MIMB INVESTMENT BANK
A MEMBER OF EON BANK GROUP

Equity Research

Initiating Coverage

Supermax Corporation Bhd

24 Aug 2010

KDN: PP10837/03/2011 (029371)

BUY

Current Price	RM5.50
New Target Price	RM6.80
Previous Target Price	-
Previous Recommendation	-
Upside To Target	+23.6%

Stock Codes

Masa	SUPERMX/7106
Bloomberg	SUCB MK

Stock & Market Data

KLCI	1,403.15
Listing	Main Board
Sector	Rubber Glove
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	339.46mn
Market Capitalisation	RM1.87bn
YTD Chg In Share Price	+46.55%
52-week Hi/Lo	RM6.60/RM1.95
3M Average Volume	1.9mn shares

Majority Shareholders

Kim Sim Thai (20.4%)
Bee Geok Tan (15.1%)
Koperasi Permodalan Felda (5.5%)
Lembaga Tabung Haji (5.1%)

Historical Price Ratios

FYE	2006	2007	2008	2009
PER (x)	23.7	9.0	4.5	9.7
PBV (x)	2.0	1.5	0.5	2.3
ROE (%)	17.9	17.9	11.7	26.0

Share Performance

	1mth	3mth	12mth
Absolute	-12.0%	+6.8%	+163.0%
vs. KLCI	-15.6%	-3.1%	+120.2%

Share Price Performance Chart

Tough Enough To Meet Demand

- **A Rubber glove manufacturer with successful OBM model.** Supermax has successfully delivered its products through OBM model under its owned brand names of Supermax, Aurelia, Maxter, Medic-dent and Supergloves. Its sales mix is 65% OBM and 35% OEM, with income streams from both manufacturing and distribution.

- **No. 2 in the world's glove industry…** Supermax's installed production capacity was registered at 14.5bn pieces p.a. in FY09 and is estimated at 17.6bn pieces p.a. for FY10, making it the 2nd largest rubber glove manufacturer in the world.

- **Foray into China and India.** The cost advantage coupled with the ability to provide a higher level of service to a combined population size of 2.5bn, are the markets not to be missed. Apart from the huge population, the potential of these markets has also driven by **(i)** the reforms of healthcare and regulation in China, India, Mexico & Russia, **(ii)** the China-ASEAN Free Trade Agreement "CAFTA", and **(iii)** the brighter outlook of China market.

- **Improving dividend payout.** Supermax has announced a revising dividend policy of paying out a 20% of PAT + special dividend at FY09. Based on our estimated FY10 EPS of 48.3 sen, the DPS is estimated at 11.4 sen, representing a yield of 2.0%.

- **Initiating coverage with a BUY-call and a TP of RM6.80.** Valuations are 'undemanding' at FY10 and FY11 PER of 12.0x and 10.1x respectively. Our TP is based on FY11 PER of 11.7x and PBV of 2.7x.

Investment Statistics

YE 31 Dec (RMmn)	2008	2009	2010F	2011F	2012F
Net Profit	47.0	126.6	164.0	195.4	226.6
Growth	-16%	169%	30%	19%	16%
Consensus	55	123.3	188.1	212.1	238.6
EPS (sen)	13.8	37.3	48.3	57.6	66.8
DPS (sen)	2.6	8.8	11.4	13.6	15.8
NTA/Share (RM)	1.2	1.6	2.0	2.4	2.9
Net Cash/(Debt)	-374.7	-176.1	-99.5	-18.1	94.7
Net Debt/Equity (x)	0.90x	0.32x	0.15x	0.02x	-0.09x
PER (x)	39.7x	14.7x	11.4x	9.6x	8.2x
Dividend Yield	0.5%	1.6%	2.1%	2.5%	2.9%
ROE	11.7%	26.0%	26.4%	25.7%	24.6%
ROA	5.2%	13.4%	16.2%	16.9%	17.1%
P/NTA (x)	4.6x	3.5x	2.8x	2.3x	1.9x
EV/EBITDA (x)	22.4x	13.0x	11.1x	9.4x	8.1x

INVESTMENT MERITS

I) A Successful OBM Player

Supermax's business model is based on 65% OBM and 35% OEM. Focusing on OBM model allows Supermax to sell its products with more competitive pricing and better profit margins, although it has been taking times to create its own demand in the market through brand loyalty. The group has developed some well-received in-house brands such as Supermax, Aurelia and Maxter. Supermax exports its gloves to 750 distributors in 146 countries worldwide in the region of Americas, Europe, Asia and Middle East.

