



CIMB Research Report

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27 July 2009

Supermax

Maximum potential

RECOM	Buy
PRICE	RM2.27
MKT CAPITALISATION	RM602.2m
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

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Investment highlights

- **Maximum potential.** Having fully written off APLI last year, Supermax appears on track for better days ahead. Management retains its focus on stepping up its risk, receivable, inventory and productivity management, as well as optimising on production efficiency. The company plans to add some 5bn pieces or 32% to its production capacity, taking it to 19.2bn pieces by 2011.
- **Long-term plans.** The company is also firm on its plan to build a glove city on a 36.8-acre plot in Bukit Kapar, Klang. Tentatively, the project will kick off in 2011 and will be completed over a period of about 10 years though the eventual timing will depend on global glove demand. The land can accommodate six factories with a total capacity of 18bn pieces of gloves.
- **Stretching its market share.** We believe Supermax's prospects will continue to improve as demand for the company's products should remain strong. The company has always been active in participating in international trade shows and exhibitions worldwide and is currently the third biggest glove brand in the US dental market. It plans to penetrate new emerging markets such as India and Russia as part of its long-term expansion plans.
- **Maintain BUY.** We make no changes to our earnings forecasts. However, to reflect the improved outlook for the company, we are lowering our discount to our target market P/E of 15x from 50% to 30%, giving us a revised target price of RM4.02, up from RM2.87. Given our new target price, we are upgrading the stock from a trading-oriented buy to an outright BUY. In view of its cheap valuations, steady earnings growth and highest dividend yield, Supermax is now one of our top picks for the sector. Potential share price triggers include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Key stock statistics

	2008	2009F
FYE Dec		
EPS (sen)	17.7	34.9
P/E (x)	12.8	6.5
Dividend/Share (sen)	3.2	7.0
NTA/Share (RM)	1.5	1.5
Book Value/Share (RM)	1.5	1.5
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)	RM2.32/RM0.78	
Major Shareholders:	%	
Dato' Seri Thai Kim Sim, Stanley	20.4	
Datin Seri Tan Bee Geok, Cheryl	15.0	
Lembaga Tabung Haji	10.0	

Per share data

	2006	2007	2008	2009F
FYE Dec				
Book Value (RM)	1.1	0.9	1.5	1.5
Cash Flow (sen)	13.2	26.4	37.4	39.0
Earnings (sen)	18.0	21.1	17.7	34.9
Dividend (sen)	4.5	4.9	3.2	7.0
Payout Ratio (%)	18.1	17.0	13.4	15.0
P/E (x)	12.6	10.8	12.8	6.5
P/Cash Flow (x)	17.2	8.6	6.1	5.8
P/Book Value (x)	2.0	2.4	1.6	1.5
Dividend Yield (%)	2.0	2.2	1.4	3.1
ROE (%)	17.7	22.6	19.1	21.8
Net Gearing (%)	76.3	57.0	70.9	51.1

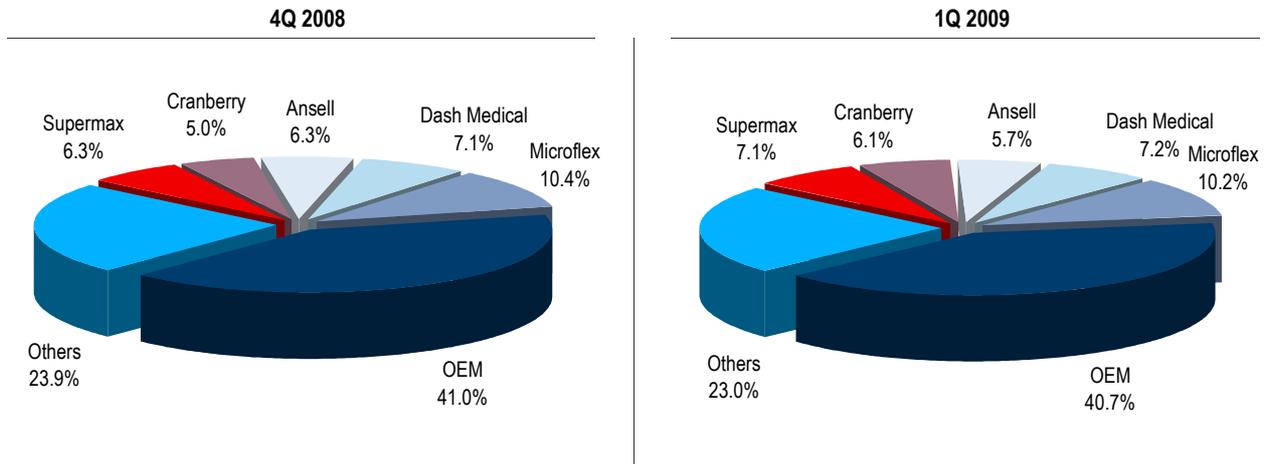
Source: Company, CIMB estimates, Bloomberg

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

Recent developments

Increasing market share in the US. Supermax's global brand and products remain synonymous with quality and reliability in the global marketplace and continue to gain market share every year. It is currently the third biggest glove brand in the US dental market. As reported in Strategic Dental Marketing, Supermax's share increased from 6.3% in 4Q08 to 7.1% in 1Q09. We gathered that this was driven largely by the group's ongoing efforts to penetrate into the US market by participating in international trade shows and exhibitions.

