



BUY

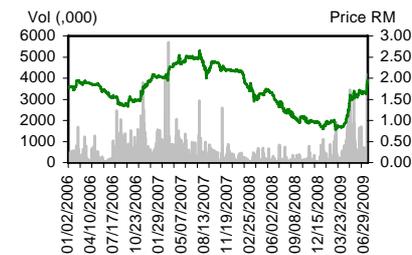
1HFY09 Results

Analyst

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Price Target **RM1.96**
Target **RM2.50**
KLCI Index **1068**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	22.9	88.3	129.7
Relative (%)	25.6	66.2	96.7

Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	202.0
52-week high (RM)	2.11
52-week low (RM)	0.78
Shares issued (m)	265.3
6m avg d.vol (US\$)	267,799
Free float (%)	40.0
Major shareholders (%)	
Thai Kim See / Tan Bee Geok	(50.4)
Employee Provident Fund	(7.1)

Key Indicators

ROE (%)	18.1
Net gearing (%)	49.6
NTA (RM)	1.72
Interest cover (x)	4.7

Supermax Corporation Berhad

Return of the Panther

1HFY09 results were above expectations

1HFY09 EPS of 17.2 sen came in at 65% of our FY09 forecast and consensus estimates. Pretax profit rose 75% YoY despite a 1% decline in revenue, due to better operating margins and higher trading profit from associates. Operating margins rose to 12.4% from 8.1% in 1H08, aided by a RM20m reduction in operating expenses whilst the Ringgit fell to RM3.59/US\$ from RM3.22/US\$ in 1H08. Contribution from its Brazilian associate was also higher as Supermax was one of only two companies certified under the new more stringent guidelines. Meanwhile, the group has also improved its working capital and risk management - with 1H09 receivables cycle falling to 2.43 months (FY08: 3.46 months) and inventory turnover falling to 1.28 months (FY08: 2 months) - and ceased equity-accounting APLI's losses. However, core net profit rose by a lesser 53% YoY as the tax charge rose from 5% in 1H08 to 17% as the group was unable to fully utilise its reinvestment allowances due to the lack of capex in 1H09.

Raising FY09 EPS by 19% due to lower costs and stronger US\$

Despite ~90% of its gloves being sold to the Americas and Europe, demand for rubber gloves continues to be robust amid the current global uncertainties, with global consumption of 130b gloves expected to grow by 10% p.a., boosted by the ongoing H1N1 pandemic. Management's guidance of 27 sen EPS in FY09 appears conservative following its strong 1H09 results. We have raised our EPS forecasts by 19% in FY09 and 17% in FY10 due to widening operating margins amid lower latex prices and a stronger US\$. Latex is currently trading at RM4.09/kg wet versus RM6.28/kg wet in 1H08 whilst electricity and gas prices were cut by 5% and 32% respectively on 1 Mar 2009. The Ringgit is also weaker than in FY08. Supermax has deferred the installation of new capacity of 1.7m gloves (costing RM35m) to 2010. By end-2010, its installed capacity will increase to 16.2b gloves from 14.5b gloves currently.

BUY - undemanding valuations

Despite a 150% increase in its share price from a low of RM0.78 on 24 Feb 2009, Supermax's FY09 and FY10 PERs of 6.3x and 5.9x are relatively undemanding compared to the sector average of 10x for FY09. We reiterate our BUY recommendation with a price target of RM2.50, based on 8x FY09 EPS of 31.2 sen.

Year End Dec 31	2007	2008	2009E	2010E	2011E
Sales (RM m)	574.3	811.8	815.0	881.0	950.0
Pre-tax (RM m)	58.6	52.0	101.0	105.0	110.0
Net profit (RM m)	56.0	47.0	82.8	87.7	91.9
EPS (sen)	24.1	17.7	31.2	33.0	34.6
EPS growth (%)	33.5	-26.6	76.3	5.9	4.8
PER (x)	8.1	11.1	6.3	5.9	5.7
EV/EBITDA (x)	10.6	11.8	7.4	6.9	6.1
Net Yield (%)	1.7	1.7	1.8	1.8	1.8

