



Supermax Corporation

BUY (FROM O/P)

RM3.28

SUPERB

Supermax delivered superb 3Q09 earnings, bringing 9M09 net profit to RM86m, beating both consensus and our full year earnings estimates. We believe that its focus on operational efficiencies has started to pay off, further buoyed by a year full of tailwinds. Valuations at 7.3x FY10 PER and 1.4x P/B are rather attractive. Upgrade to Buy from an Outperform.

| Financial Highlights (RMm) | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Year to December | FY07 | FY08 | FY09F | FY10F | FY11F |
| Revenue | 574.3 | 811.8 | 872.1 | 935.7 | 951.7 |
| Pretax profit | 58.6 | 52.0 | 136.0 | 140.5 | 149.0 |
| Normalized net profit | 55.9 | 63.7 | 114.7 | 120.0 | 128.7 |
| Normalized EPS (sen) | 21.1 | 24.0 | 43.3 | 45.2 | 48.5 |
| EPS growth (%) | 1.5 | 13.8 | 80.2 | 4.6 | 7.2 |
| Net DPS (sen) | 3.2 | 3.2 | 5.0 | 5.2 | 5.6 |
| P/E (x) | 15.6 | 18.5 | 7.6 | 7.3 | 6.8 |
| ROE (%) | 17.9 | 11.7 | 24.4 | 20.8 | 18.7 |
| Net yield (%) | 1.0 | 1.0 | 1.5 | 1.6 | 1.7 |
| Net gearing (%) | 87.9 | 90.0 | 81.7 | 44.1 | 27.4 |
| P/B (x) | 2.3 | 2.1 | 1.7 | 1.4 | 1.2 |

Source: Company, KAF

PERFORMANCE

- Supermax reported a strong 3Q09 with earnings at the operating and net levels increasing by 47% and 56% qoq respectively. This was attributed to better production efficiency and higher share of profit from its overseas distribution centers.
- On a yoy basis, operating and net profit grew by 107% and 155% respectively. This was boosted by higher demand from the H1N1 pandemic as well as a favorable operating environment compared to 3Q08 where latex prices and energy costs were at historical highs.
- Cumulatively, total production output at 9.1bn pieces for 9M09 exceeded 9M08 by 16%. We also note that associates contribution has increased significantly from RM12.5m to RM28.4m.
- Management has also guided that it has decided to bring forward its capex planned for 2010 to 4Q09 whereby 12 new production lines will be installed, due to strong global demand.
- 9M08 net profit of RM85.6m constituted 106% of our full year FY09 forecast and 99% of consensus' estimates.

REVISIONS

- We have revised our FY09 - FY11 earnings up by 40 to 42% to incorporate higher sales volumes and lower operating costs. As FY09 is an exceptionally good year, we are more conservative on FY10 and FY11 projections.

TARGET PRICE

- Consequently, our target price increases to RM4.40 from RM2.60, providing 34% upside. Upgrade to Buy from Outperform.

Market Data

| | |
|-------------------------------|-------------|
| Bloomberg code | SUCB MK |
| Shares o/s (m) | 265 |
| Mkt Cap (RMm) | 870 |
| 52 week high/low (RM) | 3.43 / 0.78 |
| Avg daily trading value (RMm) | 1.8 |
| KLCI | 1,247 |

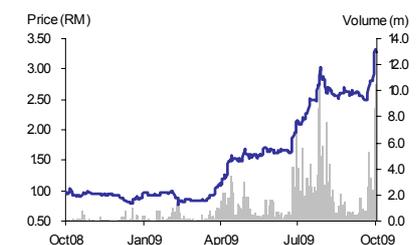
Target Price Methodology

| | |
|---|----------------------|
| Target (RM) | : 4.40 (+34%) |
| Methodology | : Gordon growth, P/B |
| Key Assumptions: COE = 13.2%, g = 5.5% | |
| FY09 PER (x) | : 10.2 |
| FY09 P/B (x) | : 2.2 |
| FY09 Net Yield | : 1.2% |

Share Price Performance

| | 1m | 3m | 12m |
|------------------|----|----|-----|
| Absolute | 27 | 56 | 222 |
| Relative to KLCI | 23 | 37 | 145 |