II) Distinguished Business Strategy

Supermax committed in growing its OBM business model via **(i)** setting-up of more distribution centres at its major exporting countries and **(ii)** cultivate awareness of Supermax own brands. We reckon that, this strategy could provide a strong income flow to Supermax. Remarkably, 42% of its revenue derived from USA market and also 90% was from healthcare industry.

III) Massive Production Capacity – Rank No. 2

With 14.5bn pieces of glove production capacity as at FY09, then expanded it by 4.2bn to 17.6bn pieces p.a. in FY10, Supermax stands as the 2nd largest glove manufacturer in the world. For future expansion, it plans to increase its production line to 185 lines by 2011, which would boost its production capacity to 21.7bn. Thus, we believe that the expansion would facilitate Supermax to cater to promising demand of gloves. Note that, world consumption of gloves will increase 8-10% p.a..

Table 1: Supermax's Expansion Plan

Company	Installed Annual Capacity As of 31.12. 2009 (Million pcs/Lines*)	New Expansion (Million pcs/Lines*)	Installed Annual Capacity As of 31.12 2010 (Million pcs/Lines*)	New Expansion (Million pcs/Lines*)	Installed Annual Capacity As of 31.12.2011 (Million pcs/Lines*)
SUPERMAX	9,556/(79)		12,668/(100)		16,818/(132)
Lot 42		126/(1)			
Melaka		478/(2)			
Lot 6070		204/(2)			
Lot 6069		2,304/(16)			
Glove City		-		4,150/(32)	
SPENSER	4,920/(53)	-	4,920/(53)	-	4,920/(53)
COMBINED TOTAL	14,476/(132)	3,112/(21)	17,588/(153)	4,150/(32)	21,738/(185)

Source: Company

IV) Foray Into China and India Market

Venture into China and India market is a great opportunity for Supermax, as these markets have a combined population of 2.5bn. Besides, there are a few recipes of success that have listed down as follows.

- **The healthcare and regulation reforms in China, India, Mexico and Russia –** potential demand from China and India, who currently spend only USD342 and USD109 on average per capita on healthcare, contrary to the US that has an average healthcare expenditure of USD6,713 per capita (US is a leading market of higher spending on healthcare services and facilities)**.**
- **China-ASEAN Free Trade Agreement "CAFTA" –** was launched on 1 January 2010. In the agreement, 6 ASEAN countries (Brunei, Philippines, Indonesia, Malaysia, Thailand and Singapore) will enjoy zero import tariffs on over 9,000 product categories including surgical and non-surgical rubber gloves.
- **A convincing prospect in China –** The Chinese government has announced RMB850bn (USD124.3bn) 3-year healthcare reform plan to build clinics and raise hygiene standards, in early 2009. Besides, China's medical glove consumption is expected to grow 11-12% annually.

V) Earnings growth of 24% CAGR underpinned by 50% increase in output (from an annual 14.5bn pieces of glove output as at FY09 to 21.7bn pieces p.a. by FY11). We expect the Group to see some margin improvements as the production could become more efficient in-line with economies of scale. Supermax's business strategy via its OBM model can provide an additional avenue to lift margin, by setting up distribution centres in major market given strong product offering and good market knowledge.

VI) Improving dividends payout

Supermax has an excellent track record in consistently paying dividend to its shareholders. Besides, its dividend payout has also improved over times. As at FY09, Supermax has revised its dividend policy from 20% PAT to 20% PAT + special dividend, which derived from extraordinary profit made in the current financial year as well as sales of treasury shares.

Table 2: Dividend Track Records

DPS	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
sen per share	1.80	2.25	2.25	2.50	3.25	3.25	3.25	3.25	11.0

Source: Company

INDUSTRY RISKS

Similar with other rubber glove producers, Supermax also exposes to the industry challenges such as **i)** fluctuation in Latex prices, **ii)** forex exposure, **iii)** tighter glove inspection criteria in the medical sector and **iv)** constraint in power supply. Nevertheless, these factors give minimal impact to Supermax, for example; the latex prices' volatility can easily be transferred to end-buyers.

