



CIMB Research Report

Supermax

Super fresh start to the year

UPDATE REPORT

6 March 2009

RECOM Hold

PRICE RM0.88

MKT CAPITALISATION RM232.11m

BOARD Main (Syariah stock)

SECTOR Industrial

INDEX COMPONENT KLCI, FBMSC, FBMS
FBM EMAS

MALAYSIA

SUCB MK / SUPM.KL

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Investment highlights

- All-time high for revenue.** Yesterday, Supermax held its first analyst briefing for 2009. The key main highlights were its performance in 2008, recent developments in the glove industry and the outlook for the company. Although, most of the things discussed were well within our expectations, the briefing left us feeling more positive about Supermax. If not for the RM16.7m impairment loss for APLI, Supermax would have turned in a 13% increase in net profit, instead of a 17% decline. Revenue surged 45% to RM833.4m on a 30% rise in production to 10.8bn gloves, coming largely from 10 new lines commissioned at its Kamunting Raya plant in 1H08 and intensive marketing efforts to take advantage of strong demand for rubber gloves.
- Meeting new global standards.** Supermax has no problem meeting new standards for rubber gloves entering the US and Brazil. In Dec 08, the US FDA stepped up its acceptable quality level (AQL) while from 1 January, glove manufacturers or suppliers in Brazil are required to print their distributor's name and glove lot/batch number on each piece of glove. Supermax has been able to meet the FDA AQL requirement which it has been practising internally and also recently received approval for its new glove standard meant for the Brazilian market.
- Maintain HOLD.** Overall, the briefing highlighted three main points: Supermax's performance in 2008, recent developments in the glove industry and the outlook for the company. Prospects are improving, thanks to the confluence of myriad factors such as the industry's natural resilience, lower latex cost, favourable exchange rate movements and recent energy price cuts. With these favourable developments, future monthly cost savings and potential margins improvement, we have raised our FY09-11 numbers by 14-15%. This gives us a new target price of RM1.03 (RM0.90 previously), still based on a 70% discount pegged to 12x P/E. We maintain our HOLD recommendation.

Key stock statistics

	2008	2009F
FYE Dec		
EPS (sen)	17.5	24.2
P/E (x)	4.5	3.3
Dividend/Share (sen)	3.2	4.6
NTA/Share (RM)	1.46	1.43
Book Value/Share (x)	1.46	1.43
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)	RM1.78/RM0.78	
Major Shareholders:	%	
Dato' Seri Thai Kim Sim, Stanley	20.4	
Datin Seri Tan Bee Geok, Cheryl	15.0	

Per share data

FYE Dec	2006	2007	2008	2009F
Book Value (RM)	1.1	0.9	1.5	1.4
Cash Flow (sen)	12.8	26.4	37.4	39.0
Earnings (sen)	18.0	21.1	17.5	24.2
Dividend (sen)	4.5	4.9	3.2	4.6
Payout Ratio (%)	18.1	16.8	13.2	13.8
P/E (x)	4.4	3.7	4.5	3.3
P/Cash Flow (x)	6.2	3.0	2.1	2.0
P/Book Value (x)	0.7	0.8	0.5	0.6
Dividend Yield (%)	5.7	6.2	4.1	5.9
ROE (%)	18.1	22.5	19.0	15.6
Net Gearing (%)	74.4	60.5	71.1	64.6

Source: Company, CIMB estimates, Bloomberg

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

Results review

All-time high for revenue... Supermax's FY08 revenue surged 45% to RM833m on a 30% rise in production to 10.8bn gloves, coming largely from 10 new lines commissioned at its Kamunting Raya plant in the 1H of the year and intensive marketing efforts to take advantage of strong demand for rubber gloves.

...but earnings and margins were affected. If not for the RM16.7m impairment loss for APLI in 4Q08, Supermax turned in a 13% increase in net profit to RM63.1m, instead of a 16.9% decline to RM46.5m. As a result, its net profit margin tumbled from 9.7% in FY07 to 5.6%.

Recent developments

New FDA requirements... In Dec 08, the US Food and Drug Administration (FDA) stepped up its inspection criteria for rubber gloves entering into the US market. The new standard acceptable quality level (AQL) for examination gloves is 2.5 (4.0 previously) while for surgical gloves, the AQL must now be 1.5 (2.5 previously). However, this does not have any impact on Supermax's products as the company has been practising an AQL standard of 1.5 for its examination gloves and AQL 0.65-1.00 for its surgical gloves.

..along with new Brazilian standard. On top of that, from 1 January, glove manufacturers or suppliers in Brazil are required to print their distributor's name and glove lot/batch number on each piece of glove. As an OBM manufacturer with its own distribution centre in Brazil, Supermax has been able to adopt this new rule easily and its gloves have recently been approved by the Brazilian authorities. Nevertheless, the company mentioned that it has been aware of this new rule since 3Q of last year and made extra shipments during the months of September and October to ensure sufficient supply until March.

More positive news. During the briefing, Supermax revealed that it bought 33 acres of land in Bukit Kapar, Klang last year as part of the group's long-term plan to integrate all of its eight manufacturing plants in one place in a project called the "Glove City Project" which focuses on just in time (JIT) manufacturing and production efficiency. However, this project is still at a preliminary stage of planning. Management could not estimate its capex requirements but mentioned that the project should start to kick off with the move of its older plants in FY11. The whole project expected to be completed within 10 years.

