

Company Update

Supermax

SUCB MK
RM2.20

BUY (maintain)

Price Target: RM2.60 (↑)



Price Performance

	1M	3M	12M
Absolute	+17.1%	+34.7%	-1.6%
Rel to KLCI	+15.2%	+29.2%	-1.6%

Stock Data

Issued shares (m)	680.2
Mkt cap (RMm)	1,492.9
Avg daily vol - 6mth (m)	3.1
52-wk range (RM)	1.13 – 2.38
Est free float	64.0%
NTA per share (RM)	1.07
P/NTA (x)	2.06
Net cash/ (debt) (RMm) (3Q11)	(204.7)
ROE (FY11E)	14.8%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin Seri Cheryl Tan	15.1%

Earnings & Valuation Revisions

	11E	12E	13E
Prev EPS (sen)	17.0	19.8	23.0
Curr EPS (sen)	17.0	19.8	23.0
Chg (%)	-	-	-
Prev target price (RM)	-	-	2.18
Curr target price (RM)	-	2.60	-

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Bouncing back in 2012

Bright skies ahead

We recently visited Supermax to get an update on the company's outlook for 2012. To recap, 2011 was a dismal year for rubber glove manufacturers, as latex price surged to an unprecedented high of RM10.93/kg and the RM/US\$ exchange rate also rose to as high as RM2.94/US\$. Consequently, Supermax's 9MFY11 core net profit plunged by -40% yoy while EBIT margin halved from 18.3% in 9MFY10 to 9% in 9MFY11. That said, management is confident that the worst is over and 2012 will be a brighter year for Supermax.

Recent rise in latex price is likely to be temporary

On the direction of latex price, management remains relatively unconcerned. After plunging by -42% from its peak in April 2011, latex price has rebounded by +15% from its recent low to RM7.22/kg currently. This is due to: 1) the approaching wintering period, which traditionally sees tighter supply and hence, higher prices, and; 2) a 15bn baht (US\$477m) budget plan introduced by the Thai government to buy 200,000 tonnes of unsmoked rubber sheets to support rubber prices. However, the impact from the latter is likely to be short-lived, largely due to weak global demand. Around 70% of total rubber produced globally is destined for the tyre market, mainly in China and Europe. With the Eurozone embroiled in an ongoing debt crisis and China's automotive market expected to grow by a relatively weak 10% (2011: 2.5%, 2010: 32%), latex supply remains plentiful. In fact, management guided that they have no issue in procuring latex. The current RM6-7/kg level is also generally considered as a comfortable level for glove manufacturers. We maintain our 2012-2013 average latex price forecast of RM7.30-7.70/kg. There may be upside potential should latex price continue its downtrend to RM5.00/kg post-wintering period (as management expects).

Slower demand for nitrile gloves as ASP discount reverses

In terms of demand, we gather that the momentum in the switch to nitrile gloves has slowed. Orders for NR gloves have picked up, as ASPs of NR gloves are now c. 10-15% cheaper than nitrile gloves. We expect to see the proportion of nitrile gloves sold to moderate to c. 30-31% in 4QFY11, from a peak of 35% in 3QFY11. Margins for NR gloves have also improved – net margin for NR gloves is now c. 11-12% compared to 12-13% for nitrile gloves (down from 15-20% due to the influx of nitrile glove production capacity flooding the market). Recall that glove volume sales for Supermax grew by +6% qoq in 3QFY11 and we expect a similar magnitude for 4QFY11. Management also guided that utilization rate for its NR glove production lines have been gradually increasing from around 70% in 2011 and should reach an average of 80% for 2012. This is in line with our own capacity utilization rate assumption.

Earnings and valuation summary

FYE Dec	2009	2010	2011E	2012E	2013E
Revenue (RMm)	803.6	977.3	1,050.8	1,211.0	1,340.1
EBITDA (RMm)	163.7	181.5	134.5	125.9	146.8
Pretax profit (RMm)	151.5	183.8	124.2	149.7	174.0
Net profit (RMm)	126.6	158.9	111.4	134.7	156.5
EPS (sen)	18.6	23.4	16.4	19.8	23.0
PER (x)	11.8	9.4	13.4	11.1	9.5
Core net profit (RMm)	126.6	158.9	115.4	134.7	156.5
Core EPS (sen)	18.6	23.4	17.0	19.8	23.0
Core EPS chg (%)	-0.7	25.6	-27.4	16.8	16.2
Core PER (x)	11.8	9.4	12.9	11.1	9.5
DPS (sen)	11.0	7.5	4.0	6.0	7.0
Dividend Yield (%)	5.0	3.4	1.8	2.7	3.2
EV/EBITDA (x)	10.2	9.3	12.1	11.5	9.7
Consensus profit (RMm)	-	-	109.6	133.3	150.4
Affin/Consensus (x)	-	-	1.0	1.0	1.0

