Equity Focus
20 April 2010

Results Note – Supermax *Trading Buy (TP: RM8.80)*

Impressive Quarter to Kick Start

- 1QFY10 bottom line registered RM51.5m (+>100% YoY; +16.8% QoQ) as sales of examination gloves, stayed resilient with higher global demand, particularly from the medical and dental industries. 1Q's Net earnings recorded were way above expectations, 31% of consensus forecast. The robust results were attributed to higher selling prices of gloves by passing its latex cost increase to customer on the back of rising demand and limited supply. No dividend was declared.
- **Topline surged to RM220.7m in 1QFY10**
  Revenue heaved 12.4% QoQ on higher global consumption (est. +8-10% p.a.) arising from H1N1 pandemic outbreak as well as the growing awareness in occupational safety and hygiene. However, operating margin decreased 1.7pts to 21.6% on the back of the unfavourable latex prices (est. RM7.75/kg) as a result of weaker US$. Similarly, its America and European based associates suffered from weak US$ with contribution plummeted -25% QoQ.
- **Improved in earnings forecasts**
  We revised our FY10 and FY11 EPS estimates to 88.2sen and 93.7sen respectively on stronger than expected demand, anchoring on future capacity expansion. Given an additional 1.2bn pieces coming on stream in 3Q10, Supermax is well placed to capitalise on growing demand. The US healthcare reform, which expands health coverage to an additional 32m Americans, and China's pledge to spend 850bn yuan (US$124bn) on healthcare between 2009 and 2011, could potentially lead to a higher glove consumption forward.
- **Reiterate Trading Buy.**
  We raised our Target Price from RM5.53 to RM8.80 based on unchanged FY10 PER of 10x on higher FY10 EPS of 88.2sen. The trading buy call is in order with its differentiated own brand manufacturing, organic expansion strategies, improved liquidity, sound operation and attractive valuation. Risks to our recommendation include (i) surge in production capacity (ii) continued surge in RM and (iii) shortage of gas supply.

Investment Data

Bloomberg		**SUCB.MK**	**Major shareholders :**	**%**
Price		RM6.90	Thai Kim Sim	20.4
Expected capital gain		27.5%	Tan Bee Geok	14.6
Expected yield		2.6%	Est. Free Float	65.0
Expected return		30.1%		
Market capitalisation		RM1872.7m	**12-month consensus**	
Share in issue @ RM0.50 par		271.4m	Buys	8
52 week high/low		RM7.45/RM1.18	Holds	0
3m average daily volume		3.5m shares	Sells	1
			FY10 Estimate (EPS sen)	61.8
	Old	**New**	FY11 Estimate (EPS sen)	70.9
Stock Rating	**Trading Buy**	**Trading Buy**		
Target Price	**RM5.53**	**RM8.80**	**KLCI**	**1,326.67 pts**

Financial Summary

FY December (RM m)	2008	2009	2010F	2011F
Turnover	811.8	814.8	1,027.6	1,140.4
EBIT	98.9	144.2	222.0	244.0
Pretax Profit	52.0	152.1	252.8	269.1
Core Net Profit	63.7	129.8	239.4	254.3
EPS(sen)	17.7	48.4	88.2	93.7
EPS Growth (%)	21.9	173.8	82.3	6.2
PER (x)	31.0	11.3	7.8	7.4
P/NTA (x)	3.5	2.6	3.0	2.9
Gross DPS (sen)	3.2	11.0	17.6	19.0
Dividend Yield (%)	0.6	2.0	2.6	2.8
ROE (%)	11.7	26.6	37.8	40.1
Net Gearing (x)	0.9	0.3	0.3	0.5

