

Supermax Corporation Berhad

27 Aug 2010

KDN: PP10837/03/2011 (029371)

BUY

| | |
|-------------------------|--------|
| Current Price | RM5.34 |
| New Target Price | RM6.80 |
| Previous Target Price | RM6.80 |
| Previous Recommendation | BUY |
| Upside To Target | +27.3% |

Stock Codes

| | |
|-----------|--------------|
| Masa | SUPERMX/7106 |
| Bloomberg | SUCB MK |

Stock & Market Data

| | |
|------------------------|---------------|
| KLCI | 1,408.00 |
| Listing | Main Board |
| Sector | Rubber Glove |
| Syariah Compliance | Yes |
| Par Value | RM0.50 |
| Issued Shares | 339.46mn |
| Market Capitalisation | RM1.81bn |
| YTD Chg In Share Price | +42.29% |
| 52-week Hi/Lo | RM6.60/RM1.95 |
| 3M Average Volume | 1.96mn shares |

Majority Shareholders

| |
|----------------------------------|
| Kim Sim Thai (20.4%) |
| Bee Geok Tan (15.1%) |
| Koperasi Permodalan Felda (5.5%) |
| Lembaga Tabung Haji (5.1%) |

Historical Price Ratios

| FYE | 2006 | 2007 | 2008 | 2009 |
|---------|------|------|------|------|
| PER (x) | 23.7 | 9.0 | 4.5 | 9.7 |
| PBV (x) | 2.0 | 1.5 | 0.5 | 2.3 |

Share Performance

| | 1mth | 3mth | 12mth |
|----------|--------|-------|---------|
| Absolute | -14.7% | +5.0% | +159.3% |
| vs. KLCI | -18.1% | -6.9% | +116.0% |

Share Price Performance Chart



Strong 1H10 Earnings Results

- **Above expectation, maintain BUY.** Supermax's 1H10 net profit of RM97.3mn came in 59% of our estimates, or 19% above our expectations, but in-line with the consensus.
- **Revenue grew at 25% YoY and 6% QoQ.** Supermax's revenue increased 25% YoY or RM46.3mn to RM234.8mn from RM188.5mn a year ago, led by improving global demand for rubber gloves as well as higher selling prices. The group revenue is also 6.4% higher QoQ, mainly attributed to increased capacity from its newest plant following the commissioning of new lines during the current quarter.
- **Net profit rose 78% YoY but eased 11% QoQ.** Apart from strong revenue growth, Supermax managed to increase its net profit by 78% YoY due to overall cost control and greater operating efficiency (e.g. improved processes and refurbished lines). However, we saw a drop in net profit by 11% QoQ due mainly to margin erosion. The lower margin was a consequence of higher latex prices (that rose to new historical highs) and strengthening in ringgit during the quarter. Even so, the group able to deliver such respectable set of results. Thus, we are convinced that Supermax can do much better if and when the trend of rising latex prices and strengthening in ringgit reverse.
- **Our view remains unchanged.** We maintain our earnings forecast at this point despite the 1H10 results have exceeded our expectations, pending our meeting with the management. However, a potential revision up in earnings estimates is highly probable. We retain our BUY call with TP of RM6.80. Potential re-rating catalysts include growing global demand for gloves and upcoming capacity expansion plans. Supermax also declared a tax-exempt 2.5 sen interim dividend for the quarter. All told, we are positive on the stock due to its sturdy performance, high stock liquidity and generous dividend.

Investment Statistics

| YE 31 Dec (RM mn) | 2008 | 2009 | 2010F | 2011F | 2012F |
|-------------------|--------|--------|-------|-------|--------|
| Net Profit | 47.0 | 126.6 | 164.0 | 195.4 | 226.6 |
| Growth | -16% | 169% | 30% | 19% | 16% |
| Consensus | 55.0 | 123.3 | 186.1 | 210.7 | 236.7 |
| EPS (sen) | 13.8 | 37.3 | 48.3 | 57.6 | 66.8 |
| DPS (sen) | 2.6 | 8.8 | 11.4 | 13.6 | 15.8 |
| NTA/Share (RM) | 1.2 | 1.6 | 2.0 | 2.4 | 2.9 |
| Net Cash/(Debt) | -374.7 | -176.1 | -99.5 | -18.1 | 94.7 |
| Net Debt/Equity | 0.90x | 0.32x | 0.15x | 0.02x | -0.09x |
| PER | 38.6x | 14.3x | 11.1x | 9.3x | 8.0x |
| Dividend Yield | 0.5% | 1.7% | 2.1% | 2.6% | 3.0% |
| ROE | 11.7% | 26.0% | 26.4% | 25.7% | 24.6% |
| ROA | 5.2% | 13.4% | 16.2% | 16.9% | 17.1% |
| P/NTA | 4.5x | 3.4x | 2.7x | 2.2x | 1.8x |
| EV/EBITDA | 21.6x | 12.0x | 9.8x | 8.0x | 6.5x |