Raising annual production capacity by +16% in 2012

We gather that Supermax's capacity expansion plans are on track, barring a slight delay in the refurbishment of Lot 42 due to adverse weather conditions. Notwithstanding that, the additional production capacity for surgical gloves from Lot 42 will come onstream by March 2012, albeit gradually. As for Supermax's nitrile glove expansion, Lot 6059, which has an annual production capacity of 2.6bn pieces, will begin production by 3Q12. Altogether, this will raise Supermax's total annual production capacity by 2.8bn pieces (+16%) to 20.4bn pieces. Supermax's plans for Glove City have been delayed to 2014 due to issues with gas supply. However, management guided that additional gas supply should become available by July 2012. This implies that there is potential upside to our forecasts from an earlier-than-expected commencement date for production from Glove City (we have not yet included any contribution from Glove City in our forecasts up to FY13.)

Fig 1: Production capacity expansion plans

	No. of lines	Production capacity (bn pieces)
As at end 2011	153	17.6
Add: Lot 6059	26	2.6
Add: Lot 42	4	0.2
As at end 2012	183	20.4
Add: Lot 6058	12	1.2
As at end 2013	195	21.6

Source: Company

Maintain BUY, with a higher adjusted target price of RM2.60

No change to our FY11-13 net earnings forecasts. Supermax trades ex-bonus today – recall that the company had declared a 1-for-1 bonus issue on 1 November 2011, its most generous bonus issue to date. This will double up its issued share base to 680.2m. The new shares will be allotted to shareholders on 30 January 2012. Given: 1) improving investor sentiment; 2) low demand risk; 3) stronger earnings visibility and; 4) a more favorable operating environment, we are raising our PE target to 13x CY12 EPS (previously 11x CY12 EPS), 1 standard deviation above Supermax's historical average 12-month forward PE of 9x. Our adjusted target price is hence raised to **RM2.60** (previous target price was RM4.36; adjusted for 1:1 bonus issue is RM2.18). Maintain **BUY**. We continue to like Supermax for: 1) its attractive valuations; 2) turnaround in earnings, and; 3) upcoming capacity expansion into the surgical glove segment. Key risks to our view are: 1) a sustained resurgence in latex prices; 2) significant strengthening of the RM against US\$, and; 3) overcapacity within the NR and nitrile glove segments.

Fig 2: Historical bonus issues by Supermax

Ex-date	Entitlement
Aug-03	Bonus issue 1:3
Jan-06	Bonus issue 1:4
Mar-07	Share split 1-into-2
Jun-10	Bonus issue 1:4
Nov-11	Bonus issue 1:1

