



Supermax Corporation

OUTPERFORM

RM0.79

APLI – A COSTLY DISTORTION

Supermax reported a good set of results which were distorted by its full impairment of its investment in APLI amounting to RM16.7m. Without this distortion, normalized net profit grew by 25% yoy, and exceeded our forecasts by 8%. We believe its move to dispose APLI is a positive step toward removing the overhang on its share price previously.

Financial Highlights (RMm)					
Year to December	FY06	FY07	FY08	FY09F	FY10F
Revenue	400.3	574.3	833.4	950.4	1,029.1
Pretax profit	47.3	58.6	51.6	73.2	83.9
Normalized net profit	39.7	55.9	63.2	65.9	75.6
Normalized EPS (sen)	20.8	21.1	23.8	24.9	28.5
EPS growth (%)	28.6	1.5	12.9	4.3	14.6
Net yield (%)	3.3	3.2	3.7	3.8	4.4
P/E (x)	4.5	3.7	4.5	3.2	2.8
ROE (%)	17.9	17.9	11.6	14.9	15.0
Net yield (%)	4.1	4.1	4.6	4.8	5.5
Net gearing (%)	77.9	87.9	90.5	72.0	54.0
P/B (x)	0.7	0.5	0.5	0.4	0.4

Source: Company, KAF

PERFORMANCE

- Supermax's 4Q08 revenue grew by 13% yoy while operating profit grew 68% yoy. However, net profit declined by 89% yoy, due to the full impairment of its investment in APLI amounting to RM16.7m. Removing this distortion, normalized net profit grew by 25% yoy.
- On a qoq basis, revenue declined 16% whereas operating profit rose 12% and normalized net profit grew by 18%.
- There is also considerable normalized net margin expansion at 9% in 4Q08, compared to 6% in 3Q08 and 8% a year ago. Management attributed this to lower latex prices, operational efficiencies and reduced trading activities which have lower margins.
- Earnings exceeded our forecasts by 2% at the operating level and 8% based on our normalized net profit forecast of RM58.5m.

REVISIONS

- Despite the above expectation results, we are not revising earnings for now, taking a cautious stance in light of the current economic uncertainty. We expect 4% earnings growth in FY09.
- Management has assured that there will be no further impact from APLI moving forward. It has also put its expansion plans of 12 new production lines, with potential capacity of approximately 1.7bn pieces, on hold.

TARGET PRICE

- Target price remains at RM2.20. The stock trades at 3.2x FY09 PER and 0.4x P/B. We maintain an Outperform recommendation.

Market Data

Bloomberg code	SUCB MK
Shares o/s (m)	265
Mkt Cap (RMm)	208
52 week high/low (RM)	1.88/0.78
Avg daily trading value (RMm)	0.2
KLCI	894.1

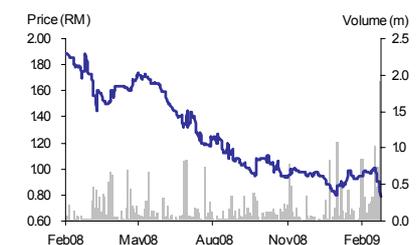
Target Price Methodology

Target (RM)	: 2.20 (+178%)
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	: 2.0%

Share Price Performance

	1m	3m	12m
Absolute	(15)	(19)	(55)
Relative to KLCI	(17)	(22)	(31)

Share Price Movement



Source: Bloomberg

Analysts

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SUPERMAX CORPORATION QUARTERLY TRENDS

(RM m) FYE Dec	Quarter								Change		Cumulative			KAF	
	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	% qoq	% yoy	FY07	FY08	% chg	FY08F	12M/KAF
Turnover	115.6	129.4	148.3	180.9	191.5	193.3	244.3	204.4	(16)	13	574.3	833.4	45	934.4	89
Operating profit	13.0	15.0	14.4	12.7	16.1	15.1	19.1	21.4	12	68	55.1	71.8	30	70.4	102
Operating margin (%)	11.3%	11.6%	9.7%	7.0%	8.4%	7.8%	7.8%	10.5%			9.6%	8.6%			
Finance costs	(3.7)	(4.0)	(1.9)	(5.3)	(5.0)	(6.4)	(5.6)	(5.1)	(10)	(5)	(15.0)	(22.1)	48	(23.7)	93
Associates	4.0	4.1	2.0	8.2	5.2	4.9	2.4	6.2	161	(24)	18.4	18.7	2	16.7	112
Exceptionals	-	-	-	-	-	-	-	(16.7)			-	(16.7)	nm		
Pretax profit	13.3	15.1	14.5	15.7	16.4	13.5	15.9	5.9	(63)	(62)	58.6	51.7	(12)	46.7	111
Tax	(0.8)	(1.0)	(0.3)	(1.1)	(0.6)	0.3	(0.4)	(4.4)	nm	nm	(3.2)	(5.1)	63	(4.9)	105
Net profit	12.5	14.1	14.2	14.6	15.7	13.8	15.5	1.5	(90)	(89)	55.4	46.5	(16)	41.8	111
Normalized net profit	12.5	14.1	14.2	14.6	15.7	13.8	15.5	18.2	18	25	55.4	63.2	14	58.5	108
Normalized net margin (%)	10.8%	10.9%	9.6%	8.1%	8.2%	7.1%	6.3%	8.9%			9.6%	7.6%			
EPS (sen)	5.5	6.2	5.4	5.5	5.9	5.2	5.8	0.6	(90)	(89)	22.6	17.5	(22)	15.8	111
Net DPS (sen)	-	-	1.5	1.8	-	-	1.5	-	nm	nm	-	-	nm	4.7	-

Source: Company, KAF

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Dato' Ahmad Bin Kadis
Managing Director

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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

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