



BUY

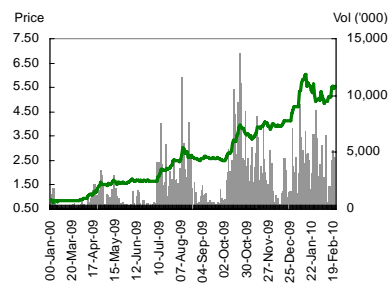
FY09 Results

Analyst

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Price **RM5.47**
Target **RM7.56**
FBMKLIC Index **1258**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	5.3	38.9	111.0
Relative (%)	8.4	40.2	94.4

Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	432.7
52-week high (RM)	6.18
52-week low (RM)	0.78
Shares issued (m)	270.0
6m avg d.vol (US\$m)	4.01
Free float (%)	40
Major shareholders (%)	
Thai Kim See/Tan Bee Geok	(35.2)
FELDA	(5.5), LTH (5.1)
Atlantis Investment Mgt	(4.9)

Key Indicators

ROE (%)	23.3
Net gearing (%)	31.5
NTA (RM)	2.08
Interest cover (x)	6.0

Supermax Corporation Berhad

Roaring Business

What's New

- FY09 EPS of 48.4 sen beat expectations. Pretax profit rose 192% YoY due to better margins and higher distribution profit from associates. A final dividend of 4 sen and a special dividend of 4.5 sen were declared, bringing the total for FY09 to 11 sen tax-exempt.

Our view

- Demand for rubber gloves remains robust, with global consumption of 140b gloves growing by 8-10% p.a. Supermax has seen a 7% increase in orders totaling 1.05b gloves from Mar-Dec 2009 due to H1N1, resulting in back orders of up to 5.4b gloves.
- Management is now guiding for EPS of 62 sen in FY10. We have accordingly raised our FY10 and FY11 EPS forecasts by 10-13% to 63 sen and 66.1 sen respectively.
- To meet strong demand, it is spending RM131m to expand capacity by 50% by end-2011, adding 3.1b pieces in 2010 and 4.15b pieces in 2011, thus bringing total capacity to 21.7b gloves by end-2011.

Action & Recommendation

- We reiterate our BUY call with a revised price target of RM7.56, based on 12x FY10 EPS of 63 sen. FY10 and FY11 PERs of 8.7x and 8.3x are undemanding compared to the sector average of 12.2x for CY10.

Year End Dec 31	2007	2008	2009	2010E	2011E
Sales (RM m)	574.3	811.8	814.8	983.0	1180.0
Pre-tax (RM m)	58.6	52.0	152.1	205.0	211.5
Net Profit (RM m)	56.0	47.0	129.8	170.2	175.5
EPS (sen)	24.1	17.7	48.4	60.3	65.0
EPS growth (%)	33.5	-26.5	172.7	30.3	4.9
PER (x)	22.7	30.8	11.3	8.7	8.3
EV/EBITDA (x)	21.5	24.5	11.6	8.2	7.4
Yield (%)	0.6	0.6	2.0	2.2	2.4

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Results exceeded expectations

FY09 EPS of 48.4 sen came in at 105% of consensus estimates. Pretax profit rose 192%, despite flat revenue, due to better margins and higher distribution profit from associates. This was despite a one-time interest expense of RM5.4m following the early redemption of its serial bond in Nov 2009. Operating margins rose to 16.3% (FY08: 8.7%), aided by an 8% reduction in operating expenses whilst the Ringgit averaged 3.52RM/US\$ from 3.33RM/US\$ in 2008. However, net profit rose by a lesser 177% as the tax charge rose to 14.7% (FY08: 9.9%), as it was unable to fully utilise its reinvestment allowances due to the lack of capex. A final dividend of 4 sen and a special dividend of 4.5 sen were declared, bringing the total for FY09 to 11 sen tax-exempt (FY08: 3.25 sen tax-exempt).

FY10-FY11 EPS forecasts raised by 10-13%

Supermax is now guiding for net profit of RM168m or EPS of 62 sen in FY10. We have accordingly raised our EPS forecasts by 13% to 63 sen for FY10 and 10% to 66.1 sen for FY11 due to stronger-than-expected demand, 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 3.1b gloves to 17.6b pieces in 2010, boosting revenue by ~RM170m.

Adding 50% new capacity by end-2011 to meet strong demand

Demand for rubber gloves remains robust, with global consumption of 140b gloves expected to grow by 8-10% p.a. Supermax has seen a 7% increase in orders totaling 1.05b gloves from Mar-Dec 2009 due to H1N1, resulting in back orders of 5.1b gloves (an oversold position equivalent to 36% of its current installed capacity of 14.5b pieces). To meet the strong demand, Supermax is spending RM131m to expand its capacity by 50% by end-2011. It plans to add 3.1b pieces in 2010 and another 4.15b pieces in 2011 with the commencement of the Glove City project, thus bringing total capacity to 21.7b gloves by end-2011. The expansion will be financed mainly by internal funds.

