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16 February 2011

Supermax Corporation

Far from super

RECOM	Buy
PRICE	RM4.25
MKT CAPITALISATION	RM1.45bn
BOARD	Main (Syariah)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

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Results highlights

- **Below; maintain BUY.** At 91% of our forecast and 95% of consensus, FY10 results were below expectations. We had overestimated Supermax's ability to pass on costs and had underestimated the intense competition for nitrile. One small consolation was the full-year DPS of 10 sen vs. our forecast of 9 sen. We cut our FY11-12 EBITDA margin from 22.1-22.2% to 19.4-17.0% to reflect lower cost pass-through. This reduces our FY11-12 EPS by 12.4-17.2%. Our target price falls from RM7.82 to RM6.80, still based on 11.6x CY12 P/E, a 20% discount to Top Glove's target P/E of 14.5x. Despite the earnings letdown, we retain our BUY rating as we expect the earnings momentum to continue, leading to a 3-year EPS CAGR of 7.7%. Potential re-rating catalysts include 1) associate earnings growth, 2) restart of the Sungai Buloh plant, and 3) tax savings.
- **4Q earnings down on costs and competition.** As previewed, 4Q results were disappointing. Although the 1.0% qoq dip in revenues to RM232.7m was not as bad as the 6% we had braced ourselves for, net profit fell 14.2% qoq to RM32.7m as net margins fell sequentially for the third consecutive quarter to 14.1%. We believe the contraction was due to the time lag between ASP hikes and raw material price increases. We estimate that output during the quarter rose 15-20% qoq to 14bn-16bn gloves, outpacing the decline in group sales due to intense competition for nitrile. Nitrile now constitutes c.27-30% of total capacity, up from 24% last quarter due to higher demand for more affordable synthetic gloves. We will provide further updates after the company's analyst briefing today.
- **Dividend surprise.** Supermax has proposed an interim tax-exempt DPS of 2.5 sen and a final tax-exempt DPS of 2.5 sen. This was a positive surprise, taking FY10 gross DPS to 10 sen, higher than our expectations of 9 sen. We maintain our FY11-12 gross DPS forecasts of 11-12 sen, implying an FY11-12 dividend yield of 2.6-2.8%.

Key stock statistics

	2010	2011F
FYE Dec		
EPS (sen)	49.4	53.9
P/E (x)	8.6	7.9
Dividend/Share (sen)	10.0	11.0
NTA/Share (RM)	2.00	2.17
Book Value/Share (RM)	2.08	2.62
Issued Capital (m shares)		339.5
52-weeks Share Price Range (RM)	RM2.72/RM6.60	
Major Shareholders:		%
Dato' Seri Stanley Thai and family		35.5
Employees Provident Fund		8.4

Per share data

	2008	2009	2010	2011F
FYE Dec				
Book Value (RM)	1.22	1.64	2.08	2.62
Cash Flow (sen)	15.6	66.4	42.1	53.8
Earnings (sen)	13.8	37.2	49.4	53.9
Dividend (sen)	2.6	8.8	10.0	11.0
Payout Ratio (%)	18.8	23.6	20.2	20.4
P/E (x)	30.8	11.4	8.6	7.9
P/Cash Flow (x)	27.2	6.4	10.1	7.9
P/Book Value (x)	3.5	2.6	2.0	1.6
Dividend Yield (%)	0.6	2.1	2.4	2.6
ROE (%)	11.7	26.0	25.9	22.5
Net Gearing (%)	90.0	31.5	16.2	4.6

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

Figure 1: Results comparison (RM m)

FYE Dec	4QFY10	4QFY09	% Change
Revenue	232.7	196.4	18.5
Operating Profit (EBIT)	20.7	59.1	(64.9)
Depreciation	(9.0)	(8.4)	7.7
Interest Expenses	(0.7)	(8.5)	(91.8)
Pretax Profit	12.8	13.4	(4.3)
Net Profit	32.8	50.6	(35.2)
Operating Margin	32.7	44.1	(25.9)
Pretax Margin	8.9	30.1	(70.4)
Net Margin	14.1	25.8	(45.3)

Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

FYE Dec	2008	2009	2010	2011F
Revenue	811.8	803.6	923.3	1,149.0
Operating Profit (EBIT)	98.9	169.0	228.0	222.4
Depreciation	(28.8)	(31.9)	(34.0)	(46.1)
Interest Expenses	(20.3)	(22.3)	(11.5)	(16.2)
Pretax Profit	52.0	151.5	177.4	203.6
Effective Tax Rate (%)	9.6	16.4	5.3	10.0
Net Profit	47.0	126.6	168.0	183.2
Operating Margin (%)	12.2	21.0	24.7	19.4
Pretax Margin (%)	6.4	18.8	19.2	17.7
Net Margin (%)	5.8	15.8	18.2	15.9

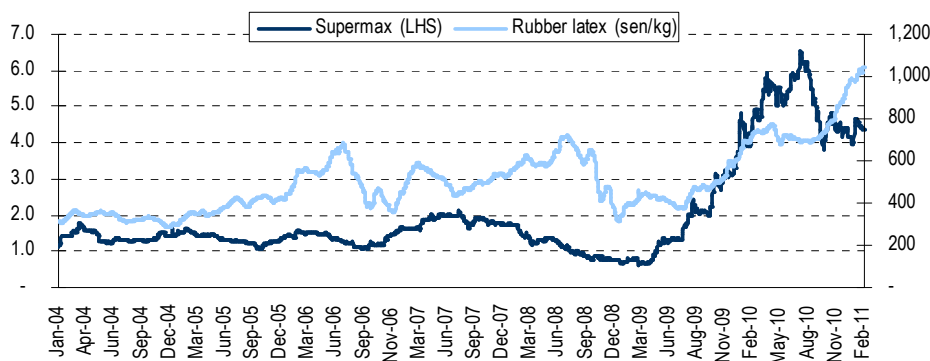
Source: Company, CIMB estimates

Recommendation

Continued earnings growth in FY11-12. Although the results were disappointing, we remain positive on the company's earnings growth prospects for FY11-12, helped by a likely 5% pt reduction in its tax rate to 10% because of the tax benefits of qualifying as a regional distributor. Also, we expect the company's Sungai Buloh plant to be fully operational by FY12, adding c.350m pairs of surgical gloves to capacity. This will help Supermax to diversify its product base to more durable gloves, which will complement its existing disposable glove segment.

Maintain BUY. Factoring in the FY10 earnings shortfall, we reduce our FY11-12 net profit forecasts by 12.4-17.2% to RM183.2m-199.4m and introduce our FY13 net profit of RM209.6m. The cut in our FY12 earnings reduces our target price from RM7.82 to RM6.80, still based on a CY12 P/E of 11.6x or a 20% discount to Top Glove's target P/E of 14.5x. Despite the earnings letdown, we retain our BUY rating as we expect the earnings momentum to continue, leading to a 3-year EPS CAGR of 7.7%. Potential re-rating catalysts include 1) associate earnings growth, 2) restart of the Sungai Buloh plant, and 3) tax savings. Supermax's FY11-13 dividend yield is now 2.6-2.8%.

Figure 3: Share price and rubber latex chart (RM)



Source: Bloomberg

Financial summary

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (RM m)	803.6	923.3	1,149.0	1,454.7	1,570.7
EBITDA (RM m)	169.0	228.0	222.4	247.1	268.2
EBITDA margins (%)	21.0	24.7	19.4	17.0	17.1
Pretax profit (RM m)	151.5	177.4	203.6	221.5	232.9
Net profit (RM m)	126.6	168.2	183.2	199.4	209.6
EPS (sen)	37.2	49.4	53.9	58.6	61.6
EPS growth (%)	+169%	+33%	+9%	+9%	+5%
P/E (x)	11.4	8.6	7.9	7.3	6.9
Core EPS (sen)	38.8	49.4	53.9	58.6	61.6
Core EPS growth (%)	+107%	+27%	+9%	+9%	+5%
Core P/E (x)	11.0	8.6	7.9	7.3	6.9
Gross DPS (sen)	8.8	10.0	11.0	12.0	12.0
Dividend yield (%)	2.1	2.4	2.6	2.8	2.8
P/NTA (x)	2.7	2.0	1.7	1.4	1.2
ROE (%)	26.0	26.0	22.5	20.4	18.2
Net gearing (%)	31.5	16.2	4.6	-	-
Net cash per share (RM)	-	-	-	0.12	0.53
P/CF (x)		20.4	13.3	12.5	-
EV/EBITDA (x)		6.7	6.6	5.6	4.6
% change in EPS estimates			-12.4%	-17.2%	-
CIMB/Consensus (x)			0.94	0.92	1.01

Source: Company, CIMB Research, Bloomberg

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