OSK

MALAYSIA EQUITY
Investment Research
Daily

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Company Update

Supermax Corp

Time to Jump on The Bandwagon!

BUY	
Fair Value	RM5.50
Previous	RM5.50
Price	**RM3.26**

RUBBER GLOVES

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

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	340.08
Market Cap	1108.66
52 week H | L Price	4.86 | 2.26
3mth Avg Vol (000)	967.8
YTD Returns	-25.4
Beta (x)	1.60

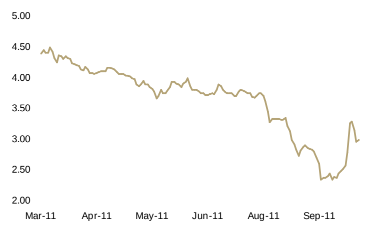
Major Shareholders (%)

Dato' Seri Stanley Tai	20.41
Datin Seri Cheryl Tan	15.09
EPF	9.00

Share Performance (%)

Month	Absolute	Relative
1m	3.9	12.4
3m	-23.7	-11.9
6m	-29.2	-19.6
12m	-28.6	-25.0

6-month Share Price Performance



At our invitation, Supermax gave an update on Tuesday on the natural rubber glove industry and the progress the company is making, from which we gather that the worst may be over on both fronts. This is because latex price is expected to dip further while demand for natural rubber gloves is anticipated to spring back as selling prices retrace owing to lower latex prices, and as the company has begun to produce thinner gloves. Maintain Buy.

Worst may be over for natural rubber (NR) glove industry. This is because: i) latex price has retraced to below RM8.00/kg for the first time this year and is expected to drop further due to lower demand for rubber from the automotive industry as well as the NR glove industry following the shift to nitrile (NBR) gloves and the production of thinner NR gloves; ii) NR glove demand is expected to rebound given the drop in latex price, which will accordingly lead to lower selling prices, and iii) the USD has strengthened against the MYR and is expected to stay above 3.00.

Things are looking up for Supermax too. This is because Supermax: i) will focus on producing thinner NR gloves, which will boost margins as these gloves have gained the acceptance of customers since latex price started to spike up in 1H11. Some customers have gotten used to thinner gloves (NBR) which are finer than traditional NR gloves giving a more natural feel. Hence, since Supermax's product mix is focused on 70% NR gloves, it stands to benefit from this development; ii) it will be least affected by the potential oversupply of NBR gloves next year, thanks to its product mix. Besides, the company's new production lines are also inter-switchable to NR gloves and back; iii) will ramp up production of surgical gloves from 60m pieces now to 672m pieces by December 2011, which can contribute higher margins of 10%-20% more than basic examination gloves.

Risks to our view. These include: i) latex price resuming its uptrend, perhaps due to floods in southern Thailand, or a recovery in global economy growth, which will nudge up the prices of most commodities; ii) competition from Chinese NBR is stronger than expected and is cannibalizing the NR glove market. We gather that the production of NBR gloves in China has grown in significance since NR latex price shot up in 1H11, which led to some healthcare MNCs shifting to NBRs from China. Gloves from China are cheaper than Malaysia-made NR and NBR gloves because Chinese manufacturers are willing to stomach selling prices that are lower by USD1-USD2/1000 pieces, as they can later recover some profit through rebates from their government.

Maintain Buy. Our fair value for Supermax remains unchanged at RM5.50 based on the existing PER of 13x FY12 EPS. We continue to like the stock's attractive single-digit PER valuation, as well as the industry's resilience to recession.

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	811.8	814.8	923.3	1,026.9	1,135.5
Net Profit	47.0	129.8	168.2	106.5	140.3
% chg y-o-y	-20.9	176.1	29.6	(36.6)	31.7
Consensus	-	-	-	113.0	135.0
EPS (sen)	13.7	37.7	50.7	32.1	42.3
DPS (sen)	4.0	11.0	7.5	7.5	10.5
Dividend yield (%)	1.2	3.4	2.3	2.3	3.2
ROE (%)	11.5	26.3	26.6	14.2	16.5
ROA (%)	5.1	13.5	16.0	9.0	10.9
PER (x)	23.9	8.6	6.4	10.1	7.7
BV/share (RM)	1.29	1.68	2.13	2.40	2.74
P/BV (x)	2.6	2.1	1.6	1.4	1.2
EV/ EBITDA (x)	12.3	7.7	7.3	11.8	8.9

EARNINGS FORECAST

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	811.8	814.8	923.3	1,026.9	1,135.5
EBITDA	115.2	162.3	174.5	103.1	136.0
PBT	52.0	152.1	177.4	113.3	149.2
Net Profit	47.0	129.8	168.2	106.5	140.3
EPS (sen)	13.7	37.7	50.7	32.1	42.3
DPS (sen)	4.0	11.0	7.5	7.5	10.5
Margin					
EBITDA (%)	14.2	19.9	18.9	10.0	12.0
PBT (%)	6.4	18.7	19.2	11.0	13.1
Net Profit (%)	5.8	15.9	18.2	10.4	12.4
ROE (%)	11.5	26.3	26.6	14.2	16.5
ROA (%)	5.1	13.5	16.0	9.0	10.9
Balance Sheet					
Fixed Assets	507.2	569.5	614.8	783.2	843.6
Current Assets	477.5	364.6	546.6	420.5	537.0
Total Assets	984.7	934.1	1,161.5	1,203.7	1,380.6
Current Liabilities	387.4	202.2	289.5	243.0	304.8
Net Current Assets	90.1	162.4	257.1	177.5	232.2
LT Liabilities	168.7	173.9	165.9	165.9	165.9
Shareholders Funds	428.6	558.0	706.1	794.7	909.9
Net Gearing (%)	78.1	31.5	27.0	17.1	14.1

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months	
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain	
Neutral: Share price may fall within the range of +/- 10% over the next 12 months	
Take Profit: Target price has been attained. Look to accumulate at lower levels	
Sell: Share price may fall by more than 10% over the next 12 months	
Not Rated (NR): Stock is not within regular research coverage	

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