

# Company Update

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FBMKLCI : 1,235.22  
Sector : Industrial  
Bloomberg : SUCB MK



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Target RM8.20  
Price (68.7%)

RM4.86 BUY

## Share Info

Stock Code	Supermax
Listing	Main Board
Share Cap (m)	269.3
Market Cap (RMm)	1308.7
Par Value (RM)	0.50
52-wk Hi/Lo (RM)	6.18 / 0.75
12-mth Avg Daily Vol ('000 sl)	138.2
Estimated Free Float (%)	45%
Beta	1.04
Major Shareholders (%)	
	Datuk Seri Stanley Thai (20.59%)
	Cheryl Tan (14.74%)

## Forecast Revision

	FY09	FY10
Net profit (RMm)	127.3	145.2
Consensus	123.0	136.0
TA/Consensus	103%	107%
Previous Rating	BUY	

## Financial Indicators

	FY09	FY10
Net debt/equity (%)	net cash	net cash
CFPS (sen)	40.0	47.0
P/CFPS (x)	14.98	12.74
ROA (%)	5.80	6.20
NTA/Share (RM)	1.81	2.03
Price/ NTA (x)	3.31	2.95

## Share Performance (%)

Price chg	Supermax	FBMKLCI
1 mth	52.8%	1.9%
3 mth	68.7%	3.4%
6 mth	182.5%	21.2%
12 mth	588.5%	41.1%

## Supermax Corporation Bhd

Result Preview – Good Time Continues

### All Is Well

Supermax will report its full year financial results by the end of this month. Up to 3Q09, the company has registered a cumulative net earnings of RM85.64mn or 32.28sen per share. This has covered 67% of our full year target. On the topline level, the group made a sum of RM618mn in revenue against our estimate of RM826mn.

Despite being slightly on the lower end of estimate, we are confident the group is set to achieve our full year target. This is founded on 3 main reasons; 1) additional margin from distribution business, 2) cost pass through to absorb impact of high latex price and 3) backlog in order evident of global shortage.

### Brazil Distribution Arm

Having a 50% stake in Supermax Brazil bodes well in the current regulatory climate. This company is currently enjoying gross margin in excess of 50%, compared to manufacturing margin of <20%. This stems from the regulatory environment that has led to a shortage of supply in the country. In terms of manufacturing sales, Brazil contributed about 5% of total sales, excluding the distribution revenue.

### Cost-Plus

Notwithstanding the sudden surge in latex costs it the past few months, jumping from < RM5.00/kg to > RM6.50/kg, the group's bottomline should not be affected, in our view. As we have been asserting many times in the past, all the increase in latex costs could be passed on to customers. Our last check with the management indicated that the integrity of such mechanism is intact.

Thus, we advise the market to not be unduly concerned with latex price movements. After all, if history is anything of an indicator, when latex shot to its all-time high of RM7.20/kg in 2008, the group managed to achieve an EBITDA margin of > 12%.

In our estimate for FY09, our EBITDA margin is on the high side as we took into consideration the contribution from its distribution subsidiary as mentioned above. Thus the figure of 19.8%, although seems quite a high jump compared to the previous year, is very much achievable.

### Order Backlog Remains

Our check with the management confirmed that the group still has a backlog of orders in the region of 2 - 2.5 months. This has been a persistent trend since the outbreak of H1N1. We take this as a very good sign indeed, indicating that the estimated global shortage of about 14bn pieces p.a is here to stay for a while. All plants under the group's stable in currently working at 90% – 95% capacity, technically considered a full utilization. According to the management's guidance on new plants commissioning, the first plant is only coming on board in 2Q10.

### Valuation

Despite the retreat in stock price, we maintain our favourable view on the stock. We peg our fair value of the group at RM8.20, attaching a 15x PER multiples against FY10 numbers. The pullback, as a short term technical occurrence provides a better potential upside for shareholders to continue to BUY.

Share Price chart



Source : Bloomberg

Earnings Summary (RMmn)

YE 31 Dec	2006	2007	2008	2009F	2010F
Revenue	389.1	582.1	833.0	846.1	970.9
EBITDA	55.0	75.0	102.3	167.3	199.3
EBITDA margin (%)	14%	13%	12.3%	19.8%	20.5%
Pretax profit	47.2	67.2	51.6	149.3	165.4
Net profit	40.8	49.4	46.5	127.3	145.2
Net profit -adj	48.1	49.4	63.2	127.3	145.2
EPS (sen)	19.0	18.6	17.5	48.0	54.7
EPS - adj	21.2	18.6	23.8	48.0	54.7
EPS Growth (%)	18.8%	-1.9%	28%	102%	14%
PER (x)	31.5	32.2	34.2	12.5	11.0
GDPS (sen)	5.0	5.0	5.0	13.0	19.0
Div Yield (%)	0.8	0.8	0.8	2.2	3.2

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for TA SECURITIES HOLDINGS BERHAD<sup>(14948-M)</sup>  
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