

Company Update

Supermax

SUCB MK
RM6.26

BUY (maintain)

Price Target: RM8.47 (↔)



Price Performance

	1M	3M	12M
Absolute	+7.0%	+13.2%	+238.0%
Rel to KLCI	+5.0%	+12.2%	+189.1%

Stock Data

Issued shares (m)	335.3
Mkt cap (RMm)	2,099.1
Avg daily vol - 6mth (m)	3.21
52-wk range (RM)	6.60-1.82
Est free float	64.0%
NTA per share (RM)	2.22
P/NTA (x)	2.81
Net cash/ (debt) (RMm) (1Q10)	(189.78)
ROE (FY10F)	32.7%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.7%
Datin Seri Cheryl Tan	15.3%

Earnings & Valuation Revisions

	10E	11E	12E
Prev EPS (sen)	61.9	74.5	85.0
Curr EPS (sen)	61.9	74.5	85.0
Chg (%)	-	-	-
Prev target price (RM)			8.47
Curr target price (RM)			8.47

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Sturdy demand to support 2H10

Lead time at a healthier level

At the height of the A(H1N1) virus outbreak, Supermax faced 3-4 months worth of backlogged orders, as demand far outstripped production capacity. In a recent meeting, management indicated that lead time is currently at a more manageable 60 days. An ideal range would be 40-45 days, which would limit Supermax's exposure to unfavorable swings in latex prices and RM/US\$ exchange rate. The longer than normal lead time is attributed to spillover demand for the company's own brand gloves (Supermax, Aurelia, Maxter, Medic-Dent and Supergloves), which account for 64% of sales. On the bright side, the backlog of orders implies that demand is still resilient.

Global healthcare reforms to drive demand

Going forward, management expects demand for gloves to remain robust. Aside from the typical 8-10% p.a. growth in global glove consumption, demand will be boosted by: 1) the US healthcare reform; 2) increased healthcare spending in developing nations, namely India and Mexico, and; 3) the RMB850bn yuan overhaul of China's healthcare system. Approximately 70% of medical gloves used in China are the cheaper plastic gloves. Thus, there exists a huge potential market for NR gloves, made even more attractive by the zero import tariff scheme implemented this year (vide the China-ASEAN Free Trade Agreement).

Drawing on existing gas supply to power capacity expansion

To cater to the stronger demand, Supermax expects to have 16 additional lines up and running by August/September 2010, providing an additional 2.3bn pieces per annum. This brings installed annual capacity by end-2010 to about 17bn pieces (+15.6%). Additional natural gas supply is not a constraint, as Supermax will tap on its existing gas supply to power the new lines. Capacity expansion in 2011, which involves the first phase of Glove City (32 lines, 4.2bn pieces p.a.), will be powered by biomass. Ultimately, Supermax plans to run Glove City on a dual fuel system, with the option of switching between biomass and natural gas.

2H10 earnings delivery to remain intact

Supermax is expected to release their 2QFY10 results in the third week of August. Management hinted that earnings will not stray far from the strong 1QFY10 results (net profit: RM51.5m). Looking beyond that, we believe growth trajectory will remain intact. Orders will pick up in August, as customers replenish dwindling inventory post-wintering period. While we foresee compression in margins from the high latex prices in 2QFY10, we note that Supermax is still passing on 90-95% of its costs. Likewise, management remains relatively unconcerned on potential removal of natural gas subsidies (glove manufacturers are paying RM15/mmbtu, which is around current market price of US\$4.63/mmbtu). Any increases in market prices of natural gas would be reflected in higher ASP.

