



BUY

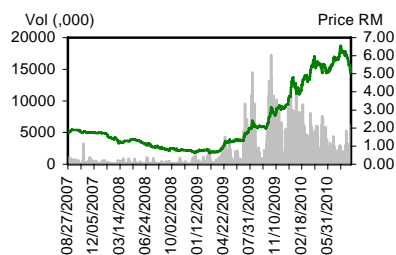
1HFY10 Results

Analyst

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Price RM5.34
Target RM6.52
FBMKLCI Index 1408

Historical Chart



Performance	1m	3m	6m
Absolute (%)	-15.4	0.5	11.5
Relative (%)	-18.6	-9.2	0.8

Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	576.8
52-week high (RM)	6.60
52-week low (RM)	1.95
Shares issued (m)	339.5
6m avg d.vol (US\$m)	4.7
Free float (%)	50
Major shareholders (%)	
Thai Kim See/Tan Bee Geok	(37.0)
FELDA	(5.5), LTH (5.1)

Key Indicators

ROE (%)	25.2
Net gearing (%)	19.3
NTA (RM)	1.84
Interest cover (x)	9.7

Supermax Corporation Berhad

Headwinds persist

What's New

- 1HFY10 EPS rose 109% due to a 13% increase in sales volume, better margins and lower tax charge. However, 2Q EPS fell 11% QoQ as margins declined from 21.6% to 17.8% due to record high latex prices and an appreciating Ringgit. An interim tax-exempt dividend of 2.5 sen was declared (1HFY09: nil).

Our View

- We are keeping our FY10 EPS forecast of 51.7 sen. Supermax's FY10 net profit guidance of RM168m (EPS of 49.5 sen) appears conservative given its strong 1H results.
- Demand remains strong despite the increase in selling prices. Record latex prices and the Ringgit's strength is unlikely to be prolonged, and we expect net profit margins to be sustained at ~15% when demand-supply equilibrium normalises by 2011.
- Revenue could be boosted by 30% in FY10, with the addition of 16 new lines and refurbishment of existing ones, increasing its capacity by 2.3b gloves to 16.8b pieces.

Action & Recommendation

Supermax continues to trade at a discount to its peers on PER basis. We reiterate our BUY call with a price target of RM6.52, based on 11x FY11 EPS of 59.3 sen.

Year End Dec 31	2007	2008	2009	2010E	2011E
Sales (RM m)	574.3	811.8	814.8	1060.0	1331.0
Pre-tax (RM m)	58.6	52.0	152.1	209.0	237.5
Net Profit (RM m)	56.0	47.0	129.8	175.4	201.5
EPS (sen)	24.1	17.7	48.4	64.5	74.1
EPS growth (%)	33.5	-26.5	172.7	33.3	14.9
PER (x)	27.7	37.6	13.8	10.3	9.0
EV/EBITDA (x)	25.3	28.8	13.9	9.7	8.2
Yield (%)	0.5	0.5	1.6	1.9	2.2

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Strong 1HFY10 results

1HFY10 EPS of 28.7 sen came in at 53% of consensus estimates and 55% of our FY10 forecast. Pretax profit rose 88% on a 20% increase in revenue. The higher revenue was attributed to a 13% increase in sales volume to 6.78b gloves (1H09: 6.01b) and higher selling prices whilst the increase in pretax profit was due to better margins. Operating margins improved to 19.6% from 12.4% in 1H09 due to cost savings from higher efficiency and productivity from improved processes and refurbished lines. Net profit rose by a higher 114% as the tax charge declined to 5.6% from 17% in 1H10, but EPS rose by a lesser 109% due to a 2.4% increase in its share capital to 339.5m shares (1H09: 331.6m) following the exercise of ESOS and sale of Treasury shares. However, 2Q net profit fell 10.9% QoQ despite a 6.4% increase in revenue as operating margins declined to 17.8% from 21.6% in 1QFY10 due to record high latex prices and an appreciating Ringgit. An interim tax-exempt dividend of 2.5 sen was declared (1HFY09: Nil)

PAT margins are likely to normalise at ~15% in 2011

Demand for rubber gloves remains robust, with current global demand of 145b gloves growing by 8-10% p.a. The spike in latex prices to RM7.50/kg wet and sharp appreciation of the Ringgit to RM3.12/US\$ will exert some short-term pressure on industry margins, especially in 2H 2010. However, most of these cost increases will be passed through to consumers within 60 days under the current pricing mechanism. Meanwhile, record latex prices and the Ringgit's strength is unlikely to be prolonged as evidenced by the recent retreat in latex prices. As such, we expect net profit margins (blended) to be sustained at ~15% when demand-supply equilibrium normalises by 2011.

