

Supermax Corp

SUCB MK / SUPM.KL

4Q11 RESULTS NOTE

➤ **Market Cap**
US\$434.6m
RM1,313m

➤ **Avg Daily Turnover**
US\$2.24m
RM6.88m

➤ **Free Float**
59.4%
680.2 m shares

Current **RM1.93**
Target ➤ **RM2.43**
Previous Target **RM2.43**
Up/downside **26.1%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL NEUTRAL
UNDERPERFORM

CIMB Analyst



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-12.6	0.0	-9.1
Absolute	-10.2	8.7	-4.7
Major shareholders			% held
Thai Kim Sim, Stanley			20.7
Tan Bee Geok, Cheryl			14.8
Koperasi Permodalan Felda			5.2

Fits like a glove

2011 came to a fitting end as FY11 net profit came in at 97% of our forecast and 102% of consensus. But the final DPS of 1.75 sen was below our 3.9 sen forecast. Supermax's focus on distribution and own-brand gloves will buffer it from the next 1-3 years of glut.

We retain our Outperform call and target basis of 9.79x CY13 P/E or 25% below Top Glove's 2-year average (prev. 30% below target market P/E). We expect Supermax's 28m pairs/month surgical glove plant to start in Mar 2012, adding 20% to our FY12 pretax earnings.

Stable 4Q11 numbers ➤

FY11 revenue rose by 11.2% to RM1.0bn due to higher selling prices. Output was lower due to overcapacity and competition which resulted in a drop in utilisation from 82% in FY10 to 76%. Costs rose 24.6% to RM873m due to higher natural rubber (NR) and nitrile prices. Supermax expects a range of RM6.0-6.5/kg for NR price in FY12 (CIMB: RM8.20 and spot: RM7.95). EBITDA margins shrank by 9.1% pts to 15.0% and EBITDA fell by 30.8% to RM154.1m. After adding back the RM4.0m non-core write-off of its bond investments in 2Q, core net profit fell by 34.7% to RM106.1m.

Lower associate earnings ➤

4Q11 distribution revenue from Supermax's Brazilian, Canadian and Belgium associates plunged by 65.8% qoq to RM4.4m. This was worse than management's expectations as the associates sold inventories below cost during 4Q when NR prices declined by 21% qoq.

Surgical boost ➤

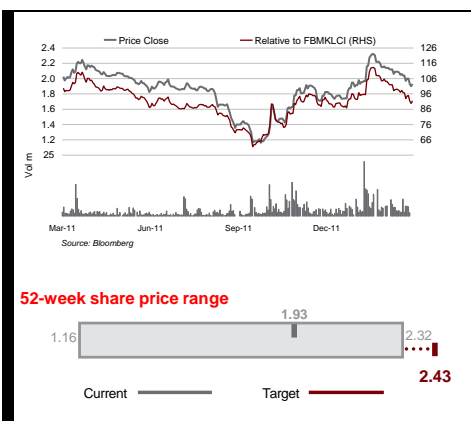
Supermax will complete its surgical glove plant by 1H12, adding 28m pairs/month and annual pretax profits of RM23m. This venture can be successful as Supermax is already a contract manufacturer for some MNCs which sell similar gloves at prices 40% higher than Supermax's intended ASPs.

Analyst briefing on 1 Mar ➤

Supermax will hold a briefing on 1 Mar to discuss its results and the FY12 outlook.

