



CIMB Research Report

Get your facts
before you invest

CBRS
FREE Expert
Analysis Reports

10 November 2010

Supermax Corporation

Thumbs-up from management despite headwinds

RECOM	Buy
PRICE	RM4.31
MKT CAPITALISATION	RM1.46bn
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

Investment highlights

- **Positive surprises at analyst briefing; maintain BUY.** Going by management's comments during the 3Q10 results briefing, Supermax should be able to meet our FY11 net profit forecast of RM210m as a) management indicated that it should achieve 15-20% net profit growth, b) cash flow generation should improve, aided by tax incentives, and c) it will benefit from a full-year contribution from the Sungai Buloh plant which was shut down in Oct. We maintain our BUY recommendation and target price of RM7.82, which is based on 11.0x CY12 P/E or a 20% discount to Top Glove's target P/E of 13.8x. Factors that could catalyse net buying of the stock are a) potential FY12 net profit upside of c.15% if management successfully executes its planned tax restructuring and restarts its Sungai Buloh plant, b) the eventual moderation of latex prices as weather-induced supply constraints subside, c) accelerated take-up of natural rubber medical gloves in emerging economies where hospitals and clinics operate at subpar hygiene standards.
- **Potential earnings upside from Sungai Buloh plant.** In Oct this year, a fire broke out at Supermax's Sungai Buloh glove factory, which contained three operating lines. Management, however, indicated that no critical equipment was damaged. The company has since restored the plant and installed 14 new surgical glove lines. No figures have been committed but the plant could raise surgical glove output by 10 times to 55m pieces per annum and add c.RM30m to FY12 net profit.
- **Management views latex price spike as unsustainable.** Supermax expects weather patterns to normalise and rubber harvesting activity to pick up in FY11. It indicated in its 3Q10 results announcement that latex prices could fall to RM5.50/kg from RM8.32/kg currently. This is in line with our view that soaring latex prices are a result of weather-induced supply constraints and should eventually moderate.

Key stock statistics

FYE Dec	2009	2010F
EPS (sen)	37.8	54.1
P/E (x)	11.4	8.0
Dividend/Share (sen)	8.8	9.0
NTA/Share (RM)	1.7	2.2
Book Value/Share (RM)	1.7	2.2
Issued Capital (m shares)		339.46
52-weeks Share Price Range (RM)	RM2.72/RM6.60	
Major Shareholders:	%	
Dato' Seri Thai Kim Sim, Stanley	20.4	
Datin Seri Tan Bee Geok, Cheryl	15.1	
Employees Provident Fund	8.4	

Per share data

FYE Dec	2007	2008	2009	2010F
Book Value (RM)	1.33	1.26	1.67	2.22
Cash Flow (sen)	25.6	16.1	67.4	50.0
Earnings (sen)	19.4	14.3	37.8	54.1
Dividend (sen)	3.0	2.6	8.8	9.0
Payout Ratio (%)	15.5	18.2	23.3	16.6
P/E (x)	22.2	30.2	11.4	8.0
P/Cash Flow (x)	16.8	26.8	6.4	8.6
P/Book Value (x)	3.2	3.4	2.6	1.9
Dividend Yield (%)	0.7	0.6	2.0	2.1
ROE (%)	17.9	11.7	26.0	27.9
Net Gearing (%)	87.9	90.0	31.5	13.8

Source: Company, CIMB estimates, Bloomberg

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

Figure 1: Latex price chart (sen/kg)



Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

FYE Dec	2007	2008	2009	2010F
Revenue	574.3	811.8	803.6	929.6
Operating Profit (EBIT)	74.9	98.9	169.0	224.0
Depreciation	(19.9)	(28.8)	(31.9)	(39.2)
Interest Expenses	(15.3)	(20.3)	(22.3)	(15.1)
Pretax Profit	58.6	52.0	151.5	215.9
Effective Tax Rate (%)	4.4	9.6	16.4	15.0
Net Profit	55.9	47.0	126.6	183.5
Operating Margin (%)	13.0	12.2	21.0	24.1
Pretax Margin (%)	10.2	6.4	18.8	23.2
Net Margin (%)	9.7	5.8	15.8	19.7

Source: Company, CIMB estimates

Recent developments

Presentation by Supermax's senior management. Supermax held an analyst briefing yesterday hosted by its managing director Dato' Seri Stanley Thai, director of corporate affairs Denis Low and group accountant Andrew Lim. During the 2-hour briefing, management touched upon the latest industry and company-related developments, which were largely in line with our expectations.

