



BUY

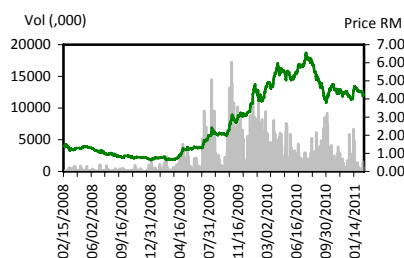
FY10 Results

Analyst

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Price RM4.25
Target RM4.75
FBMKLIC Index 1505

Historical Chart



Performance	1m	3m	6m
Absolute (%)	-8.2	-1.4	-27.9
Relative (%)	-3.9	-1.2	-34.6

Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	473.9
52-week high (RM)	6.60
52-week low (RM)	3.75
Shares issued (m)	340.1
6m avg d.vol (US\$m)	3.2
Free float (%)	50
Major shareholders (%)	
Stanley Thai & Cheryl Tan	(35.6)
EPF (7.9), Skagen (2.9)	

Key Indicators

ROE (%)	17.4
Net gearing (%)	24.0
NTA (RM)	1.99
Interest cover (x)	9.3

Supermax Corporation Berhad

Strong Headwinds

What's New

- Reported FY10 net profit of RM168.2m met management net profit guidance of RM168m, but was slightly below consensus estimates. Despite a much weaker 4Q, FY10 EPS rose 31% YoY to 49.5 sen due to a 19% increase in sales volume and lower tax charge.
- A 2nd interim dividend of 2.5 sen tax-exempt and final dividend of 2.5 sen tax-exempt was declared, bringing the total for FY10 to 7.5 sen tax-exempt (FY09: 8.8 sen tax-exempt).

Our View

- Demand remains strong despite higher selling prices. Supermax is guiding for 15-20% earnings growth in FY11. However, it will review FY11 earnings guidance after its 2QFY11 results in view of the significant volatility of exchange rates and latex prices.
- We prefer to be more prudent and are projecting a decline in net profit in FY11 given the margin compression due to continued high latex prices. Thus, we are cutting our FY11 and FY12 EPS forecasts by 39% and 28% to 42.3 sen and 51.5 sen respectively

Action & Recommendation

Supermax continues to trade at a discount to its peers on a PER basis. Despite the EPS downgrade, we reiterate our BUY call, but cut our target price from RM5.90 to RM4.75.

Year End Dec 31	2008	2009	2010	2011E	2012E
Sales (RM m)	811.8	814.8	923.3	960.0	1100.0
Pre-tax (RM m)	52.0	152.1	177.4	161.0	193.0
Net Profit (RM m)	47.0	129.8	168.2	144.4	176.0
EPS (sen)	14.2	38.7	49.5	42.3	51.5
EPS growth (%)	-26.5	172.7	31.0	-14.4	21.5
PER (x)	30.0	11.3	8.6	10.0	8.3
EV/EBITDA (x)	23.9	10.1	8.9	9.5	7.7
Yield (%)	0.6	2.1	1.8	1.8	1.9

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

FY10 results met management's guidance despite a weak 4Q

4Q net profit fell 14.3% QoQ on flat revenue as EBIT margins declined to 9.6% from 15.7% in 3Q due to record latex prices and an appreciating Ringgit. Thus, although FY10 net profit of RM168.2m met management's guidance of RM168m, it fell short of expectations, coming in at 95% of consensus estimates and 96% of our FY10 forecast. FY10 pretax profit rose 17% YoY on a 15% increase in revenue. The higher revenue was due to a 19% increase in sales volume to 14.4b gloves (FY09: 12.1b) and higher selling prices whilst the increase in pretax profit was due to higher sales and lower interest costs. Operating margins fell marginally to 16.1% from 16.4% previously despite higher input prices due to cost savings from higher efficiency and productivity from improved processes and refurbished lines. Net profit rose by a higher 33% as the tax charge declined to 5.2% from 16.4% previously. A 2nd interim dividend of 2.5 sen tax-exempt and final dividend of 2.5 sen tax-exempt was declared, bringing the total for FY10 to 7.5 sen tax-exempt (FY09: 8.8 sen tax-exempt).

