



Supermax Corporation Berhad

3Q FY10 Results Weak But Within Expectations

TP: RM 6.40 (+41.9%)

Last Traded: RM 4.51

BUY

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Review

- As expected, Supermax turned in poorer 3Q FY10 results. Net profit declined by 17% QoQ to RM38.1mn during the quarter on the back of the flat (+0.1%) growth in revenue, rising latex cost and higher taxation.
- Despite the weak sequential performance, results were broadly in line with expectations. YTD net profit stood at RM135.4mn, representing 76% and 75% of ours and consensus full year estimates of RM177.9mn and RM179.9mn respectively. Note that the annualised net profit also exceeded management's PAT guidance of RM168mn (or EPS of 62 sen) for FY10.
- Compared to 9M FY09, net profit jumped by close to 60%, underpinned by a combination of stronger revenue (due to new production capacity), reduction in finance costs (-21% YoY due to the full redemption of serial bonds), and lower taxes (due to reinvestment allowances). The effective tax rate stood at close to 6% from 16%.
- Although MYR appreciated by another 2.5% QoQ (2Q FY10: +3.9% QoQ) during the quarter, the impact was muted by higher demand (+3.1% QoQ to 3.68bn pcs from 3.57bn pcs) and stable average selling price (ASP) of gloves.
- EBITDA margin continued to soften for the 3rd consecutive month. However, YTD EBITDA margin remained healthy at 26.1% (9M FY09: 22.4%). Going forward, we believe the group should be able to maintain decent margins due to cost savings from higher efficiency and productivity from improved processes and refurbished lines. The group will also be looking to switch more of its production lines to produce Nitrile Powder Free (PF) gloves. This is to cater for growing demand. Management expects contributions from Nitrile PF gloves to increase from 21% in 2Q to between 30% to 35% of total installed capacity. Nitrile PF gloves currently makes up 25% to 26% of total installed capacity.
- Balance sheet remains healthy with net gearing ratio of around 0.28x (FY09: 0.31x).

Impact and outlook

- No change to our forecasts pending an Analysts' Briefing tomorrow.
- The outlook for the sector remains challenging although management indicated that demand had started improving in the last two weeks of September. The 3-4% increase in ASP in the month of October should help spur topline growth.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	339.5
Market Cap (RMmn)	1531.0
Par Value	0.50
52-wk Hi/Lo (RM)	6.60/2.73
12-mth Avg Daily Vol ('000 shrs)	3361.9
Estimated Free Float (%)	54.9
Beta	1.3

Major Shareholders (%)

Dato' Seri Stanley Thai	- 35.5
EPF	- 8.4

Forecast Revision

	FY10	FY11
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	177.9	193.5
Consensus	179.9	198.7
TA's / Consensus (%)	98.9	97.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY10	FY11
Net gearing (x)	0.4	0.4
CFPS (RM)	1.9	2.8
P/CFPS (x)	2.33	1.59
ROAA (%)	16.4	14.6
ROAE (%)	27.7	24.2
NTA/Share (RM)	2.1	2.5
Price/ NTA (x)	2.2	1.8

Scorecard

	% of FY	
vs TA	76.0	Within
vs Consensus	75.0	Within

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	0.2	0.9
3 mth	(13.4)	6.8
6 mth	(12.9)	18.2
12 mth	49.3	20.7

- Going forward, management is targeting earnings growth of between 15% and 20% for FY 2011. This is attributable to growth in planned capacity growth and varying of product mix in line with market demand and product pricing trends.

Valuation

- We maintain our favourable view on the stock. We like Supermax due to their OBM business model, which we opine would help buffer against demand and price manipulation by large MNC buyers, as well as the stock's attractive valuation. As such, we are keeping our BUY recommendation and TP of RM6.40 for Supermax based on FY11e EPS to the industry's targeted PE multiple 11x. BUY.

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary (RMmn)

FYE Dec	2008	2009	2010F	2011F	2012F
Turnover	811.8	803.6	942.4	1072.3	1103.0
Pretax profit	52.0	151.5	202.1	219.9	238.6
Net profit	47.0	126.6	177.9	193.5	200.4
Net profit - adjusted	47.0	126.6	177.9	193.5	200.4
EPS	13.9	37.3	52.4	57.0	59.0
EPS - adjusted	13.9	37.3	52.4	57.0	59.0
EPS growth (%)	(15.9)	169.2	40.5	8.8	3.6
PER	32.5	12.1	8.6	7.9	7.6
Dividend (sen)	3.1	11.0	9.4	9.4	9.4
Dividend yield (%)	0.7	2.4	2.1	2.1	2.1

3Q10 Results Analysis (RMmn)

YE 31 Dec	3QFY09	2QFY10	3QFY10	QoQ	YoY	YTD FY09	YTD FY10	YoY
Revenue	237.6	234.8	235.1	0.1	(1.0)	618.4	690.6	11.7
Operating expenses	(198.0)	(193.1)	(198.2)	2.7	0.1	(531.7)	(564.4)	6.2
Finance costs	(4.1)	(3.3)	(3.7)	13.8	(9.3)	(13.7)	(10.8)	(21.2)
Extraordinary interest expense	0.0	0.0	0.0	n.m.	n.m.	17.1	0.0	n.m.
Share of profit of associated co	11.3	10.4	8.3	(19.8)	(26.3)	11.3	29.2	158.1
Profit before tax	46.7	48.8	41.4	(15.1)	(11.3)	101.5	144.6	42.4
PBT margin (%)	19.7	20.8	17.6	(3.2)	(2.0)	16.4	20.9	4.5
Taxation	(6.6)	(3.0)	(3.3)	11.1	(49.7)	(15.9)	(9.1)	(42.8)
Net profit	40.2	45.9	38.1	(16.8)	(5.0)	85.6	135.4	58.2
EPS (sen)	11.8	13.5	11.2	(16.8)	(5.0)	25.2	39.9	58.2

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