

Company Update

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Supermax Corp

A More Generous Dividend Payout

Following Supermax's analyst briefing yesterday, we are reiterating our BUY call and leaving our FV unchanged at RM2.70, based on a 13x FY13 PER. Management expects latex price to fall further to RM4.50/kg due to additional supply from maturing plantations in the neighboring countries of Cambodia and South Vietnam. Nonetheless, in view of the resilient demand, declining raw material costs and better operating efficiency, the group's 2HFY12 margins and performance should improve. Management has lifted its dividend payout to 30% of PAT vs 20% previously. That said, we are maintaining our DPS forecast of 8.5 sen per share, translating into a dividend yield of 4%. Maintain BUY.

BUY

Fair Value **RM2.70**
Previous **RM2.70**
Price **RM2.13**

RUBBER GLOVES

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

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	680.2
Market Cap	1,448.7
52 week H L Price	2.38 2.38
3mth Avg Vol (000)	2,173.4
YTD Returns	11.2
Beta (x)	1.48
Shariah Compliant	YES

Major Shareholders (%)

Dato' Seri Stanley Thai	20.44
Datin Seri Cheryl Tan	15.13
EPF	9.31

Share Performance (%)

Month	Absolute	Relative
1m	-3.6	-2.8
3m	27.2	19.4
6m	5.4	0.6
12m	31.4	22.0

6-month Share Price Performance



Ramping up nitrile glove (NBR) mix to 52% by 2013. As NBR prices are more stable compared with Natural Rubber (NR) latex prices, coupled with resilient demand for NBR gloves from the developed countries, management is fast-tracking the construction of three factories – on Lots 6058, 6059 and 6070 - to produce NBR gloves. We gather that this is a significant shift in product mix, as Supermax is increasing the portion of NBR from 35% currently to 52%. The three factories will produce a combined estimate of 5.2bn pieces of NBR gloves and contribute earnings of some USD151m by 4QFY12 and FY13, which we have incorporated into our earnings projections. However, as the resilient demand for NBR gloves has led to major glove manufacturers in Malaysia, China, Thailand and Indonesia expanding their respective capacity for this type of gloves, intense price competition is likely to emerge and thus erode profit margins. Nonetheless, in view of the better operating efficiency – thanks to automation of the company's factories as well as low latex prices – we are positive that the group's margins will stay at a healthy 10%-15% going forward.

Focus on global marketing & distribution, rather than upstream expansion. While its peers Top Glove (BUY, FV RM6.00) and Kossan (BUY, FV RM4.00) have chosen to expand upstream, Supermax has guided that the company would not be taking the same option, at least for the next 1-2 years. Instead, management will continue to focus on manufacturing, distributing and marketing its gloves to Germany, US, Canada, Brazil and UK. Management also guided that it is on track to spend capex of RM187m, of which RM52m will be utilized in FY12, RM96m in FY13 and RM39m in 1HFY14.

Maintain BUY. In line with our earnings projections, Supermax aims to achieve 20% earnings growth in FY12. We believe this is achievable owing to: (i) a higher production capacity via the expansion of surgical glove production to 336m pairs vs 30m pairs by 4QFY12 from new lines at its factory on Lot 42, (ii) lower material cost prices, and (iii) higher operating efficiency once its factories are fully automated. Management has raised its dividend payout to 30% of PAT from 20% previously. We reiterate our BUY call on Supermax with our FV unchanged at RM2.70, pegged to a 13x FY13 PER.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	814.8	977.3	1,026.9	1,135.5	1,286.1
Net Profit	129.8	158.9	106.1	127.6	137.8
% chg y-o-y	176.1	22.5	(33.2)	20.2	8.0
Consensus	-	-	-	126.5	143.2
EPS	19.2	24.0	16.0	19.2	20.8
DPS	11.0	7.5	7.5	8.5	9.5
Dividend yield (%)	5.2	3.5	3.5	4.0	4.5
ROE (%)	26.6	25.1	14.4	15.7	15.2
ROA (%)	13.5	15.2	9.0	9.9	9.5
PER (x)	11.1	8.9	13.3	11.1	10.3
BV/share	0.84	1.06	1.16	1.29	1.44
P/BV (x)	2.8	2.2	2.0	1.8	1.6
EV/EBITDA (x)	9.8	8.8	8.4	11.7	12.0

EARNINGS FORECAST

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	814.8	977.3	1,026.9	1,135.5	1,286.1
EBITDA	162.3	181.8	193.5	136.0	142.2
PBT	152.1	183.8	113.0	135.7	146.5
Net Profit	129.8	158.9	106.1	127.6	137.8
EPS	19.2	24.0	16.0	19.2	20.8
DPS	11.0	7.5	7.5	8.5	9.5
Margin					
EBITDA (%)	19.9	18.6	18.8	12.0	11.1
PBT (%)	18.7	18.8	11.0	11.9	11.4
Net Profit (%)	15.9	16.3	10.3	11.2	10.7
ROE (%)	26.6	25.1	14.4	15.7	15.2
ROA (%)	13.5	15.2	9.0	9.9	9.5
Balance Sheet					
Fixed Assets	569.5	614.8	662.6	778.1	756.8
Current Assets	364.6	546.6	522.8	615.3	751.8
Total Assets	934.1	1,161.5	1,185.3	1,393.4	1,508.6
Current Liabilities	202.2	289.5	244.9	366.0	383.5
Net Current Assets	162.4	257.1	277.9	249.4	368.2
LT Liabilities	173.9	165.9	169.9	169.9	169.9
Shareholders Funds	558.0	706.1	770.6	857.6	955.1
Net Gearing (%)	31.5	27.0	28.5	21.2	31.1

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