Table 1: Income Statement

| Y/E : Dec (RMmn) | 2Q | 1Q | 2Q | Q-o-Q | Y-o-Y | 6M | 6M | Y-o-Y |
|--------------------------|--------------|--------------|--------------|-------------|------------|--------------|--------------|-------------|
| | FY09 | FY10 | FY10 | Chg | Chg | FY09 | FY10 | Chg |
| Turnover | 188.5 | 220.7 | 234.8 | 6% | 25% | 380.9 | 455.5 | 20% |
| EBIT | 26.8 | 47.6 | 41.7 | -12% | 55% | 47.2 | 89.3 | 89% |
| Interest & other incomes | 0.0 | 0.0 | 0.0 | n/m | n/m | 0.0 | 0.0 | n/m |
| Interest expense | (4.5) | (3.7) | (3.3) | -12% | -27% | (9.5) | (7.0) | -26% |
| Associates | 9.0 | 10.5 | 10.4 | -1% | 15% | 17.1 | 20.8 | 22% |
| Exceptional items | 0.0 | 0.0 | 0.0 | n/m | n/m | 0.0 | 0.0 | n/m |
| Pre-tax profit | 31.3 | 54.3 | 48.8 | -10% | 56% | 54.8 | 103.1 | 88% |
| Taxation | (5.6) | (2.8) | (3.0) | 6% | -47% | 9.3 | (5.8) | -162% |
| Minority interest | 0.0 | 0.0 | 0.0 | n/m | n/m | 0.0 | 0.0 | n/m |
| Net profit | 25.8 | 51.5 | 45.9 | -11% | 78% | 45.5 | 97.3 | 114% |
| EPS (sen) | 9.7 | 19.0 | 13.5 | -29% | 39% | 17.2 | 28.7 | 67% |
| DPS (sen) | 0.0 | 0.0 | 2.5 | n/m | n/m | 0.0 | 2.5 | n/m |
| NTA/share (RM) | 1.56 | 1.78 | 1.84 | 3% | 18% | 1.6 | 1.8 | 18% |
| EBITDA margin | 14% | 22% | 18% | | | 12% | 20% | |
| Pre-tax margin | 17% | 25% | 21% | | | 14% | 23% | |
| Effective tax rate | 18% | 5% | 6% | | | -17% | 6% | |

Source: Company & MIMB Estimates

Table 2: Segmental Breakdown

| Y/E: Dec (RMmn) | 2Q | 1Q | 2Q | Q-o-Q | Y-o-Y | 6M | 6M | Y-o-Y |
|----------------------|--------------|--------------|--------------|-----------|------------|--------------|--------------|------------|
| | FY09 | FY10 | FY10 | Chg | Chg | FY09 | FY10 | Chg |
| Segment revenue: | | | | | | | | |
| Manufacturing | 32.8 | 32.2 | 32.5 | 1% | -1% | 82.9 | 64.7 | -22% |
| Trading | 155.7 | 188.5 | 202.3 | 7% | 30% | 298.0 | 390.8 | 31% |
| Group revenue | 188.5 | 220.7 | 234.8 | 6% | 25% | 380.9 | 455.5 | 20% |