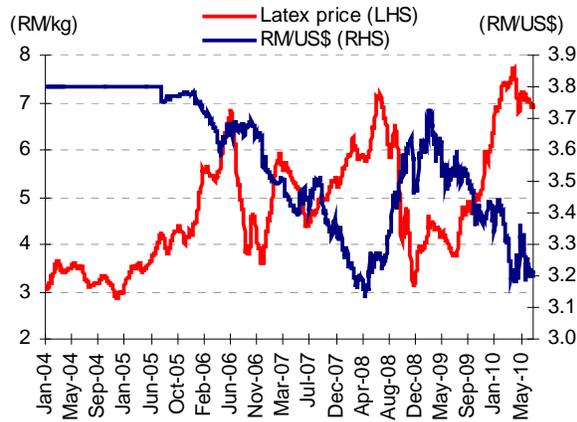
Earnings summary and valuation summary

FYE Dec	2008	2009	2010E	2011E	2012E
Revenue (RMm)	811.8	803.6	1,105.1	1,271.6	1,383.4
EBITDA (RMm)	98.9	163.7	252.6	299.1	340.9
Pretax profit (RMm)	52.0	151.5	246.4	296.5	338.4
Net profit (RMm)	47.0	126.6	210.2	252.9	288.7
EPS (sen)	13.8	37.3	61.9	74.5	85.0
EPS growth (%)	-16.7	169.3	66.0	20.3	14.1
PER (x)	45.2	16.8	10.1	8.4	7.4
Core net profit (RMm)	63.7	126.6	210.2	252.9	288.7
Core EPS (sen)	18.8	37.3	61.9	74.5	85.0
Core PER (x)	33.4	16.8	10.1	8.4	7.4
DPS (sen)	3.3	11.0	12.4	15.0	17.1
Dividend Yield (%)	0.5	1.8	2.0	2.4	2.7
EV/EBITDA (x)	25.1	14.0	8.8	7.1	5.8
Consensus profit (RMm)			188.1	212.1	238.6
Affin/Consensus (x)			1.1	1.2	1.2

Maintain BUY, TP: RM8.47

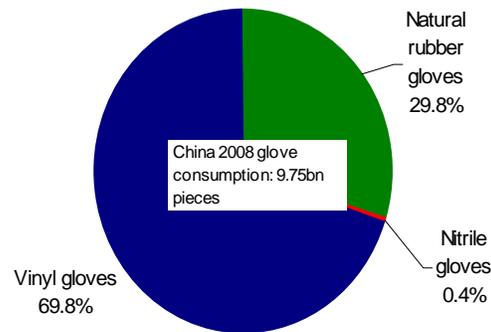
We maintain our BUY call and target price of RM8.47, pegged to an unchanged PE target of 11.4x CY11 EPS. Supermax continues to be our top pick for the gloves sector, in view of its resilient business model (mix of OEM and OBM) and undemanding valuations. Stock is currently trading at 8.4x CY11 PE, below historical mean of 10x and supported by strong CY11 EPS growth of 20.3%. Key risks to our positive view are volatile latex prices and a sharper-than-expected appreciation of RM against US\$. Sudden changes in government policies, with insufficient adjustment periods, would also have an adverse impact on earnings.

