



23 August 2011

# Supermax Corporation

## Pinned by Latex Price

**NEUTRAL** ↔Price: **RM3.11**Target Price: **RM3.22 ↓**

Supermax's net earnings of RM22.6m were below ours' and consensus' estimates. YoY and QoQ net earnings slipped 52% and 7% respectively, mainly attributable to depreciation of USD against ringgit and high latex price. Downtime in the production due to conversion from natural latex gloves production into surgical and nitrile have also resulted in lower earnings and weaker margins as well. Nevertheless, as latex price has eased lately, we believe the profitability should improve in the following quarters. Given the adverse macro situation, we have reduced our FY11 earnings forecast by 7.6% and we also apply a lower PER multiple of 8x (from 10x previously), translating to a lower TP of RM3.22 (previous TP RM4.00). **Maintain NEUTRAL.**

**Below expectations.** Supermax's 2QFY11 net earnings of RM22.6m were below our expectation and consensus as its YTD earnings only made up of 38% of our full-year forecast and 35.2% of consensus'. YoY and QoQ net earnings slipped 52% and 7% respectively; resulted from depreciation of USD and high latex price. Lower utilisation due to the conversion from natural latex gloves production into nitrile has also resulted in the lower earnings and weaker margins as switching of product mix will result in downtime and it will take 2 weeks for production to stabilize.

**Lower margins.** Higher average latex price of RM9.7/kg (vs RM7.23/kg in 2Q10) has resulted in significant margins erosion from 17.8% in 2Q10 to 6.4% this quarter. Although latex price has eased by 10.8% from its peak at RM10.9/kg, its 2Q11 EBIT margin was also lower (vs 7.6% in 1Q11) owing to lower utilisation as customers were reluctant to stock up in anticipation of a retracement in latex price after wintering season.

**3Q11 should improve.** While latex price has remained high at RM9.70/kg currently, we expect latex price to retreat as wintering season for rubber tree has ended and more supply from newly maturing rubber acreages. Moreover, customers should begin to increase their stocks as latex price eased.

**Increasing nitrile glove production.** Supermax is looking to install new nitrile glove lines that are inter-switchable to natural rubber glove to meet the shift in global demand shift. For FY11, the company is planning to increase its production capacity by 4.1bn, mostly for nitrile gloves, bringing its annual capacity to 21.7bn pieces.

**Valuation.** With the lower 2Q earnings, we are reducing our FY11 earnings by 7.6% to RM114.9m. We also revised down our 10x PER multiple to 8x PER given the adverse macro situation, hence, our lower TP of RM3.22 (from RM4.00 previously) over FY12 EPS of 39sen. With the limited potential upside, we maintain our **NEUTRAL** recommendation on Supermax. Financial leverage is manageable with a net gearing ratio of 0.3x, supported by a strong interest cover ratio of 7x.

**STOCK DATA**

Bloomberg Ticker	SUCB MK	YTD price	-21.9%
Market Cap	1,057.6	YTD KLCI	-3.1%
Issued shares	340.1	Beta	1.6
52-week range (H)	5.57		
52-week range (L)	3.10	Major Shareholders	
3-mth avg daily vol:	556,918	Thai Kim Sim	20.4%
Free Float	56.0%	Tan Bee Geok	15.1%
Altman Z-score	438.3%	EPF	8.4%

**AT A GLANCE**

<b>Target Price (RM):</b>	<b>3.22</b>	<b>Supermax Corporation</b>	<b>Downgrade</b>
Valuation:	8x PER over FY12 EPS.		
Current Price (RM):	3.11		

Report Reason: 2Q11 results below expectations

**Action:** **NEUTRAL** **Maintain**  
**Reason:** -

Basis of call: -

Catalyst: Normalised price of latex and new nitrile lines installed.

FYE31Dec RMm	2010A	2011F	2012F
Turnover	923.3	976.2	1,146.4
<b>Net Profit (NP)</b>	<b>168.2</b>	<b>114.9</b>	<b>137.0</b>
<b>Consensus (NP)</b>		<b>133.5</b>	<b>153.0</b>
Earnings Revision:		-7.6%	-

Earnings Revision Rationale: Revised down earnings in view of margin erosion from high latex price and depreciation of USD

