



# BUY

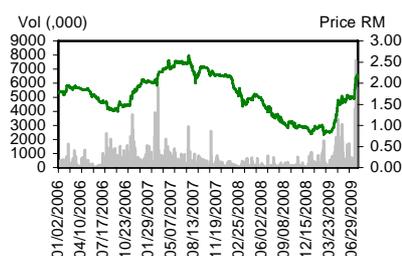
## 1HFY09 Results Briefing

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**Price** RM2.15  
**Target** RM2.50  
**KLCI Index** 1135

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	29.8	63.9	134.4
Relative (%)	18.2	38.2	79.4

### Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	161.0
52-week high (RM)	2.28
52-week low (RM)	0.78
Shares issued (m)	265.3
6m avg d.vol (US\$)	351,411
Free float (%)	40.0
Major shareholders (%)	
Thai Kim See / Tan Bee Geok	(50.4)
Employee Provident Fund	(7.1)

### Key Indicators

ROE (%)	18.1
Net gearing (%)	49.6
NTA (RM)	1.72
Interest cover (x)	4.7

# Supermax Corporation Berhad

## Return of the Panther II

### H1N1 pandemic boosts demand for gloves

Demand for rubber gloves remains robust amid the current global uncertainties, with global consumption of 130b gloves expected to grow by 10% p.a. Supermax has seen higher demand following the H1N1 pandemic, with orders rising by 30-35% YoY for May-Oct 2009 period. It expects overall sales to grow by 3-5% if the outbreak is prolonged.

### FY10-11 EPS forecasts raised by 4% due to expanded capacity

Management's FY09 EPS guidance of 27 sen is likely to be exceeded following its strong 1H results. Operating margins are widening thanks to lower latex price of RM4.09/kg (1H08: RM6.28/kg) and a stronger US\$. We are retaining our FY09 EPS forecast of 31 sen (which was raised by 19% following its 1HFY09 results on 10 July) post the briefing. Meanwhile, we have raised our FY10 and FY11 EPS forecasts by 3.8% and 4.1% respectively to account for additional sales arising from the planned capacity expansion. By end-2010, its installed capacity will increase to 16.2b gloves from 14.5b gloves currently, with the addition of 1.7b gloves in 2Q 2010. The new capacity will boost revenue by RM85-90m in FY10 and RM130-140m in FY11.

### Improving financial health

Total borrowings fell from RM406m in Dec 2008 to RM294m in Jun 2009, translating to net gearing of 0.49x. It also improved its working capital and risk management - with 1H09 receivables cycle falling to 2.43 months (FY08: 3.46 months) and inventory turnover falling to 1.28 months (FY08: 2 months). It is Supermax's long term intention to keep its net gearing at around 0.5x-0.75x. There is no major capital expenditure in 2009. In 2010, it will spend RM32m on the installation of 12 lines with a combined capacity of 1.7b gloves. As part of its organic growth strategy, the group is embarking on the Glove City Project in Klang, which is tentatively scheduled to commence in 2011. The 12-year project will comprise 6 plants with a combined capacity of 18b gloves p.a (one new factory costing RM40-50m to be built every 18-24 months).

### BUY - undemanding valuations

Supermax's FY09 and FY10 PERs of 6.9x and 6.3x are relatively undemanding compared to the sector average of 10.7x for FY09. We reiterate our BUY recommendation with a price target of RM2.50, based on 8x FY09 EPS of 31.2 sen.

