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## Company Update

# Supermax Corp

## Making A Comeback Soon?

### BUY

Fair Value

RM5.50

Previous

RM5.50

Price

RM2.50

### 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	850.20
52 week H   L Price	6.25   2.26
3mth Avg Vol (000)	591.5
YTD Returns	-7.3
Beta (x)	1.55

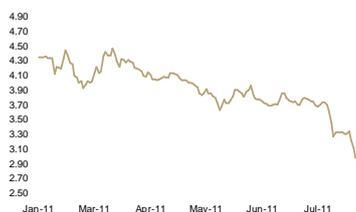
### Major Shareholders (%)

Dato' Seri Stanley Tai	20.41
Datin Seri Cheryl Tan	15.09
EPF	9.00

### Share Performance (%)

Month	Absolute	Relative
1m	-0.4	1.4
3m	-8.5	-10.6
6m	-15.3	-17.1
12m	-37.4	-47.8

### 6-month Share Price Performance



With the expected fall in natural rubber latex price, we see Top Glove and Supermax as the main beneficiaries and we also see Supermax as a cheaper exposure than Top Glove since they share the closest product mix and Top Glove's share price is 3x more expensive than Supermax. Going forward, Supermax expects to increase its higher end glove production which includes dental and surgical gloves. **Maintain Buy.**

**Cheaper exposure to Top Glove.** Among the rubber glove manufacturers, we understand that Supermax has the closest product mix to Top Glove, with about 70% of their mix in natural rubber glove. However, from the individual stock valuation stand point, Supermax is nearly 3x more attractive than Top Glove and hence this would give investors a cheaper entry into the natural rubber glove business by buying Supermax.

**One of the main beneficiaries from the fall in natural rubber latex price.** In our view, we see Top Glove and Supermax as the main beneficiaries from the fall in latex price since they use the most natural rubber latex. At about RM8.50/kg, latex cost makes up about 60%-70% of their total costs, versus at RM5.50/kg where it comprises about 50% of total costs. Going forward, we are expecting latex price to gradually fall, inline with the expected fall in other commodity prices too following the global economic slowdown. This fall would likely improve Supermax's margin by a few percentage point from the current EBITDA margin between 10%-15%.

**Strategy going forward is to produce more higher end gloves.** Although there is possibility of sales volume stagnating following the slowdown in the global economy, Supermax can still improve its profits by producing more higher end gloves, such as dental and surgical grade gloves. To-date, we understand that Supermax is the 2<sup>nd</sup> largest dental glove supplier in US, with a market share of 9.2% which is only slightly behind Microflex at 9.8%. Besides producing more dental gloves, Supermax expects to ramp up its surgical glove production from 60m pieces now to about 672m pieces by Dec 2011. We understand that there is a ready market for its product since its surgical glove is being sold 5-6 months forward. This surgical glove can contribute a margin of about 10%-20% higher compared to the basic examination glove.

**Maintain Buy.** Our fair value for Supermax remains unchanged at RM5.50 based on existing PER of 13x FY12 EPS. We continue to like the company for its attractive valuation (trading at single digit PER valuation) as well as operating in a recession resilient industry.

FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	811.8	814.8	923.3	1,026.9	1,135.5
Net Profit	47.0	129.8	168.2	106.6	140.3
% chg y-o-y	-20.9	176.1	29.6	(36.6)	31.6
Consensus	-	-	-	113.0	135.0
EPS (sen)	13.7	37.7	50.7	32.1	42.3
DPS (sen)	4.0	11.0	11.0	11.5	13.5
Dividend yield (%)	1.6	4.4	4.4	4.6	5.4
ROE (%)	11.5	26.3	26.6	14.3	16.7
ROA (%)	5.1	13.5	16.0	9.0	10.9
PER (x)	18.3	6.6	4.9	7.8	5.9
BV/share (RM)	1.29	1.68	2.13	2.37	2.69
P/BV (x)	2.0	1.6	1.3	1.1	1.0
EV/ EBITDA (x)	10.1	6.2	5.8	9.4	7.0

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	811.8	814.8	923.3	1,026.9	1,135.5
EBITDA	115.2	162.3	174.5	103.1	136.0
PBT	52.0	152.1	177.4	113.4	149.2
Net Profit	47.0	129.8	168.2	106.6	140.3
EPS (sen)	13.7	37.7	50.7	32.1	42.3
DPS (sen)	4.0	11.0	11.0	11.5	13.5
Margin					
EBITDA (%)	14.2	19.9	18.9	10.0	12.0
PBT (%)	6.4	18.7	19.2	11.0	13.1
Net Profit (%)	5.8	15.9	18.2	10.4	12.4
ROE (%)	11.5	26.3	26.6	14.3	16.7
ROA (%)	5.1	13.5	16.0	9.0	10.9
Balance Sheet					
Fixed Assets	507.2	569.5	614.8	783.2	843.6
Current Assets	477.5	364.6	546.6	420.5	535.5
Total Assets	984.7	934.1	1,161.5	1,203.7	1,379.1
Current Liabilities	387.4	202.2	289.5	252.6	320.0
Net Current Assets	90.1	162.4	257.1	167.9	215.5
LT Liabilities	168.7	173.9	165.9	165.9	165.9
Shareholders Funds	428.6	558.0	706.1	785.2	893.2
Net Gearing (%)	78.1	31.5	27.0	17.3	14.4

**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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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur  
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

**OSK RESEARCH SDN. BHD. (206591-V)**

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