Supermax to optimise tax structure. In FY11, Supermax intends to activate its wholly-owned Supermax International Sdn Bhd, which has been approved as a regional distribution centre company in Malaysia. This development was a positive surprise and could increase net income by up to RM10m annually. Although we have not accounted for this in our forecast as the initiative is still under development, the figures presented by management imply 4-5% upside to our FY11-12 net profit forecasts.

Earnings outlook

Supermax to optimise tax structure. In FY11, Supermax intends to activate its wholly-owned Supermax International Sdn Bhd, which has been approved as a regional distribution centre company in Malaysia. This development was a positive surprise and could increase net income by up to RM10m annually. Although we have not accounted for this in our forecast as the initiative is still under development, the figures presented by management imply 4% upside to our FY12 net profit forecast.

Lower latex prices should attract buyers back to the market. Management indicated that latex prices were unsustainable at current levels due to the speculative nature of the latest price spikes. It expects latex price to fall to below RM6.00/kg within 1H11, prompting buyers who have held back orders in anticipation of lower prices to return to the market and restock depleting inventories. It is encouraging that purchases are returning to normal even amidst high latex prices. In fact, Supermax has been turning down orders and will only start shipping Oct bookings in Dec.

Dual mode lines can meet nitrile glove demand. Up to 70% of Supermax's existing capacity is programmed to produce both natural rubber powder free and nitrile powder free gloves. While Supermax currently manufactures a greater proportion of

natural rubber gloves, this dual mode capability enables the company to meet the growing demand for nitrile gloves from the hospital and medical sectors.

Higher demand for nitrile gloves due to high latex prices. Part of the higher demand for nitrile gloves is due to the narrowing price differential between natural and nitrile gloves resulting from the recent spike in latex prices. Supermax's ability to switch between natural rubber and nitrile glove production enables the company to meet changes in consumer demand swiftly.

Recommendation

Maintain BUY; valuation supported by multiyear earnings growth. We make no changes to our EPS forecasts or RM7.82 target price, which is based on 11.0x CY12 P/E or a 20% discount to our target P/E of 13.8x for Top Glove. Our valuation is well-supported by Supermax's FY10-12 net profit CAGR of 15% and 23% ROE for FY12, both of which are superior to the KLCI's 12% earnings CAGR and 20% ROE. Our forecast also implies an undemanding FY12 P/E of 6.1x despite the company's above-average growth prospects, low gearing and stable OBM revenue model.

Stock could re-rate when weather normalises. We continue to rate Supermax a BUY. Potential re-rating catalysts are c) the potential FY12 net profit upside of c.15% if management successfully executes its planned tax restructuring and meets internal sales targets for its enhanced and refurbished Sungai Buloh plant, b) the eventual moderation of latex prices as weather patterns normalise, c) accelerated take-up of natural rubber and synthetic medical gloves in emerging economies such as China where hospitals and clinics operate at subpar hygiene standards.

Figure 3: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	811.8	803.6	929.6	1,103.5	1,262.0
EBITDA (RM m)	98.9	169.0	224.0	259.9	303.6
EBITDA margins (%)	12.2	21.0	24.1	23.6	24.1
Pretax profit (RM m)	52.0	151.5	215.9	246.1	283.2
Net profit (RM m)	47.0	126.6	183.5	209.2	240.8
EPS (sen)	14.3	37.8	54.1	61.6	70.9
EPS growth (%)	-27%	+165%	+43%	+14%	+15%
P/E (x)	30.2	11.4	8.0	7.0	6.1
Core EPS (sen)	19.3	39.4	54.1	61.6	70.9
Core EPS growth (%)	-0%	+104%	+37%	+14%	+15%
Core P/E (x)	22.3	11.0	8.0	7.0	6.1
Gross DPS (sen)	2.6	8.8	9.0	11.0	12.0
Dividend yield (%)	0.6	2.0	2.1	2.6	2.8
P/NTA (x)	3.7	2.7	2.0	1.6	1.3
ROE (%)	11.7	26.0	27.9	24.7	23.1
Net gearing (%)	90.0	31.5	13.8	-	-
Net cash per share (RM)	-	-	-	0.03	0.49
P/FCFE (x)			17.1	10.1	7.7
EV/EBITDA (x)			7.0	5.6	4.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.02	1.05	1.11

Source: Company, CIMB Research, Bloomberg

For further information, kindly contact Yeoh Yung Juen at (603) 2084 9911 or yungjuen.yeoh@cimb.com

This report has been prepared by CIMB Investment Bank Bhd (“CIMB”) for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. CIMB has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at:

http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the “Restrictions on Distributions” set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

CIMB, its affiliates and related companies, their directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report. The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. CIMB prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The term “CIMB” shall denote where applicable the relevant entity distributing the report in that particular jurisdiction where mentioned specifically below shall be a CIMB Group Sdn Bhd’s affiliates, subsidiaries and related companies.