EBITDA margins likely to normalise at ~18% in 2011-12

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 RM10.00/kg wet and sharp appreciation of the Ringgit to 3.03RM/US\$ will exert short-term pressure on industry margins, especially in 1H 2011. 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 beyond 2QFY11. As such, we expect EBITDA margins to be sustained at ~18% as demand-supply equilibrium normalises in 2011.

Cutting FY11-FY12 EPS forecasts by 28-39%

Supermax is guiding for 15-20% earnings growth in FY11, driven by capacity expansion and varying of product mix in line with market demand and product pricing trends. It will review its FY11 earnings guidance after 2QFY11 results in view of the significant volatility of exchange rates and latex prices. Supermax believes latex prices will fall from an all time high of RM10.65 per kg wet to more reasonable levels when wintering ends and more supply comes onto the market after 1Q 2011. It has also increased its nitrile capacity from 24% to 30% of installed capacity and plans to increase its nitrile capacity to 40% in FY11 to meet the growing demand. We prefer to be more prudent and are projecting a decline in net profit in FY11. Thus, we are cutting our FY11 and FY12 EPS forecasts by 39% and 28% respectively to account for lower sales and margins due to delays in its capacity expansion plans.

BUY – valuations are at a discount to its peers

Supermax's FY11 and FY12 PERs of 10x and 8.3x are undemanding compared to the weighted sector average of 12.8x for FY11. We reiterate our BUY call with a revised price target of RM4.75 based on 11.3x FY11 EPS of 42.3 sen (a 25% discount to industry leader Top Glove's targeted CY11 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)	4Q09	1Q10	2Q10	3Q10	4Q10	% chg Q/Q	% chg Y/Y
Revenue	196.4	220.7	234.8	235.1	232.7	-1.0	18.5
Operating profit	45.7	47.6	41.7	36.9	22.3	-39.4	-51.1
Interest expense	-3.1	-3.7	-3.3	-3.7	-2.3	-37.9	-24.8
Associates	13.4	10.5	10.4	8.3	12.8	53.6	-4.3
Pretax Profit	50.6	54.3	48.8	41.4	32.8	-20.8	-35.2
Taxation	-6.5	-2.8	-3.0	-3.3	-0.1	-96.9	-98.4
Net Profit	44.1	51.5	45.9	38.1	32.7	-14.3	-25.9
EPS (sen)	16.4	19.0	13.5	11.2	9.6	-14.4	-26.9
Output (m pieces)	2975	3205	3575	3680	3955	7.5	32.9
EBIT margins (%)	23.3	21.6	17.8	15.7	9.6		
Tax Rate (%)	12.8	5.2	6.1	8.0	0.3		

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 & Spenser 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	3Q10	4Q10
Powdered gloves	37	42	42	47	46	46	40	40
Latex examination	33	38	38	43	42	42	36	36
Nitrile synthetic	1	1	1	1	1	1	1	1
Sterile surgical	3	3	3	3	3	3	3	3
Powder-free gloves	63	58	58	53	54	54	60	60
Latex examination	45	36	38	36	35	34	36	30
Nitrile synthetic	18	22	20	17	19	20	24	30

Source: Company data

Table 5: Supermax- sales by regions

(%)	FY06	FY07	FY08	FY09	FY10
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	FY10
Receivables cycle (mths)	4.47	4.35	3.46	1.98	3.95
Inventory Turnover cycle (mths)	1.26	2.22	2.00	1.56	1.51
Gearing ratio (net)	0.78	0.88	0.90	0.31	0.27