Source: Bursa, Affin

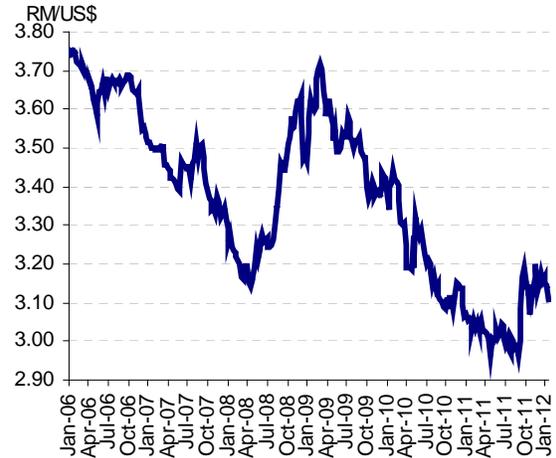
Focus Charts

Fig 3: Latex price trend



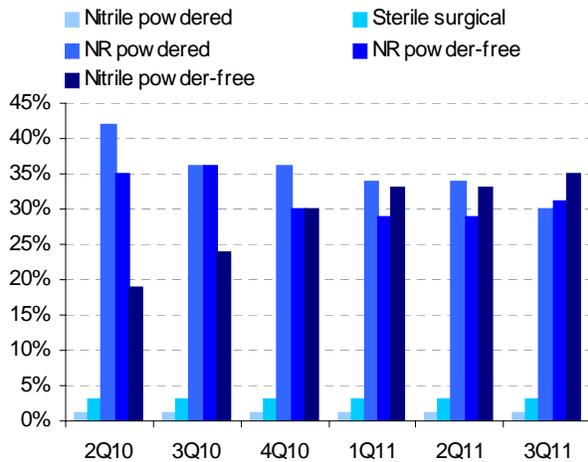
Source: Bloomberg

Fig 4: RM/US\$ trend



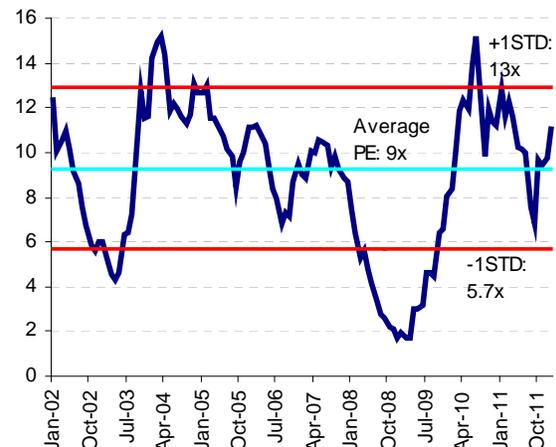
Source: Company, Affin

Fig 5: Products mix



Source: Company, Affin

Fig 6: 1-year forward rolling P/E



Source: Company, Affin

Fig 7: Peers comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x) CY11	Core PE (x) CY12	EPS growth (%) CY11	EPS growth (%) CY12	EV/EBITDA (x)	P/B (x)	ROE (%) FY11	ROE (%) FY12	Net Div Yield (%) FY11	Net Div Yield (%) FY12
Kossan	BUY	3.49	4.04	1,116	11.8	9.1	-16.6	29.4	6.9	1.8	19.8	21.8	2.0	2.6
Top Glove	REDUCE	5.13	4.55	3,173	25.8	20.9	-38.8	23.5	16.0	2.7	10.2	12.4	2.1	2.7
Supermax	BUY	2.20	2.60	1,493	12.9	11.1	-27.4	16.8	12.1	1.0	14.8	16.0	1.8	2.7
Hartalega	BUY	6.60	7.33	2,405	12.0	10.5	14.2	14.3	7.6	3.2	44.9	36.1	3.2	3.8
Adventa**	NR	1.65	na	252	9.7	8.6	-22.1	12.5	6.2	1.2	12.9	n.a.	4.1	4.3
Latexx**	NR	1.92	na	428	7.4	6.7	-11.2	9.8	4.5	1.8	20.5	19.6	2.7	3.0
Simple average					13.3	11.1	-17.0	17.7	8.9	1.9	20.5	21.2	2.7	3.2

**based on consensus estimates

Source: Bloomberg, Affin

Supermax – FINANCIAL SUMMARY

Profit & Loss Statement

FYE Dec (RMm)	2009	2010	2011E	2012E	2013E
Total revenue	803.6	977.3	1050.8	1211.0	1340.1
Operating expenses	(640.0)	(795.8)	(916.3)	(1085.1)	(1193.3)
EBITDA	163.7	181.5	134.5	125.9	146.8
Depreciation	(31.9)	(26.0)	(32.8)	(35.1)	(36.3)
Amortisation	0.0	0.0	0.0	1.0	2.0
EBIT	131.7	155.5	101.7	90.8	110.6
Net interest income/(expense)	(22.3)	(13.9)	(12.5)	(11.3)	(10.1)
Associates' contribution	41.8	42.0	38.7	69.8	73.1
Others	0.2	0.3	0.4	0.4	0.5
Pretax profit	151.5	183.8	124.2	149.7	174.0
Tax	(24.9)	(24.9)	(12.8)	(15.0)	(17.4)
Minority interest	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Net profit	126.6	158.9	111.4	134.7	156.5

Balance Sheet Statement

FYE Dec (RMm)	2009	2010	2011E	2012E	2013E
Fixed assets	368.2	383.9	403.3	432.2	446.0
Other long term assets	195.9	230.9	230.9	269.6	316.0
Total non-current assets	564.1	614.8	634.2	701.8	762.0
Cash and equivalents	118.7	121.8	152.6	294.4	303.3
Stocks	116.2	116.0	134.4	158.7	174.6
Debtors	146.3	308.8	332.0	382.6	423.4
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	381.2	546.5	619.0	835.7	901.3
Creditors	72.5	133.8	155.1	183.1	201.5
Short term borrowings	129.0	154.1	138.7	124.8	112.3
Other current liabilities	12.2	1.6	1.6	1.6	1.6
Total current liabilities	213.7	289.5	295.3	309.5	315.4
Long term borrowings	165.8	158.6	142.7	128.5	115.6
Other long term liabilities	6.9	7.3	7.3	7.3	7.3
Total long term liabilities	172.7	165.9	150.0	135.7	122.9
Shareholders' Funds	558.8	706.1	807.9	1092.3	1225.0