Source: Company & MIMB Estimates

Chart 1: Latex Prices Fluctuation

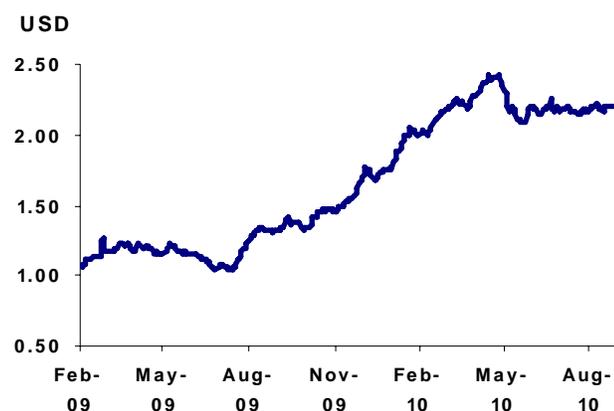
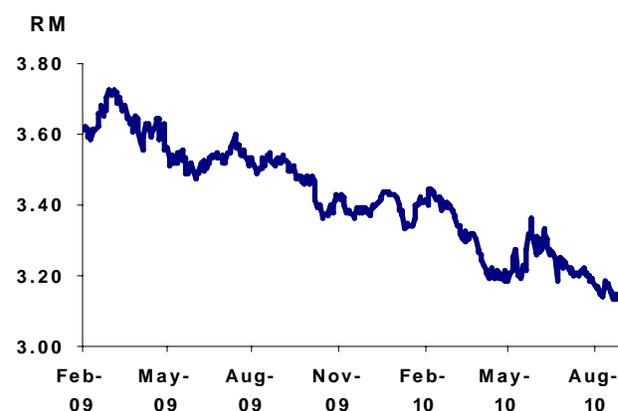


Chart 2: RM against USD



Source: Bloomberg

Balance Sheet

| YE 31 Dec (RM mn) | 2008 | 2009 | 2010F | 2011F | 2012F |
|---------------------------|------------|------------|--------------|--------------|--------------|
| Fixed Assets | 383 | 369 | 350 | 344 | 331 |
| Lease Receivables | - | - | - | - | - |
| Intangible Assets | 29 | 29 | 29 | 29 | 29 |
| Other Fixed Assets | 127 | 167 | 207 | 247 | 287 |
| Inventories | 136 | 116 | 136 | 161 | 186 |
| Receivables | 125 | 79 | 92 | 109 | 126 |
| Other Current Assets | 116 | 67 | 67 | 67 | 67 |
| Cash | 31 | 119 | 195 | 277 | 390 |
| Total Assets | 947 | 945 | 1,076 | 1,234 | 1,415 |
| Payables | 68 | 38 | 44 | 52 | 60 |
| ST Borrowings | 231 | 129 | 129 | 129 | 129 |
| Other ST Liability | 49 | 46 | 46 | 46 | 46 |
| LT Borrowings | 175 | 166 | 166 | 166 | 166 |
| Other LT Liability | 8 | 7 | 7 | 7 | 7 |
| Minority Interest | - | - | - | - | - |
| Net Assets | 416 | 559 | 684 | 834 | 1,008 |
| Share Capital | 219 | 241 | 241 | 241 | 241 |
| Reserves/Others | 197 | 318 | 444 | 594 | 767 |
| Shareholders' Fund | 416 | 559 | 684 | 834 | 1,008 |

Cashflow Statement

| YE 31 Dec (RM mn) | 2008 | 2009 | 2010F | 2011F | 2012F |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| PBT | 47 | 127 | 164 | 195 | 227 |
| Depreciation | 29 | 32 | 33 | 34 | 36 |
| Taxation | - | - | - | - | - |
| Minority | - | - | - | - | - |
| Chg In Working Capital | (54) | 35 | (28) | (34) | (34) |
| Others | 58 | 10 | (21) | (22) | (22) |
| Operating Cashflow | 80 | 204 | 148 | 174 | 206 |
| Capex | (39) | (17) | (14) | (28) | (23) |
| Investment | - | - | - | - | - |
| Others | (18) | 1 | - | - | - |
| Investing Cashflow | (57) | (16) | (14) | (28) | (23) |
| Chg In Debts | (16) | (102) | - | - | - |
| Dividends Paid | (9) | (15) | (38) | (46) | (53) |
| Share Issue | - | - | - | - | - |
| Other | (4) | 27 | (19) | (18) | (18) |
| Financing Cashflow | (29) | (90) | (57) | (64) | (71) |
| Net Cashflow | (6) | 97 | 77 | 81 | 113 |
| Beginning Cash | 0 | 0 | 119 | 195 | 277 |
| Forex Translation Differences | (4) | (3) | 0 | 0 | 0 |
| Ending Cash | (9) | 95 | 195 | 277 | 390 |
| Free Cashflow | 24 | 187 | 134 | 146 | 183 |