Source: Company data

Table 7: Capacity expansion

Million pcs	End 2009	New capacity 2010	End 2010	New capacity 2011	End 2011	New capacity 2012	End 2012
Supermax	9556	3112	12668	2262	14930	4150	18858
- Lot 38	1728	0	1728	0	1728	0	1728
- Lot 42	360	126	493	0	493	0	493
- Melaka	1058	478	1536	0	1536	0	1536
- Lot 6070	1224	204	1428	0	1428	0	1428
- Lot 5128	1442	0	1442	0	1442	0	1442
- Lot 6058	-	-	-	1224	1224	816	2040
- Lot 6068	3744	0	3744	0	3744	0	3744
- Lot 6069	0	2304	2304	0	2304	0	2304
- Glove City	0	0	0	1038	1038	3112	4150
Spenser	4920	0	4920	0	4920	0	4920
- Ipoh	1920	0	1920	0	1920	0	1920
- Kamunting	3000	0	3000	0	3000	0	3000
Supermax Group	14476	3112	17588	0	19850	0	23778
Capex (RMm)	30.5		35		52.2		64.1

Source: Company data

Table 8: Supermax - key assumptions

	2007	2008	2009	2010	2011	2012
Installed capacity (m pieces)	13,516	14,476	14,476	17,588	19,850	23,778
Prod'n output (m pieces)	11,736	10,800	12,305	14,415	15,880	19,022
Utilisation rate (%)	87%	75%	85%	82%	80%	80%
Forex rate US\$/RM	3.40	3.50	3.52	3.10	3.00	3.05
Avg latex price/kg wet (RM)	5.20	5.50	4.80	7.00	7.50	7.00

Source: Company data, KE estimates

Table 9: Relative valuations

Company	Top Glove	Kossan	Supermax	Hartalega*
FYE	Aug-11	Dec-11	Dec-11	Mar-11
Share price (RM)	5.02	3.23	4.25	5.68
Share capital (m shrs)	618.4	319.7	340.1	363.5
Market cap (RMm)	3104.1	1032.7	1445.3	2064.5
Installed Capacity (m pieces/annum)	33000	11100	14476	9300
Net Profit	180.6	100.0	144.4	183.5
EPS (sen)	29.2	31.3	42.5	50.5
PER (x)	17.2	10.3	10.0	11.3
NTA/share (RM)	1.84	1.31	1.99	1.32
Price/book (x)	2.7	2.5	2.1	4.3
Net debt (RMm)	-342.9	160.0	190.9	26.0
Net gearing (%)	n.a.	29.0	27.0	11.7
Revenue – gloves (RMm)	2020.0	900.0	960.0	743.0
Market cap/revenue (x)	1.54	1.15	1.51	2.78
Sales/share (RM)	3.27	2.81	2.82	2.04

* based on consensus estimates

Profit and Loss

YE Dec (RM m)	2008	2009	2010E	2011E	2012E
Sales	811.8	803.6	923.3	960.0	1100.0
Cost of goods sold	658.8	581.3	675.0	710.0	800.0
Gross Profit	153.0	222.3	248.3	250.0	300.0
Operating expenses	82.8	90.5	101.4	110.0	130.0
Operating Profit	70.3	131.8	146.9	140.0	170.0
Net interest	-20.3	-22.0	-11.4	-14.0	-17.0
Interest income	0.0	0.2	1.7	1.0	1.0
Interest expense	-20.3	-22.3	-13.1	-15.0	-18.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	2.1	41.8	42.0	35.0	40.0
Net extraordinary	0.0	0.0	0.0	0.0	0.0
Pretax income	52.0	151.5	177.4	161.0	193.0
Income taxes	-5.0	-24.9	-9.2	-16.1	-23.2
Minority Interest	0.0	0.0	0.0	-0.5	-1.0
Net profit	47.0	126.6	168.2	144.4	176.0
EBITDA	74.6	158.6	184.5	174.4	209.0
EPS (sen)	14.2	37.8	49.5	42.3	51.5

