

Results Note

Supermax

SUCB MK
RM6.81

BUY (maintain)

Price Target: RM10.69 (↑)



Price Performance

	1M	3M	12M
Absolute	+15.9%	+22.3%	+467.4%
Rel to KLCI	+13.5%	+20.1%	+313.3%

Stock Data

Issued shares (m)	268.3
Mkt cap (RMm)	1,829.5
Avg daily vol - 6mth (m)	3.82
52-wk range (RM)	7.45-1.18
Est free float	64.0%
NTA per share (RM)	2.36
P/NTA (x)	2.86
Net cash/ (debt) (RMm) (1Q10)	(189.78)
ROE (FY10F)	32.7%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.7%
Datin Seri Cheryl Tan	15.3%

Earnings & Valuation Revisions

	10E	11E	12E
Prev EPS (sen)	62.1	70.7	80.4
Curr EPS (sen)	78.4	94.3	107.6
Chg (%)	+26.2	+33.4	+33.8
Prev target price (RM)			8.47
Curr target price (RM)			10.69

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1Q10 results trump expectations

1Q10 net profit grows 17% qoq despite rising latex prices and weaker US\$

Despite latex prices rising by 32% qoq to average at RM7.04/kg (close to recent peak levels of RM7.65/kg) and the strengthening of the RM vs US\$, Supermax's sequential earnings momentum remains strong, registering a 17% qoq growth in net profit to RM51.5m. On a yoy basis, net profit grew by a much stronger 161%. 1Q10 revenue grew by 12% qoq to RM220.7m, underpinned by higher volume of gloves sold as well as increased selling prices. We note that selling prices were raised to account for the higher latex prices as well as the weaker US\$. Understandably, given the larger revenue base while profit per glove remains virtually intact, 1Q10 EBIT margin slipped by 1.7%-points qoq to 21.6%.

Annualized, 1Q10 net profit is 24% ahead of our FY10 forecast

Merely annualized, Supermax's 1Q10 results are 24% ahead of our and street estimates and is also some 23% above management's full-year net profit target of RM168m. More importantly, Supermax's 1Q10 net profit of RM51.5m does not even reflect the 1.2bn additional capacity coming on-stream in 3Q10, which will help to meet the 5.4bn pieces of back orders. This means that so long as effective margins do not fall, earnings visibility and momentum will remain strong. The new capacity coming on-stream is projected to contribute an additional RM300m to revenue.

Raise FY10-12 net profit forecast by 26-34%

Given the better-than-expected results, we are raising our FY10-12 net profit projections by 26-34%. This comes on the back of a 5-10% increase in ASP to US\$31-35/1000 pieces as we believe pricing power remains with glove manufacturers judging from the still tight supply. Management has alluded that they are overwhelmed by the strong demand with back orders stretching to 3 months and are forced to 'ration' customer orders. We have bumped up our FY10-12 sales volume assumptions by 4-6% to 14-17bn pieces of gloves. Our average latex price assumptions for FY10 are raised to RM5.50/kg and RM5.75/kg for FY11.

Maintain BUY, higher TP of RM10.69

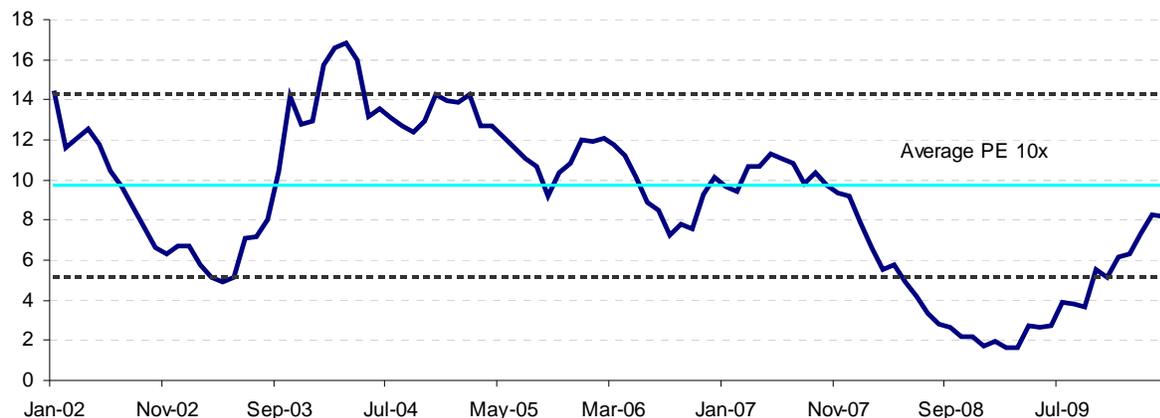
With the recent pullback in share price and the upgrade in our earnings estimates, Supermax's valuations are looking even more attractive, trading at CY10 PE of 8.6x and is backed by a robust 62% yoy earnings growth. Maintain **BUY** on Supermax, but with a higher target price of **RM10.69** (RM8.47 previously), pegged to an unchanged CY10 PE of 13.7x (30% discount to Top Glove's target PE of 19.5x). Supermax remains our top pick for the glove sector for its differentiated business model and is now the cheapest glove stock under our coverage. Kossan is trading at CY10 PE of 9.6x while Top Glove is trading at 13.8x. Foreign shareholding is currently around 13.8%.

