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22 February 2010

Supermax

Handing out angpows

RECOM	Buy
PRICE	RM5.47
MKT CAPITALISATION	RM1.48bn
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

SUCB MK / SUPM.KL

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Results highlights

- In line, maintain BUY.** As highlighted in our update last week, Supermax's FY09 results were in line with our expectations. Core net profit came in at RM135m, 2% above our RM132m forecast but 9% above consensus. In addition to a final dividend of 4 sen, the group declared a special dividend of 4.5 sen, the possibility of which we had highlighted in our update. This took total DPS for the year to 11 sen, which translates into a dividend yield of 2%. Although the results are in line and we retain our earnings forecasts, note that there is upside to our numbers as we will be reviewing our selling price, margin and cost assumptions after today's analyst briefing. We maintain our BUY call on Supermax. For now, our target price remains at RM7.96, still pegged to a 20% discount to Top Glove's target P/E of 16.5x. Potential re-rating catalysts include this set of strong results, special dividend, the continuing uptick in glove demand and Supermax's upcoming capacity expansion. The stock remains one of our top picks for the rubber glove sector.
- Core net profit almost tripled yoy.** Supermax's core net profit almost tripled yoy from RM18.2m in 4Q08 to RM49.5m in 4Q09, 8% higher than our earlier estimate of RM46m. The upswing was led by higher glove sales, improvement in margins and higher contribution from its distribution centres. Reported net profit was RM44.1m (4Q08: RM1.5m – after APLI investment write off of RM16.7m) as there was a one-off interest expense of RM5.4m in Nov 09 relating to the early redemption of the remaining RM90m of its bond due to mature in 2012.
- Good year for rubber glove players.** Strong global demand in 2009 allowed glovemakers to command higher prices and margins. Supermax's EBITDA margin improved from 12.2% in 2008 to 17.7% in 2009. Although the company did not put in new capacity in that year, the improvement in productivity and efficiency allowed it to operate at a higher utilisation rate of 84% compared to only 75% in 2008. In total, the group sold 12.1bn gloves in 2009 compared to 10.8bn pieces in 2008.

Key stock statistics

	2009	2010F
FYE Dec		
EPS (sen)	48.4	52.5
P/E (x)	11.3	10.4
Dividend/Share (sen)	11.0	10.5
NTA/Share (RM)	2.1	2.5
Book Value/Share (RM)	2.1	2.5
Issued Capital (m shares)		270.0
52-weeks Share Price Range (RM)	RM6.18/RM0.78	
Major Shareholders:	%	
Dato' Seri Thai Kim Sim, Stanley	20.5	
Datin Seri Tan Bee Geok, Cheryl	14.7	
Koperasi Permodalan Felda	5.5	

Per share data

	2007	2008	2009	2010F
FYE Dec				
Book Value (RM)	1.7	1.6	2.1	2.5
Cash Flow (sen)	32.0	37.3	87.9	55.4
Earnings (sen)	22.6	17.7	48.4	52.5
Dividend (sen)	3.0	3.2	11.0	10.5
Payout Ratio (%)	13.3	18.1	22.7	20.0
P/E (x)	24.2	31.0	11.3	10.4
P/Cash Flow (x)	17.1	14.7	6.2	9.9
P/Book Value (x)	3.3	3.5	2.6	2.2
Dividend Yield (%)	0.5	0.6	2.0	1.9
ROE (%)	17.9	11.7	26.6	22.8
Net Gearing (%)	87.9	90.0	31.5	18.8

Source: Company, CIMB estimates, Bloomberg

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

Figure 1: Results comparison (RM m)

FYE Dec	4QFY09	4QFY08	% Change
Revenue	196.4	182.8	7.4
Operating Profit (EBIT)	59.1	9.5	521.2
Depreciation	(8.4)	(7.0)	18.6
Interest Expenses	(8.5)	(5.4)	56.1
Associates	13.4	(10.3)	(229.4)
Pretax Profit	50.6	4.1	1,136.6
Net Profit	44.1	1.5	2,868.5
Operating Margin	30.1	5.2	478.2
Pretax Margin	25.8	2.2	1,051.0
Net Margin	22.5	0.8	2,663.1

Source: Company, CIMB estimates

Recent developments

Extraordinary interest expense. On 25 November last year, Supermax redeemed in full its RM90m remaining bonds which were due to mature in 2012. It did so to free the group from the bond's overly restrictive covenants which had hampered the group's growth. The redemption will also lead to net cost savings of RM2.4m over the remaining tenure of the bond. However, the entire balance of the upfront fee on the bond amounting to RM5.4m had to be immediately expensed in the quarter. It was classified under a one-off or extraordinary interest expense during the quarter.

