



CIMB Research Report

Get your facts  
before you invest

**CBRS**  
FREE Expert  
Analysis Reports

13 May 2009

# Supermax Corporation

*A better grip all round*

<b>RECOM</b>	Buy
<b>PRICE</b>	RM1.64
<b>MKT CAPITALISATION</b>	RM435.09
<b>BOARD</b>	Main (Syariah)
<b>SECTOR</b>	Industrial
<b>INDEX COMPONENT</b>	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com  
Farahnaz Ireena Amer Hamzah +60(3) 2084 9911 – farahnaz.amerhamzah@cimb.com

## Investment highlights

- **No major surprises.** There were no major surprises from Supermax's 1Q09 results briefing which dwelt on the results, recent industry developments and the outlook for the company.
- **Flat production but better earnings.** Supermax's output was flat qoq at 2,920m pieces of gloves in 1Q09 vs. 2,915m pieces in 4Q08 as customers scaled back their orders in anticipation of a further decline in latex prices. Despite the flat production, 1Q net profit rose by 8.6% qoq and 25.2% yoy, thanks to margin expansion driven by cost savings arising from productivity enhancements, higher contribution from the company's distribution centres as well as the favourable movement of exchange rates.
- **Time for a relook.** From a high of 35.9% in 2006, foreign shareholdings in Supermax have plummeted to less than 2% as the company lost favour among foreign investors due to its APLI investment blunder. We think that the selling is excessive and believe that investors should relook at the company now that it has wiped the slate clean as far as APLI is concerned.
- **Maintain BUY.** Prospects for Supermax are improving, thanks to the confluence of myriad factors such as the industry's natural resilience, lower latex cost, favourable currency movements and recent energy price cuts. We maintain our BUY recommendation and target price of RM1.97, still pegged to a 50% discount to our target market P/E of 13.5x. Our trading-oriented call is premised on the potential re-rating catalysts of cost reductions, improving demand as well as this quarter's better-than-expected results.

### Key stock statistics

FYE Dec	2008	2009F
EPS (sen)	17.5	27.0
P/E (x)	9.4	6.1
Dividend/Share (sen)	3.2	5.2
NTA/Share (RM)	1.5	1.5
Book Value/Share (RM)	1.0	0.9
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)	RM1.75/RM0.78	
<b>Major Shareholders:</b>		%
Dato' Seri Thai Kim Sim, Stanley		20.4
Datin Seri Tan Bee Geok, Cheryl		15.0
Lembaga Tabung Haji		10.0

### Per share data

FYE Dec	2006	2007	2008	2009F
Book Value (RM)	1.7	1.0	1.0	0.9
Cash Flow (sen)	12.8	26.4	37.4	39.0
Earnings (sen)	18.0	21.1	17.5	27.0
Dividend (sen)	4.5	4.9	3.2	5.2
Payout Ratio (%)	18.1	16.8	13.2	13.8
P/E (x)	9.1	7.8	9.4	6.1
P/Cash Flow (x)	12.8	6.2	4.4	4.2
P/Book Value (x)	0.9	1.6	1.6	1.8
Dividend Yield (%)	2.8	3.0	2.0	3.2
ROE (%)	18.1	22.5	19.0	17.3
Net Gearing (%)	74.4	59.6	71.1	62.4

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

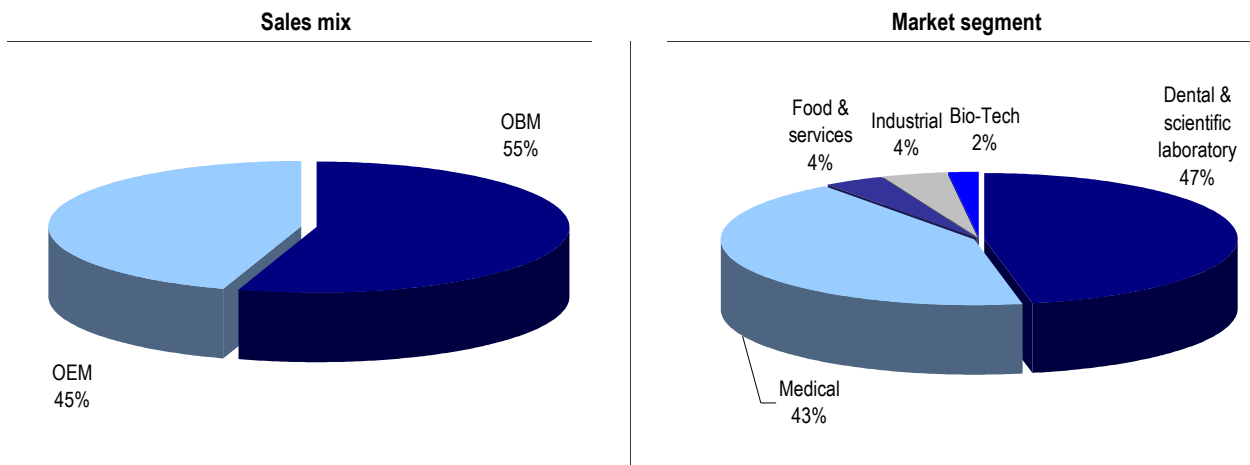
## Recent developments

**Demand to remain strong...** Supermax expects demand to remain strong this year, driven by the healthcare spending of governments around the world. Some 47% of Supermax's output goes to the dental & scientific laboratory segment while another 43% is taken up by the medical segment. The group also intends to increase its manufacturing profit by leveraging its OBM model via exclusive distributorships in selected market segments and countries. It intends to expand its OBM sales from 55% of total sales to 60%.

..., **aided by swine flu outbreak.** The group has seen some increase in demand, mainly from the Americas, which is not surprising given the recent swine flu outbreak. Supermax has three distribution centres located near the affected areas, i.e. the US, Canada and Brazil. Overall, it expects its sales to increase by 3-5% should the outbreak be prolonged.

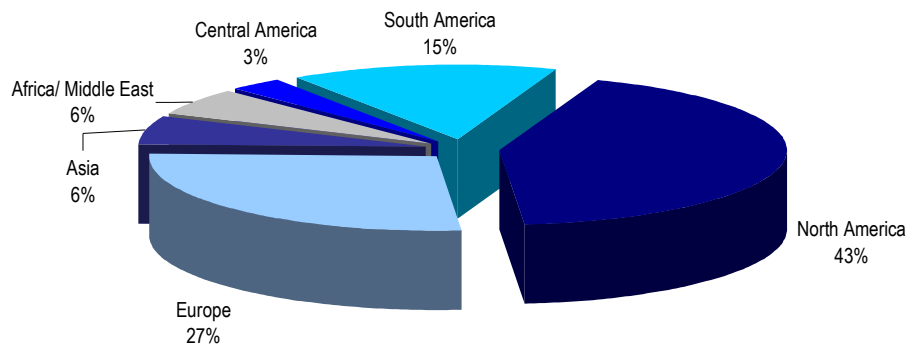
**Expansion postponed to 2010.** Due to the current economic slowdown, Supermax is pushing back its 12-line expansion of its Meru plant from this year to 2010. We understand that the infrastructure is already in place and the lines will be installed by 4Q this year and commissioned within six months. The additional 12 lines will increase the group's production capacity by 1.7m pieces per annum, which is equivalent to 12% of its existing capacity.

Figure 1: Current sales mix and global market segment



Source: Company

Figure 2: Sales by region



Source: Company

## Earnings outlook

**Energy cost savings kicked in during March.** Effective 1 March, natural gas price was reduced from RM22.06 per mmBtu to RM15.00 per mmBtu while electricity tariffs were lowered by 5% from 30.1 sen per kWh to 28.6 sen per kWh. This will result in average monthly cost savings of RM1.7m per month or 4% of total production costs. As we understand that about 75% of the cost savings will be passed to customers, the net impact of the recent energy cost cuts will be a minimal 1% on the group's net earnings.

**Margins to improve.** Now that APLI is no longer in the group, Supermax's business split is 55% OBM and 45% OEM. It can now focus on its manufacturing activities and will no longer make internal purchases from APLI, a transaction that had dampened its earnings and margins in the past few years.