Earnings & Valuation Summary

FYE Dec (RMm)	2008	2009	2010E	2011E	2012E
Revenue (RMm)	811.8	814.8	1,105.1	1,271.6	1,383.4
EBITDA (RMm)	98.9	162.8	252.6	299.1	340.9
Pretax profit (RMm)	52.0	152.1	246.4	296.5	338.4
Net profit (RMm)	47.0	129.8	210.2	252.9	288.6
EPS (sen)	17.7	48.9	78.4	94.3	107.6
EPS growth (%)	-16.0	176.1	60.2	20.3	14.1
PER (x)	38.4	13.9	8.7	7.2	6.3
Core net profit (RMm)	63.7	129.8	210.2	252.9	288.6
Core EPS (sen)	24.0	48.9	78.4	94.3	107.6
Core PER (x)	28.4	13.9	8.7	7.2	6.3
DPS (sen)	3.3	11.0	15.7	18.9	21.6
Dividend Yield (%)	0.5	1.6	2.3	2.8	3.2
EV/EBITDA (x)	21.9	12.2	7.7	6.1	4.9
Consensus profit			166.0	191.0	235.7
Affin/Consensus (x)			1.3	1.3	1.2

Fig 1: Quarterly results comparison

FYE Dec (RMm)	1QFY09	4QFY09	1QFY10	QoQ % chg	YoY % chg	Comment
Revenue	192.4	196.4	220.7	12.3	14.7	In tandem with higher selling prices and increased sales volume, higher latex prices and a weaker US\$ were accounted for via higher selling prices
Operating cost	(164.8)	(142.7)	(154.5)	8.3	(6.2)	
EBIT	20.4	45.7	47.6	4.1	133.6	
<i>EBIT margin (%)</i>	<i>10.6</i>	<i>23.3</i>	<i>21.6</i>	<i>Nm</i>	<i>Nm</i>	Lower margins as higher latex cost and a weaker US\$ vs RM was passed through via higher selling prices resulting in a larger revenue base while profit per glove remains stable
Int expense	(5.0)	(8.5)	(3.7)	(55.7)	(25.7)	Included in 4Q09 finance cost is RM5.37m upfront fee for early redemption of bonds (due to mature in 2012)
Int and other inc	0.0	0.0	0.0	0.0	0.0	
Associates	8.1	13.4	10.5	(21.8)	28.4	Lower contribution from Brazilian associate as demand normalizes
Pretax profit	23.5	50.6	54.3	7.3	131.3	
Tax	(3.8)	(6.5)	(2.8)	(56.7)	25.3	
<i>Tax rate (%)</i>	<i>16.0</i>	<i>12.8</i>	<i>5.2</i>	<i>Nm</i>	<i>Nm</i>	
MI	0.0	0.0	0.0	0.0	0.0	
Net profit	19.7	44.1	51.5	16.7	161.2	Merely annualized, results are 24% above our and street estimates
EPS (sen)	7.4	16.4	19.0	15.3	155.3	
Core net profit	19.7	44.1	51.5	16.7	161.2	

Fig 2: Forward PE trend


Source: Bloomberg, Affin estimates

Fig 3: Peer comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x) CY10	Core PE (x) CY11	EPS growth (%) CY10	EPS growth (%) CY11	EV/EBITDA (x)	P/B (x)	ROE (%) FY10	ROE (%) FY11	Div Yield (%) FY10	Div Yield (%) FY11
Kossan	BUY	7.65	10.12	1,223	Dec	9.6	8.1	18.0	18.5	6.6	2.6	31.1	28.7	1.7	2.0
Top Glove	BUY	12.42	17.95	3,823	Aug	13.8	12.6	36.9	10.2	8.9	3.8	29.1	26.4	2.8	3.1
Supermax	BUY	6.81	10.69	1,807	Dec	8.6	7.1	62.0	20.3	7.9	2.9	32.7	30.6	2.3	2.8
Hartalega**	NR	7.41	na	1,796	Mar	11.9	9.9	24.7	20.5	9.0	3.6	33.3	30.0	2.8	3.8
Adventa**	NR	3.39	na	506	Oct	10.0	7.7	129.0	30.6	7.1	1.9	22.7	24.1	2.6	3.2
Latexx**	NR	3.76	na	772	Dec	7.6	5.9	93.9	28.7	5.2	na	46.5	40.4	2.1	2.9
Simple average						10.3	8.5	60.7	21.5	7.5	3.0	32.6	30.0	2.4	3.0

**based on consensus estimates

Source: Bloomberg, Affin estimates

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

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