



# BUY

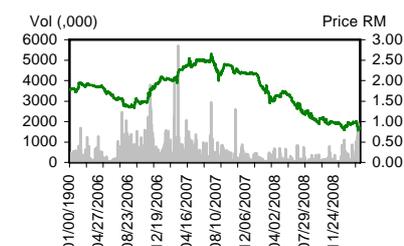
## FY08 Results

### Analyst

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**Price** RM0.86  
**Target** RM1.23  
**KLCI Index** 858

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	-12.8	-13.3	-17.5
Relative (%)	-9.4	-15.7	2.4

### Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	62.3
52-week high (RM)	1.78
52-week low (RM)	0.78
Shares issued (m)	265.27
6m avg d.vol (US\$)	61,199
Free float (%)	40.0
Major shareholders (%)	
Thai Kim See / Tan Bee Geok	(50.4)
Employee Provident Fund	(7.1)

### Key Indicators

ROE (%)	13.5
Net gearing (%)	72.5
NTA (RM)	1.46
Interest cover (x)	3.4

# Supermax Corporation Berhad

## Distressed Valuations

### Core FY08 results were within expectations

FY08 EPS of 17.5 sen came in at 100% of our FY08 forecast and 94% of consensus estimates. Pretax profit fell 12% YoY on a 45% increase in revenue as the group provided for full impairment of its investment in associate APL Industries amounting to RM16.7m. Excluding the impairment, pretax profit would have amounted to RM68.3m or 16.7% higher than FY07's pretax profit of RM58.6m. Meanwhile, FY08 revenue rose 45% as the group increased its average selling prices by ~12% during the year to cover higher production costs whilst sales volume rose 30% YoY with the installation of 10 new lines at Seal Polymer's Kamunting plant which added 8% of new capacity. However, EBIT margins fell from 9.6% to 8.6% due to volatile latex prices and exchange rates and higher energy costs during the year. Net profit fell a larger 17% YoY as the effective tax rate increased from 4.4% to 10% following the impairment charge. Management indicated that a final tax-exempt dividend of 1.75 sen will be announced prior to the AGM, bringing the total for the year to 3.25 sen tax-exempt, similar to FY07.

### Profit to rebound in FY09 on lower latex price and stronger US\$

Demand for rubber gloves continues to be robust despite the global recession, with global consumption of ~120b gloves expected to grow by ~10% p.a. Exports of rubber gloves from Malaysia rose 20% YoY to RM7.05b in 2008 from RM5.88b in 2007. Supermax's core net profit is expected to rise 7% in FY09 as EBITDA margins recover to 10.8% from 9.4% in FY08 due to lower latex prices and a stronger US\$. Latex is currently trading at RM4.36/kg wet from a high of RM7.20/kg wet in July 2008 and is expected to average ~RM4.50/kg wet in 2009. The Ringgit is also much weaker at RM3.72:US\$ versus RM3.20:US\$ in early 2008. Furthermore, it will cease equity-accounting APL's losses in FY09 and has deferred the installation of new capacity of 1.7m gloves (costing RM35m) to 2010. By end-2010, its installed capacity will increase to 16.2b gloves from 14.5b gloves currently.

### Undemanding valuations; BUY

Following a 51% drop in its share price from a 52-week high of RM1.78 in April 2008, Supermax now trades at a PER of 3.5x FY09 and 3.3x FY10. We reiterate our BUY recommendation with a price target of RM1.23, based on 5x FY09 EPS of 24.5 sen.

