



MALAYSIA EQUITY
Investment Research
Daily News

RUBBER GLOVE

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Company Update

Private Circulation Only

Supermax Corp.

BUY **Maintain**
Price **RM0.875**
Target **RM1.62**

Doing What It Does Best

At Supermax's analyst briefing to update investors on the way forward yesterday, we gather that management will continue to sharpen its focus on OBM gloves for which margins are higher. Management also expects latex price to stabilise at around RM4.50 in 2009. Going forward, the company will be developing a new Glove City Project in Bukit Kapar, Klang, capable of doubling its production capacity to about 30.0bn pieces p.a. in 10 years' time. Maintain Buy on Supermax for its attractive valuation based on the currently low share price.

Focusing on more OBM gloves. The present production breakdown is 55%:45% for OBM and OEM respectively. Going forward, management will increase production of OBM gloves as these yield better margins, which are from: 1) distribution margins; and 2) more controllable selling price since there is less competition and they are not squeezed by the OEMs in the healthcare industry, which have various rubber glove suppliers.

Latex price to average at RM4.50 for 2009. Management believes this would be a fair price for the rubber tapers to earn a reasonable margin. The price is not expected to go up a lot given the: 1) low crude oil price – natural latex rubber price is co-related to the price of synthetic rubber, which is affected by crude oil price, and 2) there may be an over-supply of latex given the lower demand from the automotive industry.

New Glove City Project in Bukit Kapar, Klang. Supermax has plans to set up new factories here starting 2011, in addition to the existing capacity expansion of 12 lines, or 1.8bn pieces of gloves p.a. by 2010. Management plans to progressively transfer all its rubber gloves production to this area to enhance operating efficiency. This 'city' would have its own independent electricity generator, together with a mix of natural gas and biofuel facilities. We understand that the first phase starting sometime in 2011 would involve replacing the older production capacity while the second phase - expected to start from 2012 onwards - would involve factory relocation. The entire city is expected to be completed in 10 years' time, with double the existing total capacity of 14.4bn pieces of gloves p.a.

Stock Profile/Statistics

Bloomberg Ticker	SUCB MK
KLCI	Equity
Issued Share Capital (m)	869.24
Market Capitalisation (RMm)	265.27
52 week H L Price (RM)	232.11
Average Volume (3m) '000	1.88 0.79
YTD Returns (%)	170.02
Net gearing (x)	0.21
Altman Z-Score	0.88
ROCE/WACC	1.99
Beta (x)	1.18
Book Value/share (RM)	0.71
	1.34

Major Shareholders (%)

Dato' Seri Stanley Tai	23.85
Datin Seri Cheryl Tan	17.49
FELDA	6.61

Share Performance (%)

Month	Absolute	Relative
1m	8.24	1.33
3m	1.10	0.16
6m	(12.20)	8.85
12m	(43.10)	(10.73)

6-month Share Price Performance



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

FYE 31 Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Total revenue	389.1	582.1	833.4	1,107.6	1,201.2
Net Profit	40.8	59.4	46.5	65.8	71.6
Consensus profit	-	-	-	69.0	86.0
% chg YoY	12.6	45.5	(21.7)	41.5	8.9
EPS (sen)	15.4	21.4	16.7	23.7	27.0
Gross DPS (sen)	2.8	3.3	4.0	4.0	4.0
Gross Div Yield (%)	3.2	3.7	4.6	4.6	4.6
ROE (%)	18.3	18.8	11.3	14.3	13.8
ROA (%)	8.2	8.6	5.0	6.3	6.3
PER (x)	6.3	4.1	5.2	3.7	3.2
P/BV	1.0	0.6	0.6	0.5	0.4
EV/EBITDA (x)	7.4	6.3	5.7	5.5	4.3

APPENDIX

No more output from APLI. APLI has stopped rubber glove production since December 2008. Liquidators have been hired to sell the remaining assets in APLI, such as its production lines and factory. There is no impact on Supermax since it had fully written down its 14.09% stake in APLI in 4QFY08 amounting to RM16.7m. Management has also indicated that it has no interest in buying APLI's assets. Instead, it prefers to focus on organic growth. We also believe it is because APLI's clients are mainly OEMs and multinationals in the very competitive food industry that is not a recession-proof industry, unlike the medical industry.

Maintain BUY. Nevertheless, we are tweaking our FY09-10 earnings downwards by 6%-15%. Our revised target price for Supermax is RM1.62 based on PER of 6x FY10 earnings (previously RM1.92 based on a PER of 6x FY10 earnings). The company's valuation is attractive at the current price and is trading at 3.7x FY09 EPS compared to its peers, Top Glove at 11.7x, Kossan 7.1x, Hartalega 6.9x and Adventa 5.4x.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	389.1	582.1	833.4	1,107.6	1,201.2
EBITDA	55.9	92.1	100.1	111.4	131.6
PBT	47.2	67.2	51.6	77.4	84.3
Net Profit	40.8	59.4	46.5	65.8	71.6
EPS (sen)	15.4	21.4	16.7	23.7	27.0
DPS (sen)	2.8	3.3	4.0	4.0	4.0
Margin					
EBITDA	14.4%	15.8%	12.0%	10.1%	11.0%
PBT	12.1%	11.5%	6.2%	7.0%	7.0%
Net Profit	10.5%	10.2%	5.6%	5.9%	6.0%
ROE	18.3%	18.8%	11.3%	14.3%	13.8%
ROA	8.2%	8.6%	5.0%	6.3%	6.3%
Balance Sheet					
Fixed Assets	300.7	510.6	507.2	502.4	496.1
Current Assets	219.2	359.0	482.5	609.3	655.0
Total Assets	519.9	869.6	989.7	1,111.7	1,151.1
Current Liabilities	126.3	309.7	408.8	454.8	430.2
Net Current Assets	92.9	49.3	73.7	154.5	224.8
LT Liabilities	152.8	168.7	168.7	168.7	168.7
Shareholders' Fund	240.8	391.2	430.1	488.2	552.2
Net Gearing (%)	76.4%	88.3%	77.9%	76.9%	59.8%

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