- (i) As of 9 November 2010, CIMB has a proprietary position in the following securities in this report:
 - (a) Supermax, Supermax CW.
- (ii) As of 10 November 2010, the analyst, Terence Wong who prepared this report, has / have an interest in the securities in the following company or companies covered or recommended in this report:
 - (a) -.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. This report does not purport to contain all the information that a prospective investor may require. CIMB or any of its affiliates does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report and accordingly, neither CIMB nor any of its affiliates nor its related persons shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CIMB and its affiliates’ clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments thereof.

The views and opinions in this research report are our own as of the date hereof and are subject to change. CIMB has no obligation to update its opinion or the information in this research report.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Australia: Despite anything in this report to the contrary, this research is provided in Australia by CIMB Research Pte. Ltd. (“CIMBR”) and CIMBR notifies each recipient and each recipient acknowledges that CIMBR is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cwth) in respect of financial services provided to the recipient. CIMBR is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. This research is only available in Australia to persons who are “wholesale clients” (within the meaning of the Corporations Act 2001 (Cwth)) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. This research has been prepared without taking into account the objectives, financial situation or needs of the individual recipient.

France: Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

Hong Kong: This report is issued and distributed in Hong Kong by CIMB Securities (HK) Limited (“CHK”) which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CIMB Securities (HK) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CHK. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the securities covered in this report, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong)

Indonesia: This report is issued and distributed by PT CIMB Securities Indonesia (“CIMBI”). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBI has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBI. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBI. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesia residents except in compliance with applicable Indonesian capital market laws and regulations.

Malaysia: This report is issued and distributed by CIMB. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMB has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMB. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB.

New Zealand: In New Zealand, this report is for distribution only to persons whose principal business is the investment of money or who, in the course of, and for the purposes of their business, habitually invest money pursuant to Section 3(2)(a)(ii) of the Securities Act 1978.

Singapore: This report is issued and distributed by CIMB Research Pte Ltd ("CIMBR"). Recipients of this report are to contact CIMBR in Singapore in respect of any matters arising from, or in connection with, this report. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBR has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only. If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CIMBR accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBR.

As of 9 November 2010 CIMB Research Pte Ltd does not have a proprietary position in the recommended securities in this report.

Sweden: This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

Taiwan: This research report is not an offer or marketing of foreign securities in Taiwan. The securities as referred to in this research report have not been and will not be registered with the Financial Supervisory Commission of the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold within the Republic of China through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Law of the Republic of China that requires a registration or approval of the Financial Supervisory Commission of the Republic of China.

Thailand: This report is issued and distributed by CIMB Securities (Thailand) Company Limited (CIMBS). The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Services Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CIMBS has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CIMBS. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this material may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMBS.

United Arab Emirates: The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom: This report is being distributed by CIMB Securities (UK) Limited only to, and is directed at selected persons on the basis that those persons are (a) persons falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the "Order") who have professional experience in investments of this type or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order, (all such persons together being referred to as "relevant persons"). A high net worth entity includes a body corporate which has (or is a member of a group which has) a called-up share capital or net assets of not less than (a) if it has (or is a subsidiary of an undertaking which has) more than 20 members, £500,000, (b) otherwise, £5 million, the trustee of a high value trust or an unincorporated association or partnership with assets of no less than £5 million. Directors, officers and employees of such entities are also included provided their responsibilities regarding those entities involve engaging in investment activity. Persons who do not have professional experience relating to investments should not rely on this document.

United States: This research report is distributed in the United States of America by CIMB Securities (USA) Inc, a U.S.-registered broker-dealer and a related company of CIMB Research Pte Ltd solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors and investment professionals whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an Institutional Investor must not rely on this communication. However, the delivery of this research report to any person in the United States of America shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CIMB Securities (USA) Inc.

Other jurisdictions: In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions

STOCK RECOMMENDATIONS

- BUY:** Expected positive total returns of 15% or more over the next 12 months
- HOLD:** Expected total returns of between -15% and +15% over the next 12 months.
- SELL:** Expected negative total returns of 15% or more over the next 12 months.