

Company Update

Wednesday, 21st October 2009

For Internal Circulation Only

KLCI : 1,265.74
Sector : Industrial
Bloomberg : SUCB MK

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Target RM6.55
Price (+81.9%)

RM3.60 BUY

Share Info

Stock Code	Supermax
Listing	Main Board
Share Cap (m)	265.3
Market Cap (RMm)	955.1
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	3.70/ 0.78
12-mth Avg Daily Vol ('000 sl)	1,268
Estimated Free Float (%)	47%
Beta	0.92
Major Shareholders (%)	
	Datuk Seri Stanley Thai (20.4%)
	Cheryl Tan (14.96%)
	Lembaga Tabung Haji (7.56%)

Forecast Revision

	FY09	FY10
Net profit (RMm)	127.3	144.3
Consensus	120.3	125.7
TA/Consensus	106%	115%
Previous Rating	BUY (Maintained)	

Financial Indicators

	FY09	FY10
Net debt/equity (%)	60.60	58.40
CFPS (sen)	66.00	73.00
P/CFPS (x)	5.45	4.93
ROA (%)	5.80	6.20
NTA/Share (RM)	1.81	2.03
Price/ NTA (x)	1.99	1.77

Share Performance (%)

Price chg	Supermax	KLCI
1 mth	38.5%	3.6%
3 mth	63.6%	11.1%
6 mth	183.5%	30.7%
12 mth	239.6%	39.2%

Supermax Corporation Bhd

Promising Outlook; TP raised to RM6.55, Buy

Supermax held an Analysts' Briefing yesterday to give updates on its 3QFY09 results and future prospects. A laggard play in the robust glove sector (trading at single digit PER), we believe our previous cautious stance on Supermax are no longer justified given the strong earnings outlook ahead and hence, we upgrade the stock's target PER multiples from 8x previously to 12x - comparable to its peers - against its FY10 earnings. Based on this, we raise our TP to RM6.55. BUY recommendation maintained.

Below are the key takeaways from the briefing:

H1N1 Pandemic Has Created a Shortage of Gloves

Fear of an H1N1 pandemic has created an additional demand of 10% or approximately 12.5bn pieces per annum, on the top of annual base demand growth of 8-9%. Management guided that the shortage of gloves began since March/April 2009 and likely to continue as constrain in natural gas supply would cap ability to expand capacity sufficiently to meet demand. Industry players will have to resort to alternative fuels such as biomass for heating system. However, Biomass Boiler requires longer time for fabrication, installation, testing and commissioning (12-15 months) vs. natural gas supply (< 6 months).

Expand Aggressively... Drive Earnings Growth...

Supermax is planning an aggressive expansion to gain market share. Upon the completion of expansion exercise, Supermax's installed annual capacity will increase from 9.6bn to 12.7bn (+32%) and 16.8bn (+75%) by the end of 2010 and 2011 respectively. This brings the Group's total production capacity including Seal Polymer to 17.6bn and 21.7bn by the end of 2010 and 2011. Total capex to fund the expansion will be approximately RM130.5mn, which is likely to be generated by internal fund.

Factory	No. of Equivalent Single Lines	Installed annual capacity As of Dec 31 09'	New Expansion (Mn pcs)	Total capacity As of Dec 31 10' (Mn pcs)	New Expansion (Mn pcs)	Total capacity As of Dec 31 11' (Mn pcs)
Supermax Total:	132	9,556	3,112	12,668	4,150	16,818
Seal Polymer Total:	53	4,920	-	4,920	-	4,920
Combined Total	185	14,476	3,112	17,588	4,150	21,738

Source: Company, TA Securities

Strong Order Backlog

Supermax has a strong order backlog. According to management's annualized estimates, the total order received for 2009 will be 17.5bn vs. total installed capacity of 14.5bn and shipment of 12.4bn. This will create an excess or oversold capacity of 5.2bn (35.8%) and total back orders of 5.1bn. According to management, the group is focusing on higher-value customers and sells higher-margin products to take advantage of the strong demand and tight supply. Some customers even resorted to pay premium to get the shipment on time.

Riding on OBM Model

Supermax will focus on improving margins given the ramp-up in higher-margin businesses, OBM. The group will focus on how to take advantage of a higher profit margin by marketing its own brand via distribution centers and via distributor-ship in selected market segments and in selected countries.

Special Dividend to be Announced

Meanwhile, the group plans to pay its first-ever special dividend this year and set a higher dividend policy next year. The new dividend policy would amount to some 20% of PAT and additional profits in excess of annual net profit targets (in this case, RM117mn for FY09) would be announced as special dividend. With that, we revised upward our dividend estimates to 13sen and 19sen for FY09 and FY10, respectively.

Increase Earnings Forecast Upwards

We are raising our forecast due to the better-than-expected 3Q09 results and reduced our estimates for overhead expenses given the cost savings arising from better efficiency, productivity and cost control. We also reduced input cost assumptions for packaging material, chemical, energy and labour between 10% to 19% respectively for both FY09 and FY10. However, we maintain our latex input price as RM4.50 for FY09 and RM4.75 for FY10. With that, we revised upward our net profit forecast to RM127.3mn (+51.4%) in FY09 and RM144.3mn (+33.6%) in FY10.

Valuation

Supermax has embarked on several restructuring efforts since 1Q09 - focusing on inventory management, production efficiency and receivable management. These efforts have been fruitful as reflected in lower inventory turnover, lower trade receivables and higher operating efficiency.

Previously, we have taken a conservative approach in valuing Supermax. We believe our cautious stance is no longer justified given the strong earnings outlook ahead. Hence, we upgrade the stock's target PER multiples from 8x previously to 12x - comparable to its peers - against its FY10 earnings. Consequently, we raise our TP to RM6.55. We believe that Supermax will deliver sterling earnings due to its hands on management, aggressive expansion and robust demand for gloves. BUY recommendation maintained.

Share Price chart



Source : Bloomberg

Earnings Summary (RMmn)

YE 31 Dec	2005	2006	2007	2008	2009F	2010F
Revenue	284.7	389.1	582.1	833.0	846.1	970.9
EBITDA	44.3	55.0	75.0	102.3	167.3	199.3
EBITDA margin (%)	16%	14%	13%	12.3%	19.8%	20.5%
Pretax profit	41.3	47.2	67.2	51.6	149.3	165.4
Net profit	36.2	40.8	49.4	46.5	127.3	144.3
Net profit -adj	36.2	48.1	49.4	63.2	127.3	144.3
EPS (sen)	16.0	19.0	18.6	17.5	48.0	54.5
EPS - adj	16.0	21.2	18.6	23.8	48.0	54.5
EPS Growth (%)	20.2%	18.8%	-1.9%	28%	102%	14%
PER (x)	22.5	17.0	19.3	15.1	7.5	6.6
GDPS (sen)	5.0	5.0	5.0	5.0	13.0	19.0
Div Yield (%)	1.4	1.4	1.4	1.4	3.6	5.3

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for TA SECURITIES HOLDINGS BERHAD(14948-M)

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