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13 July 2009

# Supermax

*Pushing to the max*

<b>RECOM</b>	Buy
<b>PRICE</b>	RM1.96
<b>MKT CAPITALISATION</b>	RM519.9m
<b>BOARD</b>	Main (Syariah stock)
<b>SECTOR</b>	Industrial
<b>INDEX COMPONENT</b>	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

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## Results highlights

- **Beating expectations again.** Supermax's 2Q results beat expectations again - annualised 1H09 net profit made up 127% of our forecast and 130% of consensus. No dividends were declared for the quarter, which was no surprise as the company usually announces dividends during 2H.
- **Better performance on both qoq and yoy basis.** The company recorded a better performance on both qoq and yoy basis, with sales coming in at 3.02bn pieces of gloves in 2Q09 compared to 3.00bn in 1Q09 and 2.45bn in 2Q08. This, along with EBITDA margin expansion from 14.3% in 1Q09 and 11.5% in 2Q08 to 18.4% in 2Q09, pushed 2Q net profit up 90.6% yoy and 30.8% qoq to RM25.8m. We gathered that the strong performance was the result of management's focus on extracting greater efficiency from its wholly owned manufacturing facilities as well as higher contributions from its overseas distribution centres.
- **So far so good.** With APLI being fully written as of last year, the group appears on track for even better days ahead. Management retains a focus on stepping up its risk, receivable, inventory and productivity management, as well as optimising production efficiency.
- **Maintain BUY.** We believe that Supermax's prospects will continue to improve and demand for the company's products will continue to be strong for the next few quarters. In view of this, we up our FY09-11 earnings by 29-31%, which increases our target price from RM1.97 to RM2.87, still pegged to a 50% discount to our revised target market P/E of 15x (13.5x previously). We maintain our trading-oriented BUY recommendation, which is predicated on the potential re-rating catalysts of the unexpectedly strong 2Q results, a continued uptick in demand due to the A(H1N1) flu outbreak and improvement in quarterly margins.

Key stock statistics			Per share data				
	2008	2009F	FYE Dec	2006	2007	2008	2009F
FYE Dec			Book Value (RM)	2.1	1.2	1.2	1.0
EPS (sen)	17.7	34.9	Cash Flow (sen)	13.2	26.4	37.4	39.0
P/E (x)	11.1	5.6	Earnings (sen)	18.0	21.1	17.7	34.9
Dividend/Share (sen)	3.2	7.2	Dividend (sen)	4.5	4.9	3.2	7.2
NTA/Share (RM)	1.5	1.5	Payout Ratio (%)	18.1	17.0	13.5	15.4
Book Value/Share (x)	1.2	1.0	P/E (x)	10.9	9.3	11.1	5.6
Issued Capital (m shares)		265.3	P/Cash Flow (x)	14.9	7.4	5.2	5.0
52-weeks Share Price Range (RM)	RM1.97/RM0.78		P/Book Value (x)	0.9	1.6	1.6	2.0
<b>Major Shareholders:</b>	<b>%</b>		Dividend Yield (%)	2.3	2.5	1.7	3.7
Dato' Seri Thai Kim Sim, Stanley	20.4		ROE (%)	17.7	22.6	19.1	21.8
Datin Seri Tan Bee Geok, Cheryl	15.0		Net Gearing (%)	76.3	57.0	70.9	51.1
Lembaga Tabung Haji	10.0						

Source: Company, CIMB estimates, Bloomberg

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

Figure 1: Results comparison (RM m)

FYE Dec	2QFY09	2QFY08	% Change
Revenue	188.5	193.3	(2.5)
Operating Profit (EBIT)	35.9	20.0	79.6
Depreciation	(7.9)	(7.2)	9.8
Interest Expenses	(4.5)	(5.7)	(21.3)
Associates	9.0	4.9	85.3
Pretax Profit	31.3	14.2	120.2
Net Profit	25.8	13.5	90.6
<i>Operating Margin</i>	19.0	10.3	84.2
<i>Pretax Margin</i>	16.6	7.4	125.8
<i>Net Margin</i>	13.7	7.0	95.5

Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	400.3	574.3	811.8	828.1
Operating Profit (EBIT)	40.8	55.4	70.2	101.5
Depreciation	(13.0)	(19.9)	(28.9)	(28.1)
Interest Expenses	(12.7)	(15.3)	(20.3)	(11.6)
Pretax Profit	47.3	58.6	52.0	108.8
<i>Effective Tax Rate (%)</i>	16.0	4.4	9.6	15.0
Net Profit	39.7	55.9	47.0	92.5
<i>Operating Margin (%)</i>	10.2	9.6	8.7	12.3
<i>Pretax Margin (%)</i>	11.8	10.2	6.4	13.1
<i>Net Margin (%)</i>	9.9	9.7	5.8	11.2

Source: Company, CIMB estimates

## Recent developments

**Factories running at full capacity...** Supermax's glove orders have picked up strongly, leading to sales of 6.0bn gloves in 1H09. We understand that its factories have been running at almost full capacity and orders for delivery between May and October are up 30-35% from the corresponding period last year.

