

Equity Focus – Supermax Trading Buy (TP: RM3.69)

Up, Up and Away

□ We spoke with Supermax management and below are the key takeaways.

□ **Improving utilization rate on completion of upgrading works**

We came to understand that capacity picked up est. 5% to 14.5bn pieces after the earlier-than-expected completion of upgrading works on its older lines. Despite the subsiding fears over swine flu outbreak, orders continued to improve amidst growing demand stemming from its dominant presence in the increasingly health-conscious South American region. In view of that, management is keen to bring forward the proposed expansion of 1.5bn-1.7bn pieces, with target full completion by end of 1QFY10. We tweak our capacity forecasts accordingly (by 3.5%-5.0% for FY10 and FY11 organically) to account for the impact.

□ **Revised ASP on latex and forex fluctuations**

To recap, most glove producers revised their ASP respectively in July-August as latex prices shot up to as high as RM4.90/kg. Further upward adjustments are expected in anticipation of weaker dollar against Ringgit (average of RM3.45/US\$1 for FY10 and RM3.40/US\$1 for FY11) on 1) lack of affirmative signs of US rates raising in the near term as Fed remains concerned on lacklustre economy and 2) expectations that enormous Budget deficit to be announced. On the other hand, latex prices would linger around RM5/kg (against RM4.50/kg previously) riding on China's improving auto demand and tight supply control.

□ **Upgrade earnings**

We upgrade our FY09 and FY10 EPS forecasts to account for the aforementioned factors. Net margin is likely to sustain at 11%-12% (vs peers average of 9%-11%) on its successful penetration into OBM division (>30% of production). In addition, we also introduce our FY11 earnings estimates.

□ **Reiterate Trading Buy.** We raised our Target Price from RM2.90 to RM3.69 based on FY10 PER of 8.4x (at 30% discount on investors' wariness of its acquisition history) and our higher FY10 EPS of 43.9sen. We continue to like Supermax for its earnings visibility, improving balance sheet and organic expansion strategy. Hence, reiterate Trading Buy. Potential re-rating catalysts include upcoming quarterly results announcement and stronger-than-expected contribution from its OBM division.

Investment Data

Bloomberg	SUCB.MK	Major shareholders :	%
Price	RM3.20	Thai Kim Sim	20.4
Expected capital gain	15.3%	Tan Bee Geok	15.0
Expected yield	2.2%	Lembaga Tabung Haji	7.7
Expected return	17.5%	Est. Free Float	56.9
Market capitalisation	RM849.0m	12-month consensus	
Share in issue @ RM1.00 par	265.3m	Buys	7
52 week high/low	RM3.20/RM0.78	Holds	0
3m average daily volume	2.3m shares	Sells	0
		FY09 Estimate (EPS sen)	32.6
		FY10 Estimate (EPS sen)	36.9
Stock Rating	Old	New	
Target Price	Trading Buy	Trading Buy	
	RM2.90	RM3.69	
		KLCI	1,233.51 pts

Financial Summary

FY January (RM m)	2008	2009F	2010F	2011F
Turnover	811.8	899.1	969.2	1,015.2
EBIT	98.9	143.5	144.9	149.6
Pretax Profit	68.7	135.9	141.3	142.6
Core Net Profit	63.7	111.5	115.9	116.9
EPS(sen)	24.1	42.3	43.9	44.3
EPS Growth (%)	13.8	75.1	4.0	0.9
PER (x)	12.4	7.1	6.8	6.8
P/NTA (x)	2.1	1.5	1.3	1.1
Gross DPS (sen)	3.3	6.3	6.6	6.7
Dividend Yield (%)	1.1	2.1	2.2	2.2
ROE (%)	15.3	21.8	22.5	19.2
Net Gearing (x)	0.9	0.5	0.3	0.2

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	FCF = Free Cashflow	PEG = PE ratio to growth
bn = billion	FV = Fair Value	PER = PE ratio
BV = Book Value	FY = Financial Year	QoQ = Quarter on Quarter
CF = Cashflow	KLCI = Kuala Lumpur Composite Index	OP = Outperform
CAGR = Compounded Annual Growth rate	m = million	RM = Ringgit
Capex = Capital Expenditure	MoM = month on month	RM bn = RM billion
CY = Calendar Year	MP = Market Perform	RM m = RM million
Div yld = Dividend Yield	NAV = Net Assets Value	ROA = Return on Assets
DCF = Discounted Cashflow	NM = Not Meaningful	ROE = Return on Equity
		ROSF = Return on shareholders funds
DPS = Dividend Per Share	NTA = Net Tangible Assets	TP = Target Price
EBIT = Earnings Before Interest & Tax	NR = Not Rated	UP = Under Perform
EBITDA = EBIT before Depreciation and Amortisation	p.a. = per annum	
EPS = Earnings per share	PAT = Profit after tax	WACC = Weighted Average Cost of Capital
		YoY = Year on Year
EV = Enterprise Value	Pretax profit = Profit before tax	YTD = Year to date
1QFY12/07 = 1 st Quarter for FY Dec 07	PE = Price Earnings Ratio	
2HFY12/07 = 2 nd Half for FY Dec 07		

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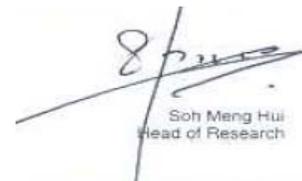
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