Fig 1: Latex prices



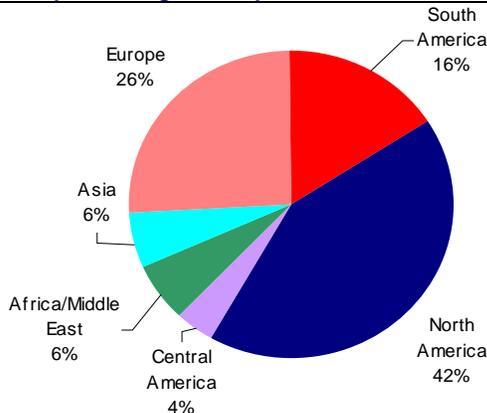
Source: Bloomberg

Fig 2: China's glove consumption by type - 2008



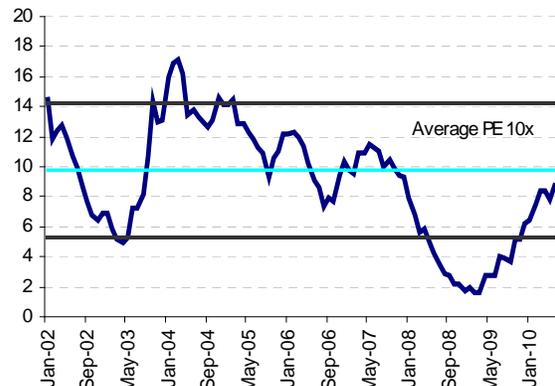
Source: Company, MREPC

Fig 3: Supermax's global export destinations



Source: Company data

Fig 4: Rolling 1-yr forward P/E



Source: Bloomberg, Affin

Fig 5: Peers Comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RM m)	Core PE (x) CY10	Core PE (x) CY11	EPS growth (%) CY10	EPS growth (%) CY11	EV/EBITDA (x)	P/B (x)	ROE (%) FY10	ROE (%) FY11	Net Div Yield (%) FY10	Net Div Yield (%) FY11
Kossan	BUY	4.00	5.00	1,279	10.0	8.5	18.0	18.5	6.8	2.8	31.1	28.7	1.7	2.0
Top Glove	BUY	6.75	8.35	4,168	15.2	14.0	35.7	8.5	9.4	2.1	29.1	26.4	2.7	2.8
Supermax	BUY	6.26	8.47	2,125	10.1	8.4	66.0	20.3	9.2	2.7	32.7	30.6	2.0	2.4
Hartalega**	NR	8.28	na	2,006	12.3	10.1	33.4	21.6	8.3	4.3	38.1	35.0	2.8	3.2
Adventa**	NR	3.09	na	466	11.4	8.3	99.5	37.7	7.0	1.7	18.3	18.5	2.4	3.1
Latexx**	NR	3.61	na	762	7.7	5.6	90.9	35.7	5.3	na	46.5	40.5	1.6	2.4

Simple average

11.1 9.1 57.3 23.7 7.7 2.7 32.6 29.9 2.2 2.6

**based on consensus estimates

Source: Bloomberg, Affin

FINANCIAL SUMMARY - SUPERMAX

Profit & Loss Statement

FYE Dec (RMm)	2008	2009E	2010E	2011E	2012E
Total revenue	811.8	803.6	1105.1	1271.6	1383.4
Operating expenses	(712.9)	(640.0)	(852.5)	(972.4)	(1042.5)
EBITDA	98.9	163.7	252.6	299.1	340.9
Depreciation	(28.8)	(31.9)	(31.1)	(32.9)	(34.5)
Amortisation	0.0	0.0	0.0	0.0	1.0
EBIT	70.1	131.7	221.6	266.3	306.4
Net interest income/(expense)	(20.3)	(22.3)	(16.9)	(14.1)	(11.6)
Associates' contribution	18.8	41.8	41.4	44.0	43.3
Others	0.1	0.2	0.3	0.3	0.4
Pretax profit	52.0	151.5	246.4	296.5	338.4
Tax	(5.0)	(24.9)	(36.2)	(43.6)	(49.7)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	47.0	126.6	210.2	252.9	288.7

Balance Sheet Statement

FYE Dec (RMm)	2008	2009E	2010E	2011E	2012E
Fixed assets	382.9	368.2	382.1	404.2	424.7
Other long term assets	156.5	195.9	226.9	264.1	308.8
Total non-current assets	539.4	564.1	609.0	668.4	733.5
Cash and equivalents	31.0	118.7	159.2	248.8	372.4
Stocks	135.5	116.2	172.1	196.2	213.1
Debtors	131.3	84.1	115.7	133.1	144.8
Other current assets	109.5	62.1	62.1	62.1	62.1
Total current assets	407.3	381.2	509.1	640.2	792.4
Creditors	108.0	70.1	103.8	118.3	128.5
Short term borrowings	221.1	124.8	112.3	101.1	91.0
Other current liabilities	18.3	18.8	18.8	18.8	18.8
Total current liabilities	347.4	213.7	234.9	238.2	238.3
Long term borrowings	169.7	164.8	148.3	133.5	120.1
Other long term liabilities	13.3	7.9	7.9	7.9	7.9
Total long term liabilities	183.0	172.7	156.2	141.4	128.1
Shareholders' Funds	416.4	558.8	726.9	928.9	1159.5

