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BUY ↔

Target **RM7.84**
Previous **RM7.84**
Price **RM4.24**

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 (RMm)	1441.94
52 week H L Price (RM)	6.60 3.69
3mth Avg Vol ('000)	1,444.4
YTD Returns	9.5
Beta (x)	1.59

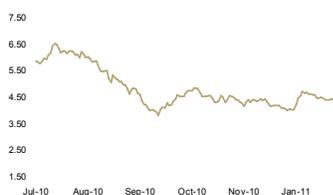
Major Shareholders (%)

Dato' Seri Stanley Tai	20.41
Datin Seri Cheryl Tan	15.09

Share Performance (%)

Month	Absolute	Relative
1m	10.8	-2.4
3m	-2.0	-6.0
6m	-27.3	-37.0
12m	12.7	-9.9

6-month Share Price Performance



Company Update

Supermax Corporation

Addressing Latex Price Spike

The takeaways from Supermax's analyst briefing yesterday are that the company is increasing its nitrile glove product mix to 45% and producing more surgical gloves. Also, management expects latex price to fall by 2Q11/2H11 when the wintering season for the rubber trees in Vietnam and Cambodia ends. Finally, management has unofficially guided for a net profit growth of 15%-20% for FY11. **Maintain Buy.**

Making more nitrile and surgical gloves to smoothen margins. The company's nitrile product mix is about 30% (increased from 20% traditionally), which management expects to increase further to 45% if latex price continues to spiral. This is can be done since about 70% of its production lines are interchangeable. Management expects to increase the production of surgical gloves to 336m pairs (from 30m pairs now). While this is a good business strategy, we are dogged by the same concerns we had over the same move by Top Glove, i.e. whether the company can secure new customers without cannibalizing its own markets. This is because nitrile gloves mainly target the US and European markets where there FDA requirements are stringent and customer loyalty is strong. On the other hand, we are positive on the company's higher surgical glove mix aimed at a niche markets hat promises higher margins.

Expects latex price to fall by 2Q11/2H11. Management believes that the wintering season for rubber trees in Vietnam and Cambodia is over and hence more latex supply should flood the market soon. Both countries are the 4th and 5th largest latex producers in Asia.

Net profit growth of 15%-20%. We gather indirectly from management's tone at yesterday's briefing that it expects a y-o-y growth of 15%-20%, driven by: i) higher production capacity (from 17.6bn in 2010 to 19.8bn in 2011); ii) better margins arising from the shift to more nitrile gloves (about 5%-pts higher), and iii) higher contribution from surgical gloves. As per our forecast, we are on the bullish end with an assumption of a y-o-y growth of about 20%. We are keeping our figures unchanged for now as we think it is still too early to accurately estimate the absolute figure as we believe Supermax's net profit would swing according to the latex price direction. If the uptrend in latex price persists until the end of the year, we believe its y-o-y numbers would likely settle lower since latex cost makes up about 60% of its production cost.

Maintain Buy. Our target price for the company remains at RM7.84, based on a PER of 13x FY11 EPS.

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	811.8	814.8	923.3	1,177.7	1,282.4
Net Profit	47.0	129.8	168.2	200.0	220.9
% chg y-o-y	-20.9	176.1	29.6	18.9	10.4
Consensus	-	-	-	196.0	216.0
EPS (sen)	13.7	37.7	50.7	60.3	66.6
DPS (sen)	4.0	11.0	11.0	11.5	13.5
Dividend yield (%)	0.9	2.6	2.6	2.7	3.2
ROE (%)	11.5	26.3	26.6	25.2	22.7
ROA (%)	5.1	13.5	16.0	16.4	16.2
PER (x)	31.0	11.2	8.4	7.0	6.4
BV/share (RM)	1.29	1.68	2.13	2.65	3.22
P/BV (x)	3.4	2.7	2.1	1.7	1.4
EV/ EBITDA (x)	15.1	9.7	8.4	5.9	5.0

EARNINGS FORECAST

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	811.8	814.8	923.3	1,177.7	1,282.4
EBITDA	115.2	162.3	191.1	261.7	293.0
PBT	52.0	152.1	177.4	235.3	259.9
Net Profit	47.0	129.8	168.2	200.0	220.9
EPS (sen)	13.7	37.7	50.7	60.3	66.6
DPS (sen)	4.0	11.0	11.0	11.5	13.5
Margin					
EBITDA (%)	14.2	19.9	20.7	22.2	22.8
PBT (%)	6.4	18.7	19.2	20.0	20.3
Net Profit (%)	5.8	15.9	18.2	17.0	17.2
ROE (%)	11.5	26.3	26.6	25.2	22.7
ROA (%)	5.1	13.5	16.0	16.4	16.2
Balance Sheet					
Fixed Assets	507.2	569.5	614.8	783.2	843.6
Current Assets	477.5	364.6	546.6	496.9	610.0
Total Assets	984.7	934.1	1,161.5	1,280.1	1,453.6
Current Liabilities	387.4	202.2	289.5	235.6	220.3
Net Current Assets	90.1	162.4	257.1	261.3	389.7
LT Liabilities	168.7	173.9	165.9	165.9	165.9
Shareholders Funds	428.6	558.0	706.1	878.7	1,067.3
Net Gearing (%)	78.1	31.5	27.0	15.4	4.7

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