Lower gearing due to better working capital and risk management

Total borrowings fell from RM375m in Dec 2008 to RM176m in Dec 2009, translating to a net gearing of 0.31x. It also improved its working capital and risk management – with FY09 receivables cycle falling to 1.98 months (FY08: 3.46 months) and inventory turnover falling to 1.56 months (FY08: 2 months).

BUY – undemanding valuations

We reiterate our BUY call with a revised price target of RM7.56, based on 12x FY10 EPS of 63 sen. FY10 and FY11 PERs of 8.7x and 8.3x are undemanding compared to the sector average of 12.2x for CY10.

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
Total demand	115	125	147.5	165.5	183.5
Industry capacity growth	10	10	10	10	12

Source: Company data

Table 2: Quarterly results

(RMm)	4Q08	1Q09	2Q09	3Q09	4Q09	% chg Q/Q	% chg Y/Y
Revenue	182.8	192.4	188.5	237.6	196.4	-17.3	7.4
Operating profit	19.8	20.4	26.8	39.5	45.7	15.6	130.4
Interest expense	-5.4	-5.0	-4.5	-4.1	-3.1	-25.1	-43.1
Associates	-10.3	8.1	9.0	11.3	13.4	18.2	229.4
Impairment of Inv in Associate (APLI)	0.0	0.0	0.0	0.0	-5.4		
Pretax Profit	4.1	23.5	31.3	46.7	50.6	8.3	1136.6
Taxation	-2.6	-3.8	-5.6	-6.6	-6.5	-1.2	149.0
Net Profit	1.5	19.7	25.8	40.2	44.1	9.9	2868.5
EPS (sen)	0.6	7.4	9.7	15.1	16.4	8.6	2835.5
Output (m pieces)	2915	2995	3015	3130	2975	-5.0	2.1
EBIT margins (%)	10.8	10.6	14.2	16.6	23.3		
Tax Rate (%)	63.7	16.0	17.8	14.1	12.8		

Sources: Company data, KE estimates

Table 3: Supermax's back orders

m pieces p.a.	2008	1Q09	2Q09	3Q09	4Q09	2009
Orders from Supermax & Seal Polymer customers	13500	3050	4000	4000	3800	14850
Orders from APLI clients	2640	330	330	330	330	1320
H1N1 orders	0	0	450	300	300	1050
Total orders	16140	3810	4630	4630	4430	17500
Total shipped	12765	2995	3015	3130	2975	12115
Total back orders	3375	815	1615	1500	1455	5385

Source: Company data

Table 4: Supermax - sales by products

(%)	FY08	1Q09	2Q09	3Q09	4Q09
Powdered gloves	30	37	42	42	47
Latex examination	26	33	38	38	43
Nitrile synthetic	1	1	1	1	1
Sterile surgical	3	3	3	3	3
Powder-free gloves	70	63	58	58	53
Latex examination	45	45	36	38	36
Nitrile synthetic	25	18	22	20	17

Source: Company data

Table 5: Supermax- sales by regions

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

Source: Company data

Table 6: Working capital management

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

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	133	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%	95%
Forex rate US\$/RM	3.40	3.50	3.52	3.40	3.35
Avg latex price/kg wet (RM)	5.20	5.50	4.80	6.00	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-10
Share price (RM)	11.18	6.45	5.47	7.34
Share capital (m shrs)	305.3	159.9	270.0	242.3
Market cap (RMm)	3413.0	1031.1	1476.9	1778.6
Installed Capacity (m pieces/annum)	31500	11100	14476	6200
Net Profit	223.5	98.0	170.2	130.6
EPS (sen)	74.4	61.3	63.0	53.9
PER (x)	15.0	10.5	8.7	13.6
NTA/share (RM)	2.92	2.08	1.96	2.05
Price/book (x)	3.8	3.1	2.8	3.6
Net debt (RMm)	-222.0	165.0	175.6	49.0
Net gearing (%)	-25.0	40.1	31.5	23.3
Revenue - gloves (RMm)	1810.0	905.0	983.0	552.0
Market cap/revenue (x)	1.89	1.14	1.50	3.22
Sales/share (RM)	5.93	5.66	3.64	2.28