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Table 1: Quarterly Results

(RMm)	Q208	Q308	Q408	Q109	Q209	% chg Q/Q	% chg Y/Y
Revenue	193.3	244.3	204.4	192.4	188.5	-2.0	-2.5
Operating profit	15.1	19.1	21.4	20.4	26.8	31.8	77.8
Interest expense	-5.7	-5.6	-5.1	-5.0	-4.5	-10.7	-21.3
Associates	4.9	2.4	6.2	8.1	9.0	10.7	85.3
Impairment of Inv in Associate (APLI)	0.0	0.0	-16.7	0.0	0.0		
Pretax Profit	14.2	15.9	5.9	23.5	31.3	33.6	120.2
Taxation	-0.7	-0.4	-4.4	-3.8	-5.6	48.1	681.7
Net Profit	13.5	15.5	1.5	19.7	25.8	30.8	90.6
EPS (sen)	5.1	5.8	0.6	7.4	9.7	30.8	90.6
Output (m pieces)	2445	2785	2915	2920	3015	0.7	23.3
EBIT margins (%)	7.8	7.8	10.5	10.6	14.2		
Tax Rate (%)	5.0	2.6	73.9	16.0	17.8		

Sources: Company data, KE estimates

Table 2: FY08 Sales by Products (%)

Powdered gloves	Latex examination	38
	Nitrile synthetic	1
	Sterile surgical	3
Powder-free gloves	Latex examination	36
	Nitrile synthetic	22
Total		100

Source: Company data

Table 3: Sales by geographical regions (%)

	FY06	FY07	FY08	1H09
Americas	65.0	64.0	60.5	61.0
Europe	23.5	23.0	26.5	26.5
Asia / Australasia	5.5	6.0	6.5	7.0
Africa & /Middle East	6.0	7.0	6.5	5.5

Source: Company data

Table 4: Working Capital Management

	FY06	FY07	FY08	2Q09
Receivables cycle (mths)	4.47	4.35	3.46	2.43
Inventory Turnover cycle (mths)	1.26	2.22	2.00	1.28
Gearing ratio (net)	0.78	0.88	0.90	0.49

Source: Company data

Table 5: Key Assumptions

	2007	2008	2009	2010	2011
Installed capacity (m pieces)	13,516	14,476	14,476	15,634	16,204
Prod'n output (m pieces) *	11,736	12,050	13,000	13,760	14,200
Utilisation rate (%)	87%	83%	90%	89%	88%
Forex rate US\$/RM	3.40	3.50	3.60	3.50	3.50
Avg latex price/kg wet (RM)	5.20	5.50	4.50	5.00	5.00

* Supermax and Seal Polymer

Table 6: Relative valuations

Company FYE	Top Glove Aug-09	Kossan Dec-09	Supermax Dec-09	Hartalega* Mar-10
Share price (RM)	7.25	3.92	1.96	4.50
Share capital (m shrs)	294.7	159.9	265.3	242.3
Market cap (RMm)	2136.5	626.8	520.0	1090.4
Installed Capacity (m pieces/annum)	30000	11100	14476	6200
Net Profit	150.2	73.6	82.8	92.5
EPS (sen)	51.0	46.0	31.2	38.2
PER (x)	14.2	8.5	6.3	11.8
NTA/share (RM)	2.63	1.87	1.72	2.05
Price/book (x)	2.8	2.1	1.1	2.2
Net debt (RMm)	-83.1	185.5	227.0	49.0
Net gearing (%)	-5.4	54.0	49.6	23.3
Revenue – gloves (RMm)	1481.0	877.0	815.0	545.3
Market cap/revenue (x)	1.44	0.71	0.64	2.00
Sales/share (RM)	5.03	5.48	3.07	2.25

* based on consensus estimates

Profit and Loss

YE Dec (RM m)	2007	2008	2009	2010	2011
Sales	574.3	811.8	815.0	881.0	950.0
Cost of goods sold	455.1	658.9	639.0	693.0	753.0
Gross Profit	119.2	152.9	176.0	188.0	197.0
Operating expenses	63.8	82.8	83.0	87.0	91.0
Operating Profit	55.4	70.2	93.0	101.0	106.0
Net interest	-15.3	-20.3	-20.0	-22.0	-22.0
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	-15.3	-20.3	-20.0	-22.0	-22.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	18.4	18.8	28.0	26.0	26.0
Net extraordinary	0.0	-16.7	0.0	0.0	0.0
Pretax income	58.6	52.0	101.0	105.0	110.0
Income taxes	-2.6	-5.0	-18.2	-17.3	-18.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net profit	56.0	47.0	82.8	87.7	91.9
EBITDA	75.9	75.8	100.8	112.7	121.9
EPS (sen)	24.1	17.7	31.2	33.0	34.6

