



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

9MFY09 Preview

Supermax Corporation

Tipped to Trounce Estimates

BUY ↻

Target RM3.85
Previous Price RM3.20

RUBBER GLOVES

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

Stock Statistics

Bloomberg Ticker	SUCB MK EQUITY
Share Capital (m)	265.31
Market Cap (RMm)	848.99
52 week H L Price (RM)	3.20 0.78
3mth Avg Vol ('000)	2,581.5
YTD Returns	263.8
Beta (x)	0.89

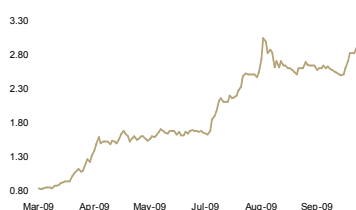
Major Shareholders (%)

Dato' Seri Stanley Tai	20.40
Datin Seri Cheryl Tan	14.96
Tabung Haji	7.68

Share Performance (%)

Month	Absolute	Relative
1m	10.6	8.4
3m	48.5	18.4
6m	174.8	100.1
12m	187.3	115.7

6-month Share Price Performance



Supermax expects to announce its 3QFY09 results on Thursday. We believe its q-o-q performance improvement in percentage terms should be on par with Top Glove's since both companies have benefited from: 1) the availability of spare capacity; 2) having a strong presence in the Brazilian market, and 3) an increase in selling prices of gloves. Maintain Buy with a target price of RM3.85 based on a PER of 10x FY10 EPS. Supermax is the most attractive rubber glove stock in terms of PE valuation, as it is currently trading at 8.3x versus the industry average of 11x.

3QFY09 results likely to beat estimates. This is premised on: 1) strong demand from its Latin American markets, especially Brazil; 2) an increase in the selling prices of gloves due to tight supply in view of the Government's requirement to stock up on gloves to combat the H1N1 pandemic; 3) production efficiency, and 4) better cost management.

Improvement likely to match Top Glove's. Last week, Top Glove announced that its net profit for 4QFY09 surged 34.8% q-o-q on strong demand for rubber gloves from healthcare MNCs in general, especially after the H1N1 outbreak was raised to pandemic level. The group's quarterly numbers also got a boost from the scarce supply of rubber gloves in the Brazilian market, in which it commands a 40% market share. We believe Supermax, like Top Glove, would have also reaped the same benefits since: 1) both companies had spare capacity prior to the H1N1 pandemic, and average utilization rates of about 70%; 2) Supermax has the second largest market share in Brazil of about 30% and thus should also gain from the scarcity of supply to that country; 3) the bulk of both companies' production comprises natural rubber gloves (>50% product mix), which are cheaper than nitrile gloves (about 10%-20%), making them more attractive to buyers in developing countries, and 4) both have raised the selling prices of gloves by about US\$2/1000 pieces.

FY09 results poised to exceed expectations. We understand that the demand for gloves, which is growing at about 7% p.a., would be very good going into 4QFY09 as there was hardly any increase in supply from rubber glove manufacturers over the past 1 year given the global economic uncertainties. Nevertheless, we are maintaining our forecasts until the release of the 3QFY09 results, which we understand would be announced by noon on Thursday, 15 Oct 2009.

Maintain Buy. Our target price for Supermax of RM3.85 is based on a PER of 10x FY10 EPS. Based on the existing share prices of rubber glove companies, Supermax stands out as the most attractive rubber glove stock as it is trading at 8.3x versus the industry average of 11x FY10 EPS.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10 f
Revenue	389.1	582.1	833.4	1,109.8	1,203.5
Net Profit	40.8	59.4	46.5	89.8	102.0
% chg y-o-y	12.6	45.5	-21.7	93.1	13.7
Consensus	-	-	-	86.5	97.8
EPS (sen)	15.4	21.4	16.7	32.3	38.5
DPS (sen)	2.8	3.3	4.0	4.0	4.0
Dividend yield (%)	0.9	1.0	1.3	1.3	1.3
ROE (%)	1,834.1	1,880.1	1,132.2	1,905.4	1,823.9
ROA (%)	822.6	855.2	500.1	855.3	902.2
PER (x)	23.0	15.0	19.1	9.9	8.3
BV/share (RM)	0.91	1.47	1.62	1.93	2.29
P/BV (x)	3.5	2.3	2.1	1.8	1.5
EV/ EBITDA (x)	18.5	13.0	11.8	8.8	7.0

EARNINGS FORECAST

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	389.1	582.1	833.4	1,109.8	1,203.5
EBITDA	55.9	92.1	100.1	139.6	167.3
PBT	47.2	67.2	51.6	105.6	120.0
Net Profit	40.8	59.4	46.5	89.8	102.0
EPS (sen)	15.4	21.4	16.7	32.3	38.5
DPS (sen)	2.8	3.3	4.0	4.0	4.0
Margin					
EBITDA (%)	14.4	15.8	12.0	12.6	13.9
PBT (%)	12.1	11.5	6.2	9.5	10.0
Net Profit (%)	10.5	10.2	5.6	8.1	8.5
ROE (%)	18.3	18.8	11.3	19.1	18.2
ROA (%)	8.2	8.6	5.0	8.6	9.0
Balance Sheet					
Fixed Assets	300.7	510.6	507.2	502.4	496.1
Current Assets	219.2	359.0	482.5	606.9	656.2
Total Assets	519.9	869.6	989.7	1,109.3	1,152.3
Current Liabilities	126.3	309.7	391.0	428.4	377.0
Net Current Assets	92.9	49.3	91.5	178.5	279.2
LT Liabilities	152.8	168.7	168.7	168.7	168.7
Shareholders Funds	240.8	391.2	430.1	512.2	606.6
Net Gearing (%)	76.4	88.3	77.9	73.3	54.5

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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. 1201-1203, 12/F, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2537 1332	Singapore Office DMG & Partners Securities Pte. Ltd. #22-01 Ocean Towers 20 Raffles Place Singapore 048620 Tel : +(65) 6438 8810 Fax : +(65) 6535 4809	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jl. Jend. Sudirman Kav. 25. Jakarta 12920 Indonesia Tel : + (6221) 520 4599 Fax : + (6221) 520 4505	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No. 1266 West Nanjing Road 200040, Shanghai China Tel : +(8621) 6288 9611 Fax : + (8621) 6288 9633