Source : Alliance Research

EARNINGS REVIEW

FY Dec (RM m)	2009 1Q	2009 4Q	2010 1Q	% YoY Chg	% QoQ Chg	Comments
Revenue	192.4	196.4	220.7	14.7	12.4	YoY growth due to higher ASP and improved sales volume from strong global demand.
Operating Expenses	(172.0)	(150.7)	(173.1)	0.6	14.9	-
Operating Profit	20.4	45.7	47.6	133.3	4.2	Greater operating profit attributed by the higher selling prices of gloves following the increase in latex cost passed through and demand outstripping supply.
Finance Costs	(5.0)	(3.1)	(3.7)	(26.0)	19.4	Lower interest rates for short term borrowings.
Pretax Profit	23.5	50.6	54.3	131.1	7.3	-
Taxation	(3.8)	(6.5)	(2.8)	-26.3	-56.9	
Net Profit	19.7	44.1	51.5	161.4	16.8	Net profit surged significantly due to the improved production efficiencies and cost savings.
EPS (sen)	7.4	16.4	19.0	156.8	15.9	
Operating Margin (%)	10.6	23.3	21.6	11pts	-1.7pts	Weaker QoQ notwithstanding the larger revenue base (cost passed through via higher selling prices) while profit margin per glove remained intact.
Pretax Margin (%)	12.2	25.8	24.6	12.4pts	-1.2pts	-
Net Margin (%)	10.2	22.4	23.3	13.1pts	0.9pts	-
Effective Tax Rate (%)	16.2	12.8	5.2	-11pts	-7.6pts	Lower than statutory income tax resulted from the reinvestment allowance claimed by certain subsidiary companies.

Source : Alliance Research

Recommendation Framework

STOCK RECOMMENDATIONS

OUTPERFORM	:	The stock's total return is expected to exceed KLCI's total return by 10% or more in the next 12 months.
MARKET PERFORM	:	The stock's total return is expected to be within +10% or –10% of KLCI's total return.
UNDERPERFORM	:	The stock's total return is expected to be below KLCI's total return by 10% or more in the next 12 months.
TRADING BUY	:	The stock's total return is expected to exceed KLCI's total return by 10% or more within the next 3 months.
TRADING SELL	:	The stock's total return is expected to be below KLCI's total return by 10% or more within the next 3 months.
NOT RATED	:	Stock is not within our regular coverage

SECTOR RECOMMENDATIONS

OVERWEIGHT	:	The industry as defined by the analyst is expected to outperform the KLCI over the 12 months.
NEUTRAL	:	The industry as defined by the analyst is expected to perform in line with KLCI over the 12 months.
UNDERWEIGHT	:	The industry as defined by the analyst is expected to underperform the KLCI over the next 12 months.
total return	**=**	**capital gain + dividend yield**

Common Abbreviation

Adex = Advertising Expenditure
bn = billion
BV = Book Value
CF = Cashflow
CAGR = Compounded Annual Growth rate
Capex = Capital Expenditure
CY = Calendar Year
Div yld = Dividend Yield
DCF = Discounted Cashflow

DPS = Dividend Per Share
EBIT = Earnings Before Interest & Tax
EBITDA = EBIT before Depreciation and Amortisation
EPS = Earnings per share

EV = Enterprise Value
1QFY12/07 = 1st Quarter for FY Dec 07
2HFY12/07 = 2nd Half for FY Dec 07

FCF = Free Cashflow
FV = Fair Value
FY = Financial Year
KLCI = Kuala Lumpur Composite Index
m = million
MoM = month on month
MP = Market Perform
NAV = Net Assets Value
NM = Not Meaningful

NTA = Net Tangible Assets
NR = Not Rated
p.a. = per annum

PAT = Profit after tax

Pretax profit = Profit before tax
PE = Price Earnings Ratio

PEG = PE ratio to growth
PER = PE ratio
QoQ = Quarter on Quarter
OP = Outperform
RM = Ringgit
RM bn = RM billion
RM m = RM million
ROA = Return on Assets
ROE = Return on Equity
ROSF = Return on shareholders funds
TP = Target Price
UP = Under Perform

WACC = Weighted Average Cost of Capital
YoY = Year on Year
YTD = Year to date

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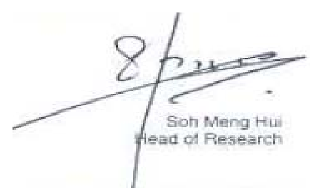

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