

Flash Note

Supermax

SUCB MK
RM3.70

BUY (maintain)

Price Target: RM4.36 (↔)

Rewarding shareholders with a 1-for-1 bonus issue

Declared 1-for-1 bonus issue

In a Bursa announcement yesterday, Supermax has proposed to undertake a bonus issue of 340.1m new shares, on the basis of one bonus share for every existing Supermax share held (1-for-1). This is Supermax's fifth round of bonus issue/share split exercise since its listing, and the most generous payout to date.

Fig 1: Historical bonus issues by Supermax

Ex-date	Entitlement
Aug-03	Bonus issue 1:3
Jan-06	Bonus issue 1:4
Mar-07	Share split 1-into-2
Jun-10	Bonus issue 1:4
Nov-11	Bonus issue 1:1

Source: Bursa, Affin

No impact on earnings but EPS will be diluted from enlarged share base

In the announcement, Supermax has also proposed a share buy-back program of up to 10% of its issued and paid-up share capital at any point in time. Accordingly, the share buy-back will allow Supermax to 'stabilize' supply and demand of its shares, as well as share price, while the bonus issue is the company's way of rewarding shareholders, and improving trading liquidity. Although the exercises will not have an impact on earnings, the enlarged share base would result in a dilution of EPS. Based on a post-bonus issue share base of 680.2m, our target price of RM4.36 (based on 11x CY12 EPS) would be adjusted to RM2.18. The bonus issue will be wholly capitalized from the share premium account (RM76.3m) and retained earnings (RM93.8m).

Maintain BUY with an unchanged target price of RM4.36

We maintain our BUY call on Supermax. Share price rose by as much as 4% post-the announcement during lunch yesterday. We expect the positive sentiment to continue, based on: 1) turnaround in earnings (recall that its 3QFY11 net profit grew by +16% qoq); 2) falling latex prices (down 30% from its peak of RM10.93/kg in April 2011), and; 3) attractive valuations. Key risks to the stock are: 1) resurgence in latex prices (if the floods spread to southern Thailand); 2) strengthening of the RM/US\$ exchange rate, and; 3) overcapacity within the NR and nitrile glove segments.

Earnings and valuation summary

FYE Dec	2009	2010	2011E	2012E	2013E
Revenue (RMm)	803.6	977.3	1,050.8	1,211.0	1,340.1
EBITDA (RMm)	163.7	181.5	134.5	125.9	146.8
Pretax profit (RMm)	151.5	183.8	124.2	149.7	174.0
Net profit (RMm)	126.6	158.9	111.4	134.7	156.5
EPS (sen)	37.2	46.7	32.8	39.6	46.0
EPS growth (%)	168.9	25.6	-29.9	21.0	16.2
PER (x)	9.9	7.9	11.3	9.3	8.0
Core net profit (RMm)	126.6	158.9	115.4	134.7	156.5
Core EPS (sen)	37.2	46.7	33.9	39.6	46.0
Core PER (x)	9.9	7.9	10.9	9.3	8.0
DPS (sen)	11.0	7.5	7.0	12.0	14.0
Dividend Yield (%)	3.0	2.0	1.9	3.2	3.8
EV/EBITDA (x)	8.8	8.0	10.4	11.3	9.6
Consensus profit (RMm)			113.0	135.7	150.4
Affin/Consensus (x)			1.0	1.0	1.0

Shakira Hatta
(603) 2142 8158
shakira@affininvestmentbank.com.my

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of Affin Investment Bank.

Affin Investment Bank is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

Affin Investment Bank Bhd (9999-V)
A Participating Organisation of Bursa Malaysia
Securities Bhd

www.affininvestmentbank.com.my
Email : research@affinsecurities.com.my
Tel : 603-2143 8668
Fax : 603-2145 3005