Results Comparison

FYE Dec (RM m)	4Q FY11	4Q FY10	yoy % chg	3QFY11	qoq % chg	4QFY11 cum	4QFY10 cum	yoy % chg	Prev. FY11F	Comments (cum yoy comparison)
Revenue	276.2	232.7	18.7	271.4	1.8	1,026.9	923.3	11.2	1,074.5	Higher due to increase in ASPs; volumes were lower
Operating costs	(242.1)	(193.8)	24.9	(225.1)	7.6	(872.8)	(700.4)	24.6	(946.1)	Increase due to higher natural rubber cost
EBITDA	34.1	38.8	(12.2)	46.4	(26.5)	154.1	222.8	(30.8)	128.4	Lower due to higher NR and nitrile prices
EBITDA margin (%)	12.3	16.7	(26.1)	17.1	(27.8)	15.0	24.1	(37.8)	11.9	Decline due to less than 100% cost pass through
Depn & amort.	(6.3)	(16.5)	(61.9)	(16.5)	(61.9)	(58.9)	(74.0)	(20.4)	(45.6)	PPE of RM402.0m as at 31 Dec 2011
EBIT	27.8	22.3	24.4	29.9	(6.9)	95.2	148.8	(36.0)	82.8	Lower due to margin compression
Interest expense	(2.9)	(2.3)	23.0	(4.8)	(40.2)	(13.1)	(13.1)	0.1	(16.2)	Total borrowings of RM323.4m as at 31 Dec 2011
Interest & invt inc	-	-	na	-	na	-	-	na	0.3	Cash balance of RM104.1m as at 31 Dec 2011
Associates' contrib	4.4	12.8	(65.8)	9.0	(51.4)	34.8	42.0	(17.0)	43.3	Distribution of gloves in Brazil, Canada and Belgium
Exceptionals	-	-	na	-	na	(4.0)	-	na	-	Loss due to write-off of bond investment in the 2Q11
Pretax profit	29.3	32.8	(10.7)	34.1	(14.0)	113.0	177.7	(36.4)	126.3	Accounted for 89.4% of full year estimate
Tax	(1.3)	(0.1)	na	(3.2)	(60.6)	(6.9)	(9.2)	(24.5)	(12.6)	Lower than the statutory rate of 25% due to the availability of allowances and incentives
Tax rate (%)	4.3	0.3	na	(0.0)	na	6.1	5.2	18.7	10.0	
Minority interests	0.1	(0.0)	na	-	na	0.1	0.0	646.7	-	None expected
Net profit	28.2	32.7	(13.8)	30.9	(8.8)	106.1	168.5	(37.0)	113.7	Accounted for 93.3% of full year estimate
Core net profit	28.2	32.7	(13.8)	30.9	(8.8)	110.1	168.5	(34.7)	113.7	Accounted for 96.9% of full year estimate
EPS (sen)	4.6	5.3	(13.8)	5.0	(8.8)	17.3	27.5	(37.0)	18.6	Based on 612.1m total shares outstanding
Core EPS (sen)	4.6	5.3	(13.8)	5.0	(8.8)	18.0	27.5	(34.7)	18.6	Excluding exceptional items



Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (RMm)	923	1,027	1,378	1,532	1,603
Operating EBITDA (RMm)	216.8	154.1	148.3	185.0	222.5
Net Profit (RMm)	156.5	106.0	126.7	152.6	176.9
Core EPS (RM)	0.26	0.18	0.21	0.25	0.29
Core EPS Growth	(0.8%)	(29.9%)	15.4%	20.5%	15.9%
FD Core P/E (x)	7.55	10.76	9.33	7.74	6.68
DPS (RM)	0.100	0.036	0.041	0.050	0.058
Dividend Yield	5.18%	1.87%	2.14%	2.58%	3.02%
EV/EBITDA (x)	5.27	7.15	7.25	5.32	3.81
P/FCFE (x)	25.83	13.99	20.12	8.92	6.29
Net Gearing	19.5%	13.4%	10.0%	1.0%	(9.9%)
P/BV (x)	1.65	1.47	1.30	1.14	0.99
Recurring ROE	24.5%	14.5%	14.8%	15.7%	15.9%
% Change In Core EPS Estimates			0%	0%	
CIMB/consensus EPS (x)			0.93	0.97	

