



Jason Yap
+60 (3) 9207 7698
Jason.yap@my.oskgroup.com

BUY

Target Price **RM7.84**
Previous Price **RM9.11**
Price **RM4.35**

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)	1476.65
52 week H L Price (RM)	6.60 1.95
3mth Avg Vol ('000)	2,030.8
YTD Returns	28.7
Beta (x)	1.19

Major Shareholders (%)

Dato' Seri Stanley Tai	20.41
Datin Seri Cheryl Tan	15.09

Share Performance (%)

Month	Absolute	Relative
1m	-19.5	-22.1
3m	-10.8	-21.1
6m	-0.9	-2.2
12m	134.0	93.0

6-month Share Price Performance



Company Update

Supermax Corporation

OBM Partly Cushions Normalizing Demand

Supermax differentiates itself from its peers by having a higher portion of OBM gloves as well as distribution income. This strategy will help to temper the negative effects from normalization in examination glove demand. We also understand that its capacity expansion plan are on track although this has encountered a slight delay due to the shortage of formers and conveyor chains. Maintain Buy but at a lower target price of RM7.84 following a marginal earnings downgrade and our more conservative stance given that we currently do not see any immediate catalysts for the rubber glove sector.

OBM and distribution income sets it apart. Among the rubber glove manufacturers in Malaysia, Supermax has the highest mix of OBM products of more than 65% and which has grown at the expense of OEM over the years. The company's OBM product mix is even more crucial in the current operating environment where the demand for examination gloves is returning to normal, which allows customers to switch suppliers or shop for better deals. However, customers are less able to do so if they use OBM gloves. Also, since Supermax has its own distribution chain, its distribution income cushions it from the negative impact of normalizing demand. These 2 factors differentiate Supermax from rival Top Glove although both possess similar product mixes and target mostly the same markets.

No change in product mix. Despite the tendency of most rubber glove manufacturers to switch to nitrile gloves for which the competition is less intense as the examination glove demand normalizes, we understand that Supermax will continue what it does best, i.e. producing natural rubber gloves. The company's product mix has remained unchanged since last year, which is 80% natural rubber and 20% nitrile gloves.

Capacity expansion slightly delayed. Supermax expects to increase its capacity to 3.1bn pieces of gloves by end-2010 and by another 4.1bn at end-2011, bringing its annual capacity to 21.7bn pieces by end-2011. However, we gather that although expansion for the initial 3.1bn pieces is on track, there may be slight delay in the entire expansion by a total of 4.1bn (related to the Glove City project) due to the patchy supply of formers and conveyor chains given the sudden surge in demand last year.

Maintain Buy. We are tweaking our FY10-11 forecasts slightly lower by 1%-6% to be more conservative although Supermax's OBM strategy will partly cushion the effects of normalizing demand for examination gloves. Also, we have lowered our target price to RM7.84 based on a lower PER of 13x FY11 EPS (previously RM9.11 based on 15x FY11 EPS), since we do not see any immediate catalysts for the rubber glove sector currently.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	582.1	811.8	814.8	1,015.9	1,177.7
Net Profit	59.4	47.0	129.8	183.2	200.1
% chg y-o-y	45.5	-20.9	176.1	41.2	9.2
Consensus	-	-	-	185.0	209.0
EPS (sen)	21.4	13.7	37.7	55.2	60.3
DPS (sen)	3.3	4.0	11.0	11.0	11.5
Dividend yield (%)	0.7	0.9	2.5	2.5	2.6
ROE (%)	18.8	11.5	26.3	28.8	25.1
ROA (%)	8.6	5.1	13.5	18.3	17.1
PER (x)	20.3	31.8	11.5	7.9	7.2
BV/share (RM)	1.18	1.29	1.68	2.16	2.65
P/BV (x)	4.0	3.5	2.8	2.2	1.7
EV/ EBITDA (x)	19.4	15.4	10.0	6.5	6.0

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Turnover	582.1	811.8	814.8	1,015.9	1,177.7
EBITDA	92.1	115.2	162.3	240.6	261.7
PBT	67.2	52.0	152.1	215.5	235.4
Net Profit	59.4	47.0	129.8	183.2	200.1
EPS (sen)	21.4	13.7	37.7	55.2	60.3
DPS (sen)	3.3	4.0	11.0	11.0	11.5
Margin					
EBITDA (%)	15.8	14.2	19.9	23.7	22.2
PBT (%)	11.5	6.4	18.7	21.2	20.0
Net Profit (%)	10.2	5.8	15.9	18.0	17.0
ROE (%)	18.8	11.5	26.3	28.8	25.1
ROA (%)	8.6	5.1	13.5	18.3	17.1
Balance Sheet					
Fixed Assets	510.6	507.2	569.5	658.8	741.0
Current Assets	359.0	477.5	364.6	405.5	529.0
Total Assets	869.6	984.7	934.1	1,064.3	1,270.0
Current Liabilities	309.7	387.4	202.2	175.5	215.6
Net Current Assets	49.3	90.1	162.4	229.9	313.3
LT Liabilities	168.7	168.7	173.9	173.9	173.9
Shareholders Funds	391.2	428.6	558.0	714.9	880.4
Net Gearing (%)	88.3	78.1	31.5	16.9	13.3

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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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	Singapore Office DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jln. Jend. Sudirman Kav 25, Jakarta 12920 Indonesia Tel : +(6221) 520 4599 Fax : +(6221) 520 4598	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633