Maintaining our FY10-FY11 EPS forecasts

We are keeping our forecasts for now. Supermax is guiding for net profit of RM168m or EPS of 49.5 sen in FY10. We believe this is quite easily achievable given its 1HFY10 net profit of RM97.4m. Demand remains strong notwithstanding the increase in selling prices, resulting in better pricing and margins from its overseas distribution centres and OBM model. The addition of 16 new lines and refurbishment of existing lines will increase production capacity by ~2.3b gloves to 16.8b pieces in 2010, boosting revenue by ~30%.

BUY – valuations are at a discount to its peers

Supermax's FY10 and FY11 PERs of 10.3x and 9.0x are undemanding compared to the sector average of 13.1x for CY10. We reiterate our BUY call with a price target of RM6.52, based on 11x FY11 EPS of 59.3 sen (a 27% discount to industry leader Top Glove's targeted FY11 PER of 15x).

Table 1: Glove industry demand

Bn pieces p.a.	2007	2008	2009	2010	2011
World demand	115	125	135	145	155
Annual organic growth	10	10	10	10	10
Extra demand due to H1N1	0	0	12.5	8	8
US healthcare reform				4.5	6
Total demand	115	125	147.5	167.5	179
Industry capacity growth	10	10	10	10	12

Source: Company data

Table 2: Quarterly results

(RMm)	2Q09	3Q09	4Q09	1Q10	2Q10	% chg Q/Q	% chg Y/Y
Revenue	188.5	237.6	196.4	220.7	234.8	6.4	24.6
Operating profit	26.8	39.5	45.7	47.6	41.7	-12.3	55.5
Interest expense	-4.5	-4.1	-3.1	-3.7	-3.3	-12.3	-27.1
Associates	9.0	11.3	13.4	10.5	10.4	-0.6	15.3
Pretax Profit	31.3	46.7	50.6	54.3	48.8	-10.0	55.8
Taxation	-5.6	-6.6	-6.5	-2.8	-3.0	5.9	-46.5
Net Profit	25.8	40.2	44.1	51.5	45.9	-10.9	77.9
EPS (sen)	9.7	15.1	16.4	19.0	13.5	-11.0	73.7
Output (m pieces)	3015	3130	2975	3205	3575	11.5	18.6
EBIT margins (%)	14.2	16.6	23.3	21.6	17.8		
Tax Rate (%)	17.8	14.1	12.8	5.2	6.1		

Sources: Company data, KE estimates

Table 3: Supermax's back orders

m pieces p.a.	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10
Orders from Supermax & Seal Polymer customers	13500	3050	4000	4000	3800	14850	7540
Orders from APLI clients	2640	330	330	330	330	1320	330
IH1N1 orders	0	0	450	300	300	1050	200
Total orders	16140	3810	4630	4630	4430	17500	8070
Total shipped	12765	2995	3015	3130	2975	12115	3205
Total back orders	3375	815	1615	1500	1455	5385	4865

Source: Company data

Table 4: Supermax - sales by products

(%)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Powdered gloves	37	42	42	47	46	46
Latex examination	33	38	38	43	42	42
Nitrile synthetic	1	1	1	1	1	1
Sterile surgical	3	3	3	3	3	3
Powder-free gloves	63	58	58	53	54	54
Latex examination	45	36	38	36	35	34
Nitrile synthetic	18	22	20	17	19	20

Source: Company data

Table 5: Supermax- sales by regions

(%)	FY06	FY07	FY08	FY09	1H10
Americas	65.0	64.0	60.5	61.0	61.0
Europe	23.5	23.0	26.5	27.0	27.0
Asia / Australasia	5.5	6.0	6.5	6.0	6.0
Africa & /Middle East	6.0	7.0	6.5	6.0	6.0

Source: Company data

Table 6: Working capital management

	FY06	FY07	FY08	FY09	1Q10
Receivables cycle (mths)	4.47	4.35	3.46	1.98	2.62
Inventory Turnover cycle (mths)	1.26	2.22	2.00	1.56	1.45
Gearing ratio (net)	0.78	0.88	0.90	0.31	0.30