Year End Dec 31	2006	2007	2008F	2009F	2010F
Sales (RM m)	389.1	582.1	833.4	906.0	1023.0
Pre-tax (RM m)	47.2	67.2	51.6	70.0	75.5
Net profit (RM m)	40.8	59.4	46.5	65.1	69.8
EPS (sen)	18.1	25.6	17.5	24.5	26.3
EPS growth (%)	11.3	41.7	-31.6	39.7	7.3
PER (x)	4.8	3.4	4.9	3.5	3.3
EV/EBITDA (x)	7.1	6.8	7.7	5.9	5.1
Yield (%)	5.2	5.1	5.1	5.0	5.0

**SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS**

**Table 1: Quarterly Results**

(RMm)	Q407	Q108	Q208	Q308	Q408	% chg QoQ	% chg YoY
<b>Revenue</b>	<b>180.9</b>	<b>191.5</b>	<b>193.3</b>	<b>244.3</b>	<b>204.4</b>	<b>-16.3</b>	<b>13.0</b>
Operating profit	12.7	16.1	15.1	19.1	21.4	11.8	68.0
Interest expense	-5.3	-5.0	-6.4	-5.6	-5.1	-10.3	-4.6
Associates	8.2	5.2	4.9	2.4	6.2	160.7	-24.2
Impairment of Inv in Associate (APLI)					-16.7		
<b>Pretax Profit</b>	<b>15.7</b>	<b>16.4</b>	<b>13.5</b>	<b>15.9</b>	<b>5.9</b>	<b>-62.9</b>	<b>-62.4</b>
Taxation	-1.1	-0.6	0.3	-0.4	-4.4	942.1	298.9
<b>Net Profit</b>	<b>14.6</b>	<b>15.7</b>	<b>13.8</b>	<b>15.5</b>	<b>1.5</b>	<b>-90.1</b>	<b>-89.4</b>
<b>EPS (sen)</b>	<b>6.3</b>	<b>5.9</b>	<b>5.2</b>	<b>5.8</b>	<b>0.6</b>	<b>-90.1</b>	<b>-90.8</b>
Output (m pieces)	2550	2655	2445	2785	2915	4.7	14.3
EBIT margins (%)	7.0	8.4	7.8	7.8	10.5		
Tax Rate (%)	7.0	3.8	-2.0	2.6	73.9		

Sources: Company data, KE estimates

**Table 2: 3Q08 Sales by Products (%)**

Powdered gloves	Latex examination	26
	Nitrile synthetic	1
	Sterile surgical	3
Powder-free gloves	Latex examination	45
	Nitrile synthetic	25
<b>Total</b>		<b>100</b>

Source: Company data

**Table 3: Sales by geographical regions (%)**

	FY06	FY07	FY08
Americas (north/central/south)	65.0	64.0	60.5
Europe	23.5	23.0	26.5
Asia/Australasia	5.5	6.0	6.5
Africa/Middle East	6.0	7.0	6.5

Source: Company data

**Table 4 Key Assumptions**

	2006	2007	2008	2009	2010
Installed capacity (m pieces)	10,706	13,516	14,476	14,476	16,204
Prod'n output (m pieces) *	9,315	11,736	12,050	13,000	13,900
Utilisation rate (%)	87%	87%	83%	90%	86%
Forex rate US\$/RM	3.60	3.40	3.50	3.60	3.50
Avg latex price/kg wet (RM)	5.12	5.20	5.50	4.50	5.00

\* Supermax and Seal Polymer

**Table 5: Relative valuations**

Company FYE	Top Glove Aug-09	Kossan Dec-09	Supermax Dec-09	Hartalega* Mar-09
Share price (RM)	4.72	2.94	0.86	2.09
Share capital (m shrs)	295.0	159.9	265.3	242.3
Market cap (RMm)	1303.9	498.8	261.3	445.9
Installed Capacity (m pieces/annum)	30000	11100	8632	6200
Net Profit	129.2	73.6	65.1	56.0
EPS (sen)	43.8	46.0	24.5	23.1
PER (x)	10.8	6.4	3.5	9.0
NTA/share (RM)	2.28	1.87	1.46	0.87
Price/book (x)	2.1	1.6	0.6	2.4
Net debt (RMm)	38.0	185.5	349.3	49.0
Net gearing (%)	5.3	54.0	72.1	23.3
Revenue – gloves (RMm)	1577.0	877.0	906.0	427.0
Market cap/revenue (x)	0.83	0.57	0.29	1.04
Sales/share (RM)	5.35	5.48	3.42	1.76