Sources: Company data, KE estimates

Cashflow

YE Dec (RM m)	2007	2008	2009	2010	2011
Operating cash flow	73.9	98.3	90.8	102.7	111.9
Net profit	56.0	47.0	82.8	87.7	91.9
Depreciation & amortisatn	19.9	28.8	18.0	25.0	30.0
Change in working capital	-1.9	2.7	-10.0	-10.0	-10.0
Others	-0.1	19.8	0.0	0.0	0.0
Investment cash flow	-45.2	-57.2	-15.0	-35.0	-35.0
Net capex	-33.9	-38.5	-15.0	-35.0	-35.0
Change in LT investment	-13.9	-18.6	0.0	0.0	0.0
Change in other assets	2.7	0.0	0.0	0.0	0.0
Cash flow after invt.	28.8	41.2	75.8	67.7	76.9
Financing cash flow	-30.0	-48.0	-38.1	-37.7	-37.7
Change in share capital	4.8	-5.9	1.2	1.6	1.6
Net change in debt	-26.2	-33.7	-30.0	-30.0	-30.0
Change in other LT liab.	-8.6	-8.5	-9.3	-9.3	-9.3
Net cash flow	-1.2	-6.8	37.7	30.0	39.2

Sources: Company data, KE estimates

Balance Sheet

YE Dec (RM m)	2007	2008	2009	2010	2011
Total assets	868.5	946.7	863.4	953.0	1010.0
Current assets	354.2	407.3	310.5	360.7	370.7
Cash & ST investment	29.2	31.0	66.6	55.9	60.0
Inventories	106.4	135.5	81.7	103.0	105.0
Accounts receivable	208.2	234.2	154.3	192.0	193.0
Others	10.5	6.6	7.9	9.8	12.7
Other assets	514.3	539.4	552.8	592.3	639.3
LT investments	95.7	116.0	134.1	134.1	134.1
Net fixed assets	378.5	388.2	383.5	423.0	470.0
Others	40.1	35.2	35.2	35.2	35.2
Total liabilities	484.7	530.3	406.1	422.2	399.5
Current liabilities	255.1	347.4	263.8	277.7	284.5
Accounts payable	97.9	109.1	73.7	96.1	102.0
ST borrowings	152.5	230.8	159.1	173.0	176.0
Others	4.8	7.5	31.0	8.6	6.5
Long-term liabilities	229.6	183.0	142.2	144.5	115.0
Long-term debts	216.8	174.9	134.5	134.5	106.8
Others	12.8	8.1	7.7	10.0	8.2
Shareholder's equity	383.8	416.4	457.3	530.8	610.5
Paid-in capital	132.6	132.6	132.6	132.6	132.6
Reserve	251.2	289.6	330.6	404.1	483.8
Others	0.0	-5.9	-5.9	-5.9	-5.9

Sources: Company data, KE estimates

Key ratios

YE Dec	2007	2008	2009	2010	2011
Growth (% YoY)					
Sales	47.6	41.4	0.4	8.1	7.8
OP	28.7	26.6	32.5	8.6	5.0
EBITDA	41.1	-0.2	33.1	11.8	8.1
NP	37.1	-16.1	76.3	5.9	4.8
EPS	33.5	-26.6	76.3	5.9	4.8
Profitability (%)					
Gross margin	20.8	18.8	21.6	21.3	20.7
Operating margin	9.7	8.6	11.4	11.5	11.2
EBITDA margin	13.2	9.3	12.4	12.8	12.8
Net Profit margin	4.2	2.2	3.8	3.8	3.6
ROE	14.6	11.3	18.1	16.5	15.0
ROA	6.4	5.0	9.6	9.2	9.1
Stability					
Gross debt/equity (%)	96.2	97.4	64.2	57.9	46.3
Net debt/equity (%)	88.6	90.0	49.6	47.4	36.5
Int. coverage (X)	3.6	3.4	4.7	4.6	4.8
Int. & ST debt coverage (X)	0.5	0.5	0.5	0.5	0.5
Cash flow int. coverage (X)	4.8	4.8	4.5	4.7	5.1
Cash flow int. & ST debt (X)	0.6	0.6	0.6	0.6	0.6
Current ratio (X)	1.6	1.6	1.6	1.6	1.6
Quick ratio (X)	0.7	0.7	0.7	0.7	0.7
Net debt (RMm)	340.1	374.7	227.0	251.6	222.8
Per share data					
EPS (sen)	24.1	17.7	31.2	33.0	34.6
CFPS (sen)	31.9	37.1	34.1	38.6	42.0
BVPS (RM)	1.66	1.57	1.72	2.00	2.30
SPS (RM)	2.48	3.06	3.06	3.31	3.57
EBITDA/share (RM)	32.7	28.6	37.9	42.4	45.8
DPS (sen)	3.3	3.3	3.5	3.5	3.5

Sources: Company data, KE estimates

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Recommendation definitions
Our recommendation is based on the
following expected price
performance within 12 months:

- +15% and above: BUY
- 15% to +15%: HOLD
- 15% or worse: SELL

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AND
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