

Supermax Corporation

Recommendation: **STRONG BUY**

Stock Code: 7106

Bloomberg: SUCB MK

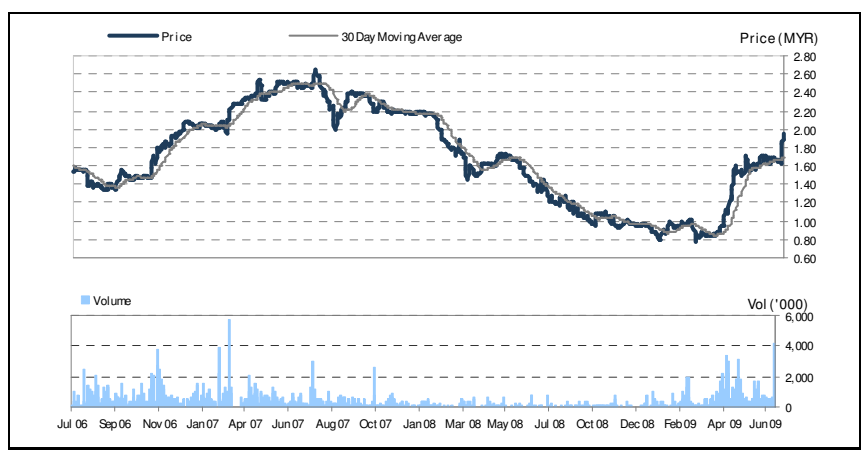
Price: MYR1.96

12-Month Target Price: MYR2.60

Date: July 13, 2009

Board: Main**Sector:** Industrial Products**GICS:** Health Care/Health Care Supplies**Market Value - Total:** MYR519.9 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 August 2000 before successfully transferring to the Main Board in October 2003. The stock is a component of FBMEMAS.

Analyst: Su Peng Ng**Results Review & Earnings Outlook**

- Supermax's results exceeded our expectations, with 1H09 net profit of MYR45.5 mln accounting for 65% of our previous full-year forecast. Higher-than-expected operating margin and associate contribution were the main causes of the discrepancy.
- A lower 1H09 average selling price (ASP) of 16% YoY was offset by higher volume sales of 18% YoY, bringing about marginally lower 1H09 revenue (-1% YoY). The group benefited significantly from lower latex costs (-32% YoY) and energy costs which were reduced between 5%-32% from March 1, 2009, contributing to a 51% YoY surge in operating profit.
- 2Q09 saw a 2% QoQ revenue decline as it was negatively affected by a weakened USD/MYR (-2.7% QoQ). Volume sales were up only marginally (0.7% QoQ) as the group was still affected by ongoing refurbishment at its Lahat plant (expected to complete by year-end). Better product mix, lower latex prices and energy costs all added to the 31.8% QoQ improvement at operating level.
- Supermax has seen an increase in orders for 3Q09, partly in reaction to the A(H1N1) pandemic. In light of the strong 2Q09 results, expectations for a good 3Q09 and the full-year impact of lower energy costs, we increase our 2009 and 2010 sales and associate contribution assumptions, resulting in new net profit forecasts of MYR81.1 mln (from MYR70.3 mln) and MYR86.2 mln (from MYR77.5 mln) respectively.

Recommendation & Investment Risks

- We maintain our Strong Buy recommendation on Supermax with a higher 12-month target price of MYR2.60 (from MYR2.00).
- We utilize a target PER of 8x (unchanged) against our projected 2010 (rollover from 2009) EPS for Supermax and add our estimated tax-exempt net DPS for 2009 of 2.4 sen.
- At its present 2010 PER of 6x, Supermax is trading significantly below the industry average of 9x. In our opinion, such a large discount is unwarranted after the full impairment of its troubled investment in APL Industries (unlisted) in late 2008 and balance sheet improvements made as at June 30, 2009, which saw reductions in the group's net gearing ratio to 0.49x, receivables to 75 days and inventory to 46 days (from 0.63x, 83 days and 56 days respectively as at March 31, 2009). With such improvements coupled with an additional 1.7 bln glove pieces (12% of current capacity) coming on-stream by early 2010, the full-year impact of lower energy costs as well as a continual spotlight on the A(H1N1) pandemic, we believe Supermax should outperform the overall market.
- Risks to our recommendation and target price include an upturn in latex prices and an appreciating MYR, as revenue is predominantly derived from exports.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	17.5	30.6
PER (x)	11.2	6.4
Dividend/Share (sen)	3.3	3.3
NTA/Share (MYR)	1.46	1.73
Book Value/Share (MYR)	1.57	1.84
No. of Outstanding Shares (mln)	265.2	
52-week Share Price Range (MYR)	0.79 - 1.96	
Major Shareholders:	%	
Dato' Seri Stanley Thai & family	35.4	
Tabung Haji	10.0	
Koperasi Permodalan Felda	5.7	

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.07	1.45	1.57	1.84
Cash Flow (sen)	23.5	28.6	25.8	39.3
Reported Earnings (sen)	17.8	24.2	17.5	30.6
Dividend (sen)	3.3	3.3	3.3	3.3
Payout Ratio (%)	18.6	15.4	13.6	8.0
PER (x)	11.0	8.1	11.2	6.4
P/Cash Flow (x)	8.4	6.9	7.6	5.0
P/Book Value (x)	1.8	1.4	1.3	1.1
Dividend Yield (%)	1.7	1.7	1.7	1.7
ROE (%)	17.9	17.9	15.8	17.9
Net Gearing (%)	70.1	82.5	90.5	46.2

* Stock deemed Shariah compliant by the Securities Commission

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FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	188.5	193.3	-2.5
Reported Operating Profit	26.8	15.1	77.8
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.5	-5.7	-21.3
Reported Pre-tax Profit	31.3	14.2	>100
Reported Net Profit	25.8	13.5	90.6
Reported Operating Margin (%)	14.2	7.8	-
Reported Pre-tax Margin (%)	16.6	7.4	-
Reported Net Margin (%)	13.7	7.0	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	574.3	833.4	840.2	894.4
Reported Operating Profit	55.0	71.7	86.8	89.5
Depreciation & Amortization	-19.9	-21.8	-23.1	-24.5
Net Interest Income / (Expense)	-14.8	-22.1	-18.5	-15.2
Reported Pre-tax Profit	58.6	51.6	95.4	101.4
Effective Tax Rate (%)	4.4	10.0	15.0	15.0
Reported Net Profit	55.9	46.5	81.1	86.2
Reported Operating Margin (%)	9.6	8.6	10.3	10.0
Reported Pre-tax Margin (%)	10.2	6.2	11.4	11.3
Reported Net Margin (%)	9.7	5.6	9.7	9.6

Source: Company data, S&P Equity Research

Required Disclosures

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Glossary

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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	2.60
11-May-09	Strong Buy	2.00
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