\* based on consensus estimates

**Profit and Loss**

YE Dec (RM m)	2006	2007	2008F	2009F	2010F
<b>Sales</b>	<b>389.1</b>	<b>582.1</b>	<b>833.4</b>	<b>906.0</b>	<b>1023.0</b>
Cost of goods sold	298.0	453.3	663.4	725.0	823.0
<b>Gross Profit</b>	<b>91.1</b>	<b>128.8</b>	<b>170.0</b>	<b>181.0</b>	<b>200.0</b>
Operating expenses	48.1	64.2	98.3	107.0	122.0
<b>Operating Profit</b>	<b>43.1</b>	<b>64.7</b>	<b>71.7</b>	<b>74.0</b>	<b>78.0</b>
Net interest	-13.7	-15.1	-22.1	-22.0	-21.0
Interest income	0.0	0.0	0.2	0.0	0.0
Interest expense	-13.7	-15.1	-22.3	-22.0	-21.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	17.8	17.6	18.7	18.0	18.5
Net extraordinary	0.0	0.0	-16.7	0.0	0.0
<b>Pretax income</b>	<b>47.2</b>	<b>67.2</b>	<b>51.6</b>	<b>70.0</b>	<b>75.5</b>
Income taxes	-6.4	-7.8	-5.1	-4.9	-5.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>40.8</b>	<b>59.4</b>	<b>46.5</b>	<b>65.1</b>	<b>69.8</b>
EBITDA	53.8	81.1	78.3	98.1	104.8
<b>EPS (sen)</b>	<b>18.1</b>	<b>25.6</b>	<b>17.5</b>	<b>24.5</b>	<b>26.3</b>

Sources: Company data, KE estimates

**Cashflow**

YE Dec (RM m)	2006	2007	2008F	2009F	2010F
<b>Operating cash flow</b>	<b>55.4</b>	<b>83.1</b>	<b>49.8</b>	<b>93.1</b>	<b>99.8</b>
Net profit	40.8	59.4	46.5	65.1	69.8
Depreciation & amortisatn	13.0	21.7	31.9	33.0	35.0
Change in working capital	-3.4	-3.0	-50.4	-10.0	-10.0
Others	5.0	5.0	21.9	5.0	5.0
<b>Investment cash flow</b>	<b>-48.1</b>	<b>-30.0</b>	<b>-52.6</b>	<b>-15.0</b>	<b>-35.0</b>
Net capex	-25.6	-30.0	-33.9	-15.0	-35.0
Change in LT investment	-22.5	0.0	-18.6	0.0	0.0
Change in other assets	0.0	0.0	0.0	0.0	0.0
<b>Cash flow after invt.</b>	<b>7.3</b>	<b>53.1</b>	<b>-2.8</b>	<b>78.1</b>	<b>64.8</b>
<b>Financing cash flow</b>	<b>-19.1</b>	<b>-24.5</b>	<b>-1.3</b>	<b>-37.5</b>	<b>-37.1</b>
Change in share capital	1.5	1.5	-5.9	1.2	1.6
Net change in debt	-12.8	-18.0	13.2	-30.0	-30.0
Change in other LT liab.	-7.8	-8.0	-8.6	-8.7	-8.7
<b>Net cash flow</b>	<b>-11.8</b>	<b>28.6</b>	<b>-4.1</b>	<b>40.6</b>	<b>27.8</b>

