Supermax Corp Bhd SUCB MK

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RESULTS FIRST LOOK

9M10 results remain in line with our estimates (80% of our full year). Recent price hikes of 8-10% are likely to offset the 4% latex price and 4% RM appreciation in 3Q10, which combined with rebounding demand, should propel a margin rebound in 4Q10. Oversold positions for its gloves range from Dec to Mar '11. Management introduced an earnings growth target of 15-20% in FY11F; Nomura's is within range at 20%. At 7.5x FY11F PE, we think it is a much cheaper alternative to Top Glove's 12x with c. 50% potential upside versus Top Glove's 18% currently.

Price target: MYR 7 **Price (05 Nov 2010): MYR 4.55**

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In line; company introduces FY11F earnings growth of 15-20%

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

Likely Impact:

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

9M10 still in line; visibility a quarter ahead and price hike of 8-10%

As we had flagged in an earlier report (http://www.nomura.com/research/getpub.aspx?pid=392441), Supermax reported sequential NPAT contraction of 17% for its 3Q10 numbers, taking a similar 3ppt hit to quarterly margins as Top Glove recently did. However, 9M10 numbers were still in line, comprising 80% and 75% of our and consensus estimates respectively. Output stood at 3.7bn, taking 9M10 output to 10.4bn pcs, 87% of our full year numbers.

Y-y and sequential quarterly topline stayed flat, bolstered by increased output despite the FX appreciation. Overall, net margins were flat y-y, although sequential net margins contracted 3ppt as mentioned above. Net gearing improved sequentially from 0.34x to 0.28x this quarter.

Supermax output figures (in bn pcs)	3Q10	2Q10	1Q10	% chg q-q	9M10 as % of Nomura full year output estimates
No of pcs shipped	3.7	3.5	3.2	5.7	87

*Source: Company

Visibility remains about 3 months ahead, and the company expects a strong rebound in 4Q10 owing to a rebound in demand from certain locations e.g Europe. We caught up with the company prior to the results briefing tomorrow and gleaned that its niche product in dental, the honeycomb gloves, are oversold until January 2011, while its surgical gloves have been sold to March. Its powdered latex gloves are sold up to December. Key to note is that the company has recently raised prices by 8-10% overall to largely offset the escalating latex price (which appreciated 4%) and RM appreciation (4% in 3Q), which we believe will preserve its margins while a rebound in demand propels a further margin rebound in 4Q10. Based on the current orderbook, the company expects c. 4bn of gloves to be sold in 4Q10.

Maintain earnings forecasts; company introduces FY11F earnings guidance of between 15-20% growth

In light of its demonstrated pricing ability, we make no changes to our earnings forecasts and flag that at these levels, it remains a much cheaper alternative to Top Glove at 7.5x FY11F PE (versus Top Glove's 12x) with c. 50% potential upside versus Top Glove's of 18% currently. This is despite Supermax rebounding 20% from its recent bottoming versus Top

Glove's 14% over the same period.

Management has introduced an earnings growth target of 15-20% for FY11F, which it highlights has taken into consideration FX effects and the beefing up of nitrile powder free production (from 21% to at least 30% of total capacity) given the continued volatility of natural rubber latex prices (this is similar to Top Glove who has pointed out that its new expansions will be earmarked for nitrile gloves). Our FY11F earnings growth expectations are 20%, within its guidance range.

Supermax PnL quarterly figures (RM mn)	3Q10	3Q09	% chg y-y	2Q10	% chg q-q
Revenue	235.1	237.6	-1	234.8	0
EBITDA	54.2	59.0	-8	60.0	-10
EBITDA margin (%)	23	25		25.5	
Finance Costs	3.7	4.1	-10	3.3	12
Associate contribution to net profit	8.3	11.3	-27	10.4	-20
Net profit	38.1	40.2	-5	45.9	-17
Net profit margin (%)	16.2	16.9		19.5	

*Source: Company

Supermax Actual versus Nomura	9M10	Nomura full year	% of our full year numbers	Consensus (Bberg)	% of consensus
Revenue	690.6	1061.1	65	1058.0	65
EBITDA	180.3	195.9	92	214.9	84
EBITDA margin (%)	26.1	18.5			
Finance Costs	10.8	13.2	82		
Associate contribution to net profit	29.2	50.1	58		
Net profit	135.5	168.9	80	179.5	75

*Source: Company, Nomura, Bloomberg

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 re-rating given its write-off of the APLI investment. Applying this to FY11F EPS, we derive our PT of RM7.00. Downside to our call is mostly industry-related and includes: 1) overcapacity and price wars occurring sooner than expected (i.e., by end-FY10); 2) if the government removes natural gas subsidies on an immediate basis instead of a gradual approach, 3) a sharp, quick appreciation of the ringgit and 4) 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 Company	Ticker	Price	Price Date	Stock Rating	Disclosures
Supermax Corp Bhd	SUCB MK	MYR 4.55	05 Nov 2010	Buy	

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