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Analysis Reports

16 May 2011

Supermax Corporation

Waiting for supercharged profits

RECOM	Buy
PRICE	RM3.96
MKT CAPITALISATION	RM1,347m
BOARD	Main (Syariah)
SECTOR	Industrial
INDEX COMPONENT	KLCI , FBMSC, FBMS, FBMEMAS

SUCB MK / SUPM.KL

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Results highlights

- **In line; maintain BUY.** Although Supermax's RM24m net profit for 1Q11 was only 15% of our and consensus full-year forecasts, we consider the results to be broadly in line as the quarters ahead should be better given the downtrend in natural rubber latex prices and ASP hikes during the upcycle. As expected, no dividends were declared for 1Q. We make no changes to our forecasts or our target price of RM5.84, which we still base on a forward P/E of 11.6x or a 20% discount to Top Glove's 14.5x target. We retain our BUY rating in view of the potential re-rating catalysts of 1) earnings growth for its associate, 2) the restart of the Sungai Buloh plant, and 3) tax savings.
- **1Q11 down due to higher costs.** 1Q11 revenues rose 4% qoq and 9% yoy to RM241m due to higher ASPs necessitated by the steep rise in raw material prices. Utilisation rate was 77%, lower than the 90% guided previously due to downtime as facilities switched from natural rubber to nitrile. Nitrile now accounts for 33% of revenues (4Q10: 30%). 70% of Supermax's production lines are built to be interchangeable between natural rubber and nitrile. Plant downtime meant that 1Q sales volume of 3.4bn was down 14% qoq though 6% higher yoy. ASPs for natural rubber rose 13% qoq and 27% yoy while nitrile selling prices fell 2% qoq and 6% yoy due to intense competition. 1Q net profit fell 25% qoq and 53% yoy as a result of the unrelenting rise in input costs and weakening US\$.
- **Demand recovering.** Lead times are now 75-90 days compared to 45-60 days in 3Q10 when demand normalised. This suggests that demand has picked up, which is confirmed by management. According to management, its customers have come to terms with the high latex prices and are now replenishing their stocks. Some have even switched from powder-free natural rubber gloves to nitrile gloves, which are more cost-effective.

Key stock statistics			Per share data				
FYE Dec	2010	2011F	FYE Xxx	2008	2009	2010	2011F
EPS (sen)	49.4	47.3	Book Value (RM)	1.22	1.64	2.08	2.56
P/E (x)	8.0	8.4	Cash Flow (sen)	15.6	66.4	42.1	47.5
Dividend/Share (sen)	10.0	11.0	Earnings (sen)	13.8	37.2	49.4	47.3
NTA/Share (RM)	2.00	2.17	Dividend (sen)	2.6	8.8	10.0	11.0
Book Value/Share (x)	2.08	2.56	Payout Ratio (%)	18.8	23.6	20.2	23.3
Issued Capital (m shares)		339.5	P/E (x)	28.7	10.6	8.0	8.4
52-weeks Share Price Range (RM)		RM2.72/RM6.60	P/Cash Flow (x)	25.4	6.0	9.4	8.3
Major Shareholders:		%	P/Book Value (x)	3.2	2.4	1.9	1.5
Dato' Seri Stanley Thai and family		35.6	Dividend Yield (%)	0.7	2.2	2.5	2.8
Employees Provident Fund		8.2	ROE (%)	11.7	26.0	25.9	20.0
			Net Gearing (%)	90.0	31.5	16.2	6.2

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

Figure 1: Results comparison (RM m)

FYE Dec	1QFY11	1QFY10	% Change
Revenue	241.4	220.7	9.4
Operating Profit (EBIT)	29.4	59.1	(50.2)
Depreciation	(8.7)	(8.1)	7.1
Interest Expenses	(3.3)	(3.7)	(11.4)
Associates	10.5	10.5	0.4
Pretax Profit	25.6	54.3	(52.8)
Net Profit	24.4	51.5	(52.6)
Operating Margin	12.2	26.8	(54.5)
Pretax Margin	10.6	24.6	(56.9)

Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

FYE Dec	2008	2009	2010	2011F
Revenue	811.8	803.6	923.3	1,141.6
Operating Profit (EBIT)	98.9	169.0	228.0	196.9
Depreciation	(28.8)	(31.9)	(34.0)	(45.6)
Interest Expenses	(20.3)	(22.3)	(11.5)	(16.2)
Pretax Profit	52.0	151.5	177.4	178.6
Effective Tax Rate (%)	9.6	16.4	5.3	10.0
Net Profit	47.0	126.6	168.0	160.8
Operating Margin (%)	12.2	21.0	24.7	17.3
Pretax Margin (%)	6.4	18.8	19.2	15.6
Net Margin (%)	5.8	15.8	18.2	14.1