Year End Dec 31	2007	2008	2009E	2010E	2011E
Sales (RM m)	574.3	811.8	816.0	900.0	960.0
Pre-tax (RM m)	58.6	52.0	101.0	111.0	116.0
Net profit (RM m)	56.0	47.0	82.8	91.0	95.7
EPS (sen)	24.1	17.7	31.2	34.3	36.1
EPS growth (%)	33.5	-26.6	76.3	9.9	5.1
PER (x)	8.9	12.1	6.9	6.3	6.0
EV/EBITDA (x)	11.2	12.5	7.8	6.9	6.3
Net Yield (%)	1.5	1.5	1.6	1.6	1.6

**SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS**

**Table 1: Quarterly Results**

(RMm)	Q208	Q308	Q408	Q109	Q209	% chg Q/Q	% chg Y/Y
<b>Revenue</b>	<b>193.3</b>	<b>244.3</b>	<b>204.4</b>	<b>192.4</b>	<b>188.5</b>	<b>-2.0</b>	<b>-2.5</b>
Operating profit	15.1	19.1	21.4	20.4	26.8	31.8	77.8
Interest expense	-5.7	-5.6	-5.1	-5.0	-4.5	-10.7	-21.3
Associates	4.9	2.4	6.2	8.1	9.0	10.7	85.3
Impairment of Inv in Associate (APLI)	0.0	0.0	-16.7	0.0	0.0		
<b>Pretax Profit</b>	<b>14.2</b>	<b>15.9</b>	<b>5.9</b>	<b>23.5</b>	<b>31.3</b>	<b>33.6</b>	<b>120.2</b>
Taxation	-0.7	-0.4	-4.4	-3.8	-5.6	48.1	681.7
<b>Net Profit</b>	<b>13.5</b>	<b>15.5</b>	<b>1.5</b>	<b>19.7</b>	<b>25.8</b>	<b>30.8</b>	<b>90.6</b>
<b>EPS (sen)</b>	<b>5.1</b>	<b>5.8</b>	<b>0.6</b>	<b>7.4</b>	<b>9.7</b>	<b>30.8</b>	<b>90.6</b>
Output (m pieces)	2445	2785	2915	2920	3015	0.7	23.3
EBIT margins (%)	7.8	7.8	10.5	10.6	14.2		
Tax Rate (%)	5.0	2.6	73.9	16.0	17.8		

Sources: Company data, KE estimates

**Table 2: FY08 Sales by Products (%)**

Powdered gloves	Latex examination	38
	Nitrile synthetic	1
	Sterile surgical	3
Powder-free gloves	Latex examination	36
	Nitrile synthetic	22
<b>Total</b>		<b>100</b>

Source: Company data

**Table 3: Sales by geographical regions (%)**

	FY06	FY07	FY08	1H09
Americas	65.0	64.0	60.5	61.0
Europe	23.5	23.0	26.5	26.5
Asia / Australasia	5.5	6.0	6.5	7.0
Africa & /Middle East	6.0	7.0	6.5	5.5

Source: Company data

**Table 4: Working Capital Management**

	FY06	FY07	FY08	2Q09
Receivables cycle (mths)	4.47	4.35	3.46	2.43
Inventory Turnover cycle (mths)	1.26	2.22	2.00	1.28
Gearing ratio (net)	0.78	0.88	0.90	0.49

Source: Company data

**Table 5: Key Assumptions**

	2007	2008	2009	2010	2011
Installed capacity (m pieces)	13,516	14,476	14,476	15,634	16,204
Prod'n output (m pieces) *	11,736	10,800	12,500	13,600	14,200
Utilisation rate (%)	87%	75%	86%	87%	88%
Forex rate US\$/RM	3.40	3.50	3.60	3.50	3.40
Avg latex price/kg wet (RM)	5.20	5.50	4.50	5.00	5.00

\* Supermax and Seal Polymer

**Table 6: Relative valuations**

Company FYE	Top Glove Aug-09	Kossan Dec-09	Supermax Dec-09	Hartalega* Mar-10
Share price (RM)	7.05	3.94	2.15	4.44
Share capital (m shrs)	294.7	159.9	265.3	242.3
Market cap (RMm)	2077.5	630.0	570.4	1075.8
Installed Capacity (m pieces/annum)	30000	11100	14476	6200
Net Profit	150.2	73.6	82.8	92.5
EPS (sen)	51.0	46.0	31.2	38.2
PER (x)	13.8	8.6	6.9	11.6
NTA/share (RM)	2.63	1.87	1.72	2.05
Price/book (x)	2.7	2.1	1.3	2.2
Net debt (RMm)	-83.1	185.5	227.0	49.0
Net gearing (%)	-5.4	54.0	49.6	23.3
Revenue – gloves (RMm)	1481.0	877.0	816.0	545.3
Market cap/revenue (x)	1.40	0.72	0.70	1.97
Sales/share (RM)	5.03	5.48	3.08	2.25