* based on consensus estimates

Profit and Loss

YE Dec (RM m)	2007	2008	2009	2010E	2011E
Sales	574.3	811.8	814.8	983.0	1180.0
Cost of goods sold	455.1	658.8	588.1	685.0	865.0
Gross Profit	119.2	153.0	226.7	298.0	315.0
Operating expenses	63.8	82.8	94.4	113.0	120.0
Operating Profit	55.4	70.3	132.4	185.0	195.0
Net interest	-15.3	-20.3	-22.0	-19.0	-20.0
Interest income	0.0	0.0	0.1	0.0	0.0
Interest expense	-15.3	-20.3	-22.1	-19.0	-20.0
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	39.0	40.0
Net extraordinaries	0.0	0.0	0.0	0.0	0.0
Pretax income	58.6	52.0	152.1	205.0	215.0
Income taxes	-2.6	-5.0	-22.4	-34.9	-36.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net profit	56.0	47.0	129.8	170.2	178.5
EBITDA	75.9	74.6	141.5	198.2	211.5
EPS (sen)	24.1	17.7	48.4	63.0	66.1

Sources: Company data, KE estimates

Cashflow

YE Dec (RM m)	2007	2008	2009	2010E	2011E
Operating cash flow	73.9	79.7	235.8	188.2	201.5
Net profit	56.0	47.0	129.8	170.2	178.5
Depreciation & amortisatn	19.9	27.5	11.8	28.0	33.0
Change in working capital	-1.9	0.2	71.9	-10.0	-10.0
Others	-0.1	4.9	22.4	0.0	0.0
Investment cash flow	-45.2	-38.5	-22.6	-70.0	-70.0
Net capex	-33.9	-38.5	-22.6	-70.0	-70.0
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	118.2	131.5
Financing cash flow	-30.0	-48.1	-114.8	-70.9	-83.6
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	-32.4	-35.1
Net cash flow	-1.2	-7.0	98.5	47.3	47.9

Sources: Company data, KE estimates

Balance Sheet

YE Dec (RM m)	2007	2008	2009	2010E	2011E
Total assets	868.5	946.7	934.1	1013.0	1120.0
Current assets	354.2	407.3	364.6	370.0	414.0
Cash & ST investment	29.2	31.0	119.1	106.0	120.0
Inventories	106.4	135.5	105.8	113.0	122.0
Accounts receivable	208.2	234.2	134.4	145.0	165.0
Others	10.5	6.6	5.4	6.0	7.0
Other assets	514.3	539.4	569.5	643.0	706.0
LT investments	95.7	116.0	155.1	160.0	160.0
Net fixed assets	378.5	388.2	379.2	445.0	510.0
Others	40.1	35.2	35.2	38.0	36.0
Total liabilities	484.7	530.3	376.1	335.0	307.0
Current liabilities	255.1	347.4	202.2	203.5	191.0
Accounts payable	97.9	94.6	50.6	60.7	63.0
ST borrowings	152.5	230.8	129.3	120.5	105.0
Others	4.8	22.0	22.3	22.3	23.0
Long-term liabilities	229.6	183.0	173.9	131.5	116.0
Long-term debts	216.8	174.9	165.3	123.5	108.0
Others	12.8	8.1	8.6	8.0	8.0
Shareholder's equity	383.8	416.4	558.0	678.0	813.0
Paid-in capital	132.6	132.6	134.1	135.0	135.0
Reserve	251.2	289.6	423.9	543.0	678.0
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	20.6	20.0
OP	28.7	26.8	88.4	39.8	5.4
EBITDA	41.1	-1.7	89.9	40.0	6.7
NP	37.1	-15.9	175.8	31.1	4.9
EPS	33.5	-26.5	172.7	30.3	4.9
Profitability (%)					
Gross margin	20.8	18.8	27.8	30.3	26.7
Operating margin	9.7	8.7	16.2	18.8	16.5
EBITDA margin	13.2	9.2	17.4	20.2	17.9
Net Profit margin	9.7	5.8	15.9	17.3	15.1
ROE	14.6	11.3	23.3	25.1	21.9
ROA	6.4	5.0	13.9	16.8	15.9
Stability					
Gross debt/equity (%)	96.2	97.4	52.8	36.0	26.2
Net debt/equity (%)	88.6	90.0	31.5	20.4	11.4
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	9.9	10.1
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	138.0	93.0
Per share data					
EPS (sen)	24.1	17.7	48.4	63.0	66.1
CFPS (sen)	31.9	30.0	87.9	69.7	74.6
BVPS (RM)	1.66	1.57	2.08	2.51	3.01
SPS (RM)	2.48	3.06	3.04	3.64	4.37
EBITDA/share (RM)	32.7	28.1	52.8	73.4	78.3
DPS (sen)	3.3	3.3	11.0	12.0	13.0

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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