GOING FORWARD

In the near term, Supermax plan to focus on following areas:-

- **Credit risk management** – identify and mitigate country risk as a result of currency fluctuation, global credit crunch and global financial credit.
- **Optimising production efficiencies and productivity –** cost rationalisation, particularly on **i)** maximizing utilization of human resources, **ii)** upgrading of remaining unproductive production lines, **iii)** reduction of unscheduled

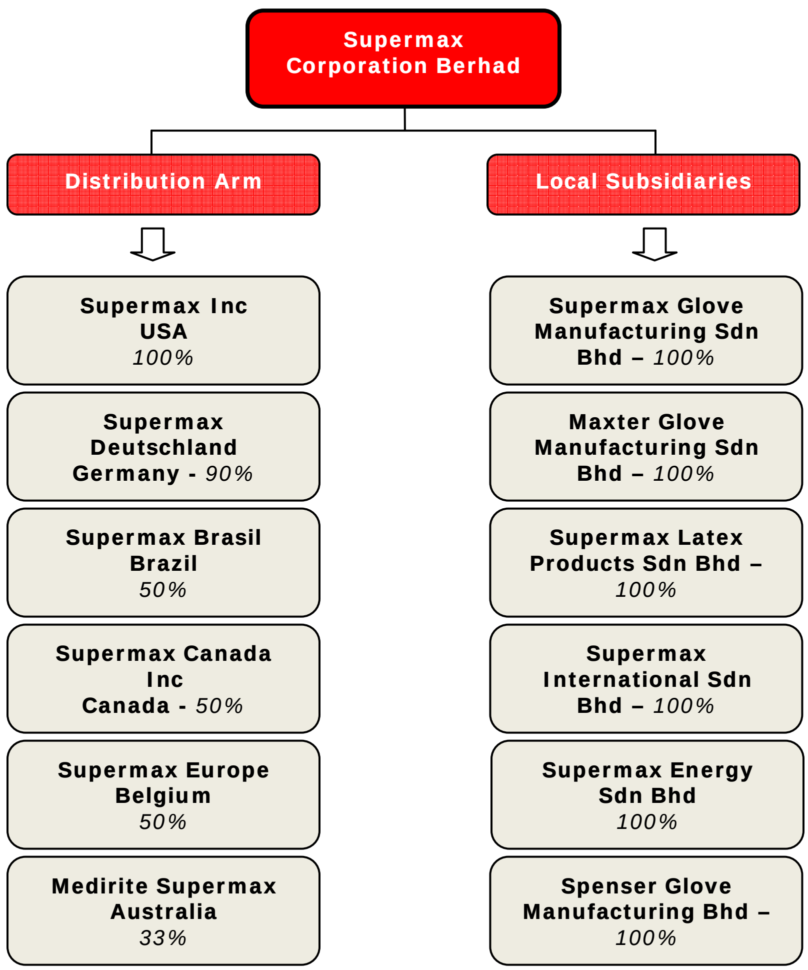
production downtime and **iv)** extracting maximum output from all facilities.

- **Riding on OBM model –** to take advantage of OBM model via distribution centres and distributor-ship in selected market segments also selected countries.

COMPANY BACKGROUND

Establishment of Supermax Corporation Bhd ("Supermax") can be traced back to 1987, which was founded by Dato' Seri Stanley Thai and his wife Datin Seri Cheryl Tan. It started as a trading business distributing latex gloves. Afterward, Supermax is principally engaged as manufacturer, distributor and marketer of high quality medical gloves. Based in Sungai Buloh, Supermax currently has 9 manufacturing plants locally and 6 overseas distribution centres cum corporate offices based in USA, Brazil, Europe, Australia, Canada and Germany.

Chart 1: Organisational Structure of Supermax Corporation Bhd



Source: Company

PRODUCT PORTFOLIO

As an OBM glove manufacturer, Supermax has its own product brands namely Supermax, Aurelia, Maxter, Medic-dent and Supergloves which are trusted and recognized by laboratories, hospitals, pharmacists, doctors and surgeon around the world. Supermax products range as below:-

Picture 1: Supermax's Product Portfolio

Source: Company

FINANCIAL HIGHLIGHTS

Supermax has seen its turnover increased from RM284.7mn to RM803.6mn over FY05-FY09 at a healthy average growth of +31% per annum. This was in light of the emergence of health threats (H1N1, SARS and Bird Flu) resulting in higher sales. Besides, increased in the allocation for healthcare by governments around the world, this is due to the heightened awareness in healthcare providers as well as implementation of higher hygiene standards and practices. Supermax's PAT margin has strongly increased from 6.2% in FY01 to 15.8% in FY09 led by the improvement in its productivity and efficiency, which allowed it to operate at a higher utilisation rate of 84% in FY09 compared to only 75% previously.