Share Price Movement



Source: Bloomberg

Analysts

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SUPERMAX CORPORATION QUARTERLY TRENDS

| (RM m) FYE Dec | Quarter | | | | | | | Change | | Cumulative | | | KAF | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|------------|--------------|--------------|------------|--------------|------------|
| | Mar-08 | Jun-08 | Sep-08 | Dec-08 | Mar-09 | Jun-09 | Sep-09 | % qoq | % yoy | 9M08 | 9M09 | % chg | FY09F | 9M/F |
| Turnover | 191.5 | 193.3 | 244.3 | 182.8 | 192.4 | 188.5 | 237.6 | 26 | (3) | 629.0 | 618.4 | (2) | 830.8 | 74 |
| Operating profit | 16.1 | 15.1 | 19.1 | 19.6 | 20.4 | 26.8 | 39.5 | 47 | 107 | 50.4 | 86.7 | 72 | 82.7 | 105 |
| Operating margin (%) | 8.4% | 7.8% | 7.8% | 10.7% | 10.6% | 14.2% | 16.6% | | | 8.0% | 14.0% | | 10.0% | |
| Finance costs | (4.3) | (5.7) | (4.9) | (5.1) | (5.0) | (4.5) | (4.1) | (9) | (16) | (14.9) | (13.7) | (9) | (21.7) | 63 |
| Associates | 5.2 | 4.9 | 2.4 | 6.2 | 8.1 | 9.0 | 11.3 | 25 | 372 | 12.5 | 28.4 | 128 | 29.9 | 95 |
| Exceptionals | - | - | - | (16.7) | - | - | - | | | - | - | nm | | |
| Pretax profit | 17.1 | 14.2 | 16.6 | 4.1 | 23.5 | 31.3 | 46.7 | 49 | 181 | 47.9 | 101.5 | 112 | 90.9 | 112 |
| Pretax margin (%) | 8.9% | 7.4% | 6.8% | 2.2% | 12.2% | 16.6% | 19.7% | | | 7.6% | 16.4% | | 10.9% | |
| Tax | (0.9) | (0.7) | (0.8) | (2.6) | (3.8) | (5.6) | (6.6) | 18 | 692 | (2.4) | (15.9) | 563 | (10.0) | 160 |
| Net profit | 16.2 | 13.5 | 15.8 | 1.5 | 19.7 | 25.8 | 40.2 | 56 | 155 | 45.5 | 85.6 | 88 | 80.9 | 106 |
| Net profit margin (%) | 8.5% | 7.0% | 6.5% | 0.8% | 10.2% | 13.7% | 16.9% | | | 7.2% | 13.8% | | 9.7% | |
| Normalized net profit | 16.2 | 13.5 | 15.8 | 18.2 | 19.7 | 25.8 | 40.2 | 56 | 155 | 45.5 | 85.6 | 88 | 80.9 | 106 |
| Normalized net margin (%) | 8.5% | 7.0% | 6.5% | 9.9% | 10.2% | 13.7% | 16.9% | | | 7.2% | 13.8% | | | |
| No. of shares (m) | 265.3 | 265.3 | 265.3 | 265.3 | 265.3 | 265.3 | 265.3 | | | | | | | |
| EPS (sen) | 6.1 | 5.1 | 5.9 | 0.6 | 7.4 | 9.7 | 15.1 | 56 | 155 | 17.2 | 32.3 | 88 | 30.5 | 106 |
| Net DPS (sen) | - | - | 1.5 | - | - | - | 2.5 | nm | 67 | 1.5 | 2.5 | nm | 5.6 | 44 |

Source: Company, KAF

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*Dato' Ahmad Bin Kadis
Managing Director*

Recommendation Structure

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| | |
|---------------------|--|
| Buy | High conviction stock with an expected price appreciation in excess of 20% in the next 12 months |
| Outperform | The stock is expected to perform ahead of the sector and market in the next 12 months |
| Neutral | The stock is expected to perform in line with the sector and market in the next 12 months |
| Underperform | The stock is expected to perform below the sector and market in the next 12 months |
| Sell | High conviction stock with an expected price depreciation in excess of 20% in the next 12 months |

Applicability of Ratings:

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