**.. supported by flu outbreak and hygiene awareness.** Demand for the company's gloves has also been boosted by the ongoing A(H1N1) pandemic, increasing hygiene awareness and rising healthcare spending by governments around the world.

**Medium-term expansion plans intact...** Due to the pick-up in demand, the company's expansion plans are intact. It expects to commission the 12 new lines at the Meru plant by Jan 2010. The infrastructure is already in place and the lines are expected to be installed by Dec this year. This will ultimately increase its glove production capacity by 12% to 16.2bn per annum in 2010 (Figure 3).

**... with long-terms plans for Glove City project.** The group is also firm on its plans to build a glove city on a 36.8-acre plot in Bukit Kapar, Klang. The project is tentatively planned for commencement in 2011 though the eventual timing will depend on global glove demand. We understand that the area can accommodate six factories with a total production capacity of 18bn pieces of gloves. The target is to build a factory every 1½-2 years starting 2011. Average capital expenditure per factory will be RM40m-50m.

Figure 3: Current expansion plans

### Current capacity:

Factory	No. of lines	Installed annual capacity (bn pcs)
Supermax	79	9.56
Seal Polymer	53	4.92
Total	132	14.48

### Target capacity (by Jan 2010):

Factory	No. of lines	Installed annual capacity (bn pcs)
Supermax	91	11.28
Seal Polymer	53	4.92
Total	144	16.20

Source: Company

## Earnings outlook

**Earnings upgrade.** We believe that prospects will continue to improve and demand for Supermax's products will continue to be strong for the next few quarters. Given the stronger-than-expected 1H performance and the potential improvement in demand arising from the A(H1N1) outbreak, increasing hygiene awareness and rising healthcare spending by governments around the world, we are now upping our FY09-11 earnings forecasts by 29-31%.

**Margins to improve.** With APLI out of its way, Supermax will also be able to lock in stronger margins as there will be no more internal purchases from the previous subsidiary which had dampened its earnings for the past few years. Furthermore, the company, which operates on a 55:45 OBM:OEM model, will also benefit from the ability to command higher prices and expand its margins, especially in situations where demand is strong like the ongoing A(H1N1) flu outbreak.

**Potential for special dividends.** Typically, the company announces interim and final dividends during the 2H of the financial year. Considering the strong performance this year and improvement in Supermax's prospects, we think that there is a high likelihood of the company declaring a special dividend during the 3Q or FY09 results announcements. In light of this and our earnings upgrade, we are revising our dividend estimate from 5-6sen per share to 7-8sen per share for FY09-11.

## Recommendation

**Maintain BUY.** We maintain our trading-oriented BUY call on the stock. In line with our earnings upgrade, we raise our target price from RM1.97 to RM2.87, still pegged to a 50% discount to our revised target market P/E of 15x (13.5x previously). Potential re-rating catalysts include the unexpectedly strong 2Q results, a continued uptick in demand due to the A(H1N1) flu outbreak and improvement in quarterly margins.

Figure 4: Share price chart (RM)



Source: Bloomberg

### Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	811.8	828.1	861.2	904.2
EBITDA (RM m)	75.3	99.1	129.6	138.3	156.0
EBITDA margins (%)	13.1	12.2	15.6	16.1	17.3
Pretax profit (RM m)	58.6	52.0	108.8	119.4	127.3
Net profit (RM m)	55.9	47.0	92.5	101.5	108.2
EPS (sen)	21.1	17.7	34.9	38.3	40.8
EPS growth (%)	+17%	-16%	+97%	+10%	+7%
P/E (x)	9.3	11.1	5.6	5.1	4.8
Core EPS (sen)	21.1	24.0	34.9	38.3	40.8
Core EPS growth (%)	+17%	+14%	+45%	+10%	+7%
Core P/E (x)	9.3	8.2	5.6	5.1	4.8
Gross DPS (sen)	4.9	3.2	7.0	7.7	8.2
Dividend yield (%)	2.5	1.6	3.6	3.9	4.2
P/NTA (x)	2.1	1.3	1.3	1.1	0.9
ROE (%)	22.6	14.1	21.8	21.3	19.4
Net gearing (%)	57.0	70.9	51.1	29.1	29.7
P/CF (x)	7.4	5.2	5.0	5.0	4.6
EV/EBITDA (x)	8.8	7.9	5.8	5.8	4.9
% change in EPS estimates			29.1%	31.2%	31.1%
CIMB/Consensus (x)			1.27	1.21	1.32

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

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