Given the capacity expansion of 21.5% and 23.65 in FY10 and FY11 respectively, we reckon that Supermax will be able to chalk up another 29.5% of its net profit to RM163.9mn in FY10. This was in-line with Supermax in-house earnings forecast of RM168.0mn or minimum an EPS range of 40 sen to 49.6 sen. Additionally, Supermax net gearing stands at 0.3x as at 1Q10.

Chart 2: Supermax's Revenue Trend

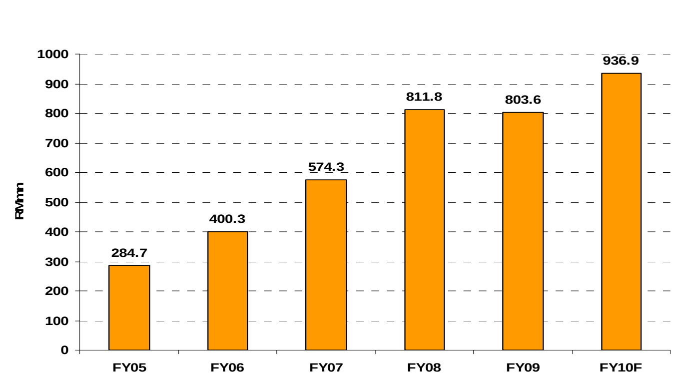
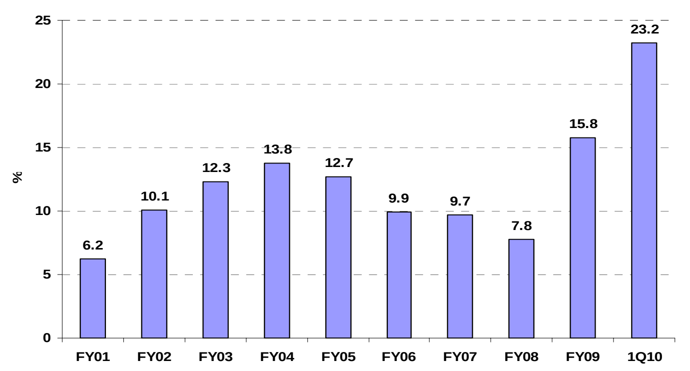
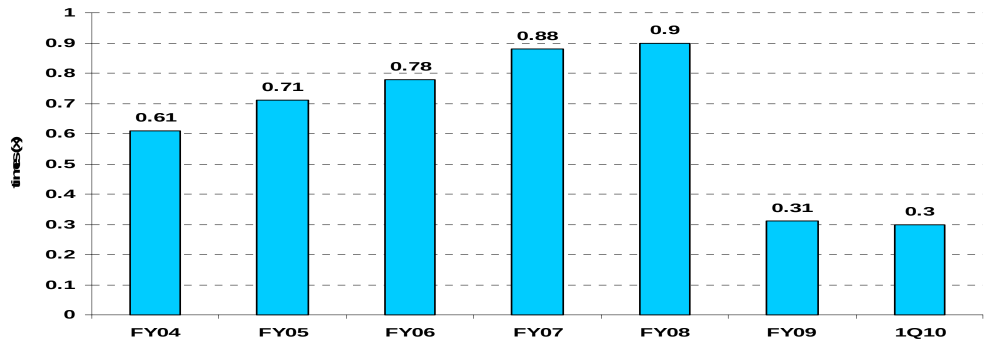


Chart 3: Improving PAT Margins



Source: Company & MIMB Research

Chart 4: Gearing Ratio (Net)



Source: Company

Table 3: Supermax's Revenue Mix

	FY08 (%)	1Q09 (%)	2Q09 (%)	3Q09 (%)	4Q09 (%)	1Q10 (%)
Powdered Gloves						
- Latex Examination	26	33	38	38	43	42
- Nitrile	1	1	1	1	1	1
- Sterile Surgical	3	3	3	3	3	3
Powder Free Gloves						
- Latex Examination	45	45	36	38	36	35
- Nitrile	25	18	22	20	17	19
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Company

