

Company Update

Wednesday, 22 July 2009

For Internal Circulation Only

KLCI : 1,134.7
Sector : Industrial
Bloomberg : SUCB MK


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Target RM3.50
Price (62.7%)

RM2.15 BUY

Supermax Corporation Bhd

High Five!

| | |
|--------------------------------|---------------------------------|
| Stock Code | Supermax |
| Listing | Main Board |
| Share Cap (m) | 265.3 |
| Market Cap (RMm) | 570.4 |
| Par Value (RM) | 1.00 |
| 52-wk Hi/Lo (RM) | 2.99 / 0.95 |
| 12-mth Avg Daily Vol ('000 sl) | 138.2 |
| Estimated Free Float (%) | 45% |
| Beta | 0.88 |
| Major Shareholders (%) | |
| | Datuk Seri Stanley Thai (20.4%) |
| | Cheryl Tan (14.96%) |
| | Tabung Haji Group (9.98%) |
| | Felda (5.65%) |

Forecast Revision

| | FY08 | FY09 |
|------------------|------|-------|
| Net profit (RMm) | 84.2 | 117.1 |
| Consensus | 88.0 | 102.0 |
| TA/Consensus | 96% | 115% |
| Previous Rating | BUY | |

Financial Indicators

| | FY08 | FY09 |
|---------------------|-------|-------|
| Net debt/equity (%) | 60.60 | 58.40 |
| CFPS (sen) | 66.00 | 73.00 |
| P/CFPS (x) | 3.26 | 2.95 |
| ROA (%) | 5.80 | 6.20 |
| NTA/Share (RM) | 1.81 | 2.03 |
| Price/ NTA (x) | 1.19 | 1.06 |

Share Performance (%)

| Price chg | Supermax | KLCI |
|-----------|----------|-------|
| 1 mth | 31.9% | 8.5% |
| 3 mth | 69.3% | 17.2% |
| 6 mth | 128.7% | 29.1% |
| 12 mth | 80.7% | 2.3% |

In conjunction with its 2Q09 results, Supermax held an analyst briefing yesterday to update on recent developments. Subsequent to the briefing, we are maintaining our positive undertone and maintain our BUY call with a higher target price after rolling forward our valuation to FY10.

Key Takes

Fine Tuning Boosted 2Q09 Results

Two of the major highlights in the increased efficiency achieved last quarter were the improvement in account receivables and inventory turnover. In its effort to mitigate non-payments from customers, the group has embarked on an intensive credit control and credit tightening. It made full use of its distribution facilities in the Americas to mitigate trade financing problems with international customers. As a result, receivables turnovers reduced from 3.46 months to just 2.43 months.

The management has committed to improve efficiency since the last 2 quarters. In the near terms and judging from the success so far, we believe the company is on the right track for further improvement. It is now focusing on JIT inventory system on 8 plants to cut inventory cycle further from 2.00 months in 2008. Currently, despite only partial roll-out of the system, JIT has reduced inventory turnover to 1.35 months by 1Q09 and further down to 1.26 month.

Going Forward

The management has disclosed previously that it will be fitting in the new lines in Klang factory by early 2010. Out private discussion with them has hinted to us that this may be brought forward given the favourable condition for additional capacity. A sum of RM24mn, from its coffers of RM66.6mn has been set aside to finance this. If this plan indeed materialized, it will be able to make full contribution for FY10, compared to our estimate of 6-months contribution. These 12 new lines would have total capacity of 1.7bn piece p.a, increasing the total installed capacity to 16.2bn p.a by 2010. In addition to the new plant, the group is also upgrading its Lahat plant, one of the oldest and least efficient to increase annual capacity.

Revision

For FY09, we believe our assumptions and numbers are reasonable, and have imputed the highlighted factors. Hence we are leaving them intact. However we are imputing some adjustments for FY10, mainly because of the earlier than expected commissioning of the 12 new lines. Previously, we imputed only 6-month contribution. Now, we believe the group would likely be able to speed up the installation process, thereby ensuring a 12-month contribution from these lines. We are also adjusting our numbers relating to cost saving factors in FY10 emerging from better utilization rate and improved efficiency. In total, these changes would increase our FY10 bottomline by 8.2% to RM117.1mn from RM108.2mn.

Valuation

We are taking this opportunity to roll forward our valuation to FY10. While maintaining our valuation multiples of 8x, we are increasing our target price to RM3.50. Based on this, we maintain our BUY call.

Share Price chart



Source : Bloomberg

Earnings Summary (RMmn)

| YE 31 Dec | 2005 | 2006 | 2007 | 2008 | 2009F | 2010F |
|-------------------|-------|-------|-------|-------|-------|--------|
| Revenue | 284.7 | 389.1 | 582.1 | 833.0 | 846.1 | 1019.5 |
| EBITDA | 44.3 | 55.0 | 75.0 | 102.3 | 144.1 | 182.3 |
| EBITDA margin (%) | 16% | 14% | 13% | 12.3% | 17.0% | 17.9% |
| Pretax profit | 41.3 | 47.2 | 67.2 | 51.6 | 100.3 | 135.3 |
| Net profit | 36.2 | 40.8 | 49.4 | 46.5 | 84.2 | 117.1 |
| Net profit -adj | 36.2 | 48.1 | 49.4 | 63.2 | 84.2 | 117.1 |
| EPS (sen) | 16.0 | 19.0 | 18.6 | 17.5 | 31.7 | 44.1 |
| EPS - adj | 16.0 | 21.2 | 18.6 | 23.8 | 31.7 | 44.1 |
| EPS Growth (%) | 20.2% | 18.8% | -1.9% | 28% | 33% | 39% |
| PER (x) | 7.5 | 6.3 | 6.4 | 9.0 | 6.8 | 4.9 |
| GDPS (sen) | 5.0 | 5.0 | 5.0 | 5.0 | 8.0 | 10.0 |
| Div Yield (%) | 4.2 | 4.2 | 4.2 | 4.2 | 3.7 | 4.7 |

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