

RESULTS FIRST LOOK

1Q10 earnings surpassed our estimates by 21.8%; met 20.8% and 30.5% of our full-year top-line and earnings estimates. No. of gloves shipped was up 7.7% q-q, but a portion comprised delayed shipments rolled over from 4Q09. Pending clarification, we make no adjustments to our numbers. We would refrain from drawing conclusions from an annualized output figure given Supermax's upcoming expansions will provide much-needed capacity to drive positive earnings surprises moving forward, in our view. At current assumptions and levels, still a 26.7% potential upside to PT of RM8.74. Reiterate BUY.

Price target: MYR 8.74

Price (19 Apr 2010): MYR 6.9

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1Q10 bottomline - More than Doubles y-y, up 5.5% q-q

- Earnings vs. our Forecast: **IN LINE**

Likely Impact:

- Earnings Estimates: **NO CHANGE**
- Dividend Estimates: **NO CHANGE**
- Price Target: **NO CHANGE**
- Long-term View: **CONFIRMED**

1Q10 net profit more than doubles y-y, up 5.5% q-q

1Q10 net profit surpassed our estimates by 21.8%, registering 161% y-y and 5.5% normalized q-q growth (after adjusting for the one-off interest expense of RM5.4mn in 4Q09). Top-line growth of 14.7% y-y and 12.3% q-q was driven by continuing increased selling prices on the back of all-time high latex prices. To note that the aforementioned growth is based on reported top-line; we highlight that Supermax's 4Q09 management discussion and analysis (MD&A) highlighted that shipment of RM25mn worth of gloves was delayed to 1Q10 given inability of Supermax's customers to secure cargo container space. Pending confirmation with management as to whether the RM25mn is a top-line figure, we highlight that in the event that is the case, adjusted top-line growth would be 1.7% y-y and -0.4% q-q.

Performance during the 1st quarter made up 20.8% and 30.5% of our full-year top-line and earnings estimates of RM1,061mn and RM169mn respectively. Q-q growth in terms of number of pieces shipped was 7.7%, whereas y-y growth was 7.0%.

Supermax output figures (in mn pcs)	1Q10	1Q09	% chg y-y	4Q09	% chg q-q
No of pcs shipped	3205	2995	7.0	2975	7.7

*Source: Company

Supermax PnL quarterly figures (RM mn)	1Q10	1Q09	% chg y-y	4Q09	% chg q-q
Revenue	220.65	192.37	14.7	196.42	12.3
EBIT	47.57	45.70	4.1	20.37	134.0
EBIT margin (%)	21.6	23.8		10.4	
Finance Costs	3.74	5.04	-25.8	3.08	21.4
Associate contribution to net profit	10.45	8.14	28.4	13.36	-21.8

Net profit	51.47	19.71	161.1	48.78	5.5
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*Source: Company

Improving gearing and inventory turnover; receivables cycle is a work-in-progress

Absolute borrowings increased 0.4% q-q but were down 14.7% y-y. The minor increase in q-q borrowings were mainly from utilization of existing facilities. Boosted by higher reserves, gearing fell from 0.31x to 0.30x on a q-q basis, which more than achieved management target of between 0.50-0.75x. Management's commitment to improving inventory cycles is bearing fruit as inventory cycle fell from 1.56 to 1.45 months, below its FY07-08 levels of circa 2-2.2 months.

The receivables cycle remains a work in progress however. Receivables cycles for Supermax is typically higher than industry average given their different business model; with distribution centres selling Supermax products, it bears the working capital requirements of those distribution centres versus other players pursuing an OBM model who sell to distributors.

Supermax key ratios	1Q10	4Q09	Management target
Net Gearing	0.30	0.31	0.50-0.75
Inventory cycle (mths)	1.45	1.56	1-1.5
Receivables cycle (mths)	2.62	1.98	<2.5

*Source: Company

No changes to our earnings forecasts for the moment; however at current assumptions and levels, BUY call remains with upside of 26.7%

As mentioned earlier, 1Q10's reported performance clocked in 20.8% and 30.5% of our full-year top-line and earnings estimates respectively. Given management's (and largely the industry's) expectations that latex prices are more likely than not to come off by 2H10, selling prices for gloves will likely be repriced downwards given the highly transparent pricing mechanism, in our view.

We believe another indicator evidencing bottomline strength besides the usual top-line indicator is output sold. As reported above, output sold (in terms of million pieces of gloves shipped) chalked up 7.7% q-q growth, forming 27% of our full-year output estimates. However, pending clarification with management on the exact portion of gloves which comprised shipments that were designated for delivery in 4Q09, we make no changes to our output estimates for the moment.

On that note, we would however refrain from drawing any conclusions from any adjusted annualized output figure given Supermax's planned expansions of 16 new lines and refurbishment of 8 existing lines (as highlighted in our note out last week <http://www.nomura.com/research/getpub.aspx?pid=367194>). Positive earnings surprises are likely to be driven by the rebound in output capacity from 2H10 onwards (after the FY05-09 period of undertaking the lowest capacity expansions amongst its peers). Also highlighted in that note is the fact that our price assumptions for the majority of its glove products are 14-31% above our full-year assumptions. At these existing levels and assumptions, there still remains an upside of 26.7% to our PT of RM8.74.

Nomura initiated on the Malaysian rubber glove sector on 10 March 2010 (link to full report here <http://www.nomura.com/research/getpub.aspx?pid=362202>)

Valuation Methodology and Investment Risks: We peg Supermax's target P/E of 11.5x at a 21% discount to Top Glove, derived from its historical discount of ~30% to Top Glove; however, we argue that it should see an upward rerating given its write-off of the APLI investment. Applying this to FY11F EPS of RM0.75, we derive our PT of RM8.74. Downside to our call is industry-related ie high latex prices of >RM7/kg continue to be seen going into 2H10 as well as adverse and rapid currency movements that could affect income from its overseas distribution arms

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://www.nomura.com/research>) rather than the date of this email.

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Mentioned Stocks:

Mentioned Company	Ticker	Price	Price Date	Stock Rating	Disclosures
Supermax Corp Bhd	SUCB MK	MYR 6.9	19 Apr 2010	Buy	

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- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
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- A rating of "1", or "**Strong buy**" recommendation indicates that upside is more than 20%.
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- A rating of "4", or "**Reduce**" recommendation indicates that downside is between 10% and 20%.
- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

Sectors:

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

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