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## Company Update

# Supermax Corporation

### Thirst for Gloves Stokes Demand

At the analyst briefing yesterday, Supermax shed more light on the glove industry outlook and its earnings going forward. We gather that demand still outpaces supply, mainly due to the lack of new capacity since mid-2008. Supermax has started on a capacity expansion programme that will ramp up total annual capacity to 21.7bn pieces by 2010 from 14.5bn pieces currently. Management has also guided for more dividends in tandem with its fine performance. We have upgraded our FY10 earnings by another 13% in line with guidance and hence raise our target price to RM5.30 (previously RM4.68).

BUY ↻

Target **RM5.30**  
Previous **RM4.68**  
Price **RM3.60**

#### RUBBER GLOVES

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

#### Stock Statistics

Bloomberg Ticker	SUCB MK
	EQUITY
Share Capital (m)	265.31
Market Cap (RMm)	955.12
52 week H L Price (RM)	3.70   0.78
3mth Avg Vol ('000)	2,581.5
YTD Returns	263.8
Beta (x)	0.89

#### Major Shareholders (%)

Dato' Seri Stanley Tai	20.40
Datin Seri Cheryl Tan	14.96
Tabung Haji	7.68

#### Share Performance (%)

Month	Absolute	Relative
1m	10.6	8.4
3m	48.5	18.4
6m	174.8	100.1
12m	187.3	115.7

#### 6-month Share Price Performance



**Global demand growing by about 10bn pieces a year.** According to Supermax's management, global rubber glove demand for 2009 is at 135bn pieces p.a. (Top Glove has estimated 140bn pieces p.a.) and should increase by 10bn pieces a year. On top of this, the H1N1 pandemic is also envisaged to boost demand by another 8bn pieces p.a., which brings total demand to more than 150bn pieces of gloves by 2010. With glove makers holding back on capacity expansion from mid-2008 to mid-2009 owing to uncertainties over the health of the global economy, the industry believes the new capacity in the global market was less than 5bn pieces p.a, which gives rise to the current global scarcity of rubber gloves. In the shorter term, most rubber glove manufacturers also expect the shortfall in rubber glove supply to prolong as the industry has not obtained new natural gas supply. Hence, any expansion would mostly be limited to the scrapping of old production lines and adding new lines to their existing facilities to utilize the available natural gas. Also, we understand that a biomass boiler – should glove makers opt to use one - would take about 12-15 months to be ready for use.

**Capacity expansion in motion.** Currently, Supermax's total annual capacity is at 14.5bn pieces p.a, which management expects to increase by 3.1bn and 4.1bn pieces p.a. by 2009 and 2010 through organic growth. Total annual capacity will hit 21.7bn pieces by end-2010.

**Ready for production cost increase in the future.** Latex price has been on a rising trend in tandem with the rise in crude oil price. Apart from passing on the cost increase to its customers, we believe Supermax is prepared for higher latex prices as the company's efforts to enhance production efficiency is bearing fruit, whereby: 1) natural gas cost has been cut by 4% YTD, and 2) electricity cost is down 6.4% YTD, even as output has climbed 12% from 10.8bn pieces in FY08 to 12.1bn pieces in FY09.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Revenue	389.1	582.1	833.4	1,109.8	1,226.5
Net Profit	40.8	59.4	46.5	117.0	140.5
% chg y-o-y	12.6	45.5	-21.7	151.7	20.0
Consensus	-	-	-	120.3	125.7
EPS (sen)	15.4	21.4	16.7	42.2	53.0
DPS (sen)	2.8	3.3	4.0	4.0	4.0
Dividend yield (%)	0.8	0.9	1.1	1.1	1.1
ROE (%)	18.3	18.8	11.3	24.1	23.2
ROA (%)	8.2	8.6	5.0	11.2	12.1
PER (x)	25.9	16.8	21.5	8.5	6.8
BV/share (RM)	0.91	1.47	1.62	2.03	2.53
P/BV (x)	4.0	2.6	2.4	1.9	1.5
EV/ EBITDA (x)	20.4	14.1	12.9	7.7	6.0

**Promise of higher dividend.** Recently, Supermax announced an interim tax exempt dividend of 5%. Going forward, we understand from management that it expects to announce a final dividend together with special dividend in January 2010, with total dividend for FY09 coming in at more than 10%. This is in line with its dividend policy of a minimum payout ratio of 20%, while the special dividend would come from the sales of treasury shares as well as extraordinary profit made in the current financial year.

**Capex spending to be financed internally.** Based on its 9MFY09 results, we understand that the company's cash and bank balances amount to RM90m. For FY09, we understand that management expects to spend another RM24m on a new production line at its Meru plant, on top of the RM6.5m spent earlier to refurbish 25 old production lines at its Lahat plant. Going into 2010, the expected capex spending would be RM35.0m to upgrade the production lines at its Sungai Buloh, Melaka and Meru plants. Finally, its glove city project is expected to take up another RM50.0m but spending is likely to kick in only by 2011, unless the company can secure new natural gas supply earlier than expected.

**Further FY10 earnings upgrade by 13%.** Our upgrade is in line with management's guidance of achieving a minimum of 50 sen EPS for FY10.

**Maintain Buy.** Our target price for Supermax is also upgraded to RM5.30 (previously RM4.68), based on the existing PER of 10x FY10 EPS following our FY10 earnings upgrade. We like the company's good product mix, whereby more than 70% comprises natural rubber gloves, which we believe would be sought after in developing countries like Latin American, China and India as they are cheaper than nitrile gloves.

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09f</b>	<b>FY10f</b>
Turnover	389.1	582.1	833.4	1,109.8	1,226.5
EBITDA	55.9	92.1	100.1	171.7	212.5
PBT	47.2	67.2	51.6	137.7	165.3
Net Profit	40.8	59.4	46.5	117.0	140.5
EPS (sen)	15.4	21.4	16.7	42.2	53.0
DPS (sen)	2.8	3.3	4.0	4.0	4.0
<b>Margin</b>					
EBITDA (%)	14.4	15.8	12.0	15.5	17.3
PBT (%)	12.1	11.5	6.2	12.4	13.5
Net Profit (%)	10.5	10.2	5.6	10.5	11.5
<b>ROE (%)</b>	18.3	18.8	11.3	24.1	23.2
<b>ROA (%)</b>	8.2	8.6	5.0	11.2	12.1
<b>Balance Sheet</b>					
Fixed Assets	300.7	510.6	507.2	502.4	496.1
Current Assets	219.2	359.0	482.5	606.9	712.1
Total Assets	519.9	869.6	989.7	1,109.3	1,208.2
Current Liabilities	126.3	309.7	391.0	401.2	367.2
Net Current Assets	92.9	49.3	91.5	205.7	344.9
LT Liabilities	152.8	168.7	168.7	168.7	168.7
Shareholders Funds	240.8	391.2	430.1	539.5	672.3
Net Gearing (%)	76.4	88.3	77.9	69.6	49.1

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