Table 4: Dual Income Streams

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08*	FY09
Net Profit (RMmn)	**4.2**	**8.6**	**17.4**	**30.2**	**36.2**	**39.2**	**54.0**	**64.9**	**126.6**
Contribution from:									
Distribution (RMmn)	0.9	2.3	7.4	10.0	14.8	19.2	19.5	23.0	55.5
% of total profits	21	27	43	33	41	48	35	31	44
Manufacturing (RMmn)	3.3	6.3	10	20.2	21.4	20.0	34.5	41.9	71.1
% of total profits	79	73	57	67	59	50	64	66	56

**Excluding full impairment loss of investment in an associate company*
Source: Company

Chart 5: Sales by Region

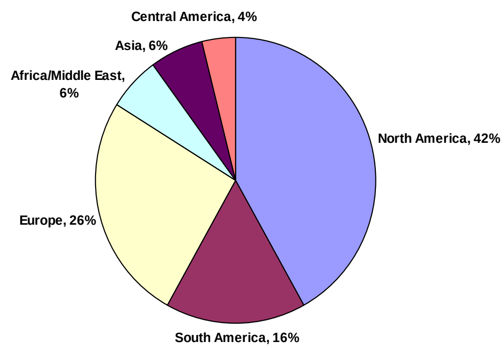
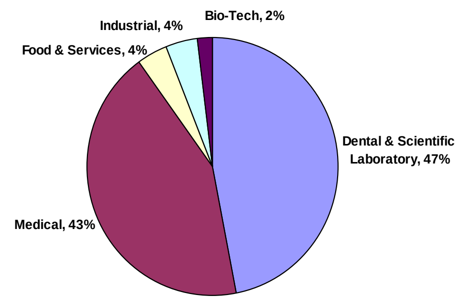


Chart 6: Sales Composition Based on Market Segment



Source: Company

VALUATION AND RECOMMENDATION

As we are now in 2H10, we roll over our target price to FY11. Thus, **we are initiating coverage on Supermax with a BUY-call and a TP of RM6.80**, based on FY11 PER of 11.7x and PBV of 2.7x. Our valuation poses further upside on the event of growing global demand for gloves and upcoming capacity expansion plans.

Balance Sheet

YE 31 Dec (RM mn)	2008	2009	2010F	2011F	2012F
Fixed Assets	383	369	350	344	331
Lease Receivables	-	-	-	-	-
Intangible Assets	29	29	29	29	29
Other Fixed Assets	127	167	207	247	287
Inventories	136	116	136	161	186
Receivables	125	79	92	109	126
Other Current Assets	116	67	67	67	67
Cash	31	119	195	277	390
Total Assets	947	945	1,076	1,234	1,415
Payables	68	38	44	52	60
ST Borrowings	231	129	129	129	129
Other ST Liability	49	46	46	46	46
LT Borrowings	175	166	166	166	166
Other LT Liability	8	7	7	7	7
Minority Interest	-	-	-	-	-
Net Assets	**416**	**559**	**684**	**834**	**1,008**
Share Capital	219	241	241	241	241
Reserves/Others	197	318	444	594	767
Shareholders' Fund	**416**	**559**	**684**	**834**	**1,008**

Cashflow Statement

YE 31 Dec (RM mn)	2008	2009	2010F	2011F	2012F
PBT	47	127	164	195	227
Depreciation	29	32	33	34	36
Taxation	-	-	-	-	-
Minority	-	-	-	-	-
Chg In Working Capital	(54)	35	(28)	(34)	(34)
Others	58	10	(21)	(22)	(22)
Operating Cashflow	**80**	**204**	**148**	**174**	**206**
Capex	(39)	(17)	(14)	(28)	(23)
Investment	-	-	-	-	-
Others	(18)	1	-	-	-
Investing Cashflow	**(57)**	**(16)**	**(14)**	**(28)**	**(23)**
Chg In Debts	(16)	(102)	-	-	-
Dividends Paid	(9)	(15)	(38)	(46)	(53)
Share Issue	-	-	-	-	-
Other	(4)	27	(19)	(18)	(18)
Financing Cashflow	**(29)**	**(90)**	**(57)**	**(64)**	**(71)**
Net Cashflow	(6)	97	77	81	113
Beginning Cash	0	0	119	195	277
Forex Translation Differences	(4)	(3)	0	0	0
Ending Cash	**(9)**	**95**	**195**	**277**	**390**
Free Cashflow	**24**	**187**	**134**	**146**	**183**