Source: Company data

Table 7: Capacity expansion

Million pieces p.a.	End 2009	New capacity 2010	End 2010	New capacity 2011	End 2011
Supermax	9556	3112	12668	4150	16818
- Lot 38	1728	0	1728	0	1728
- Lot 42	360	126	493	0	493
- Melaka	1058	478	1536	0	1536
- Lot 6070	1224	204	1428	0	1428
- Lot 5128	1442	0	1442	0	1442
- Lot 6068	3744	0	3744	0	3744
- Lot 6069	0	2304	2304	0	2304
- Glove City	0	0	0	4150	4150
Seal Polymer	4920	0	4920	0	4920
- Ipoh	1920	0	1920	0	1920
- Kamunting	3000	0	3000	0	3000
Supermax Group	14476	3112	17588	0	21758
Capital expenditure (RMm)	30.5		35		65

Source: Company data

Table 8: Supermax - key assumptions

	2007	2008	2009	2010	2011
Installed capacity (m pieces)	13,516	14,476	14,476	17,588	21,738
Prod'n output (m pieces)	11,736	10,800	12,305	15,830	20,650
Utilisation rate (%)	87%	75%	85%	90%	90%
Forex rate US\$/RM	3.40	3.50	3.52	3.20	3.10
Avg latex price/kg wet (RM)	5.20	5.50	4.80	6.50	6.00

Source: Company data, KE estimates

Table 9: Relative valuations

Company	Top Glove	Kossan	Supermax	Hartalega*
FYE	Aug-10	Dec-10	Dec-10	Mar-11
Share price (RM)	6.25	3.46	5.34	7.90
Share capital (m shrs)	610.0	319.7	339.5	242.3
Market cap (RMm)	3812.5	1106.3	1812.7	1914.3
Installed Capacity (m pieces/annum)	32000	11100	14476	6600
Net Profit	265.2	112.0	175.4	173.2
EPS (sen)	43.5	35.0	51.7	71.5
PER (x)	14.4	9.9	10.3	11.1
NTA/share (RM)	3.30	1.26	1.84	1.94
Price/book (x)	1.9	2.7	2.9	4.1
Net debt (RMm)	-273.0	133.6	222.1	49.0
Net gearing (%)	n.a.	33.1	34.1	23.3
Revenue – gloves (RMm)	2030.0	950.0	1060.0	752.0
Market cap/revenue (x)	1.88	1.16	1.71	2.55
Sales/share (RM)	3.33	2.97	3.12	3.10

* based on consensus estimates

Profit and Loss

YE Dec (RM m)	2007	2008	2009	2010E	2011E
Sales	574.3	811.8	814.8	1060.0	1331.0
Cost of goods sold	455.1	658.8	588.1	753.0	965.0
Gross Profit	119.2	153.0	226.7	307.0	366.0
Operating expenses	63.8	82.8	94.4	122.0	150.0
Operating Profit	55.4	70.3	132.4	185.0	216.0
Net interest	-15.3	-20.3	-22.0	-19.0	-22.0
Interest income	0.0	0.0	0.1	0.0	0.0
Interest expense	-15.3	-20.3	-22.1	-19.0	-22.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	18.4	2.1	41.8	43.0	43.5
Net extraordinary	0.0	0.0	0.0	0.0	0.0
Pretax income	58.6	52.0	152.1	209.0	237.5
Income taxes	-2.6	-5.0	-22.4	-33.4	-35.6
Minority Interest	0.0	0.0	0.0	-0.2	-0.4
Net profit	56.0	47.0	129.8	175.4	201.5
EBITDA	75.9	74.6	141.5	200.4	232.5
EPS (sen)	24.1	17.7	48.4	64.5	74.1

Sources: Company data, KE estimates

Cashflow

YE Dec (RM m)	2007	2008	2009	2010E	2011E
Operating cash flow	73.9	79.7	235.8	180.4	212.5
Net profit	56.0	47.0	129.8	175.4	201.5
Depreciation & amortisatn	19.9	27.5	11.8	25.0	31.0
Change in working capital	-1.9	0.2	71.9	-20.0	-20.0
Others	-0.1	4.9	22.4	0.0	0.0
Investment cash flow	-45.2	-38.5	-22.6	-55.0	-75.0
Net capex	-33.9	-38.5	-22.6	-55.0	-75.0
Change in LT investment	-13.9	0.0	0.0	0.0	0.0
Change in other assets	2.7	0.0	0.0	0.0	0.0
Cash flow after invt.	28.8	41.2	213.2	125.4	137.5
Financing cash flow	-30.0	-48.1	-114.8	-73.9	-89.3
Change in share capital	4.8	-5.9	27.0	1.5	1.5
Net change in debt	-26.2	-33.7	-122.8	-40.0	-50.0
Change in other LT liab.	-8.6	-8.6	-19.0	-35.4	-40.8
Net cash flow	-1.2	-7.0	98.5	51.5	48.2