Sources: Company data, KE estimates

Cashflow

YE Dec (RM m)	2008	2009	2010E	2011E	2012E
Operating cash flow	79.7	225.9	117.8	139.4	169.0
Net profit	47.0	126.6	168.2	144.4	176.0
Depreciation & amortisatn	27.5	31.9	16.3	30.0	33.0
Change in working capital	0.2	75.0	-57.8	-35.0	-40.0
Others	4.9	-7.7	-8.9	0.0	0.0
Investment cash flow	-38.5	-17.2	-49.1	-52.2	-64.1
Net capex	-38.5	-17.4	-49.1	-52.2	-64.1
Change in LT investment	0.0	0.0	0.0	0.0	0.0
Change in other assets	0.0	0.2	0.0	0.0	0.0
Cash flow after invt.	41.2	208.6	68.7	87.2	104.9
Financing cash flow	-48.1	-111.5	-64.9	-79.7	-91.8
Change in share capital	-5.9	27.0	4.8	2.0	2.0
Net change in debt	-33.7	-123.4	-38.2	-50.0	-60.0
Change in other LT liab.	-8.6	-15.0	-31.6	-31.7	-33.8
Net cash flow	-7.0	97.1	3.8	7.5	13.1

Sources: Company data, KE estimates

Balance Sheet

YE Dec (RM m)	2008	2009	2010E	2011E	2012E
Total assets	946.7	945.2	1161.5	1185.0	1340.0
Current assets	407.3	381.2	546.6	485.0	510.0
Cash & ST investment	31.0	118.7	121.8	106.0	120.0
Inventories	135.5	116.2	116.0	138.0	140.0
Accounts receivable	234.2	141.3	303.7	233.0	240.0
Others	6.6	5.0	5.2	8.0	10.0
Other assets	539.4	564.1	614.8	700.0	830.0
LT investments	116.0	155.0	197.3	202.0	210.0
Net fixed assets	388.2	377.4	383.9	460.0	580.0
Others	35.2	31.6	33.7	38.0	40.0
Total liabilities	530.3	386.4	455.4	357.0	327.0
Current liabilities	347.4	213.7	289.5	190.0	170.0
Accounts payable	94.6	72.5	133.8	35.0	40.0
ST borrowings	230.8	129.0	154.1	145.0	120.0
Others	22.0	12.2	1.6	10.0	10.0
Long-term liabilities	183.0	172.7	165.9	167.0	157.0
Long-term debts	174.9	165.8	158.6	160.0	150.0
Others	8.1	6.9	7.3	7.0	7.0
Shareholder's equity	416.4	558.8	706.1	828.0	1013.0
Paid-in capital	132.6	134.1	170.0	169.7	169.7
Reserve	289.6	424.7	536.1	658.3	843.3
Others	-5.9	0.0	0.0	0.0	0.0

Sources: Company data, KE estimates

Key ratios

YE Dec	2008	2009	2010E	2011E	2012E
Growth (% YoY)					
Sales	41.4	-1.0	14.9	4.0	14.6
OP	26.8	87.6	11.4	-4.7	21.4
EBITDA	-1.7	112.7	16.3	-5.5	19.8
NP	-15.9	169.2	32.8	-14.2	21.9
EPS	-26.5	166.2	31.0	-14.4	21.5
Profitability (%)					
Gross margin	18.8	27.7	26.9	26.0	27.3
Operating margin	8.7	16.4	15.9	14.6	15.5
EBITDA margin	9.2	19.7	20.0	18.2	19.0
Net Profit margin	5.8	15.8	18.2	15.0	16.0
ROE	11.3	22.7	23.8	17.4	17.4
ROA	5.0	13.4	14.5	12.2	13.1
Stability					
Gross debt/equity (%)	97.4	52.8	44.3	36.8	26.7
Net debt/equity (%)	90.0	31.5	27.0	24.0	14.8
Int. coverage (X)	3.5	5.9	11.2	9.3	9.4
Int. & ST debt coverage (X)	0.5	0.5	0.5	0.5	0.5
Cash flow int. coverage (X)	3.9	10.1	9.0	9.3	9.4
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)	374.7	176.1	190.9	199.0	150.0
Per share data					
EPS (sen)	14.2	37.8	49.5	42.3	51.5
CFPS (sen)	24.0	67.4	34.7	41.1	49.8
BVPS (RM)	1.26	1.67	2.08	2.44	2.98
SPS (RM)	2.45	2.40	2.72	2.83	3.24
EBITDA/share (RM)	22.5	47.3	54.3	51.4	61.6
DPS (sen)	2.6	8.8	7.5	7.5	8.0

Sources: Company data, KE estimates

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-15% to +15%: HOLD

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