

Supermax Corporation

Recommendation: **BUY**

Stock Code: 7106

Bloomberg: SUCB MK

Price: MYR0.79

12-Month Target Price: MYR1.20

Date: February 25, 2009

Board: Main

Sector: Industrial Products

GICS: Health Care/Health Care Supplies

Market Value - Total: MYR208.2 mln

Summary: Supermax Corporation (Supermax) makes latex gloves and is currently the second largest latex glove manufacturer in the country. Supermax was listed on the Second Board of Bursa Malaysia in Aug. 2000 before successfully transferring to the Main Board in Oct. 2003. The stock is a component of FBMEMAS.

Analyst: Su Peng Ng



Results Review & Earnings Outlook

- Supermax's 2008 results were within expectations, with recurring net profit reaching 103% of our estimate. As expected, the group wrote-off its investment in APL Industries (APLI) (Not Listed) totaling MYR16.7 mln, which had the effect of reducing 2008 net profit by 17% YoY.
- Revenue for 2008 surged 45% as the group increased its glove selling price (ASP) by an average of 12% YoY during the year to counter higher production costs while sales volume rose 30% YoY. The higher sales volume is due to the addition of 10 new lines in its Kamunting plant which added about 8% of new capacity to the group. Affected by higher average latex prices, EBIT growth rate was a slower 29% YoY.
- 4Q08 saw revenue falling by 16% QoQ given lower ASP and capacity usage (Supermax stopped outsourcing to APLI in Nov. 2008). However, lower average latex prices (-36% QoQ) helped reduce costs and boosted operating profit by 11.8% QoQ.
- We have refined our 2009 assumptions resulting in a slight increase in our net profit estimate to MYR68.5 mln (from MYR67.3 mln). 2009 should be a relatively decent year for Supermax given lower costs (lower latex and energy costs) and resilient demand. Our 2010 net profit forecast is also introduced.

Recommendation & Investment Risks

- We maintain our Buy recommendation on Supermax with an unchanged 12-month target price of MYR1.20.
- We utilize a target PER of 4.5x (unchanged) against our projected 2009 EPS for Supermax and add our estimated tax exempt net DPS for 2009 of 2.4 sen. Our target multiple is benchmarked to the peer average.
- While our target price warrants a more aggressive recommendation on Supermax, we think investors may first prefer to get an indication of the group's performance over the near term, especially after writing-off its troubled APLI investment, which took up much of management's time. Nevertheless, the outlook for Supermax is positive given (i) a closure to its investment in APLI, (ii) healthy demand for gloves coupled with a lower cost structure and (iii) favorable exchange rate.
- Supermax has declared a final tax-exempt dividend of 3.5% (3 sen). The total tax-exempt dividend payment for 2008 amounts to 6.5% (6.5 sen), translating into a gross dividend yield of 4.1% for the year.
- Risks to our recommendation and target price include potential delays in the commissioning of new lines and an appreciating MYR, as revenue is predominantly derived from exports.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	17.5	25.8
PER (x)	4.5	3.0
Dividend/Share (sen)	3.3	3.3
NTA/Share (MYR)	1.46	1.69
Book Value/Share (MYR)	1.57	1.79
No. of Outstanding Shares (mln)	265.2	
52-week Share Price Range (MYR)	0.79 - 1.88	
Major Shareholders:	%	
Dato' Seri Stanley Thai & family	35.4	
Tabung Haji	7.0	
Koperasi Permodalan Felda	5.7	

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.07	1.45	1.57	1.79
Cash Flow (sen)	23.5	28.6	25.8	34.6
Reported Earnings (sen)	17.8	24.2	17.5	25.8
Dividend (sen)	3.3	3.3	3.3	3.3
Payout Ratio (%)	18.6	15.4	13.6	9.4
PER (x)	4.4	3.2	4.5	3.0
P/Cash Flow (x)	3.3	2.7	3.0	2.3
P/Book Value (x)	0.7	0.5	0.5	0.4
Dividend Yield (%)	4.1	4.1	4.1	4.1
ROE (%)	17.9	17.9	15.8	15.4
Net Gearing (%)	70.1	82.5	90.5	79.7

* Stock deemed Shariah compliant by the Securities Commission

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Quarterly Performance

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	204.4	180.9	13.0
Reported Operating Profit	21.4	12.7	68.0
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-5.1	-5.3	-4.6
Reported Pre-tax Profit	5.9	15.7	-62.4
Reported Net Profit	1.5	14.6	-89.4
Reported Operating Margin (%)	10.5	7.0	-
Reported Pre-tax Margin (%)	2.9	8.7	-
Reported Net Margin (%)	0.8	8.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	574.3	833.4	929.3	1,019.0
Reported Operating Profit	55.0	71.7	76.8	80.6
Depreciation & Amortization	-19.9	-21.8	-23.3	-24.8
Net Interest Income / (Expense)	-14.8	-22.1	-20.5	-20.5
Reported Pre-tax Profit	58.6	51.6	76.9	82.3
Effective Tax Rate (%)	4.4	10.0	11.0	11.0
Reported Net Profit	55.9	46.5	68.5	73.3
Reported Operating Margin (%)	9.6	8.6	8.3	7.9
Reported Pre-tax Margin (%)	10.2	6.2	8.3	8.1
Reported Net Margin (%)	9.7	5.6	7.4	7.2

Source: Company data, S&P Equity Research

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
28-Nov-08	Buy	1.20
25-Aug-08	Buy	1.40
30-May-08	Strong Buy	2.35
3-Jan-08	Strong Buy	3.00
28-Sep-07	Not Ranked	
12-Sep-07	Strong Buy	3.25
21-May-07	Strong Buy	3.10
9-Mar-07	Buy	2.53
22-Feb-07	Buy	2.31
15-Nov-06	Buy	1.99
30-Aug-06	Strong Buy	1.89
9-Jun-06	Buy	2.02
1-Mar-06	Buy	2.18

