

Supermax Corporation

Recommendation: **STRONG BUY**

Stock Code: 7106

Bloomberg: SUCB MK

Price: MYR1.51

12-Month Target Price: MYR2.00

Date: May 11, 2009

Board: Main**Sector:** Industrial Products**GICS:** Health Care/Health Care Supplies**Market Value - Total:** MYR400.5 mln

Summary: Supermax Corporation (Supermax) makes latex gloves and is currently the second-largest latex glove manufacturer in the country. Supermax was listed on the Second Board of Bursa Malaysia in August 2000 before successfully transferring to the Main Board in October 2003. The stock is a component of FBMEMAS.

Analyst: Su Peng Ng**Results Review & Earnings Outlook**

- Supermax turned in 1Q09 results that were higher than expected, with net profit of MYR19.7 mln accounting for 29% of our previous 2009 estimate. Operating profit was in line but a higher-than-estimated associate profit resulted in a better-than-expected bottomline outcome.
- Revenue growth was 5% QoQ mainly due to a better exchange rate, as sales volume was maintained. The group closed its Vietnam plant [housed under APL Industries (APLI)] in 4Q08, which helped contain costs, and this helped boost pretax profit by 13% QoQ (before incorporating full impairment of APLI).
- Looking at a YoY comparison, 1Q09 revenue was flat (+0.5% YoY) as higher volume sales (+10% YoY) were canceled out by lower average selling prices (-9% YoY). At the operating profit level, performance was much better, growing at 26% YoY as the group was helped mainly by lower latex prices, which had fallen by 29% YoY during the period.
- We raise our associate profit contribution to the group, resulting in an increase in our 2009 and 2010 net profit estimates to MYR70.3 mln (from MYR68.5 mln) and MYR77.5 mln (from MYR73.3 mln) respectively.

Recommendation & Investment Risks

- We upgrade our recommendation on Supermax to Strong Buy (from Buy) with a higher 12-month target price of MYR2.00 (from MYR1.20).
- We utilize a target PER of 8x (from 4.5x) against our projected 2009 EPS for Supermax and add our estimated tax-exempt net DPS for 2008 of 2.4 sen. The higher target PER is due to higher peer average and the removal of a 15% discount previously attached. The discount, which was to reflect the group's weaker balance sheet, is now deemed unnecessary after an improvement in the net gearing ratio (to 63% from 90% in 4Q08) and receivable days (to 83 days from 110 days in 4Q08).
- Supermax is enjoying a re-rating with investors after the full impairment of its troubled investment in APLI in late-2008, as well as the latest H1N1 health scare, which has put a spotlight on latex glove companies. Earnings will be boosted by an increase in sales coming from the recent health scare and from expanding margins due to lower average latex prices.
- Risks to our recommendation and target price include an upturn in latex prices and an appreciating MYR, as revenue is predominantly derived from exports.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	17.5	26.5
PER (x)	8.6	5.7
Dividend/Share (sen)	3.3	3.3
NTA/Share (MYR)	1.46	1.69
Book Value/Share (MYR)	1.57	1.80
No. of Outstanding Shares (mln)	265.2	
52-week Share Price Range (MYR)	0.79 - 1.71	
Major Shareholders:	%	
Dato' Seri Stanley Thai & family	35.4	
Tabung Haji	7.0	
Koperasi Permodalan Felda	5.7	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.07	1.45	1.57	1.80
Cash Flow (sen)	23.5	28.6	25.8	35.2
Reported Earnings (sen)	17.8	24.2	17.5	26.5
Dividend (sen)	3.3	3.3	3.3	3.3
Payout Ratio (%)	18.6	15.4	13.6	9.2
PER (x)	8.5	6.2	8.6	5.7
P/Cash Flow (x)	6.4	5.3	5.9	4.3
P/Book Value (x)	1.4	1.0	1.0	0.8
Dividend Yield (%)	2.2	2.2	2.2	2.2
ROE (%)	17.9	17.9	15.8	15.7
Net Gearing (%)	70.1	82.5	90.5	62.1

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FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	192.4	191.5	0.5
Reported Operating Profit	20.4	16.1	26.2
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-5.0	-4.3	17.8
Reported Pre-tax Profit	23.5	17.1	37.5
Reported Net Profit	19.7	16.2	21.6
Reported Operating Margin (%)	10.6	8.4	-
Reported Pre-tax Margin (%)	12.2	8.9	-
Reported Net Margin (%)	10.2	8.5	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	574.3	833.4	857.6	912.7
Reported Operating Profit	55.0	71.7	76.6	83.9
Depreciation & Amortization	-19.9	-21.8	-23.2	-24.6
Net Interest Income / (Expense)	-14.8	-22.1	-19.2	-18.0
Reported Pre-tax Profit	58.6	51.6	82.7	91.2
Effective Tax Rate (%)	4.4	10.0	15.0	15.0
Reported Net Profit	55.9	46.5	70.3	77.5
Reported Operating Margin (%)	9.6	8.6	8.9	9.2
Reported Pre-tax Margin (%)	10.2	6.2	9.6	10.0
Reported Net Margin (%)	9.7	5.6	8.2	8.5

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Strong Buy	2.00
28-Nov-08	Buy	1.20
25-Aug-08	Buy	1.40
30-May-08	Strong Buy	2.35
3-Jan-08	Strong Buy	3.00
28-Sep-07	Not Ranked	
12-Sep-07	Strong Buy	3.25
21-May-07	Strong Buy	3.10
9-Mar-07	Buy	2.53
22-Feb-07	Buy	2.31
15-Nov-06	Buy	1.99
30-Aug-06	Strong Buy	1.89