Income Statement

| YE 31 Dec (RM mn) | 2008 | 2009 | 2010F | 2011F | 2012F |
|-------------------------|------------|------------|------------|-------------|-------------|
| Turnover | 812 | 804 | 937 | 1109 | 1280 |
| EBITDA | 101 | 166 | 194 | 230 | 265 |
| Depreciation | (29) | (32) | (33) | (34) | (36) |
| Operating Profit | 72 | 134 | 161 | 196 | 230 |
| Int. & Other Income | - | 0 | 1 | 2 | 3 |
| Interest Expense | (20) | (22) | (20) | (20) | (20) |
| Others | (0) | 39 | 40 | 40 | 40 |
| PBT | 52 | 151 | 183 | 218 | 252 |
| Taxation | (5) | (25) | (19) | (22) | (26) |
| Minority Interest | - | - | - | - | - |
| Net Profit | 47 | 127 | 164 | 195 | 227 |

Financial Data & Ratios

| YE 31 Dec (RM mn) | 2008 | 2009 | 2010F | 2011F | 2012F |
|------------------------|--------|--------|-------|-------|--------|
| Growth | | | | | |
| Turnover | 41.4% | -1.0% | 16.6% | 18.4% | 15.4% |
| EBITDA | 25.2% | 64.0% | 17.0% | 18.3% | 15.4% |
| Operating Profit | 18.8% | 85.3% | 20.3% | 21.3% | 17.3% |
| PBT | -11.2% | 191.3% | 20.5% | 19.2% | 15.9% |
| Net Profit | -16.0% | 169.3% | 29.5% | 19.2% | 15.9% |
| Profitability | | | | | |
| EBITDA | 12.5% | 20.7% | 20.7% | 20.7% | 20.7% |
| Operating Profit | 8.9% | 16.7% | 17.2% | 17.7% | 18.0% |
| PBT | 6.4% | 18.8% | 19.5% | 19.6% | 19.7% |
| Net Profit | 5.8% | 15.8% | 17.5% | 17.6% | 17.7% |
| Effective Tax Rate | 9.6% | 16.4% | 10.2% | 10.2% | 10.2% |
| ROA | 5.2% | 13.4% | 16.2% | 16.9% | 17.1% |
| ROE | 11.7% | 26.0% | 26.4% | 25.7% | 24.6% |
| DuPont Analysis | | | | | |
| Net Margin | 5.8% | 15.8% | 17.5% | 17.6% | 17.7% |
| Total Assets Turnover | 0.86x | 0.85x | 0.87x | 0.90x | 0.90x |
| Leverage Factor | 2.27x | 1.69x | 1.57x | 1.48x | 1.40x |
| ROE | 11.3% | 22.7% | 24.0% | 23.4% | 22.5% |
| Leverage | | | | | |
| Total Debt/Total Asset | 0.43x | 0.31x | 0.27x | 0.24x | 0.21x |
| Total Debt/Equity | 0.97x | 0.53x | 0.43x | 0.35x | 0.29x |
| Net Cash/(Debt) | -375 | -176 | -99 | -18 | 95 |
| Net Debt/Equity | 0.90x | 0.32x | 0.15x | 0.02x | -0.09x |
| Valuations | | | | | |
| EPS (sen) | 14 | 37 | 48 | 58 | 67 |
| GDPS (sen) | 3 | 9 | 11 | 14 | 16 |
| NTA (RM) | 1.19 | 1.58 | 1.96 | 2.40 | 2.92 |
| PER | 38.6x | 14.3x | 11.1x | 9.3x | 8.0x |
| Gross Yield | 0.5% | 1.7% | 2.1% | 2.6% | 3.0% |
| P/NTA | 4.47x | 3.38x | 2.73x | 2.22x | 1.83x |
| EV/EBITDA | 21.6x | 12.0x | 9.8x | 8.0x | 6.5x |

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

| | |
|--------------------|--|
| BUY | Share price expected to appreciate more than 15% over a 12-month period |
| TRADING BUY | Share price expected to appreciate 10% or more within a 3- to 6-month period |
| NEUTRAL | Share price expected to be within +/- 15% over a 12-month period |
| TAKE PROFIT | Target price reached, may accumulate if share price drops more than 15% below target price |
| SELL | Share price expected to depreciate more than 15% over a 12-month period |
| NOT RATED | MIMB does not provide research coverage or rating for this company |

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