\* based on consensus estimates

**Profit and Loss**

YE Dec (RM m)	2007	2008	2009	2010	2011
<b>Sales</b>	<b>574.3</b>	<b>811.8</b>	<b>816.0</b>	<b>900.0</b>	<b>960.0</b>
Cost of goods sold	455.1	658.9	640.0	700.0	755.0
<b>Gross Profit</b>	<b>119.2</b>	<b>152.9</b>	<b>176.0</b>	<b>200.0</b>	<b>205.0</b>
Operating expenses	63.8	82.8	83.0	90.0	93.0
<b>Operating Profit</b>	<b>55.4</b>	<b>70.2</b>	<b>93.0</b>	<b>110.0</b>	<b>112.0</b>
Net interest	-15.3	-20.3	-20.0	-23.5	-22.0
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	-15.3	-20.3	-20.0	-23.5	-22.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	18.4	18.8	28.0	24.5	26.0
Net extraordinary	0.0	-16.7	0.0	0.0	0.0
<b>Pretax income</b>	<b>58.6</b>	<b>52.0</b>	<b>101.0</b>	<b>111.0</b>	<b>116.0</b>
Income taxes	-2.6	-5.0	-18.2	-20.0	-20.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>56.0</b>	<b>47.0</b>	<b>82.8</b>	<b>91.0</b>	<b>95.7</b>
EBITDA	75.9	75.8	102.8	119.0	125.7
<b>EPS (sen)</b>	<b>24.1</b>	<b>17.7</b>	<b>31.2</b>	<b>34.3</b>	<b>36.1</b>

Sources: Company data, KE estimates

**Cashflow**

YE Dec (RM m)	2007	2008	2009	2010	2011
<b>Operating cash flow</b>	<b>73.9</b>	<b>98.3</b>	<b>92.8</b>	<b>109.0</b>	<b>115.7</b>
Net profit	56.0	47.0	82.8	91.0	95.7
Depreciation & amortisatn	19.9	28.8	20.0	28.0	30.0
Change in working capital	-1.9	2.7	-10.0	-10.0	-10.0
Others	-0.1	19.8	0.0	0.0	0.0
<b>Investment cash flow</b>	<b>-45.2</b>	<b>-57.2</b>	<b>-15.0</b>	<b>-35.0</b>	<b>-35.0</b>
Net capex	-33.9	-38.5	-15.0	-35.0	-35.0
Change in LT investment	-13.9	-18.6	0.0	0.0	0.0
Change in other assets	2.7	0.0	0.0	0.0	0.0
<b>Cash flow after invt.</b>	<b>28.8</b>	<b>41.2</b>	<b>77.8</b>	<b>74.0</b>	<b>80.7</b>
<b>Financing cash flow</b>	<b>-30.0</b>	<b>-48.0</b>	<b>-38.1</b>	<b>-37.7</b>	<b>-37.7</b>
Change in share capital	4.8	-5.9	1.2	1.6	1.6
Net change in debt	-26.2	-33.7	-30.0	-30.0	-30.0
Change in other LT liab.	-8.6	-8.5	-9.3	-9.3	-9.3
<b>Net cash flow</b>	<b>-1.2</b>	<b>-6.8</b>	<b>39.7</b>	<b>36.3</b>	<b>43.0</b>

