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13 October 2009

Supermax

Super results on the way

RECOM	Buy
PRICE	RM2.91
MKT CAPITALISATION	RM772.0m
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

Investment highlights

- Super results on the way; maintain BUY.** Supermax is scheduled to release its 3Q09 results during lunchtime on Thursday, 15 Oct. Judging from the strong 4Q results announced by Top Glove recently, Supermax is likely to post a strong set of results too. We expect its 3Q earnings to be much higher on both qoq and yoy basis. Annualised 9M09 earnings are likely to outstrip our full-year forecast of RM92.5m by around 15%, thanks to outperformance of both the topline and margins. For now, we retain our FY09-11 earnings forecasts which we are likely to raise by about 24-29% after the release of the results. However, as we are now in the final quarter of 2009, we roll forward our target price to end-10. This lifts our target price from RM4.02 to RM4.28, still pegged to 10.5x P/E, an unchanged 30% discount to Top Glove's target P/E, which is, in turn, based on our target market P/E of 15x. Potential re-rating catalysts for Supermax include the anticipated 3Q results outperformance, continuing uptick in glove demand and upcoming capacity expansion plans. Supermax remains a BUY.
- Potential for an interim dividend.** The company typically announces an interim dividend in its 3Q results release. Considering the strong demand trend, potential improvement in earnings and higher margins, we look forward to the announcement of a higher interim dividend for 3Q09.
- Stretching its capacity.** Supermax's annual glove production capacity currently stands at 14.5bn pieces per annum. Its expansion plans include adding 12 new lines at its Meru plant by Jan 2010. The company also intends to refurbish some old lines and add some new ones at its Malacca and Sungai Buloh plants, taking its annual glove production capacity to 17.7bn pieces by mid-2010. The company is optimistic that the strong demand trend witnessed since the outbreak of A(H1N1) at end-April will continue in 2010.

Key stock statistics

FYE Dec	2008	2009F
EPS (sen)	17.7	34.9
P/E (x)	16.4	8.3
Dividend/Share (sen)	3.2	7.0
NTA/Share (RM)	1.5	1.5
Book Value/Share (x)	1.5	1.5
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)	RM3.06/RM0.78	
Major Shareholders:		%
Dato' Seri Thai Kim Sim, Stanley		20.4
Datin Seri Tan Bee Geok, Cheryl		15.0
Lembaga Tabung Haji		7.9

Per share data

FYE Dec	2006	2007	2008	2009F
Book Value (RM)	1.1	0.9	1.5	1.5
Cash Flow (sen)	13.2	26.4	37.4	39.0
Earnings (sen)	18.0	23.0	17.7	34.9
Dividend (sen)	4.5	5.4	3.2	7.0
Payout Ratio (%)	18.1	17.0	13.4	15.0
P/E (x)	16.2	12.7	16.4	8.3
P/Cash Flow (x)	22.1	11.0	7.8	7.5
P/Book Value (x)	2.6	3.1	1.9	1.8
Dividend Yield (%)	1.6	1.8	1.1	2.4
ROE (%)	17.7	22.6	14.1	21.8
Net Gearing (%)	76.3	57.0	70.9	51.1

Source: Company, CIMB estimates, Bloomberg

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

Recent developments

Stretching its capacity. Supermax's annual glove production capacity currently stands at 14.5bn pieces per annum. Its expansion plans include adding 12 new lines at its Meru plant by Jan 2010. The company also intends to refurbish some old lines and add some new ones at its Malacca and Sungai Buloh plants, taking its annual glove production capacity to 17.7bn pieces by mid-2010. The company is optimistic that the strong demand trend witnessed since the outbreak of A(H1N1) at end-April will continue in 2010. On top of that, the company is also firm on its plan to build a glove city on a 36.8-acre plot in Bukit Kapar, Klang. Preliminarily, it is looking at commencement of construction of the first plant with an annual capacity of 3bn pieces of gloves in 2011.

Earnings outlook

No change for now. The strong demand trend witnessed since the A(H1N1) outbreak has pushed up Supermax's sales. We gathered that deliveries are booked up to Feb next year. With about 55% of its products coming from the OBM segment, the robust demand could be a chance for the company to wangle higher prices for its products, which would enhance margins. Pending the release of the results on Thursday, we make no change to our earnings forecasts while noting that we are likely to up our FY09-11 numbers by about 24-29%.

Figure 1: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	400.3	574.3	811.8	828.1
Operating Profit (EBIT)	40.8	55.4	70.2	101.5
Depreciation	(13.0)	(19.9)	(28.9)	(28.1)
Interest Expenses	(12.7)	(15.3)	(20.3)	(11.6)
Pretax Profit	47.3	58.6	52.0	108.8
Effective Tax Rate (%)	16.0	4.4	9.6	15.0
Net Profit	39.7	55.9	47.0	92.5
Operating Margin (%)	10.2	9.6	8.7	12.3
Pretax Margin (%)	11.8	10.2	6.4	13.1
Net Margin (%)	9.9	9.7	5.8	11.2

Source: Company, CIMB estimates

Recommendation

Maintain BUY. As we are now in the final quarter of 2009, we roll forward our target price to end-10. This lifts our target price from RM4.02 to RM4.28, still pegged to 10.5x P/E, an unchanged 30% discount to Top Glove's target P/E, which is, in turn, based on our target market P/E of 15x. Potential re-rating catalysts for Supermax include the anticipated 3Q results outperformance, continuing uptick in glove demand and upcoming capacity expansion plans. Supermax remains a BUY and one of our top picks in the rubber glove sector.

Figure 2: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	811.8	828.1	861.2	904.2
EBITDA (RM m)	75.3	99.1	129.6	138.3	156.0
EBITDA margins (%)	13.1%	12.2%	15.6%	16.1%	17.3%
Pretax profit (RM m)	58.6	52.0	108.8	119.4	127.3
Net profit (RM m)	55.9	47.0	92.5	101.5	108.2
EPS (sen)	23.0	17.7	34.9	38.3	40.8
EPS growth (%)	+28%	-23%	+97%	+10%	+7%
P/E (x)	12.7	16.4	8.3	7.6	7.1
Core EPS (sen)	23.0	23.4	34.9	38.3	40.8
Core EPS growth (%)	+28%	+2%	+49%	+10%	+7%
Core P/E (x)	12.7	12.4	8.3	7.6	7.1
Gross DPS (sen)	5.4	3.2	7.0	7.7	8.2
Dividend yield (%)	1.8%	1.1%	2.4%	2.6%	2.8%
P/NTA (x)	3.1	1.9	1.8	1.5	1.3
ROE (%)	22.6%	14.1%	21.8%	21.3%	19.4%
Net gearing (%)	57.0%	70.9%	51.1%	29.1%	29.7%
P/CF (x)	10.8	(17.0)	(14.5)	3.4	1.6
EV/EBITDA (x)	9.4	9.6	6.6	5.6	4.9
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.09	1.07	1.10

Source: Company, CIMB Research, Bloomberg

For further information, kindly contact Farahnaz Ireena at (603) 2084 9911 or farahnaz.amerhamzah@cimb.com

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