Sources: Company data, KE estimates

**Balance Sheet**

YE Dec (RM m)	2006	2007	2008F	2009F	2010F
<b>Total assets</b>	<b>522.0</b>	<b>869.6</b>	<b>959.6</b>	<b>985.0</b>	<b>1020.6</b>
Current assets	<b>221.8</b>	<b>359.0</b>	<b>419.1</b>	<b>419.0</b>	<b>426.6</b>
Cash & ST investment	28.7	23.2	32.7	23.8	32.0
Inventories	42.1	103.6	128.5	123.0	128.0
Accounts receivable	149.0	224.6	246.2	269.0	263.0
Others	2.0	7.6	11.7	3.2	3.6
Other assets	<b>300.2</b>	<b>510.6</b>	<b>540.4</b>	<b>566.0</b>	<b>594.0</b>
LT investments	126.9	91.2	117.4	112.0	113.0
Net fixed assets	173.2	379.5	383.9	416.0	446.0
Others	0.0	39.9	39.1	38.0	35.0
<b>Total liabilities</b>	<b>282.1</b>	<b>478.4</b>	<b>543.7</b>	<b>503.2</b>	<b>466.9</b>
Current liabilities	<b>123.5</b>	<b>309.7</b>	<b>358.8</b>	<b>306.8</b>	<b>291.6</b>
Accounts payable	55.1	94.9	114.8	113.0	115.0
ST borrowings	67.5	212.2	236.6	188.7	172.0
Others	0.9	2.6	7.3	5.1	4.6
Long-term liabilities	<b>158.6</b>	<b>168.7</b>	<b>184.9</b>	<b>196.4</b>	<b>175.3</b>
Long-term debts	147.9	156.3	172.6	184.4	165.0
Others	10.7	12.4	12.3	12.0	10.3
<b>Shareholder's equity</b>	<b>239.9</b>	<b>391.2</b>	<b>415.9</b>	<b>481.8</b>	<b>553.7</b>
Paid-in capital	113.2	132.6	132.6	132.6	132.6
Reserve	129.3	258.6	289.1	355.1	427.0
Others	-2.5	0.0	-5.9	-5.9	-5.9

Sources: Company data, KE estimates

**Key ratios**

YE Dec	2006	2007	2008F	2009F	2010F
<b>Growth (% YoY)</b>					
Sales	36.7	49.6	43.2	8.7	12.9
OP	25.0	50.3	10.9	3.2	5.4
EBITDA	26.3	50.9	-3.4	25.2	6.9
NP	12.5	45.6	-21.8	40.0	7.3
EPS	11.3	41.7	-31.6	39.7	7.3
<b>Profitability (%)</b>					
Gross margin	23.4	22.1	20.4	20.0	19.6
Operating margin	11.1	11.1	8.6	8.2	7.6
EBITDA margin	13.8	13.9	9.4	10.8	10.2
Net Profit margin	4.6	4.4	2.1	2.7	2.6
ROE	7.8	6.8	4.8	6.6	6.8
ROA	17.0	15.2	11.2	13.5	12.6
<b>Stability</b>					
Gross debt/equity (%)	89.8	94.2	98.4	77.4	60.9
Net debt/equity (%)	77.9	88.3	90.5	72.5	55.1
Int. coverage (X)	3.1	4.3	3.2	3.4	3.7
Int. & ST debt coverage (X)	0.5	0.5	0.5	0.5	0.5
Cash flow int. coverage (X)	4.1	5.5	2.2	4.2	4.8
Cash flow int. & ST debt (X)	0.5	0.6	0.6	0.6	0.6
Current ratio (X)	1.7	1.6	1.6	1.6	1.6
Quick ratio (X)	0.7	0.7	0.7	0.7	0.7
Net debt (RMm)	186.8	345.3	376.5	349.3	305.0
<b>Per share data</b>					
EPS (sen)	18.1	25.6	17.5	24.5	26.3
CFPS (sen)	24.6	35.9	18.8	35.0	37.5
BVPS (RM)	1.07	1.69	1.57	1.81	2.08
SPS (RM)	1.73	2.51	3.14	3.41	3.85
EBITDA/share (RM)	23.9	35.0	29.5	36.9	39.4
DPS (sen)	4.5	4.4	4.4	4.3	4.3

Sources: Company data, KE estimates

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**Recommendation definitions**

**Our recommendation is based on the following expected price performance within 12 months:**

+15% and above: BUY

-15% to +15%: HOLD

-15% or worse: SELL

**APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLOSURES  
AND  
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