Sources: Company data, KE estimates

Balance Sheet

YE Dec (RM m)	2007	2008	2009	2010E	2011E
Total assets	868.5	946.7	934.1	1026.0	1156.0
Current assets	354.2	407.3	364.6	380.0	423.0
Cash & ST investment	29.2	31.0	119.1	110.0	123.0
Inventories	106.4	135.5	105.8	116.0	125.0
Accounts receivable	208.2	234.2	134.4	148.0	168.0
Others	10.5	6.6	5.4	6.0	7.0
Other assets	514.3	539.4	569.5	646.0	733.0
LT investments	95.7	116.0	155.1	160.0	165.0
Net fixed assets	378.5	388.2	379.2	450.0	530.0
Others	40.1	35.2	35.2	36.0	38.0
Total liabilities	484.7	530.3	376.1	331.0	302.0
Current liabilities	255.1	347.4	202.2	199.5	187.0
Accounts payable	97.9	94.6	50.6	56.7	60.0
ST borrowings	152.5	230.8	129.3	120.5	105.0
Others	4.8	22.0	22.3	22.3	22.0
Long-term liabilities	229.6	183.0	173.9	131.5	115.0
Long-term debts	216.8	174.9	165.3	123.5	108.0
Others	12.8	8.1	8.6	8.0	7.0
Shareholder's equity	383.8	416.4	558.0	695.0	854.0
Paid-in capital	132.6	132.6	134.1	135.0	135.0
Reserve	251.2	289.6	423.9	560.0	719.0
Others	0.0	-5.9	0.0	0.0	0.0

Sources: Company data, KE estimates

Key ratios

YE Dec	2007	2008	2009	2010E	2011E
Growth (% YoY)					
Sales	47.6	41.4	0.4	30.1	25.6
OP	28.7	26.8	88.4	39.8	16.8
EBITDA	41.1	-1.7	89.9	41.6	16.0
NP	37.1	-15.9	175.8	35.1	14.9
EPS	33.5	-26.5	172.7	33.3	14.9
Profitability (%)					
Gross margin	20.8	18.8	27.8	29.0	27.5
Operating margin	9.7	8.7	16.2	17.5	16.2
EBITDA margin	13.2	9.2	17.4	18.9	17.5
Net Profit margin	9.7	5.8	15.9	16.5	15.1
ROE	14.6	11.3	23.3	25.2	23.6
ROA	6.4	5.0	13.9	17.1	17.4
Stability					
Gross debt/equity (%)	96.2	97.4	52.8	35.1	24.9
Net debt/equity (%)	88.6	90.0	31.5	19.3	10.5
Int. coverage (X)	3.6	3.5	6.0	9.7	9.8
Int. & ST debt coverage (X)	0.5	0.5	0.5	0.5	0.5
Cash flow int. coverage (X)	4.8	3.9	10.7	9.5	9.7
Cash flow int. & ST debt (X)	0.6	0.6	0.6	0.6	0.6
Current ratio (X)	1.6	1.6	1.6	1.6	1.6
Quick ratio (X)	0.7	0.7	0.7	0.7	0.7
Net debt (RMm)	340.1	374.7	175.6	134.0	90.0
Per share data					
EPS (sen)	24.1	17.7	48.4	64.5	74.1
CFPS (sen)	31.9	30.0	87.9	66.8	78.7
BVPS (RM)	1.66	1.57	2.08	2.57	3.16
SPS (RM)	2.48	3.06	3.04	3.93	4.93
EBITDA/share (RM)	32.7	28.1	52.8	74.2	86.1
DPS (sen)	3.3	3.3	11.0	13.0	15.0

Sources: Company data, KE estimates

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Recommendation definitions

Our recommendation is based on the following expected price performance within 12 months:

- +15% and above: BUY
- 15% to +15%: HOLD
- 15% or worse: SELL

**APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLOSURES
AND
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