

28 Feb 2012 - 08:54:08 PM GMT

COMPANY ALERT

Supermax

FY11 in-line; volatile costs remains a challenge in 2012

Results

Hold

Reuters:SUPM.KL Exchange:KLS Ticker:SUPM

Price (MYR)	1.93
Price target (MYR)	3.80
52-week range (MYR)	4.64 - 1.90
Market cap (USDm)	218
Shares outstanding (m)	271.4
Net debt/equity (%)	21.6
Book value/share (MYR)	2.43
Price/book (x)	0.8

FYE 12/31	2010A	2011E	2012E
Sales (MYRm)	923	1,045	1,310
Net Profit (MYRm)	168.2	113.3	145.5
DB EPS (MYR)	0.49	0.33	0.43
PER (x)	11.2	5.8	4.5
Yield (net) (%)	1.4	3.5	4.4

Results broadly in-line. Supermax announced FY11 revenue of RM1,027m +5% YoY. Top-line growth was mainly driven by ASP increases as volume sales fell 6.8% YoY. FY11 net profits of RM106m, -33% YoY, was broadly in-line with DBE and consensus. Meanwhile, 4Q11 NP of RM28m, -14% YoY, was weak as associate income contribution fell 66% YoY to RM4.4m as management took a decision to sell down high-cost inventories at lower ASP on the back of moderating raw material prices during the quarter. Overall, PAT margins contracted 600bps YoY in FY11 to 10.3% as latex prices rose 19% YoY and MYR/USD appreciated c.5%.

Supermax's balance sheet remained healthy with low net gearing of 0.27x and cash of RM104m. A c. 2sen/shr final dividend was declared, implying a total dividend payout of 20% of PAT for FY11 and 1.7% yield.

Mgmt positive on outlook. Mgmt aims to achieve 20% YoY earnings growth in FY12 on the assumption of continued volatility in both raw material prices and FX rates. Supermax is looking to expand its surgical gloves capacity by 10x (rollout starting March) in 2012 and targets building 2 new plants by end-2013, which should add 30% more capacity (ie. 5.3bn pcs). Most of the new capacity addition will be focused on nitrile glove production.

Latex prices have crept back up to RM7.95/Kg in Feb-12, +9% from Dec-11 average prices, suggesting that manufacturing margins will be impacted by the time-lag cost pass through in 1Q12. A pick-up in demand remains key to driving forward earnings momentum. We are reviewing our forecasts. Maintain Hold.

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