Cash Flow Statement

FYE Dec (RMm)	2008	2009E	2010E	2011E	2012E
EBIT	70.1	131.7	221.6	266.3	306.4
Depreciation & amortisation	28.8	31.9	31.1	32.9	34.5
Working capital changes	(37.9)	76.4	(53.7)	(27.0)	(18.4)
Cash tax paid	(5.0)	(24.9)	(36.2)	(43.6)	(49.7)
Others	23.7	10.7	41.7	44.3	43.6
Cashflow from operation:	79.7	225.9	204.4	272.9	316.4
Capex	(38.5)	(17.4)	(45.0)	(55.0)	(55.0)
Disposal/(purchases)	(18.6)	0.0	(31.0)	(37.2)	(44.7)
Others	18.6	0.2	0.0	0.0	0.0
Cash flow from investing	(38.5)	(17.2)	(76.0)	(92.2)	(99.7)
Debt raised/(repaid)	(15.6)	(101.2)	(29.0)	(26.1)	(23.5)
Equity raised/(repaid)	(5.9)	27.0	0.0	0.0	0.0
Net interest income/(expense)	(20.2)	(22.3)	(16.9)	(14.1)	(11.6)
Dividends paid	(8.6)	(15.0)	(42.1)	(50.9)	(58.1)
Others	2.1	0.0	1.0	0.0	0.0
Cash flow from financing	(48.1)	(111.5)	(87.0)	(91.1)	(93.1)
Free Cash Flow	41.2	208.4	159.4	217.9	261.4

Key Financial Ratios and Margins

FYE Dec (RMm)	2008	2009E	2010E	2011E	2012E
Growth					
Revenue (%)	41.4	(1.0)	37.5	15.1	8.8
EBITDA (%)	32.1	65.4	54.4	18.4	14.0
Core net profit (%)	(16.7)	169.3	66.0	20.3	14.1
Profitability					
EBITDA margin (%)	12.2	20.4	22.9	23.5	24.6
PBT margin (%)	6.4	18.8	22.3	23.3	24.5
Net profit margin (%)	5.8	15.8	19.0	19.9	20.9
Effective tax rate (%)	9.6	16.4	14.7	14.7	14.7
ROA (%)	5.0	13.4	18.8	19.3	18.9
Core ROE (%)	15.9	26.0	32.7	30.6	27.6
ROCE (%)	9.1	15.9	24.1	24.8	24.2
Dividend payout ratio (%)	23.5	29.5	20.0	20.1	20.1
Liquidity					
Current ratio (x)	1.2	1.8	2.2	2.7	3.3
Op. cash flow (RMm)	79.7	225.9	204.4	272.9	316.4
Free cashflow (RMm)	41.2	208.4	159.4	217.9	261.4
FCF/share (sen)	12.1	61.4	47.0	64.2	77.0
Asset management					
Debtors turnover (days)	56	36	36	36	36
Stock turnover (days)	82	79	79	79	79
Creditors turnover (day)	41	26	26	26	26
Capital structure					
Core ROA (%)	6.7	13.4	18.8	19.3	18.9
ROCE (%)	9.1	15.9	24.1	24.8	24.2

Quarterly Profit & Loss

FYE 31 Dec (RMm)	1Q09	2Q09	3Q09	4Q09	1Q10
Revenue	192.4	188.5	237.6	196.4	220.7
Operating expenses	(164.8)	(153.7)	(189.8)	(150.7)	(173.1)
EBITDA	27.6	34.8	47.7	53.7	66.1
Depreciation	(7.2)	(7.9)	(8.2)	(8.0)	0.0
EBIT	20.4	26.8	39.5	45.7	47.6
Net int income/(expense)	(5.0)	(4.5)	(4.1)	(8.5)	(3.7)
Associates' contribution	8.1	9.0	11.3	13.4	10.5
Exceptional items	0.0	0.0	0.0	1.0	2.0
Pretax profit	23.5	31.3	46.7	50.6	54.3
Tax	(3.8)	(5.6)	(6.6)	(6.5)	(2.8)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	19.7	25.8	40.2	44.1	51.5
Core net profit	19.7	25.8	40.2	44.1	51.5
Margins (%)					
EBIT	10.6	14.2	16.6	23.3	21.6
PBT	12.2	16.6	19.7	25.8	24.6
Net profit	10.2	13.7	16.9	22.5	23.3

ity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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