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BUY

Target **RM7.84**
Previous **RM7.84**
Price **RM4.51**

RUBBER GLOVES

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

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	339.46
Market Cap (RMm)	1530.96
52 week H L Price (RM)	6.60 2.73
3mth Avg Vol ('000)	3,054.6
YTD Returns	21.3
Beta (x)	1.28

Major Shareholders (%)

Dato' Seri Stanley Tai	20.41
Datin Seri Cheryl Tan	15.09
EPF	8.36

Share Performance (%)

Month	Absolute	Relative
1m	10.7	4.8
3m	-23.8	-33.7
6m	-13.9	-20.8
12m	64.5	37.9

6-month Share Price Performance



9MFY10 Results Review

Supermax Corporation

Normalising Demand Makes an Impact

Supermax's 9MFY10 results were within expectations. As anticipated, its overall 3QFY10 results were not as good as that in 2QFY10, mainly due to normalizing demand for examination gloves, which in turn rendered it unable to pass on 100% of the latex cost increase to its customers. Although we maintain Neutral on the sector, Supermax's single digit valuation still sets it apart from its peers. Nevertheless, we believe the company's share price would continue to be depressed at current levels for a while as latex price remains high and exchange rates are unfavorable.

Within estimates. Supermax's 9MFY10 results were within consensus and our expectations, making up 75% and 74% of the FY10 forecasts. As expected, overall the 3QFY10 numbers were not as good as those in 2QFY10, mainly due to normalizing demand for examination gloves, which rendered it unable to pass on 100% of the latex cost increase to its customers. The quarter was also affected by the weak USD against MYR since more than 90% of its revenue is denominated in USD. This led to a drop in 3QFY10 net profit of 16.9% to RM38.1m from RM45.9m in the previous quarter. Nevertheless, EBITDA margin still remained strong at 20.2%, down marginally by 2.1%-pts on flat quarterly revenue since the slightly higher production capacity was offset by the slightly lower selling prices of gloves. It is also worth noting that its associate contribution has fallen by 19.8% q-o-q owing to slower demand from the Latin American market. Finally, YTD revenue and net profit continued to be higher, bolstered mainly by an expanded production capacity and higher selling prices of gloves.

Maintain Buy. Our target price for Supermax remains unchanged at RM7.84, based on the existing PER of 13x FY11 EPS. We have also tweaked down our FY10 net profit by 4%. Although we maintain Neutral on the sector, Supermax's valuation still stands out over some of its peers given its single digit valuation. Nevertheless, we believe the company's share price would continue to be depressed at current levels for a while, probably until May 2011 (when the wintering season of latex trees end) due to the continuously high latex price of close to RM8.00/kg and unfavorable exchange rate. We think latex price will continue to scale up from current levels, especially early next year during which latex supply would be weaker as a result of the wintering of latex trees. As for the exchange rate, our house does not expect big improvements in the strength of USD against MYR in the immediate term.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	582.1	811.8	814.8	993.0	1,177.7
Net Profit	59.4	47.0	129.8	176.1	200.0
% chg y-o-y	45.5	-20.9	176.1	35.7	13.6
Consensus	-	-	-	180.0	199.0
EPS (sen)	21.4	13.7	37.7	53.1	60.3
DPS (sen)	3.3	4.0	11.0	11.0	11.5
Dividend yield (%)	0.7	0.9	2.4	2.4	2.5
ROE (%)	18.8	11.5	26.3	27.8	25.4
ROA (%)	8.6	5.1	13.5	17.7	17.3
PER (x)	21.1	33.0	12.0	8.5	7.5
BV/share (RM)	1.18	1.29	1.68	2.13	2.62
P/BV (x)	4.1	3.7	2.9	2.3	1.8
EV/ EBITDA (x)	20.0	15.9	10.3	6.9	6.2

Results Table (RMm)

FYE Dec	3Q10	2Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Turnover	235.1	234.8	0.1%	690.6	618.5	11.7%	Higher YTD due to the higher selling prices of gloves on incorporating higher latex cost and production capacity. Flattish q-o-q as the slightly higher production capacity was offset by the slightly lower selling prices of gloves as demand normalized
EBITDA	47.5	52.4	-9.4%	158.2	109.8	44.0%	Higher YTD in line with the higher revenue, better product mix and increase in cost efficiency. Lower q-o-q due to margin compression on higher latex price coupled with unfavorable exchange rate.
Depreciation	-10.7	-10.7	0.0%	-32.1	-23.1	38.8%	
Net interest expense	-3.7	-3.3	12.5%	-10.7	-13.6	-21.3%	
Associates	8.3	10.4	-19.8%	29.2	28.4	2.7%	Lower q-o-q due to the lower selling prices of gloves coupled with the lower sales volume following the normalization in demand for examination gloves.
PBT before EI	41.4	48.8	-15.1%	144.6	101.5	42.4%	
EI	0.0	0.0	-	0.0	0.0	-	
PBT	41.4	48.8	-15.1%	144.6	101.5	42.4%	
Tax	-3.3	-3.0	11.1%	-9.1	-15.9	-42.8%	
MI	0.0	0.0		0.0	0.0		
Reported Net Profit	38.1	45.9	-16.9%	135.4	85.6	58.2%	Lower q-o-q and higher YTD in line with EBITDA.
Core Net Profit	38.1	45.9	-16.9%	135.4	85.6	58.2%	
Core EPS (sen)	11.2	13.5		39.9	32.3		
DPS (sen)	2.5	2.5		2.5	0.0		
EBITDA margin	20.2%	22.3%		22.9%	17.8%		
NTA/share (RM)	2.03	1.92		2.03	2.08		

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Turnover	582.1	811.8	814.8	993.0	1,177.7
EBITDA	92.1	115.2	162.3	234.3	261.7
PBT	67.2	52.0	152.1	207.1	235.3
Net Profit	59.4	47.0	129.8	176.1	200.0
EPS (sen)	21.4	13.7	37.7	53.1	60.3
DPS (sen)	3.3	4.0	11.0	11.0	11.5
Margin					
EBITDA (%)	15.8	14.2	19.9	23.6	22.2
PBT (%)	11.5	6.4	18.7	20.9	20.0
Net Profit (%)	10.2	5.8	15.9	17.7	17.0
ROE (%)	18.8	11.5	26.3	27.8	25.4
ROA (%)	8.6	5.1	13.5	17.7	17.3
Balance Sheet					
Fixed Assets	510.6	507.2	569.5	658.8	741.0
Current Assets	359.0	477.5	364.6	396.0	513.4
Total Assets	869.6	984.7	934.1	1,054.8	1,254.3
Current Liabilities	309.7	387.4	202.2	173.2	213.0
Net Current Assets	49.3	90.1	162.4	222.8	300.4
LT Liabilities	168.7	168.7	173.9	173.9	173.9
Shareholders Funds	391.2	428.6	558.0	707.8	867.4
Net Gearing (%)	88.3	78.1	31.5	17.0	13.5

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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