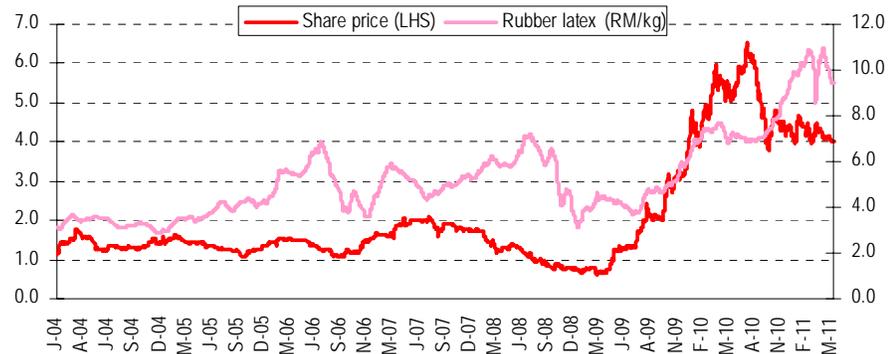
Source: Company, CIMB estimates

Recommendation

Better quarters ahead. Although 1Q results made up only 15% of our full-year forecast, we maintain our numbers in the belief that the results in the quarters ahead will make up for the shortfall in 1Q. Utilisation rate which was subpar at 77% in 1Q should recover to 85-90% as operations stabilise. We also expect output in 4Q to be higher as the refurbishment of the surgical glove plant in Sungai Buloh, which caught fire in mid 2010, is on track for completion by 3Q. Also, since the end of Mar, rubber prices have been on a gradual downtrend, which we believe will entice Supermax's customers into restocking. We gathered from recent company visits that distributors are holding inventories of only two months, lower than the normal 3-4 months as the unusual volatility of rubber prices has disrupted buying behaviour.

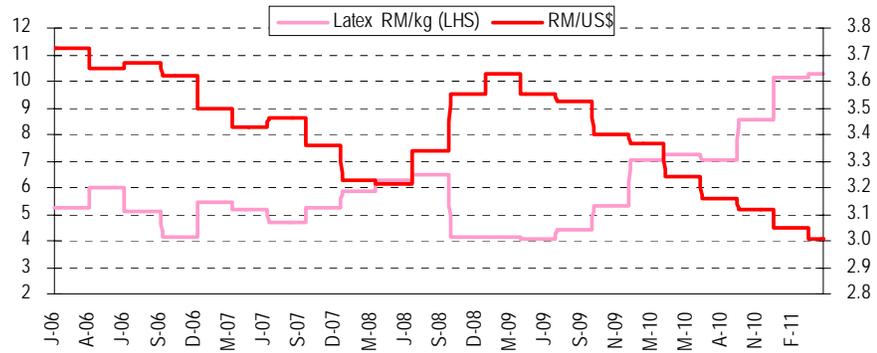
Maintain BUY. Natural rubber latex prices are on a downtrend and the implementation of ASP hikes during the upcycle of rubber prices will help the company to claw back profits. Also, management has indicated that demand is recovering, with lead times rising from 45-60 days to 75-90 days currently. We make no changes to our forecasts or our target price of RM5.84, which we still base on a forward P/E of 11.6x or a 20% discount to Top Glove's 14.5x target. We retain our BUY rating in view of the potential re-rating catalysts of 1) earnings growth for its associate, 2) the restart of the Sungai Buloh plant, and 3) tax savings.

Figure 3: Share price and rubber latex chart (RM)



Source: Bloomberg

Figure 3: Latex (RM/kg) and RM/US\$ quarterly trends



Source: Bloomberg

Financial summary

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (RM m)	803.6	923.3	1,141.6	1,454.5	1,617.6
EBITDA (RM m)	169.0	228.0	196.9	215.5	248.9
EBITDA margins (%)	21.0	24.7	17.3	14.8	15.4
Pretax profit (RM m)	151.5	177.4	178.6	190.1	214.0
Net profit (RM m)	126.6	168.2	160.8	171.1	192.6
EPS (sen)	37.2	49.4	47.3	50.3	56.6
EPS growth (%)	+169%	+33%	-4%	+6%	+13%
P/E (x)	10.6	8.0	8.4	7.9	7.0
Core EPS (sen)	38.8	49.4	47.3	50.3	56.6
Core EPS growth (%)	+107%	+27%	-4%	+6%	+13%
Core P/E (x)	10.2	8.0	8.4	7.9	7.0
Gross DPS (sen)	8.8	10.0	11.0	12.0	12.0
Dividend yield (%)	2.2	2.5	2.8	3.0	3.0
P/NTA (x)	2.5	1.9	1.6	1.4	1.2
ROE (%)	26.0	26.0	20.0	18.2	17.6
Net gearing (%)	31.5	16.2	6.2	0.6	-
Net cash per share (RM)	-	-	-	-	0.31
P/CF (x)	-	19.0	14.1	16.6	-
EV/EBITDA (x)	-	6.7	7.5	6.6	5.3
% change in EPS estimates	-	-	n/a	n/a	n/a
CIMB/Consensus (x)	-	-	1.00	0.95	0.92

Source: Company, CIMB Research, Bloomberg

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