Potential bonus issue from treasury share sales? On top that, during 4Q09, Supermax sold all of its treasury shares totalling 5.6m. The company made a RM16.9m net gain on the sale which will go into the share premium account under reserves. Including gains from the sale of treasury sales and total reserves of RM423.9m, Supermax could propose a bonus issue of up to 3-for-1. We would view a bonus issue positively as it would boost liquidity further and enhance affordability in terms of absolute cost.

Earnings outlook

Supermax will be holding its 4Q09 analyst briefing this afternoon. The group will elaborate on the 4Q results, its plans and the outlook for 2010. For now, we retain our earnings forecasts. However, we note that there is upside to our numbers as we will be reviewing our selling price, margin and cost assumptions after the briefing given the strong global demand and high latex prices.

Figure 2: P&L analysis (RM m)

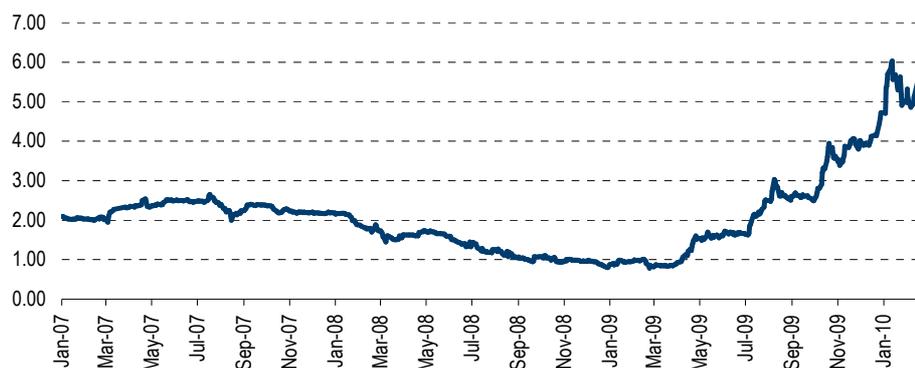
FYE Dec	2007	2008	2009	2010F
Revenue	574.3	811.8	814.8	1,165.0
Operating Profit (EBIT)	74.9	98.9	144.2	189.8
Depreciation	(19.9)	(28.8)	(11.8)	(36.4)
Interest Expenses	(15.3)	(20.3)	(16.7)	(27.2)
Pretax Profit	58.6	52.0	152.1	165.7
Effective Tax Rate (%)	4.4	9.6	14.7	15.0
Net Profit	55.9	47.0	129.8	140.8
Operating Margin (%)	13.0	12.2	17.7	16.3
Pretax Margin (%)	10.2	6.4	18.7	14.2
Net Margin (%)	9.7	5.8	15.9	12.1

Source: Company, CIMB estimates

Recommendation

As there are no changes to our forecasts for now, our target price remains intact at RM7.96, still pegged to a 20% discount to Top Glove's target P/E of 16.5x. We maintain our BUY call on Supermax, premised on the potential re-rating catalysts of this set of strong numbers, special dividend, the continuing uptick in glove demand and upcoming capacity expansion. Supermax remains one of our top picks for the rubber glove sector.

Figure 3: Share price chart (RM)



Source: Bloomberg

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	811.8	814.8	1165.0	1499.9	1667.6
EBITDA (RM m)	98.9	144.2	189.8	221.6	262.7
EBITDA margins (%)	12.2%	17.7%	16.3%	14.8%	15.8%
Pretax profit (RM m)	52.0	152.1	165.7	190.3	219.3
Net profit (RM m)	47.0	129.8	140.8	161.8	184.2
EPS (sen)	17.7	48.4	52.5	60.2	68.4
EPS growth (%)	-21.9%	173.8%	8.5%	14.7%	13.7%
P/E (x)	31.0	11.3	10.4	9.1	8.0
Core EPS (sen)	23.3	50.1	52.5	60.2	68.4
Core EPS growth (%)	3.1%	114.7%	4.8%	14.7%	13.7%
Core P/E (x)	23.4	10.9	10.4	9.1	8.0
Gross DPS (sen)	3.2	11.0	10.5	12.5	15.0
Dividend yield (%)	0.6%	2.0%	1.9%	2.3%	2.7%
P/NTA (x)	3.5	2.6	2.2	1.8	1.5
ROE (%)	11.7%	26.6%	22.8%	21.7%	20.7%
Net gearing (%)	90.0%	31.5%	18.8%	11.5%	3.7%
P/CF (x)	56.8	13.0	7.5	11.2	8.4
EV/EBITDA (x)	17.5	10.5	7.8	6.5	5.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			1.01	1.02	N/A

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

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