Income Statement

YE 31 Dec (RM mn)	2008	2009	2010F	2011F	2012F
Turnover	**812**	**804**	**937**	**1109**	**1280**
EBITDA	**101**	**166**	**194**	**230**	**265**
Depreciation	(29)	(32)	(33)	(34)	(36)
Operating Profit	**72**	**134**	**161**	**196**	**230**
Int. & Other Income	-	0	1	2	3
Interest Expense	(20)	(22)	(20)	(20)	(20)
Others	(0)	39	40	40	40
PBT	**52**	**151**	**183**	**218**	**252**
Taxation	(5)	(25)	(19)	(22)	(26)
Minority Interest	-	-	-	-	-
Net Profit	**47**	**127**	**164**	**195**	**227**

Financial Data & Ratios

YE 31 Dec (RM mn)	2008	2009	2010F	2011F	2012F
Growth					
Turnover	41.4%	-1.0%	16.6%	18.4%	15.4%
EBITDA	25.2%	64.0%	17.0%	18.3%	15.4%
Operating Profit	18.8%	85.3%	20.3%	21.3%	17.3%
PBT	-11.2%	191.3%	20.5%	19.2%	15.9%
Net Profit	-16.0%	169.3%	29.5%	19.2%	15.9%
Profitability					
EBITDA	12.5%	20.7%	20.7%	20.7%	20.7%
Operating Profit	8.9%	16.7%	17.2%	17.7%	18.0%
PBT	6.4%	18.8%	19.5%	19.6%	19.7%
Net Profit	5.8%	15.8%	17.5%	17.6%	17.7%
Effective Tax Rate	9.6%	16.4%	10.2%	10.2%	10.2%
ROA	5.2%	13.4%	16.2%	16.9%	17.1%
ROE	11.7%	26.0%	26.4%	25.7%	24.6%
DuPont Analysis					
Net Margin	5.8%	15.8%	17.5%	17.6%	17.7%
Total Assets Turnover	0.86x	0.85x	0.87x	0.90x	0.90x
Leverage Factor	2.27x	1.69x	1.57x	1.48x	1.40x
ROE	11.3%	22.7%	24.0%	23.4%	22.5%
Leverage					
Total Debt/Total Asset	0.43x	0.31x	0.27x	0.24x	0.21x
Total Debt/Equity	0.97x	0.53x	0.43x	0.35x	0.29x
Net Cash/(Debt)	-375	-176	-99	-18	95
Net Debt/Equity	0.90x	0.32x	0.15x	0.02x	-0.09x
Valuations					
EPS (sen)	14	37	48	58	67
GDPS (sen)	3	9	11	14	16
NTA (RM)	1.19	1.58	1.96	2.40	2.92
PER	39.7x	14.7x	11.4x	9.6x	8.2x
Gross Yield	0.5%	1.6%	2.1%	2.5%	2.9%
P/NTA	4.61x	3.48x	2.81x	2.29x	1.88x
EV/EBITDA	22.4x	13.0x	11.1x	9.4x	8.1x

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

BUY	Share price expected to appreciate more than 15% over a 12-month period
TRADING BUY	Share price expected to appreciate 10% or more within a 3- to 6-month period
NEUTRAL	Share price expected to be within +/- 15% over a 12-month period
TAKE PROFIT	Target price reached, may accumulate if share price drops more than 15% below target price
SELL	Share price expected to depreciate more than 15% over a 12-month period
NOT RATED	MIMB does not provide research coverage or rating for this company

Disclaimer

Published and Printed by
MIMB Investment Bank Berhad (10209-W)
A Participating Organisation of Bursa Malaysia Securities Berhad
A Member of EON Bank Group
18th 19th & 21st Floor, Menara EON Bank
288, Jalan Raja Laut
50350 Kuala Lumpur
MALAYSIA
Tel: 603.2694 6188 (Research)
Fax: 603.2694 2304 (Research)
www.mimb.com.my

For **MIMB Investment Bank Berhad** (10209-W)

Chan Ken Yew
Head of Research