

Flash Note

Supermax

SUCB MK
RM3.70

BUY (maintain)

Price Target: RM4.36 (↔)

Rewarding shareholders with a 1-for-1 bonus issue

Declared 1-for-1 bonus issue

In a Bursa announcement yesterday, Supermax has proposed to undertake a bonus issue of 340.1m new shares, on the basis of one bonus share for every existing Supermax share held (1-for-1). This is Supermax's fifth round of bonus issue/share split exercise since its listing, and the most generous payout to date.

Fig 1: Historical bonus issues by Supermax

Ex-date	Entitlement
Aug-03	Bonus issue 1:3
Jan-06	Bonus issue 1:4
Mar-07	Share split 1-into-2
Jun-10	Bonus issue 1:4
Nov-11	Bonus issue 1:1

Source: Bursa, Affin

No impact on earnings but EPS will be diluted from enlarged share base

In the announcement, Supermax has also proposed a share buy-back program of up to 10% of its issued and paid-up share capital at any point in time. Accordingly, the share buy-back will allow Supermax to 'stabilize' supply and demand of its shares, as well as share price, while the bonus issue is the company's way of rewarding shareholders, and improving trading liquidity. Although the exercises will not have an impact on earnings, the enlarged share base would result in a dilution of EPS. Based on a post-bonus issue share base of 680.2m, our target price of RM4.36 (based on 11x CY12 EPS) would be adjusted to RM2.18. The bonus issue will be wholly capitalized from the share premium account (RM76.3m) and retained earnings (RM93.8m).

Maintain BUY with an unchanged target price of RM4.36

We maintain our BUY call on Supermax. Share price rose by as much as 4% post-the announcement during lunch yesterday. We expect the positive sentiment to continue, based on: 1) turnaround in earnings (recall that its 3QFY11 net profit grew by +16% qoq); 2) falling latex prices (down 30% from its peak of RM10.93/kg in April 2011), and; 3) attractive valuations. Key risks to the stock are: 1) resurgence in latex prices (if the floods spread to southern Thailand); 2) strengthening of the RM/US\$ exchange rate, and; 3) overcapacity within the NR and nitrile glove segments.

Earnings and valuation summary

FYE Dec	2009	2010	2011E	2012E	2013E
Revenue (RMm)	803.6	977.3	1,050.8	1,211.0	1,340.1
EBITDA (RMm)	163.7	181.5	134.5	125.9	146.8
Pretax profit (RMm)	151.5	183.8	124.2	149.7	174.0
Net profit (RMm)	126.6	158.9	111.4	134.7	156.5
EPS (sen)	37.2	46.7	32.8	39.6	46.0
EPS growth (%)	168.9	25.6	-29.9	21.0	16.2
PER (x)	9.9	7.9	11.3	9.3	8.0
Core net profit (RMm)	126.6	158.9	115.4	134.7	156.5
Core EPS (sen)	37.2	46.7	33.9	39.6	46.0
Core PER (x)	9.9	7.9	10.9	9.3	8.0
DPS (sen)	11.0	7.5	7.0	12.0	14.0
Dividend Yield (%)	3.0	2.0	1.9	3.2	3.8
EV/EBITDA (x)	8.8	8.0	10.4	11.3	9.6
Consensus profit (RMm)			113.0	135.7	150.4
Affin/Consensus (x)			1.0	1.0	1.0

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Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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