

02 November 2011

Supermax Corporation

1-for-1 bonus issue

Supermax has proposed a bonus issue of 340m shares on the basis of 1-for-1 and a share buyback scheme of up to 10% of its issued and paid-up capital. We believe that the exercise will improve the stock's liquidity. As such, with an enlarged share base of 680m, we are revising down our FY11 and FY12 EPS to RM0.17 and RM0.20 on an ex-basis, translating to an ex-bonus target price of RM1.47 (cum price: RM2.94). We are maintaining our Neutral rating on Supermax as we do not anticipate any significant earnings surprises in the near term as the new capacity which we have factored in earlier will only kick in by 1Q12. The next re-rating catalysts for Supermax will be (1) lower than expected latex price and (2) continuous weakening in the ringgit against the greenback.

1-for-1 bonus issue. Supermax has proposed a bonus issue of 340.1m shares on the basis of 1-for-1 and a share buyback scheme of up to 10% of its issued and paid-up capital. The entitlement date will be determined at a later date.

Liquidity boost. While the proposals will not have a direct impact on Supermax's business operation, we believe that the move could potentially improve the stock's liquidity which may potentially ease concerns over its share liquidity. Following the completion of the proposals, Supermax's share base will increase to 680m shares from the current 340.1m shares. Nevertheless, the effectiveness of the proposals in improving liquidity of the shares will be dependent on the shares' free float, which in turn is determined by the stake held by its major shareholders.

Maintain Neutral. With an enlarged share base of 680.2m shares, we are adjusting our FY11 and FY12 EPS downward to RM0.17 and RM0.20 respectively on the ex-basis. Hence, our ex-bonus target price would be RM1.47 (cum price: RM2.94) based at 7.3x PER on FY12 EPS. As we have earlier factored in the new capacity into our forecast, we do not expect any significant earnings surprises in the near term, and hence, we are maintaining our **Neutral** recommendation on the stock.

NEUTRAL ↔

Price: RM3.70 (ex: RM1.85)
Target Price: RM2.94 (ex: RM1.47) ↔

STOCK DATA

Bloomberg Ticker	SUCB MK	YTD price chg	-7.0%
Market Cap	1,258.3	YTD KLCI chg	-2.8%
Issued shares	340.1	Beta	1.6
52-week range (H)	4.74		
52-week range (L)	2.26		
3-mth avg daily vol:	1,353,208	Major Shareholders	
Free Float	56.3%	KIM SIM THAI	20.4%
Altman Z-score	3.6	BEE GEOK TAN	15.1%
		EPF	8.2%

AT A GLANCE

Target Price (RM):	Supermax Corporation 2.94 (ex: RM1.47)	Maintained
Valuation:	7.3x PER over FY12 EPS.	
Current Price (RM):	3.70 (ex: RM1.85)	

Action: NEUTRAL Maintained
Reason: -

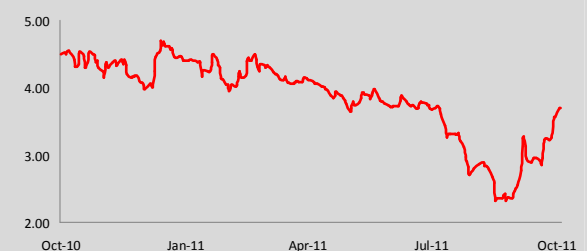
Basis of call: -

Catalyst: Lower than expected latex price and continuous weakening in RM against USD

FYE31Dec RMm	2010A	2011F	2012F
Turnover	923.3	976.2	1,146.4
Net Profit (NP)	168.2	114.9	137.0
Consensus (NP)		113.5	135.7
Earnings Revision:		-	-

Earnings Revision Rationale: -

SHARE PRICE CHART



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Earnings Estimates

FYE31Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Turnover	803.6	923.3	976.2	1,146.4	1,250.6
EBIT	131.9	148.5	104.0	131.0	142.7
Pretax profit	151.5	177.4	127.7	152.2	162.3
Net Profit	126.6	168.2	114.9	137.0	146.0
EBIT margin	16.4%	16.1%	10.7%	11.4%	11.4%
Pretax margin	18.8%	19.2%	13.1%	13.3%	13.0%
Effective tax rate	16.4%	5.2%	10.0%	10.0%	10.0%
Growth ratios					
Turnover	-1%	15%	6%	17%	9%
EBIT	88%	13%	-30%	26%	9%
Pretax profit	191%	17%	-28%	19%	7%
Net profit	99%	33%	-32%	19%	7%
ROE	26%	27%	16%	17%	16%
ROA	13%	17%	10%	11%	10%
Net Gearing (x)	0.3	0.3	0.2	0.2	0.1
Per share data					
EPS (sen)	18.6	24.7	16.9	20.1	21.5
EPS growth (%)	99%	33%	-32%	19%	7%
PER (x)	9.9	7.5	10.9	9.2	8.6
EV/EBITDA (x)	8.9	7.8	10.1	8.1	7.1
Gross DPS (sen)	1.6	2.5	5.0	6.0	7.0
Div. Yield (%)	0.9%	1.4%	2.7%	3.2%	3.8%
NTA/share (RM)	0.8	1.0	1.2	1.4	1.5
P/NTA (x)	2.4	1.9	1.5	1.4	1.2
Historical Price Ratio	2006	2007	2008	2009	2010
PER (x)	28.6	21.2	9.3	20.3	16.1
PBV (x)	4.7	3.0	1.0	4.6	3.9

Source: Kenanga Research

Balance Sheet

FYE31Dec (RMm)	2009A	2010A	2011E	2012E	2013E
Non Current Assets	564.1	620.3	607.3	629.0	652.1
Current Assets	381.2	445.1	626.8	724.3	814.2
Total Assets	945.2	1,065.4	1,234.1	1,353.3	1,466.3
Current Liabilities	213.7	219.7	307.6	330.6	345.2
Non Current Liabilities	172.7	154.1	154.1	154.1	154.1
Shareholders' Fund	558.8	691.5	772.4	868.6	967.0
Minority Interest	0.0	0.1	0.0	0.0	0.0
Equity & Liabilities	945.2	1,065.4	1,234.1	1,353.3	1,466.3

Source: Kenanga Research

Stock Ratings are defined as followed

Stock Recommendations

Core Coverage*

OUTPERFORM	:	The stock's expected total return is expected to outperform the FBMKLCI benchmark by 2.5% or more over the next 12 months.
MARKET PERFORM:		The stock's expected total return is expected to perform in line with the FBMKLCI benchmark by +/- 2.5% over the next 12 months.
UNDERPERFORM	:	The stock's expected total return is expected to underperform the FBMKLCI benchmark by 2.5% or more over the next 12 months.

****Core coverage is for our coverage on the Top 100 market capitalisation stocks and selective industry proxies/leaders.***

Non-Core Coverage**

BUY	:	The stock's absolute expected total return is +10% or more over the next 12 months.
NEUTRAL	:	The stock's absolute expected total return is +/- 10% over the next 12 months.
SELL	:	The stock's absolute expected total return is -10% or more over the next 12 months.

*****Non-core coverage is for our coverage on stocks other than our core coverage.***

Sector Recommendations***

OVERWEIGHT	:	The industry is expected to outperform the FBMKLCI benchmark over the next 12 months.
NEUTRAL	:	The industry is expected to perform in line with the FBMKLCI benchmark over the next 12 months.
UNDERWEIGHT	:	The industry is expected to underperform the FBMKLCI benchmark over the next 12 months.

******Sector recommendations / ratings are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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