Cash Flow Statement

FYE Dec (RMm)	2009	2010	2011E	2012E	2013E
EBIT	131.7	155.5	101.7	90.8	110.6
Depreciation & amortisation	31.9	26.0	32.8	35.1	36.3
Working capital changes	72.2	(111.6)	(20.4)	(46.9)	(38.3)
Cash tax paid	(24.9)	(18.0)	(12.8)	(15.0)	(17.4)
Others	14.9	65.9	39.0	70.2	73.5
Cashflow from operation:	225.9	117.8	140.3	134.3	164.6
Capex	(17.4)	(49.1)	(52.2)	(64.1)	(50.0)
Disposal/(purchases)	0.0	0.0	0.0	(38.7)	(46.4)
Others	0.2	0.0	0.0	0.0	0.0
Cash flow from investing	(17.2)	(49.1)	(52.2)	(102.8)	(96.4)
Debt raised/(repaid)	(101.2)	17.9	(31.3)	(28.1)	(25.3)
Equity raised/(repaid)	27.0	(70.6)	0.0	170.0	0.0
Net interest income/(expense)	(22.3)	(13.9)	(12.5)	(11.3)	(10.1)
Dividends paid	(15.0)	(31.6)	(13.6)	(20.4)	(23.8)
Others	0.2	33.3	0.1	0.0	0.0
Cash flow from financing	(111.3)	(64.9)	(57.2)	110.2	(59.3)
Free Cash Flow	208.5	68.7	88.1	70.2	114.6

Key Financial Ratios and Margins

FYE Dec (RMm)	2009	2010	2011E	2012E	2013E
Growth					
Revenue (%)	(1.0)	21.6	7.5	15.2	10.7
EBITDA (%)	65.4	10.9	(25.9)	(6.4)	16.6
Core net profit (%)	169.3	25.6	(29.9)	21.0	16.2
Profitability					
EBITDA margin (%)	20.4	18.6	12.8	10.4	11.0
PBT margin (%)	18.8	18.8	11.8	12.4	13.0
Net profit margin (%)	15.8	16.3	10.6	11.1	11.7
Effective tax rate (%)	16.4	13.5	10.3	10.0	10.0
ROA (%)	13.4	13.7	8.9	8.8	9.4
Core ROE (%)	26.0	25.1	15.2	14.2	13.5
ROCE (%)	15.9	16.6	9.6	7.5	7.9
Dividend payout ratio (%)	59.1	32.1	24.4	30.3	30.4
Liquidity					
Current ratio (x)	1.8	1.9	2.1	2.7	2.9
Op. cash flow (RMm)	225.9	117.8	140.3	134.3	164.6
Free cashflow (RMm)	208.5	68.7	88.1	70.2	114.6
FCF/share (sen)	30.7	10.1	13.0	10.3	16.8
Asset management					
Debtors turnover (days)	64	113	113	113	113
Stock turnover (days)	79	63	63	63	63
Creditors turnover (days)	26	65	65	65	65
Capital structure					
Core ROA (%)	13.4	13.7	9.2	8.8	9.4
ROCE (%)	15.9	16.6	9.6	7.5	7.9

Quarterly Profit & Loss

FYE 31 Dec (RMm)	3Q10	4Q10	1Q11	2Q11	3Q11
Revenue	235.1	232.7	241.4	237.9	271.4
Operating expenses	(198.5)	(210.3)	(222.9)	(218.8)	(241.6)
EBITDA	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	36.9	22.3	18.4	19.1	29.9
Net int income/(expense)	(3.7)	(2.3)	(3.3)	(2.2)	(4.8)
Associates' contribution	8.3	12.8	10.5	11.0	9.0
Exceptional Items	4.0	5.0	6.0	7.0	8.0
Pretax profit	41.4	32.8	25.6	23.9	34.1
Tax	(3.3)	(0.1)	(1.2)	(1.3)	(3.2)
Minority interest	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Net profit	38.1	32.7	24.4	22.6	30.9
Core net profit	38.1	32.7	24.4	22.6	30.9
Margins (%)					
EBIT	15.7	9.6	7.6	8.0	11.0
PBT	17.6	14.1	10.6	10.1	12.6
Net profit	16.2	14.1	10.1	9.5	11.4

Equity 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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