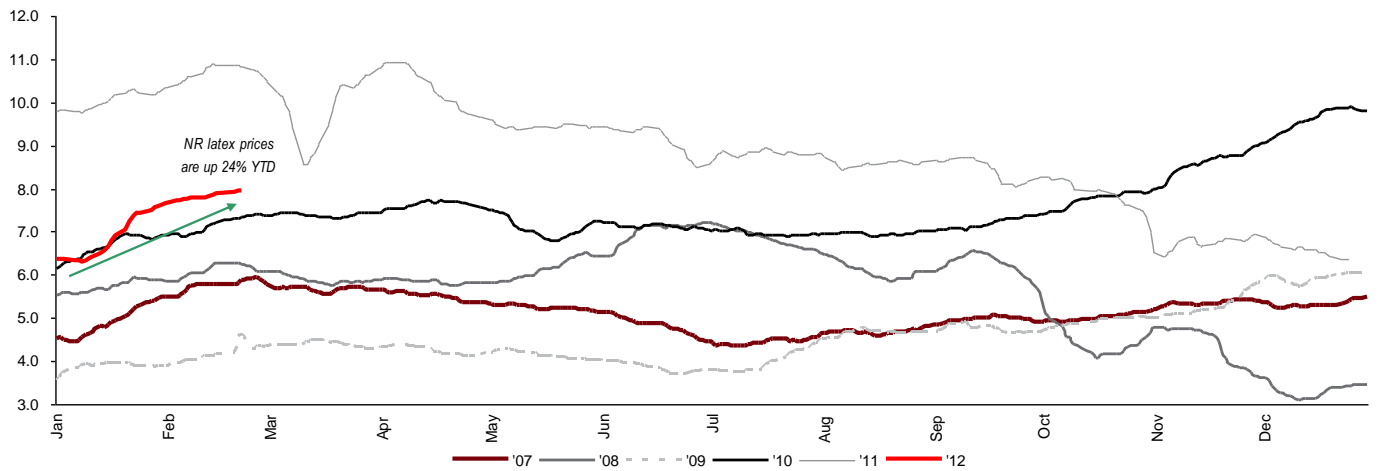
SOURCE: CIMB, COMPANY REPORTS

Figure 1: Sector comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY11	CY12		CY11	CY12	CY11	CY12	CY11	CY12
Astra Agro Lestari	AAIJ	Neutral	21,900	23,200	3,775	14.6	15.6	8.4%	4.24	3.92	31.2%	26.4%	3.4%	3.4%
BW Plantation	BWPT	Outperform	1,500	2,000	664	18.9	18.5	23.9%	4.24	3.54	24.7%	21.3%	0.3%	0.4%
Genting Plantations	GENP	Underperform	9.24	8.53	2,322	16.0	16.8	12.9%	2.16	1.98	14.8%	12.0%	1.7%	1.8%
Hap Seng Plantations	HAPL	Trading Buy	3.01	3.27	797	9.5	11.2	13.0%	1.28	1.22	14.4%	10.9%	6.6%	5.3%
London Sumatra	LSIP	Outperform	2,550	3,300	1,905	10.1	12.2	22.0%	3.02	2.75	32.6%	24.5%	2.0%	3.0%
Sampoerna Agro	SGRO	Outperform	3,500	4,200	724	12.3	12.0	13.5%	2.57	2.19	22.8%	19.8%	1.0%	1.1%
Plantation (upstream)						13.2	14.4	13.8%	2.82	2.55	23.0%	18.5%	2.6%	2.8%
Golden Agri-Resources	GGR	Neutral	0.73	0.75	7,048	12.3	13.5	16.4%	0.88	0.83	7.7%	6.4%	2.4%	1.5%
Indofood Agri Resources	IFAR	Trading Buy	1.62	1.80	1,848	12.2	11.2	16.8%	1.16	1.06	11.2%	9.8%	0.5%	1.2%
IOI Corporation	IOI	Underperform	5.40	5.04	11,487	17.2	16.0	11.0%	2.85	2.69	17.1%	17.2%	3.0%	3.1%
Kuala Lumpur Kepong	KLK	Underperform	23.42	19.36	8,278	18.0	17.8	13.0%	3.51	3.34	21.3%	18.9%	3.5%	3.0%
Sime Darby Bhd	SIME	Trading Buy	9.57	10.90	19,041	15.1	14.1	12.6%	2.32	2.15	15.9%	15.8%	3.3%	3.5%
