TA SECURITIES HOLDINGS BERHAD(14948-M)
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**COMPANY UPDATE**
Wednesday, November 10, 2010
FBM KLCI: 1,526.53
Sector: Manufacturing

# Supermax Corporation Berhad

*Outlook remains a Challenge but Bright Spots are Emerging*

**TP: RM 6.40** *(+48.5%)*
*Last Traded: RM 4.31*
**BUY**



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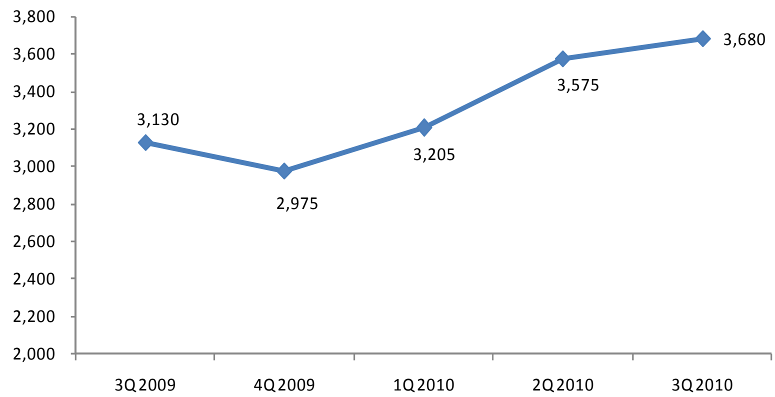
- Supermax held an analysts' briefing yesterday. Key highlights gathered from the meeting are as follows:

- **Global demand and consumption of gloves remain strong.** Demand had started improving in the last two weeks of September. The lead time for customers to place orders have increased from around 45 to 60 days in early September to (up to) 4 months currently for surgical gloves. Meanwhile, the lead time for medical grade and dental gloves has also risen to around 2.5 and 3.5 months respectively.

**Shipped units (mn pieces)**




*Source: Company, TA Securities*

- **Expansion plans remain intact.** The 9th plant will be fully commissioned next week. The plant will have 16 (from 12 initially planned) production lines. The additional 4 lines will be kept as a buffer for existing lines that have been shut down for maintenance or refurbishment. The Glove City project is also on track for commissioning in 2H 2011. Going forward, management is in the midst of negotiating to acquire a parcel of land near an existing plant to further expand production capacity.

- **Latex price may spike before easing in 1Q 2011, ASPs to rise in tandem.** Management expects latex price to continue accelerating and stay stubbornly high for a while as low supply of latex is further exacerbated by the start of the wintering season. Prices should however, begin to soften to around RM5-6 per kg by end-1Q 2011. On a positive note, the rise in demand should allow rubber glove manufacturers to also raise ASP more frequently. We note that the ASP among the players has in fact risen by around 3-4% in October. The increase should help support topline growth.

| Share Information | |
|---|---|
| Bloomberg Code | SUCB MK |
| Stock Code | 7106 |
| Listing | Main Market |
| Share Cap (mn) | 339.5 |
| Market Cap (RMmn) | 1463.1 |
| Par Value | 0.50 |
| 52-wk Hi/Lo (RM) | 6.60/2.73 |
| 12-mth Avg Daily Vol ('000 shrs) | 3361.9 |
| Estimated Free Float (%) | 54.9 |
| Beta | 1.3 |
| **Major Shareholders (%)** | |
| | Dato' Seri Stanley Thai - 35.5 |
| | EPF - 8.36 |

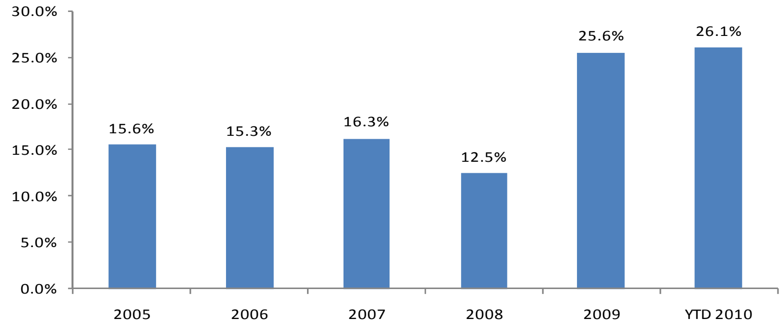
| Forecast Revision | FY10 | FY11 |
|---|---|---|
| Forecast Revision (%) | n.a. | n.a. |
| Net profit (RMm) | 177.9 | 193.5 |
| Consensus | 184.1 | 209.7 |
| TA's / Consensus (%) | 0.97 | 0.92 |
| Previous Rating | Buy (Maintained) | |

| Financial Indicators | FY10 | FY11 |
|---|---|---|
| Net gearing (x) | 0.4 | 0.4 |
| CFPS (RM) | 1.9 | 2.8 |
| P/CFPS (x) | 2.23 | 1.52 |
| ROAA (%) | 16.4 | 14.6 |
| ROAE (%) | 27.7 | 24.2 |
| NTA/Share (RM) | 2.1 | 2.5 |
| Price/ NTA (x) | 2.1 | 1.7 |

| Share Performance (%) | | |
|---|---|---|
| Price Change | SUCB | FBM KLCI |
| 1 mth | (4.2) | 1.4 |
| 3 mth | (17.3) | 7.3 |
| 6 mth | (16.7) | 18.8 |
| 12 mth | 42.7 | 21.2 |