Figure 1: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	389.1	574.3	833.4	841.7
Operating Profit (EBIT)	42.0	55.4	71.7	76.9
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	73.9
Effective Tax Rate (%)	13.6	4.4	10.0	13.0
Net Profit	40.8	55.9	46.5	64.3
Operating Margin (%)	10.8	9.6	8.6	9.1
Pretax Margin (%)	12.1	10.2	6.2	8.8
Net Margin (%)	10.5	9.7	5.6	7.6

Source: Company, CIMB estimates

Earnings outlook

Margins to improve. With APLI out of its way, Supermax business will now be 55% OBM and 45% OEM. The group mentioned that it can now focus on its manufacturing activities and there will be no more trading contribution from related parties. The group expects its margins to improve from FY09 onwards.

Savings from energy price cuts. Besides potential margins improvement, the group disclosed that the recently announced 5% electricity tariff cut and 32% drop in natural gas prices will result in monthly savings of RM1.7m, which works out to a total of RM17m for FY09.

Demand unaffected by economic slowdown. Rubber gloves have proven over time that they are not affected by the health of the economy. We believe that demand for Supermax's products will be strong as more than 90% of its production is for medical usage which is driven by the emergence of viruses and developing countries' increasing awareness of the need for better hygiene.

Recommendation

Maintain HOLD. Overall, the briefing highlighted three main points: Supermax's performance in 2008, recent developments in the glove industry and the outlook for the company. Prospects are improving, thanks to the confluence of myriad factors such as the industry's natural resilience, lower latex cost, favourable exchange rate movements and recent energy price cuts. With these favourable developments, future monthly cost savings and potential margins improvement, we have raised our FY09-11 numbers by 14-15%. This gives us a new target price of RM1.03 (RM0.90 previously), still based on a 70% discount pegged to 12x P/E. We maintain our HOLD recommendation.

Figure 2: Share price chart (RM)



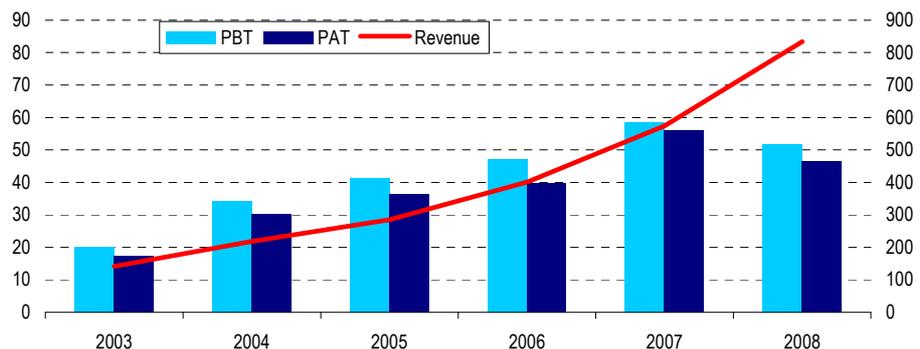
Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	833.4	841.7	875.4	901.7
EBITDA (RM m)	75.6	100.3	105.0	123.9	135.1
EBITDA margins (%)	13.2	12.0	12.5	14.2	15.0
Pretax profit (RM m)	58.6	51.6	73.9	87.5	93.3
Net profit (RM m)	55.9	46.5	64.3	76.1	81.1
EPS (sen)	21.1	17.5	24.2	28.7	30.6
EPS growth (%)	+17%	-17%	+38%	+18%	+7%
P/E (x)	4.0	4.8	3.5	2.9	2.7
Core EPS (sen)	21.1	23.8	24.2	28.7	30.6
Core EPS growth (%)	+17%	+13%	+2%	+18%	+7%
Core P/E (x)	4.0	3.5	3.5	2.9	2.7
Gross DPS (sen)	5.0	3.3	4.7	4.7	5.9
Dividend yield (%)	5.9	3.9	5.6	5.6	7.1
P/NTA (x)	0.9	0.6	0.6	0.5	0.4
ROE (%)	22.5	14.0	15.6	17.2	16.2
Net gearing (%)	60.5	71.1	64.6	48.4	43.2
P/CF (x)	10.2	7.2	6.9	6.9	6.3
EV/EBITDA (x)	11.5	9.7	7.4	7.4	5.9
% change in EPS estimates			15.0	14.0	14.0
CIMB/Consensus (x)			0.98	0.92	N/A

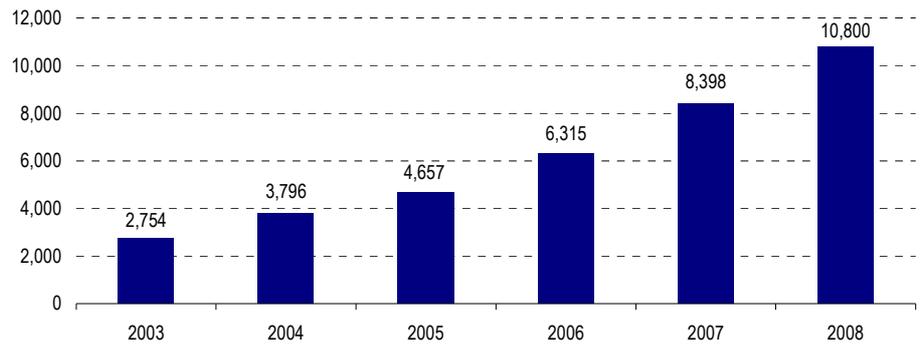
Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

Figure 3: Financial performance (RM m)



Source: Company

Figure 4: Production (m pcs of gloves)



Source: Company

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