**SHARE PRICE CHART**

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## Results Highlights

FY 31 Dec (RMm)	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	QoQ Chg	YoY Chg	1HFY10	1HFY11	YTD Chg
Revenue	234.8	235.1	232.7	241.4	237.9	-1%	1%	455.5	479.3	5%
EBIT	41.7	36.9	22.3	18.4	15.1	-18%	-64%	89.3	33.6	-62%
<b>Pretax profit</b>	<b>48.8</b>	<b>41.4</b>	<b>32.8</b>	<b>25.6</b>	<b>23.9</b>	<b>-7%</b>	<b>-51%</b>	<b>103.1</b>	<b>49.6</b>	<b>-52%</b>
Taxation	-3.0	-3.3	-0.1	-1.2	-1.4	0.1	-0.5	-5.8	-2.6	-0.6
Minority Interest	0.0	0.0	0.0	0.0	0.0	-	-	0.0	0.0	-
<b>Net Profit</b>	<b>45.9</b>	<b>38.1</b>	<b>32.7</b>	<b>24.4</b>	<b>22.6</b>	<b>-7%</b>	<b>-51%</b>	<b>97.3</b>	<b>47.0</b>	<b>-52%</b>
EPS (sen)	13.5	11.2	9.6	7.2	6.6	-7%	-51%	28.6	13.8	-52%
GDPS (sen)	2.5	2.5	2.5	0.0	0.0			2.5	0.0	
EBIT margin (%)	17.8%	15.7%	9.6%	7.6%	6.4%			19.6%	7.0%	
PBT margin (%)	20.8%	17.6%	14.1%	10.6%	10.1%			22.6%	10.3%	
Net profit margin (%)	19.5%	16.2%	14.1%	10.1%	9.5%			21.4%	9.8%	
Effective tax rate (%)	-6.1%	-8.0%	-0.3%	-4.7%	-5.7%			-5.6%	-5.2%	

## Earnings Estimates

FYE31Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Turnover	803.6	923.3	976.2	1,146.4	1,250.6
EBIT	131.9	148.5	104.0	131.0	142.7
Pretax profit	151.5	177.4	127.7	152.2	162.3
<b>Net Profit</b>	<b>126.6</b>	<b>168.2</b>	<b>114.9</b>	<b>137.0</b>	<b>146.0</b>
EBIT margin	16.4%	16.1%	10.7%	11.4%	11.4%
Pretax margin	18.8%	19.2%	13.1%	13.3%	13.0%
Effective tax rate	16.4%	5.2%	10.0%	10.0%	10.0%
<b>Growth ratios</b>					
Turnover	-1%	15%	6%	17%	9%
EBIT	88%	13%	-30%	26%	9%
Pretax profit	191%	17%	-28%	19%	7%
Core Net profit	99%	33%	-32%	19%	7%
ROE	26%	27%	15%	16%	15%
ROA	13%	16%	9%	10%	10%
Net Gearing (x)	0.3	0.3	0.2	0.1	0.1
<b>Per share data</b>					
EPS (sen)	37.2	49.4	33.8	40.3	42.9
EPS growth (%)	99%	33%	-32%	19%	7%
PER (x)	8.4	6.3	9.2	7.7	7.2
EV/EBITDA (x)	7.7	6.6	8.4	6.5	5.6
Gross DPS (sen)	3.2	5.0	5.0	6.0	7.0
Div. Yield (%)	1.0%	1.6%	1.6%	1.9%	2.3%
NTA/share (RM)	1.6	1.9	2.2	2.6	2.9
P/NTA (x)	2.0	1.6	1.4	1.2	1.1
<b>Historical Price Ratio</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
PER (x)	14.3	10.6	4.6	10.1	8.0
PBV (x)	2.4	1.5	0.5	2.3	1.9

Source: Kenanga Research

## Balance Sheet

FYE31Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Non Current Assets	564.1	620.3	607.3	629.0	652.1
Current Assets	381.2	445.1	643.8	761.7	875.4
<b>Total Assets</b>	<b>945.2</b>	<b>1,065.4</b>	<b>1,251.1</b>	<b>1,390.7</b>	<b>1,527.5</b>
Current Liabilities	213.7	219.7	307.6	330.6	345.2
Non Current Liabilities	172.7	154.1	154.1	154.1	154.1
Shareholders' Fund	558.8	691.5	789.4	906.0	1,028.2
Minority Interest	0.0	0.1	0.0	0.0	0.0
<b>Equity &amp; Liabilities</b>	<b>945.2</b>	<b>1,065.4</b>	<b>1,251.1</b>	<b>1,390.7</b>	<b>1,527.5</b>

Source: Kenanga Research

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