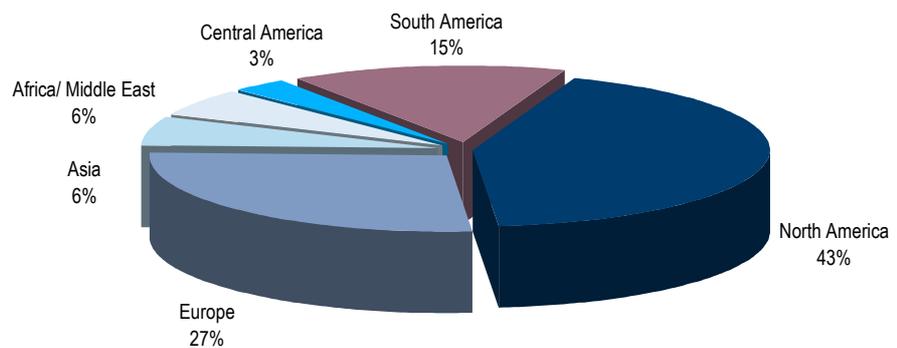
Figure 1: Dental market share in US



Source: Strategic Dental Marketing (USA), Company, CIMB Research

Penetrating India and Russia. 43% of Supermax sales go to the North America region, followed by Europe at 27%, South America 15%, Africa and Middle East 6%, Asia 6% and Central America 3%. Taking into account its success in emerging markets like Brazil, the group plans to penetrate new emerging markets such as India and Russia as part of its long-term expansion plans. This will be largely supported by its glove city project which is expected to kick off in 2011.

Figure 2: Sales by region



Source: Company, CIMB Research

Earnings outlook

No change to earnings. We make no changes to our earnings forecasts as we believe Supermax's prospects will continue to improve given the strong demand for the company's products. Furthermore, we believe that the company, which operates on a 55:45 OBM:OEM model, will benefit from its ability to command higher prices and expand its margins, especially in situations where demand exceeds supply like the ongoing A(H1N1) flu outbreak.

Figure 3: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	400.3	574.3	811.8	828.1
Operating Profit (EBIT)	40.8	55.4	70.2	101.5
Depreciation	(13.0)	(19.9)	(28.9)	(28.1)
Interest Expenses	(12.7)	(15.3)	(20.3)	(11.6)
Pretax Profit	47.3	58.6	52.0	108.8
Effective Tax Rate (%)	16.0	4.4	9.6	15.0
Net Profit	39.7	55.9	47.0	92.5
Operating Margin (%)	10.2	9.6	8.7	12.3
Pretax Margin (%)	11.8	10.2	6.4	13.1
Net Margin (%)	9.9	9.7	5.8	11.2

Source: Company, CIMB estimates

Recommendation

Maintain BUY. To reflect the improved outlook for the company, we are lowering our discount to our target market P/E of 15x from 50% to 30%, giving us a revised target price of RM4.02, up from RM2.87. This translates into share price upside of 77.1%. Given our new target price, we are upgrading the stock from a trading-oriented buy to an outright BUY. We are also greatly encouraged by the company's more cooperative approach with its main competitor Top Glove (TOPG MK, Outperform), which augurs well for the companies and sector in the longer term. In view of its cheapest valuations of 6.5x CY09 P/E and 5.9x CY10 P/E, steady earnings growth with 3-year EPS CAGR of 20.3% and highest dividend yield for CY09, Supermax is now one of our top picks for the sector. Potential share price triggers include the improvement in its earnings and margins stemming from its overseas distribution centres and OBM model.

Figure 4: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	811.8	828.1	861.2	904.2
EBITDA (RM m)	75.3	99.1	129.6	138.3	156.0
EBITDA margins (%)	13.1	12.2	15.6	16.1	17.3
Pretax profit (RM m)	58.6	52.0	108.8	119.4	127.3
Net profit (RM m)	55.9	47.0	92.5	101.5	108.2
EPS (sen)	23.0	17.7	34.9	38.3	40.8
EPS growth (%)	+28%	-23%	+97%	+10%	+7%
P/E (x)	9.9	12.8	6.5	5.9	5.6
Core EPS (sen)	23.0	23.4	34.9	38.3	40.8
Core EPS growth (%)	+28%	+2%	+49%	+10%	+7%
Core P/E (x)	9.9	9.7	6.5	5.9	5.6
Gross DPS (sen)	4.9	3.2	7.0	7.7	8.2
Dividend yield (%)	2.4	1.4	3.1	3.4	3.6
P/NTA (x)	2.4	1.6	1.5	1.2	1.1
ROE (%)	22.6	14.1	21.8	21.3	19.4
Net gearing (%)	57.0	70.9	51.1	29.1	29.7
P/CF (x)	8.6	6.1	5.8	5.8	5.3
EV/EBITDA (x)	9.9	8.7	6.4	6.4	5.5
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.13	1.07	1.14

Source: Company, CIMB Research, Reuters Estimates

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