 97.8 |
| EPS (sen) | 15.4 | 21.4 | 16.7 | 42.2 | 46.8 |
| DPS (sen) | 2.8 | 3.3 | 4.0 | 4.0 | 4.0 |
| Dividend yield (%) | 0.8 | 1.0 | 1.2 | 1.2 | 1.2 |
| ROE (%) | 1,834.1 | 1,880.1 | 1,132.2 | 2,414.4 | 2,077.2 |
| ROA (%) | 822.6 | 855.2 | 500.1 | 1,115.2 | 1,079.1 |
| PER (x) | 24.0 | 15.6 | 19.9 | 7.9 | 7.1 |
| BV/share (RM) | 0.91 | 1.47 | 1.62 | 2.03 | 2.47 |
| P/BV (x) | 3.7 | 2.4 | 2.2 | 1.7 | 1.4 |
| EV/ EBITDA (x) | 19.1 | 13.4 | 12.2 | 7.3 | 6.3 |

Results Table (RMm)

| FYE Dec | 3Q09 | 2Q09 | Q-o-Q chg | YTD FY09 | YTD FY08 | Y-o-Y chg | Comments |
|----------------------|-------------|-------------|----------------------|---------------------|---------------------|----------------------|--|
| Revenue | 237.6 | 188.5 | 26.0% | 618.5 | 629.0 | -1.7% | Higher q-o-q following strong demand from Brazil and the H1N1 pandemic. Also, there was an increase in the selling prices of rubber gloves. |
| EBIT | 39.5 | 26.8 | 47.3% | 86.7 | 50.5 | 71.8% | Higher due to the increase in selling prices of rubber gloves, production efficiency, better cost management and higher production utilization rate. |
| Net interest expense | -4.1 | -4.5 | -7.7% | -13.6 | -15.0 | -9.5% | |
| Associates | 11.3 | 9.0 | 26.1% | 28.4 | 12.5 | 127.9% | Boosted by stronger distribution income from Brazil, Canada, Belgium and Australia. |
| PBT | 46.7 | 31.3 | 49.0% | 101.5 | 47.9 | 111.9% | |
| Tax | -6.6 | -5.5 | 19.1% | -15.9 | -2.4 | 563.9% | |
| MI | 0.0 | 0.0 | - | 0.0 | 0.0 | - | |
| Net profit | 40.1 | 25.8 | 55.5% | 85.6 | 45.5 | 88.1% | Higher in line with higher revenue and EBIT. |
| EPS (sen) | 15.1 | 9.7 | | 32.3 | 17.2 | | |
| DPS (sen) | 2.5 | 0.0 | | 2.5 | 1.5 | | |
| EBIT margin | 16.6% | 14.2% | | 14.0% | 8.0% | | |
| NTA/share (RM) | 1.88 | 1.62 | | 1.88 | 1.57 | | |

EARNINGS FORECAST

| FYE Dec (RMm) | FY06 | FY07 | FY08 | FY09f | FY10f |
|----------------------|-------------|-------------|-------------|--------------|--------------|
| Turnover | 389.1 | 582.1 | 833.4 | 1,109.8 | 1,203.5 |
| EBITDA | 55.9 | 92.1 | 100.1 | 171.7 | 193.4 |
| PBT | 47.2 | 67.2 | 51.6 | 137.7 | 146.1 |
| Net Profit | 40.8 | 59.4 | 46.5 | 117.0 | 124.2 |
| EPS (sen) | 15.4 | 21.4 | 16.7 | 42.2 | 46.8 |
| DPS (sen) | 2.8 | 3.3 | 4.0 | 4.0 | 4.0 |
| Margin | | | | | |
| EBITDA (%) | 14.4 | 15.8 | 12.0 | 15.5 | 16.1 |
| PBT (%) | 12.1 | 11.5 | 6.2 | 12.4 | 12.1 |
| Net Profit (%) | 10.5 | 10.2 | 5.6 | 10.5 | 10.3 |
| ROE (%) | 18.3 | 18.8 | 11.3 | 24.1 | 20.8 |
| ROA (%) | 8.2 | 8.6 | 5.0 | 11.2 | 10.8 |
| Balance Sheet | | | | | |
| Fixed Assets | 300.7 | 510.6 | 507.2 | 502.4 | 496.1 |
| Current Assets | 219.2 | 359.0 | 482.5 | 606.9 | 695.8 |
| Total Assets | 519.9 | 869.6 | 989.7 | 1,109.3 | 1,191.9 |
| Current Liabilities | 126.3 | 309.7 | 391.0 | 401.2 | 367.2 |
| Net Current Assets | 92.9 | 49.3 | 91.5 | 205.7 | 328.6 |
| LT Liabilities | 152.8 | 168.7 | 168.7 | 168.7 | 168.7 |
| Shareholders Funds | 240.8 | 391.2 | 430.1 | 539.5 | 656.0 |
| Net Gearing (%) | 76.4 | 88.3 | 77.9 | 69.6 | 50.4 |

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Chris Eng

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|---|--|--|---|--|
| Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202 | Hong Kong Office OSK Securities Hong Kong Ltd. 1201-1203, 12/F, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2537 1332 | Singapore Office DMG & Partners Securities Pte. Ltd. #22-01 Ocean Towers 20 Raffles Place Singapore 048620 Tel : +(65) 6438 8810 Fax : +(65) 6535 4809 | Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jl. Jend. Sudirman Kav. 25. Jakarta 12920 Indonesia Tel : + (6221) 520 4599 Fax : + (6221) 520 4505 | Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No. 1266 West Nanjing Road 200040, Shanghai China Tel : +(8621) 6288 9611 Fax : + (8621) 6288 9633 |