Wilmar International	WIL	Neutral	5.09	5.03	25,916	17.0	16.6	24.8%	1.97	1.80	12.1%	11.3%	1.2%	1.2%
Plantation (integrated)						15.9	15.4	16.6%	1.96	1.83	13.1%	12.3%	2.4%	2.3%
Mewah International	MII	Underperform	0.56	0.38	671	17.8	14.0	-18.4%	1.28	1.19	7.3%	8.8%	1.1%	1.4%
Noble Group	NOBL	Neutral	1.38	1.43	6,987	21.8	12.0	23.6%	1.49	1.31	7.2%	11.6%	1.5%	2.7%
Olam International	OLAM	Outperform	2.36	3.17	4,584	14.7	11.9	34.5%	2.30	2.09	16.0%	18.4%	1.5%	2.1%
Supply chain managers						18.3	12.1	22.8%	1.69	1.51	9.6%	13.3%	1.5%	2.4%
Sri Trang Agro-Industry	STA	Trading Buy	21.20	24.55	893	16.3	8.7	11.5%	1.51	1.26	12.2%	15.6%	5.9%	2.1%
Rubber processor						16.3	8.7	11.5%	1.51	1.26	12.2%	15.6%	5.9%	2.1%
Adventa	ADV	Underperform	1.53	1.49	77	19.2	11.3	-7.0%	0.87	0.74	4.9%	7.2%	0.9%	2.7%
Hartalega Holdings	HART	Outperform	8.36	9.98	1,009	15.0	12.9	18.4%	5.24	4.28	38.7%	36.5%	2.9%	3.5%
Kossan Rubber Industries	KRI	Outperform	3.32	3.66	351	11.6	10.1	4.2%	2.05	1.76	19.0%	18.7%	2.4%	2.5%
Latexx Partners	LTX	Neutral	1.51	1.74	111	7.6	6.3	21.3%	1.17	1.01	17.5%	16.7%	2.6%	3.2%
Supermax Corp	SUCB	Outperform	1.93	2.43	435	10.4	9.3	1.4%	1.47	1.30	15.5%	14.4%	3.1%	2.1%
Top Glove Corporation	TOPG	Underperform	4.90	3.61	1,004	25.2	21.1	-3.4%	2.61	2.37	10.5%	11.9%	2.2%	2.2%
Glove manufacturers						15.2	13.0	6.2%	2.47	2.15	17.2%	17.6%	2.6%	2.7%
Average (all)						15.8	14.6	16.7%	1.99	1.84	13.4%	13.1%	2.3%	2.4%