**Figure 3: P&L analysis (RM m)**

FYE Dec	2006	2007	2008	2009F
Revenue	389.1	574.3	833.4	850.1
Operating Profit (EBIT)	42.0	55.4	71.7	85.2
Depreciation	(12.9)	(20.2)	(28.6)	(28.1)
Interest Expenses	(13.7)	(15.3)	(22.1)	(22.3)
Pretax Profit	47.2	58.6	51.6	82.4
Effective Tax Rate (%)	13.6	4.4	10.0	13.0
Net Profit	40.8	55.9	46.5	71.7
Operating Margin (%)	10.8	9.6	8.6	10.0
Pretax Margin (%)	12.1	10.2	6.2	9.7
Net Margin (%)	10.5	9.7	5.6	8.4

Source: Company, CIMB estimates

## Recommendation

**Maintain BUY.** The briefing centred around three main points: Supermax's performance in 1Q09, recent developments in the glove industry and the outlook for the company. Prospects for Supermax are improving, thanks to the confluence of myriad factors such as the industry's natural resilience, lower latex cost, favourable currency movements and recent energy price cuts. We maintain our BUY recommendation and target price of RM1.97, still pegged to a 50% discount to our target market P/E of 13.5x. Our trading-oriented call is premised on the potential re-rating catalysts of cost reductions, improving demand as well as this quarter's better-than-expected results.

**Figure 4: Share price chart (RM)**



Source: Bloomberg

---

**Financial summary**

<b>FYE Dec</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Revenue (RM m)	574.3	833.4	850.1	884.1	910.6
EBITDA (RM m)	75.6	100.3	113.3	125.2	136.6
EBITDA margins (%)	13.2	12.0	13.3	14.2	15.0
Pretax profit (RM m)	58.6	51.6	82.4	89.0	94.9
Net profit (RM m)	55.9	46.5	71.7	77.4	82.6
EPS (sen)	21.1	17.5	27.0	29.2	31.1
EPS growth (%)	+17%	-17%	+54%	+8%	+7%
P/E (x)	7.8	9.4	6.1	5.6	5.3
Core EPS (sen)	21.1	23.8	27.0	29.2	31.1
Core EPS growth (%)	+17%	+13%	+13%	+8%	+7%
Core P/E (x)	7.8	6.9	6.1	5.6	5.3
Gross DPS (sen)	5.0	3.3	5.3	5.7	6.1
Dividend yield (%)	3.0	2.0	3.2	3.5	3.7
P/NTA (x)	1.7	1.1	1.1	1.0	0.9
ROE (%)	22.5	14.0	17.3	17.3	16.2
Net gearing (%)	59.6	71.1	62.4	44.8	38.0
P/CF (x)	6.2	4.4	4.2	4.2	3.8
EV/EBITDA (x)	7.7	6.9	6.2	6.2	5.2
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.06	0.91	1.00

---

Source: Company, CIMB Research, Reuters Estimates

This report has been prepared by CIMB Investment Bank Bhd (“CIMB”) for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. CIMB has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/).

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the “Restrictions on Distributions” set out below). Any failure to comply with these limitations may constitute a violation of law.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

- (i) As of 12 May 2009, CIMB and its affiliates have a proprietary position in the following securities in this report:
  - (a) -
- (ii) As of 12 May 2009, CIMB and its affiliates do not have a proprietary position in the following securities in this report:
  - (b) Supermax
- (iii) As of 13 May 2009, the analysts, Terence Wong and Farahnaz Ireena who prepared this report, owns and has an interest in the securities in the following company or companies covered or recommended in this report.
  - (c) -
- (iv) As of 13 May 2009, the analysts, Terence Wong and Farahnaz Ireena who prepared this report, does not own and does not have an interest in the securities in the following company or companies covered or recommended in this report.
  - (d) Supermax

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates’ clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

The views and opinions in this research report are our own as of the date hereof and are subject to change. CIMB has no obligation to update its opinion or the information in this research report.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

**STOCK RECOMMENDATIONS**

- BUY:** Expected positive total returns of 15% or more over the next 12 months
- HOLD:** Expected total returns of between -15% and +15% over the next 12 months.
- SELL:** Expected negative total returns of 15% or more over the next 12 months.