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Corporate News Flash

Supermax Corp

Bonus Issue Ex-Date Fixed

THE BUZZ

Yesterday, Supermax announced the ex-date for its 1-for-1 bonus issue, which has been set for 26 Jan 2012, which is just after the Chinese New Year. The completion of this exercise will see the company's share base enlarged to 680.2m.

OUR TAKE

Stock is already highly liquid and appealing. Even before this bonus issue, Supermax's shares are already the most liquid among its peers, which makes it very attractive for investment and trading among fund managers and retail investors. We expect this bonus issue to further enhance its appeal.

RUBBER GLOVES

BUY ↔

Fair Value **RM5.50**

Previous **RM5.50**

Price **RM4.34**

Shariah Compliant **YES**

Figure 1: Supermax the most liquid among its peers even before bonus issue

| Company | No of Shares ('m) | Avg 3-mths Vol ('m) |
|-----------|-------------------|---------------------|
| Adventa | 152.8 | 0.1 |
| Hartalega | 364.0 | 0.2 |
| Kossan | 319.7 | 0.2 |
| Supermax | 680.2 | 1.6 |
| Top Glove | 618.5 | 0.9 |

Source: OSK, Bloomberg

More room for earnings upside. We believe there is still opportunity for ourselves and the industry to upgrade the company's earnings forecasts going forward. Our existing forecast only factors in a 32% earnings growth but its accuracy of course would depend on how the company closes its FY11 accounts. Having said that, we believe our FY11 net profit forecast of RM106.5m is achievable since Supermax had already chalked up RM78.0m in earnings for 9MFY11, leaving only RM28.5m for the remaining quarter to close the gap. Its net profit for 3QFY11 alone already totaled RM30.9m despite the challenges of a higher average latex price and less favorable forex. Given that Supermax and Top Glove share the same product mix, and Top Glove has conservatively guided for a net profit growth of 30% while we are ourselves looking at a revised growth of close to 50%, we think Supermax can match the latter's numbers, especially since it also enjoys a secondary income from its distribution division. The only possible reason we can think of why Supermax may not achieve the same growth pace as Top Glove is that the latter is coming from a lower base given that its FY11 net profit sank 53.9% y-o-y while Supermax's FY11 net profit is expected to be lower by only 36.6% y-o-y. We are keeping our FY12 forecast unchanged pending the release of Supermax's 4QFY11 results as well as fresh guidance from management.

Maintain Buy. Upon completion of the 1-for-1 bonus exercise, our fair value for Supermax will be adjusted to RM2.75 (pre-bonus issue fair value at RM5.50), based on the existing PER of 13x FY12 EPS. Supermax remains our top sector pick because: i) we believe the theme for FY12 will be natural rubber gloves, for which the company has just the right product mix (70% natural rubber); ii) Supermax is only one rung down from Top Glove, being the world's second largest examination rubber glove producer, and yet its share's PE valuation is 70% more attractive than Top Glove's; iii) its shares stand out among its listed peers in terms of liquidity.

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated (NR):** Stock is not within regular research coverage

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