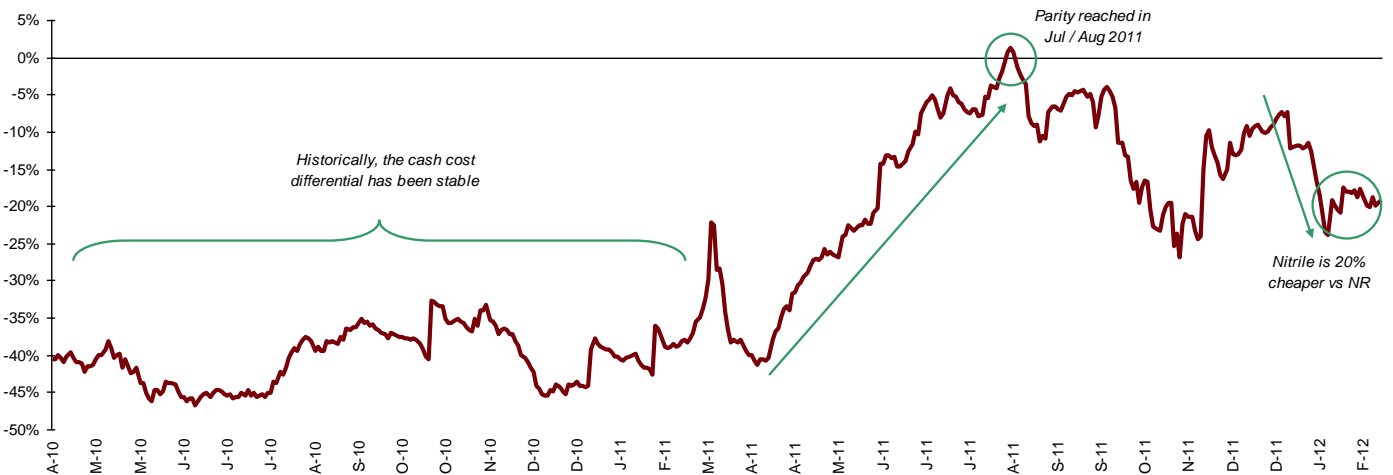
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, EFA

Figure 2: NR price cycle (RM/kg)



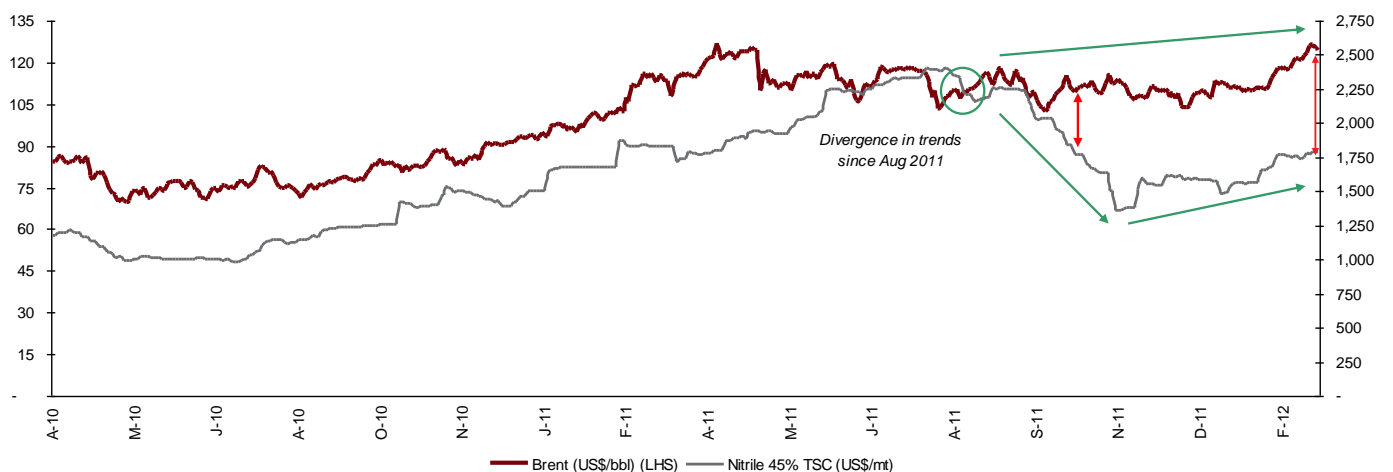
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 3: Cost of production, NR vs nitrile gloves



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 4: Nitrile versus Brent crude oil prices



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
<p>OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.</p>	<p>OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.</p>
<p>NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.</p>	<p>NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.</p>
<p>UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.</p>	<p>UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.</p>
<p>TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.</p>	<p>TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.</p>
<p>TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.</p>	<p>TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.</p>

** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCP - Excellent, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, ITD - Good, IVL - Very Good, KBANK - Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good: