

Company Update

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For Internal Circulation Only

KLCI : 1,270.61
Sector : Industrial
Bloomberg : SUCB MK

TA SECURITIES HOLDINGS BERHAD
Menara TA One, 22 Jalan P Ramlee,
50250 Kuala Lumpur, Malaysia
Tel : 603 - 2072 1277
Fax : 603 - 2032 5048

Analyst : TA Research

Tel : 20721277 ext : 1616

e-mail : ikmalhafizi@ta.com.my

Target RM6.60
Price (68.4%)

RM3.92 BUY

Share Info

Stock Code	Supermax
Listing	Main Board
Share Cap (m)	265.3
Market Cap (RMm)	1039.9
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	4.11 / 0.78
12-mth Avg Daily Vol ('000 s)	1,811.0
Estimated Free Float (%)	45%
Beta	0.95
Major Shareholders (%)	
	Datuk Seri Stanley Thai (20.4%)
	Cheryl Tan (14.96%)

Forecast Revision

	FY09	FY10
Net profit (RMm)	127.3	145.2
Consensus	122.4	134.7
TA/Consensus	104%	108%
Previous Rating	BUY	

Financial Indicators

	FY09	FY10
Net debt/equity (%)	60.6	58.4
CFPS (sen)	66.0	73.0
P/CFPS (x)	0.06	0.05
ROA (%)	5.80	6.20
NTA/Share (RM)	1.81	2.03
Price/ NTA (x)	0.02	0.02

Share Performance (%)

Price chg	Supermax	KLCI
1 mth	8.3%	0.8%
3 mth	53.7%	8.4%
6 mth	148.1%	20.8%
12 mth	306.2%	48.4%

Supermax Corporation Bhd

Five Fingers in the Honey Pot

We visited Supermax recently to get some updates on the company. We came out of the meeting, feeling more positive about the Group's turnaround plan. It currently has huge backlog of orders, in the region of 3 - 4 months, as a result of jump in global demand. Based on this, we maintain our optimism regarding the future growth of the company and continue to recommend a BUY with RM6.60 target price.

Rise in global demand would not stop...

Fear of an H1N1 pandemic has created an additional demand of 10% or approximately 12.5bn pieces per annum, on the top of annual base demand growth of 8-9%. Management guided that the shortage of gloves began since March/April 2009 and is likely to continue as constrain in natural gas supply and most importantly in latex in other parts of the world, would cap ability to expand capacity sufficiently to meet demand. Industry players will have to resort to alternative fuels such as biomass for heating system. However, biomass boiler requires longer time for fabrication, installation, testing and commissioning (12-15 months) vs. natural gas supply (< 6 months).

...helped by natural constraints,

Supermax is also converting its plants into a dual-heating facility, by adding a biomass boiler to reduce reliance on gas. Supermax's plants in Sungai Buloh, the one that we visited, installed a wood chip boiler, whose supply comes from surrounding sawmills. The main source of biomass fuel is palm oil plantation waste. This would be the expected source of heating energy in plants Supermax is currently upgrading as well as the new plants in plan. One point that is raised during the discussion was regarding the supply of palm oil waste, which has some shortages, despite Malaysia being the 2nd largest palm oil plantation in the world. This is due to the bottlenecking in the supply chain. The waste needs to be processed before it can deliver any of its use. Currently, not many mills are able to do that. In addition to that, many planters also fail to realise the full potential of such waste. This has somewhat affected the pricing of palm oil waste.

...thus, pricing is not in jeopardy...

There were concerns previously with regards to the company's ability to hold pricing, given that it faced stiff competition from industry players. It controls more than 50% of total Malaysia's export, together with the industry's largest player. In some countries, the combination of Supermax and its foremost competitor controls more than 60% of markets. There was never a formal understanding between the two for a 'price-stability-pact'. However, taken cue from the latest developments, we gather that there would not price undercutting, as both have the ultimate motive of maximizing the current situation. Based on this, we can deduce that the average selling price can only stabilize at the current level of USD22-USD23 per 1000-piece or move up. In our model, we are taking the lower of the range for both FY09 and FY10.

...and Supermax is taking advantage...

To take advantage of the current global over-demand, Supermax is planning an aggressive expansion to gain market share. Upon the completion of expansion exercise, Supermax's installed annual capacity will increase from 9.6bn to 12.7bn (+32%) and 16.8bn (+75%) by the end of FY10 and FY11 respectively. This brings the Group's total production capacity including Seal Polymer to 17.6bn and 21.7bn by the end of FY10 and FY11. Total capex to fund the expansion will be approximately RM130.5mn, which is likely to be generated by internal fund. And to make matters easier, Supermax frees itself from an overly restrictive bond covenant which bounds it for the past 2 years. The company would be able to gear up, if need be, for the expansion.

Valuation

We have not changed anything on this update. We continue to value the group based on our maintained FY10 EPS. Hence, our RM6.60 target price remains. This is based on target PER 12x - comparable to its peers. We reiterate our BUY call.

Share Price chart



Source : Bloomberg

Earnings Summary (RMmn)

YE 31 Dec	2005	2006	2007	2008	2009F	2010F
Revenue	284.7	389.1	582.1	833.0	846.1	970.9
EBITDA	44.3	55.0	75.0	102.3	167.3	199.3
EBITDA margin	16%	14%	13%	12.3%	19.8%	20.5%
Pretax profit	41.3	47.2	67.2	51.6	149.3	165.4
Net profit	36.2	40.8	49.4	46.5	127.3	145.2
Net profit -adj	36.2	48.1	49.4	63.2	127.3	145.2
EPS (sen)	16.0	19.0	18.6	17.5	48.0	54.7
EPS - adj	16.0	21.2	18.6	23.8	48.0	54.7
EPS Growth	20.2%	18.8%	-1.9%	28%	102%	14%
PER (x)	24.5	18.5	21.0	16.5	8.2	7.2
GDPS (sen)	5.0	5.0	5.0	5.0	13.0	19.0
Div Yield	1.3%	1.3%	1.3%	1.3%	3.3%	4.8%

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for TA SECURITIES HOLDINGS BERHAD^(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan, Head of Research