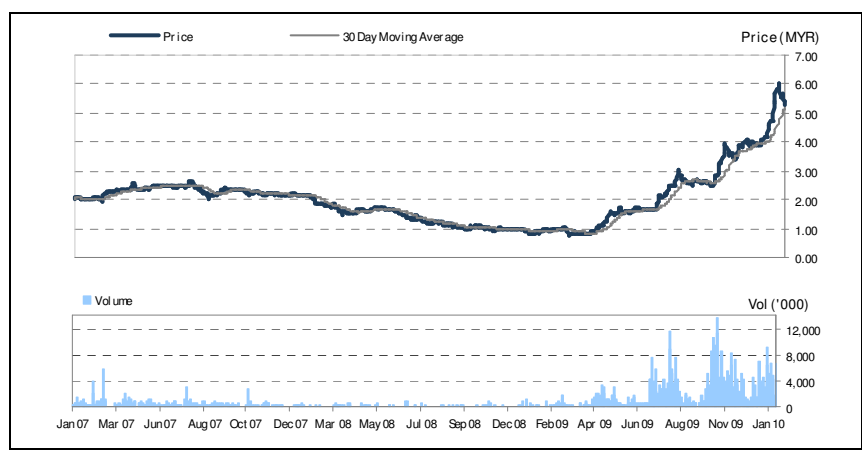


Supermax Corporation

Recommendation: **STRONG BUY**Stock Code: **7106**Bloomberg: **SUCB MK**Price: **MYR5.29**12-Month Target Price: **MYR6.50**Date: **January 25, 2010****Board:** Main**Sector:** Industrial Products**GICS:** Health Care/Health Care Supplies**Market Value - Total:** MYR1,419.0 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**

- Supermax's order backlog remains at about 5 bln glove pieces. Demand continues to be strong, partially boosted by the A(H1N1) pandemic which has prompted governments to stock up on gloves.
- While Supermax's annual capacity is set to rise by 3.1 bln glove pieces by end-2010 (to 17.6 bln pieces), the weighted capacity increase is only 1.7 bln for the full year. Due to the order backlog, its clients are offering financial incentives or accepting smaller-sized or older gloves to shorten delivery times, which should increase margins further.
- Cost wise, latex pricing has also been rising but we believe the recent rise to almost MYR7.00/kg is due to wintering and monsoon period and should normalize when the season ends in March. In a rising latex cost situation, Supermax has resorted to reducing its latex price setting down to one month from two months. The higher costs will be passed on to customers, given the glove shortage situation.
- 2009 will have been a strong year for Supermax and this positive momentum will likely carry through into 2010, when the group brings on-stream an additional 1.7 bln glove pieces in new capacity. We anticipate demand to remain healthy (+20% YoY) and costs to be relatively well contained.

Recommendation & Investment Risks

- We upgrade our recommendation on Supermax to Strong Buy (from Buy) with a higher 12-month target price of MYR6.50 (from MYR4.60).
- We utilize a target PER of 12x (from 9x) against our projected 2010 EPS for Supermax and add our estimated tax exempt net DPS for 2010 of 9.9 sen. The higher target multiple is due to a higher peer average and is a reflection of the strong demand-supply outlook of the industry.
- In addition to a healthy demand outlook for gloves, Supermax's OBM products, which carry higher margins, have expanded in terms of revenue contribution (to 63.9% from 60% in mid-2009). As such, we believe increasing sales and expanding margins over the medium term will provide catalysts for Supermax's share price outperformance.
- Risks to our recommendation and target price include a sudden upturn in latex prices and an appreciating MYR, as revenue is predominantly derived from exports.

Earnings Outlook

- In view of continued strong glove demand, we increase our 2009 and 2010 margin and associate contribution assumptions, resulting in new net profit forecasts of MYR121.1 mln (from MYR118.7 mln) and MYR141.0 mln (from MYR134.6 mln) respectively.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	17.7	45.7
PER (x)	29.9	11.6
Dividend/Share (sen)	3.3	9.3
NTA/Share (MYR)	1.46	1.86
Book Value/Share (MYR)	1.57	1.97
No. of Outstanding Shares (mln)	268.3	
52-week Share Price Range (MYR)	0.79 - 6.03	
Major Shareholders:	%	
Dato' Seri Stanley Thai & family	35.4	
Koperasi Permodalan Felda	5.6	
Tabung Haji	5.2	

* 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	1.97
Cash Flow (sen)	23.5	28.6	28.6	56.4
Reported Earnings (sen)	17.8	24.2	17.7	45.7
Dividend (sen)	3.3	3.3	3.3	9.3
Payout Ratio (%)	18.6	15.4	13.5	19.3
PER (x)	29.8	21.8	29.9	11.6
P/Cash Flow (x)	22.5	18.5	18.5	9.4
P/Book Value (x)	5.0	3.7	3.4	2.7
Dividend Yield (%)	0.6	0.6	0.6	1.8
ROE (%)	17.9	17.9	15.9	25.7
Net Gearing (%)	70.1	82.5	86.4	46.7

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Supermax Corporation

Recommendation: **STRONG BUY**Stock Code: **7106**Bloomberg: **SUCB MK**Price: **MYR5.29**12-Month Target Price: **MYR6.50**Date: **January 25, 2010****Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	574.3	811.8	866.6	1,079.2
Reported Operating Profit	55.0	70.1	117.7	136.8
Depreciation & Amortization	-19.9	-28.9	-30.2	-31.8
Net Interest Income / (Expense)	-14.8	-20.2	-16.5	-12.3
Reported Pre-tax Profit	58.6	52.0	142.5	165.8
Effective Tax Rate (%)	4.4	9.6	15.0	15.0
Reported Net Profit	55.9	47.0	121.1	141.0
Reported Operating Margin (%)	9.6	8.6	13.6	12.7
Reported Pre-tax Margin (%)	10.2	6.4	16.4	15.4
Reported Net Margin (%)	9.7	5.8	14.0	13.1

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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	Strong Buy	6.50
23-Nov-09	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

