

Company Update

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FBM KLCI : 1,266.44
Sector : Industrial
Bloomberg : SUCB MK

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Target RM9.30
Price (61.7%)

RM5.75 BUY

Supermax Corporation Bhd

Super Duper Profit!

Share Info

Stock Code	Supermax
Listing	Main Board
Share Cap (m)	271.2
Market Cap (RMm)	1559.4
Par Value (RM)	0.50
52-wk Hi/Lo (RM)	6.18 / 0.78
12-mth Avg Daily Vol ('000 sl)	2,534.2
Estimated Free Float (%)	45%
Beta	1.06
Major Shareholders (%)	
	Datuk Seri Stanley Thai (20.7%)
	Cheryl Tan (15.3%)

Forecast Revision

	FY10	FY11
Chg (%)	14.8	n.a.
Net profit (RMm)	166.7	210.5
Consensus	142.6	158.0
TA/Consensus	117%	133%
Previous Rating	BUY	

Financial Indicators

	FY09	FY10
Net debt/equity (%)	net cash	net cash
CFPS (sen)	40.0	47.0
P/CFPS (x)	13.73	11.68
ROA (%)	5.80	6.20
NTA/Share (RM)	1.81	2.03
Price/ NTA (x)	3.03	2.70

Share Performance (%)

Price chg	Supermax	FBMKLCI
1 mth	14.5%	0.6%
3 mth	51.3%	0.6%
6 mth	125.5%	7.8%
12 mth	584.5%	42.2%

Supermax held an analyst briefing yesterday. Key highlights gathered from the meeting are as follows:

Capacity expansion – ahead of schedule

The installation and commissioning of 16 new lines for 2010 are 3 months ahead of schedule. In addition to the new lines, the group will be decommissioning old lines and replacing them with new production lines. The capacity expansion planned for 2009 and 2010 will add a total annualised output of 4,826mn to the group. The launch of the Glove City Project in Kapar, Klang by 2011 will further boost installed capacity by another 32 lines or an annual capacity of 4,150 mn gloves.

Table 1: Summary of Capital Expenditure

Year	RM (mn)	Comments
2009	30.5	Refurbishment and installation of 25 old and 12 new production lines
2010	35.0	Decommissioning 8 old and replacing with 11 new production lines Installation of 4 new production lines
2010/11	15.0	Decommissioning 4 old and replacing with 6 new production lines
2011	50.0	GloveCity project - Phase #1
Total	130.5	

Source: Company, TA Securities

Adding new distribution channels

Distribution plays an important role in helping to provide the group with stable income. We note that sales contribution from distribution has also been accelerating at a healthy pace with 4-year CAGR income growth of 45% and accounting for 45% of total income in FY09 compared to only 31% in the previous year. Management aims to raise income contribution from distribution to equal that of manufacturing via the establishment of Supermax Deutschland GmbH in Germany and two other distribution centres over the next 1-2 FYs.

Backlog of orders as demand exceeds supply

Total back orders increased to 5.39bn gloves (approx. 4 months worth of orders) from 3.38bn as at end-Dec 2008. The increase was partially due to the shortage of ocean freights in December, resulting in a short spurt in inventories during the month. The rollover issue has since been resolved and total backlog of orders has normalised. The inventory cycle currently stands at around 1.56 months (vs. 2 months in FY08). Going forward, management is looking to achieve better productivity and efficiency by reducing the inventory turnover cycle to 1.0 and 1.5 months. Elsewhere, demand for gloves remains robust due the shortage of production capacity and concerns of H1N1. We note that orders due to H1N1 alone rose by slightly more than 1.0bn gloves in 2009.

Table 2: Update on orders

	2008	2009	Chg (%)
From Supermax and Seal Polymer's customers	13,500	14,850	10%
From APLI's customers	2,640	1,320	-50%
H1N1	0	1,050	n.m.
Total orders received	16,140	17,500	8%
Total Shipped	12,765	12,115	-5%
Total Back Orders	3,375	5,385	60%

Source: Company, TA Securities

Margins to remain strong but rising raw material costs could mute impact

EBITDA margin are expected to remain healthy on the back of: 1) stronger margins from an increase in distribution business, 2) more effective pricing mechanism to help absorb impact from higher latex/freight costs as well as to manage foreign exchange risks, and 3) rise in average selling prices (ASP) due to shortage of gloves globally.

Figure 1: Latex prices (RM/kg)



Source: Bloomberg

Management to announce bonus issue

Management remains committed to rewarding shareholders with healthy dividend payout of around 20% per annum. In addition, management also stated that Supermax will continue to declare special dividends for any extraordinary profit – similar to the special dividend of 9% TE (or 4.5 sen/share) declared for FY09. Management further added that gains from the sale of some treasury shares amounting to RM16.9mn would be given out in the form of bonus issue. An official announcement is expected sometime in early Mar 2010. Based on our estimates, the bonus issue would be at a ratio of around 1 for every 8 shares. However, note that the issue of new shares could dilute our FY10-12 EPS forecast by close to 11% per annum.

Raising FY10-11 earnings estimates

As guided by management, we now forecast revenue and net profit to grow by some 30% per annum. Note that management is also guiding for higher EPS of 62 sen (from 50 sen previously) or PAT of RM168mn for FY10. We expect EBITDA margins of close to 20% while net profit margin should average around 15.3% over the next 3 FYs. Notwithstanding higher latex costs envisaged, the group’s bottomline should remain intact, in our view. Elsewhere, the full redemption of the serial bonds will result in net cost savings amounting to RM2.4mn per annum. Management guided that FY10-12 earnings will be further boosted by lower finance costs as net gearing ratio is maintained between 0.50 and 0.75 (FY09: 0.31, FY08: 0.90).

Valuation

We maintain our favourable view on the stock. We raise our TP to RM9.30 from RM8.20, attaching a 15x PER multiples against our revised FY10 numbers. We believe the premium above industry’s average weighted PER of 12.5x is justified due to Supermax’s: 1) dominant market share (ranked #2 in terms of capacity), and 2) strong earnings growth momentum. BUY.

Share Price chart



Source : Bloomberg

Earnings Summary (RMmn)

YE 31 Dec		2008	2009	2010F	2011F	2012F
Turnover	(RM mn)	811.8	814.8	1,070.8	1,389.7	#####
EBITDA	(RM mn)	97.3	164.2	203.5	250.1	329.7
EBITDA Margin	(%)	12.0%	20.2%	19.0%	18.0%	18.0%
Pretax profit	(RM mn)	52.0	151.7	196.1	247.6	329.2
Net profit	(RM mn)	47.0	129.3	166.7	210.5	279.8
Net profit - adjusted	(RM mn)	47.0	129.3	166.7	210.5	279.8
EPS	(sen)	17.3	47.7	61.5	77.6	103.2
EPS - adjusted	(sen)	17.3	47.7	61.5	77.6	103.2
EPS Growth	(%)	-16.0%	175.1%	28.9%	26.3%	32.9%
PER	(x)	33.0	12.0	9.3	7.4	5.5
Dividend	(sen)	3.1	11.0	11.0	11.0	11.0
Dividend Yields	(%)	0.6%	1.9%	1.9%	1.9%	1.9%
ROE	(%)	11.7%	26.4%	26.9%	27.6%	29.6%

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