

Supermax Corporation

Recommendation: **BUY**Stock Code: **7106**Bloomberg: **SUCB MK**Price: **MYR4.01**12-Month Target Price: **MYR4.60**Date: **November 23, 2009****Board:** Main**Sector:** Industrial Products**GICS:** Health Care/Health Care Supplies**Market Value - Total:** MYR1,075.7 mln

Summary: Supermax Corporation (Supermax) makes latex gloves and is currently the second largest latex glove manufacturer in the country. Supermax was listed on the Second Board of Bursa Malaysia in August 2000 before successfully transferring to the Main Board in October 2003. The stock is a component of FBM EMAS.

Analyst: Su Peng Ng**Recent Developments**

- We spoke with Supermax's management for an update recently. We gather that demand for gloves remains strong, following the A(H1N1) flu pandemic. As a result, back orders remain slightly above 5.0 bln gloves. Pricing has also been firm, with an adjustment of about 3% on average since September 2009.
- Its ongoing expansion will raise its 2010-2011 capacity by 21.5% and 23.6% to 17.6 bln and 21.7 bln glove pieces p. a. respectively, from the current 9.6 bln. This includes phase one of the Glove City project near Klang, which has an installed capacity of 4.2 bln pieces a year when it comes on stream in early 2011. The entire project may produce 18 bln gloves p. a. upon completion.
- Supermax has revised its dividend policy to 20% of target net profit - with any additional above the threshold to be paid as special dividend - from a simple payout of 20% on net profit. It targets net profit for 2009 and 2010 at MYR117 mln and MYR133 mln respectively.

Recommendation & Investment Risks

- We maintain our Buy recommendation on Supermax but raise our 12-month target price to MYR4.60 from MYR3.80.
- We ascribe a higher target PER of 9.0x from 8.0x to reflect the strong demand outlook against our projected 2010 EPS. Our target price includes a higher 2010 net DPS of 10.5 sen (from 7.5 sen) to take into account the revised dividend policy.
- At its present 2010 PER of 7.9x, Supermax is trading below the industry average of 11.7x. We remain positive on Supermax in view of the strong demand for gloves as a result of the ongoing A(H1N1) flu pandemic. Cost pressures are expected to remain relatively benign for the medium term, as rubber prices are unlikely to stage a strong recovery in 2010. Therefore, we believe Supermax's share price will continue to outperform the market.
- Risks to our recommendation and target price include an upturn in latex prices and an appreciating MYR, as revenue is predominantly derived from USD-denominated exports.

Earnings Outlook

- While we maintain our 2009 earnings forecast, we increase our 2010 net profit forecast to MYR134.6 mln (from MYR124.4 mln) after revising our capacity utilization, pricing and operating costs assumptions.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	17.5	44.8
PER (x)	22.9	9.0
Dividend/Share (sen)	3.3	9.3
NTA/Share (MYR)	1.46	1.85
Book Value/Share (MYR)	1.57	1.96
No. of Outstanding Shares (mln)	268.3	
52-week Share Price Range (MYR)	0.79 - 4.01	
Major Shareholders:	%	
Dato' Seri Stanley Thai & family	35.4	
Tabung Haji	7.6	
Koperasi Permodalan Felda	5.7	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.07	1.45	1.57	1.96
Cash Flow (sen)	23.5	28.6	25.8	52.9
Reported Earnings (sen)	17.8	24.2	17.5	44.8
Dividend (sen)	3.3	3.3	3.3	9.3
Payout Ratio (%)	18.6	15.4	13.6	19.7
PER (x)	22.6	16.5	22.9	9.0
P/Cash Flow (x)	17.1	14.0	15.6	7.6
P/Book Value (x)	3.8	2.8	2.6	2.0
Dividend Yield (%)	0.8	0.8	0.8	2.3
ROE (%)	17.9	17.9	15.8	25.2
Net Gearing (%)	70.1	82.5	90.5	39.0

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FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	574.3	833.4	866.6	1,084.4
Reported Operating Profit	55.0	71.7	120.8	136.2
Depreciation & Amortization	-19.9	-21.8	-23.2	-24.8
Net Interest Income / (Expense)	-14.8	-22.1	-18.5	-15.2
Reported Pre-tax Profit	58.6	51.6	139.7	158.4
Effective Tax Rate (%)	4.4	10.0	15.0	15.0
Reported Net Profit	55.9	46.5	118.7	134.6
Reported Operating Margin (%)	9.6	8.6	13.9	12.6
Reported Pre-tax Margin (%)	10.2	6.2	16.1	14.6
Reported Net Margin (%)	9.7	5.6	13.7	12.4

Source: Company data, S&P Equity Research

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	4.60
16-Oct-09	Buy	3.80
13-Jul-09	Strong Buy	2.60
11-May-09	Strong Buy	2.00
28-Nov-08	Buy	1.20
25-Aug-08	Buy	1.40
30-May-08	Strong Buy	2.35
3-Jan-08	Strong Buy	3.00
28-Sep-07	Not Ranked	
12-Sep-07	Strong Buy	3.25
21-May-07	Strong Buy	3.10
9-Mar-07	Buy	2.53
22-Feb-07	Buy	2.31

