



Supermax Corporation

OUTPERFORM

RM1.51

STAYING FOCUSED ON OPERATIONS

Supermax management's focus on operational efficiencies is starting to bear fruit with 1Q09 earnings at the operating and net levels growing by 26% and 22% yoy respectively. If management is able to sustain these improvements over the next few quarters, there are potential upside surprises to earnings.

Financial Highlights (RMm)					
Year to December	FY07	FY08	FY09F	FY10F	FY11F
Revenue	574.3	811.8	828.4	878.0	894.7
Pretax profit	58.6	51.6	73.9	84.9	92.0
Normalized net profit	55.9	46.5	65.8	75.6	81.0
Normalized EPS (sen)	21.1	23.8	24.8	28.5	30.5
EPS growth (%)	1.5	12.9	4.1	14.9	7.2
Net yield (%)	3.2	3.2	4.6	5.3	5.7
P/E (x)	7.2	8.6	6.1	5.3	4.9
ROE (%)	17.9	11.6	14.8	15.0	14.2
Net yield (%)	2.1	2.2	3.0	3.5	3.7
Net gearing (%)	87.9	90.5	73.5	56.6	41.5
P/B (x)	1.0	1.0	0.8	0.7	0.7

Source: Company, KAF

PERFORMANCE

- Supermax's 1Q09 revenue grew 0.5% yoy, whereas earnings at the operating and net levels grew 26% and 22% yoy respectively.
- This was attributed to management's focus on operational efficiencies resulting in reduction in overall operating expenses, as well as higher profit contribution from its distribution centers, i.e. RM8.1m compared to RM5.2m in 1Q08.
- On a qoq basis, revenue increased by 5% whereas operating profit rose 4% and normalized net profit grew by 8%.
- It also achieved slight normalized net margin expansion at 10.2%, compared to 9.9% last quarter and 8.5% a year ago, due to softer latex prices, operational efficiencies and ceased trading activities with APLI which used to drag down overall margins.
- Annualized earnings, at both the net and operating levels, exceeded our forecasts by 7% and 20% respectively.

REVISIONS

- We are not revising our forecasts despite the 1Q09 results exceeding expectations, taking into account that latex prices are coming off a low base and US dollar is starting to weaken. However, as mentioned in our recent note, with management dedicating more time and focus to operational efficiencies, we believe there is room for upside surprises in which we will closely monitor.

TARGET PRICE

- Target price remains unchanged at RM2.20. The stock trades at 6.1x FY09 PER and 0.8x P/B. We maintain an Outperform recommendation.

Market Data

Bloomberg code	SUCB MK
Shares o/s (m)	265
Mkt Cap (RMm)	401
52 week high/low (RM)	1.75 / 0.78
Avg daily trading value (RMm)	0.3
KLCI	1,027

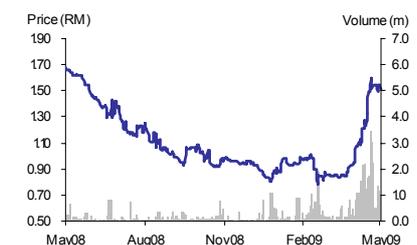
Target Price Methodology

Target (RM)	: 2.20 (+46%)
Methodology	: Gordon growth, P/B
Key Assumptions: COE = 13.2%, g = 5.5%	
FY09 PER (x)	: 8.9
FY09 P/B (x)	: 1.2
FY09 Yield	: 2.1%

Share Price Performance

	1m	3m	12m
Absolute	59	55	(13)
Relative to KLCI	41	35	9

Share Price Movement



Source: Bloomberg

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SUPERMAX CORPORATION QUARTERLY TRENDS

(RM m) FYE Dec	Quarter									Change		KAF	
	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	% qoq	% yoy	FY09F	1Q/F
Turnover	115.6	129.4	148.3	180.9	191.5	193.3	244.3	182.8	192.4	5	0	828.4	23
Operating profit	13.0	15.0	14.4	12.7	16.1	15.1	19.1	19.6	20.4	4	26	76.5	27
Operating margin (%)	11.3%	11.6%	9.7%	7.0%	8.4%	7.8%	7.8%	10.7%	10.6%			9.2%	
Finance costs	(3.7)	(4.0)	(1.9)	(5.3)	(4.3)	(6.4)	(5.6)	(5.1)	(5.0)	(0)	18	(21.7)	23
Associates	4.0	4.1	2.0	8.2	5.2	4.9	2.4	6.2	8.1	30	56	19.1	43
Exceptionals	-	-	-	-	-	-	-	(16.7)	-				
Pretax profit	13.3	15.1	14.5	15.7	17.1	13.5	15.9	4.1	23.5	473	37	73.9	32
Pretax margin (%)	11.5%	11.7%	9.8%	8.7%	8.9%	7.0%	6.5%	2.2%	12.2%			8.9%	
Tax	(0.8)	(1.0)	(0.3)	(1.1)	(0.9)	0.3	(0.4)	(2.6)	(3.8)	44	341	(8.1)	46
Net profit	12.5	14.1	14.2	14.6	16.2	13.8	15.5	1.5	19.7	1,226	22	65.8	30
Net profit margin (%)	10.8%	10.9%	9.6%	8.1%	8.5%	7.1%	6.3%	0.8%	10.2%			7.9%	
Normalized net profit	12.5	14.1	14.2	14.6	16.2	13.8	15.5	18.2	19.7	8	22	65.8	30
Normalized net margin (%)	10.8%	10.9%	9.6%	8.1%	8.5%	7.1%	6.3%	9.9%	10.2%				
No. of shares (m)	227.0	227.1	264.9	265.2	265.3	265.3	265.3	265.3	265.3				
EPS (sen)	5.5	6.2	5.4	5.5	6.1	5.2	5.8	0.6	7.4	1,226	22	24.8	30
Net DPS (sen)	-	-	1.5	1.8	-	-	1.5	-	-	nm	nm	6.4	-

Source: Company, KAF

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Buy	High conviction stock with an expected price appreciation in excess of 20% in the next 12 months
Outperform	The stock is expected to perform ahead of the sector and market in the next 12 months
Neutral	The stock is expected to perform in line with the sector and market in the next 12 months
Underperform	The stock is expected to perform below the sector and market in the next 12 months
Sell	High conviction stock with an expected price depreciation in excess of 20% in the next 12 months

Applicability of Ratings:

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks, which form part of the coverage universe. Reports on companies, which are not part of the coverage, do not carry investment ratings as we do not actively follow developments in these companies.

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