

Supermax Corporation

Recommendation: **STRONG BUY**

Stock Code: 7106

Bloomberg: SUCB MK

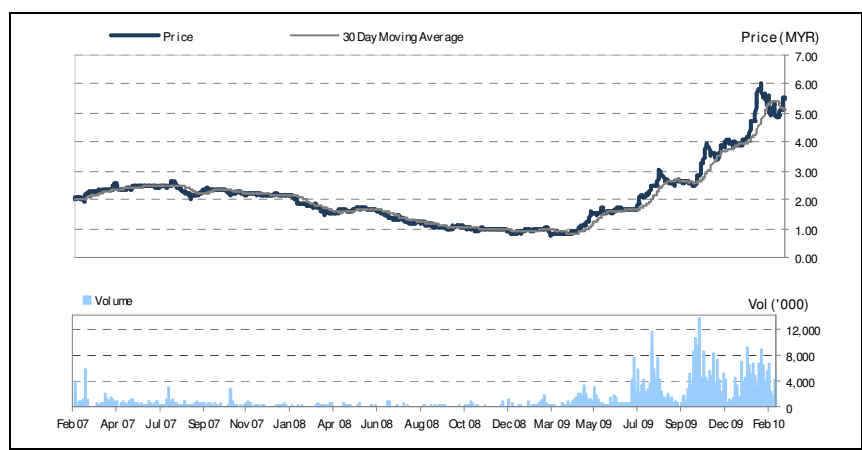
Price: MYR5.47

12-Month Target Price: MYR7.00

Date: February 22, 2010

Board: Main**Sector:** Industrial Products**GICS:** Health Care/Health Care Supplies**Market Value - Total:** MYR1,467.3 mln

Summary: Supermax Corporation (Supermax) makes latex gloves and is the second largest latex glove manufacturer in the country. Supermax was listed on the Second Board of Bursa Malaysia in August 2000 before successfully transferring to the Main Board in October 2003. The stock is a component of FBM EMAS.

Analyst: Su Peng Ng**Results Review & Earnings Outlook**

- Supermax's 2009 net profit of MYR129.8 mln exceeded our expectations, accounting for 107% of our forecast. The discrepancy came from a higher-than-expected operating margin.
- 2009 revenue growth was flat YoY as the group was temporarily affected by labor and water supply disruptions at one of its factories. Nevertheless, it was able to lock in higher profit margins, given a lower average latex price (-21% YoY) and larger contribution from its own brand manufacturer (OBM) sales (64% vs. 60% in 2008), which carry higher margins.
- Supermax's annual capacity is set to rise by 3.1 bln glove pieces by end-2010 (to 17.6 bln pieces), although the weighted capacity increase is only 1.7 bln for the full year. In addition, it also has an order backlog of 5 bln glove pieces. Glove demand is likely to remain strong, partly boosted by the A(H1N1) pandemic, while glove supply growth has been less robust, given the economic crisis. As such, we expect 2010 and 2011 results to be driven by demand-supply variance.
- We look for 2010 earnings to be driven by the additional 1.7 bln glove pieces in new capacity. Given strong 2009 results and expectations that costs remain well contained, we adjust our 2010 cost assumptions, raising our 2010 net profit estimate to MYR152.1 mln (from MYR141 mln). We also introduce our 2011 net profit estimate.

Recommendation & Investment Risks

- We maintain our Strong Buy our recommendation on Supermax with a higher 12-month target price of MYR7.00 (from MYR6.50), after increasing our 2010 net profit estimate.
- We utilize a target PER of 12x (unchanged) against our projected 2010 EPS for Supermax and add our estimated tax exempt net DPS for 2010 of 11 sen (from 9.9 sen). The target multiple is in line with the peer average.
- We believe Supermax will not only benefit from healthy glove demand, but also from expanding margins, given higher revenue contribution from its OBM products. The group now trades at a reasonable 9.5x 2010 PER against an expected EPS growth of 17% YoY. These factors should provide catalysts for Supermax's share price outperformance over the medium term.
- Supermax announced a final DPS of 4 sen and a special dividend of 4.5 sen. Coupled with an interim dividend of 2.5 sen, total dividend payment would translate to a gross yield of 2%.
- Risks to our recommendation and target price include a sudden upturn in latex prices and an appreciating MYR, as revenue is predominantly derived from exports.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	48.9	57.3
PER (x)	11.2	9.5
Dividend/Share (sen)	11.0	11.0
NTA/Share (MYR)	1.97	2.43
Book Value/Share (MYR)	2.08	2.54
No. of Outstanding Shares (mln)	268.3	
52-week Share Price Range (MYR)	0.79 - 6.03	
Major Shareholders:	%	
Dato' Seri Stanley Thai & family	35.4	
Koperasi Permodalan Felda	5.6	
Tabung Haji	5.2	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	1.45	1.57	2.08	2.54
Cash Flow (sen)	28.6	28.6	59.6	69.0
Reported Earnings (sen)	24.2	17.7	48.9	57.3
Dividend (sen)	3.3	3.3	11.0	11.0
Payout Ratio (%)	15.4	13.5	12.9	11.5
PER (x)	22.6	30.9	11.2	9.5
P/Cash Flow (x)	19.1	19.1	9.2	7.9
P/Book Value (x)	3.8	3.5	2.6	2.2
Dividend Yield (%)	0.6	0.6	2.0	2.0
ROE (%)	17.9	15.9	27.7	24.6
Net Gearing (%)	82.5	86.4	31.5	20.4

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Quarterly Performance

FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	196.4	182.8	7.4
Reported Operating Profit	45.7	19.8	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.1	-5.4	-43.1
Reported Pre-tax Profit	50.6	4.1	>100
Reported Net Profit	44.1	1.5	>100
Reported Operating Margin (%)	23.3	10.8	-
Reported Pre-tax Margin (%)	25.8	2.2	-
Reported Net Margin (%)	22.5	0.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	811.8	814.8	948.4	1,071.1
Reported Operating Profit	70.1	132.4	146.2	171.6
Depreciation & Amortization	-28.9	-30.1	-32.9	-36.2
Net Interest Income / (Expense)	-20.2	-16.7	-13.3	-14.7
Reported Pre-tax Profit	52.0	152.1	174.8	198.7
Effective Tax Rate (%)	9.6	14.7	13.0	13.0
Reported Net Profit	47.0	129.8	152.1	172.9
Reported Operating Margin (%)	8.6	16.3	15.4	16.0
Reported Pre-tax Margin (%)	6.4	18.7	18.4	18.6
Reported Net Margin (%)	5.8	15.9	16.0	16.1

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	7.00
25-Jan-10	Strong Buy	6.50
23-Nov-09	Buy	4.60
16-Oct-09	Buy	3.80
13-Jul-09	Strong Buy	2.60
11-May-09	Strong Buy	2.00
28-Nov-08	Buy	1.20
25-Aug-08	Buy	1.40
30-May-08	Strong Buy	2.35
3-Jan-08	Strong Buy	3.00
28-Sep-07	Not Ranked	
12-Sep-07	Strong Buy	3.25
21-May-07	Strong Buy	3.10
9-Mar-07	Buy	2.53
22-Feb-07	Buy	2.31