- **Measures in place to keep margins firm.** Supermax is looking to produce more surgeon and Nitrile powder-free (PF) gloves to meet increasing demand and help keep margins firm. Management is targeting to increase the production and revenue contribution from surgeon gloves by 10 folds in 2011 - potentially generating revenue of USD5.6mn per month from USD500k currently. Elsewhere, the production of Nitrile PF gloves is also expected to increase from 21% in 2Q to between 30% to 35%% of total installed capacity. Nitrile PF gloves currently makes up 25% to 26% of total installed capacity.

**Historical EBITDA margin (%)**




*Source: Company, TA Securities*

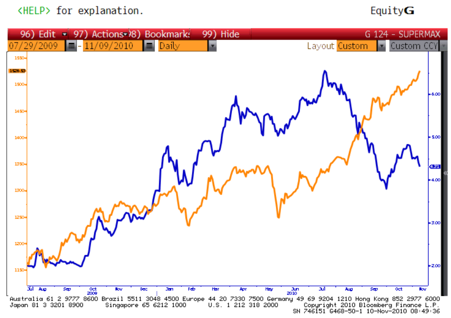
- **Lower taxes envisaged**. Supermax is establishing a Regional Distribution Centre (RDC) via wholly owned subsidiary, Supermax International Sdn. Bhd. In addition to tax incentives for its RDC status, Supermax also currently enjoys reinvestment allowances. Taken together, these incentives and reinvestment allowances would help boost earnings by reducing the group's tax rate to sub- 8%.

- **FY10 net profit target achievable.** Management is confident the full year results would exceed its net profit guidance of RM168mn for FY10. Moving forward, management is targeting earnings growth of between 15% and 20% for FY11. This is attributable to growth in planned capacity growth, and in addition to varying its product mix in line with market demand and product pricing trends.

- **Keeping conservative forecasts unchanged, future earnings could surprise on the upside.** We are keeping our FY10-12 earnings estimates unchanged. We are conservatively projecting net profit of RM193.5mn and RM200.4mn for FY11 and FY12 for now. We believe the difference compared with management's more bullish view is in the MYR/USD assumption. Here, management's earnings growth guidance of between 15% and 20% for FY11 is based on a MYR/USD assumption of RM3.00 per USD vs. TA's RM2.90 per USD. Going forward, we expect the group's earnings momentum to flatten out in the absence of fresh expansion plans beyond the Glove City Project. As such, we are projecting modest net profit growth of 3.6% to RM207.6mn for FY13.

- **BUY maintained.** We maintain our favourable view on the stock. We like Supermax due to their OBM business model, which we opine would help buffer against demand and price manipulation by large MNC buyers, as well as the stock's attractive valuation. As such, we are keeping our BUY recommendation and TP of RM6.40 for Supermax based on FY11e EPS to the industry's targeted PE multiple 11x. BUY.

(12-Mth) **Share Price** relative to the **FBM KLCI**



*Source: Bloomberg*

## Earnings Summary (RMmn)

| FYE Dec | 2008 | 2009 | 2010F | 2011F | 2012F | 2013F |
|---|---|---|---|---|---|---|
| Turnover | 811.8 | 803.6 | 942.4 | 1,072.3 | 1,103.0 | 1,118.3 |
| Pretax profit | 52.0 | 151.5 | 202.1 | 219.9 | 238.6 | 247.1 |
| Net profit | 47.0 | 126.6 | 177.9 | 193.5 | 200.4 | 207.6 |
| Net profit - adjusted | 47.0 | 126.6 | 177.9 | 193.5 | 200.4 | 207.6 |
| EPS | 13.9 | 37.3 | 52.4 | 57.0 | 59.0 | 61.1 |
| EPS - adjusted | 13.9 | 37.3 | 52.4 | 57.0 | 59.0 | 61.1 |
| EPS growth (%) | (15.9) | 169.2 | 40.5 | 8.8 | 3.6 | 3.6 |
| PER | 31.1 | 11.6 | 8.2 | 7.6 | 7.3 | 7.0 |
| Dividend (sen) | 3.1 | 11.0 | 9.4 | 9.4 | 9.4 | 9.4 |
| Dividend yield (%) | 0.7 | 2.5 | 2.2 | 2.2 | 2.2 | 2.2 |

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