Sources: Company data, KE estimates

**Balance Sheet**

YE Dec (RM m)	2007	2008	2009	2010	2011
<b>Total assets</b>	<b>868.5</b>	<b>946.7</b>	<b>863.4</b>	<b>953.0</b>	<b>1010.0</b>
Current assets	<b>354.2</b>	<b>407.3</b>	<b>310.5</b>	<b>360.7</b>	<b>370.7</b>
Cash & ST investment	29.2	31.0	66.6	55.9	60.0
Inventories	106.4	135.5	81.7	103.0	105.0
Accounts receivable	208.2	234.2	154.3	192.0	193.0
Others	10.5	6.6	7.9	9.8	12.7
Other assets	<b>514.3</b>	<b>539.4</b>	<b>552.8</b>	<b>592.3</b>	<b>639.3</b>
LT investments	95.7	116.0	134.1	134.1	134.1
Net fixed assets	378.5	388.2	383.5	423.0	470.0
Others	40.1	35.2	35.2	35.2	35.2
<b>Total liabilities</b>	<b>484.7</b>	<b>530.3</b>	<b>406.1</b>	<b>422.2</b>	<b>399.5</b>
Current liabilities	<b>255.1</b>	<b>347.4</b>	<b>263.8</b>	<b>277.7</b>	<b>284.5</b>
Accounts payable	97.9	109.1	73.7	96.1	102.0
ST borrowings	152.5	230.8	159.1	173.0	176.0
Others	4.8	7.5	31.0	8.6	6.5
Long-term liabilities	<b>229.6</b>	<b>183.0</b>	<b>142.2</b>	<b>144.5</b>	<b>115.0</b>
Long-term debts	216.8	174.9	134.5	134.5	106.8
Others	12.8	8.1	7.7	10.0	8.2
<b>Shareholder's equity</b>	<b>383.8</b>	<b>416.4</b>	<b>457.3</b>	<b>530.8</b>	<b>610.5</b>
Paid-in capital	132.6	132.6	132.6	132.6	132.6
Reserve	251.2	289.6	330.6	404.1	483.8
Others	0.0	-5.9	-5.9	-5.9	-5.9

Sources: Company data, KE estimates

**Key ratios**

YE Dec	2007	2008	2009	2010	2011
<b>Growth (% YoY)</b>					
Sales	47.6	41.4	0.5	10.3	6.7
OP	28.7	26.6	32.5	18.3	1.8
EBITDA	41.1	-0.2	35.7	15.8	5.6
NP	37.1	-16.1	76.3	9.9	5.1
EPS	33.5	-26.6	76.3	9.9	5.1
<b>Profitability (%)</b>					
Gross margin	20.8	18.8	21.6	22.2	21.4
Operating margin	9.7	8.6	11.4	12.2	11.7
EBITDA margin	13.2	9.3	12.6	13.2	13.1
Net Profit margin	4.2	2.2	3.8	3.8	3.8
ROE	14.6	11.3	18.1	17.1	15.7
ROA	6.4	5.0	9.6	9.6	9.5
<b>Stability</b>					
Gross debt/equity (%)	96.2	97.4	64.2	57.9	46.3
Net debt/equity (%)	88.6	90.0	49.6	47.4	36.5
Int. coverage (X)	3.6	3.4	4.7	4.7	5.1
Int. & ST debt coverage (X)	0.5	0.5	0.5	0.5	0.5
Cash flow int. coverage (X)	4.8	4.8	4.6	4.6	5.3
Cash flow int. & ST debt (X)	0.6	0.6	0.6	0.6	0.6
Current ratio (X)	1.6	1.6	1.6	1.6	1.6
Quick ratio (X)	0.7	0.7	0.7	0.7	0.7
Net debt (RMm)	340.1	374.7	227.0	251.6	222.8
<b>Per share data</b>					
EPS (sen)	24.1	17.7	31.2	34.3	36.1
CFPS (sen)	31.9	37.1	34.9	41.0	43.5
BVPS (RM)	1.66	1.57	1.72	2.00	2.30
SPS (RM)	2.48	3.06	3.07	3.38	3.61
EBITDA/share (RM)	32.7	28.6	38.7	44.7	47.3
DPS (sen)	3.3	3.3	3.5	3.5	3.5

Sources: Company data, KE estimates

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- 15% to +15%: HOLD
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