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BUY ↻

Target RM10.00
Previous RM7.94
Price RM5.47

RUBBER GLOVES

Supermax's principal activities are in the manufacture of medical rubber gloves.

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	270.01
Market Cap (RMm)	1476.95
52 week H L Price (RM)	6.18 0.78
3mth Avg Vol ('000)	3,538.5
YTD Returns	16.1
Beta (x)	1.06

Major Shareholders (%)

Dato' Seri Stanley Tai	20.53
Datin Seri Cheryl Tan	14.70

Share Performance (%)

Month	Absolute	Relative
1m	-2.5	1.0
3m	42.7	41.9
6m	106.9	93.0
12m	476.1	306.3

6-month Share Price Performance



FY09 Results Review

Supermax Corporation

Another Impressive Quarter Indeed!

The FY09 results were above expectations, mainly boosted by higher selling prices of gloves and persistently strong demand from the Latin American markets, especially Brazil. Although the 4QFY09 numbers took a hit from a one-off interest expense of RM5.4m, Supermax's net profit still sprang up by 10.0% q-o-q. We have upgraded our FY10 earnings by 15% in line with the company's solid performance, strong rubber glove demand and management's internal net profit target of RM168m. **Maintain Buy with higher target price of RM10.00 from RM7.94 previously.**

Beating expectations. Supermax's FY09 results were above consensus and our expectations, making up 106% and 110% of consensus and our FY09 forecasts. The robust results were attributed to higher selling prices of gloves following the company's success in passing through 100% of its latex cost increase and demand over-whelming supply, which enabled it to sell its examination gloves at premium pricing. With that, its 4QFY09 core net profit surged 23.4% q-o-q to RM49.5m despite lower revenue being 17.3% lower. EBITDA margin also improved 7.4%-pts to 27.5% q-o-q. However, this quarter's performance was hit by a one-off interest payment of RM5.4m arising from the company's earlier redemption of its bonds. Meanwhile, FY09 core net profit bounced 112.1% to RM135.1m YTD.

Earlier bond redemption led to interest savings. In November last year, Supermax successfully made full redemption of the remaining RM90m of its RM120m serial bond due to mature in 2012. This allowed it to save on interest amounting to RM2.4m a year. This would make it easier for Supermax to raise borrowings for future expansion.

Maintain Buy. We have upgraded our FY10 earnings by 15%, in line with Supermax's consistently outstanding performance and internal target of RM168m net profit. Also, our target price has been upgraded to RM10.00 (previously RM7.94) based on the existing PER of 15x as we roll forward to FY11. We have always liked the company for having the right product mix (>70% natural rubber gloves) targeting the right markets (developing countries). Finally, Supermax has declared a tax exempt final dividend of 4.0 sen and special dividend of 4.5 sen, bringing its total dividend for FY09 to 11.0 sen.

Risks to our view. We believe the major risk is related more to supply than demand. If supply exceeds demand, all the rubber glove manufacturers would not be able to command premium selling prices for their gloves and may only be able to pass on 85%-90% (versus 100% now) of their production cost increase to their customers, and with a time lag of 2-3 months (versus 1 month now). However, we see demand outstripping supply at least for the next 6 months as it would take time for new capacity to fully kick in from 2H10 onwards.

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Revenue	582.1	811.8	814.8	1,176.0	1,385.5
Net Profit	59.4	47.0	129.8	166.1	176.8
% chg y-o-y	45.5	-20.9	176.1	28.0	6.5
Consensus	-	-	-	138.0	157.0
EPS (sen)	21.4	16.9	46.7	62.6	66.7
DPS (sen)	3.3	4.0	10.0	8.5	9.0
Dividend yield (%)	0.6	0.7	1.8	1.6	1.6
ROE (%)	18.8	11.4	26.3	26.2	22.3
ROA (%)	8.6	5.1	13.5	16.1	14.3
PER (x)	25.6	32.3	11.7	8.7	8.2
BV/share (RM)	1.47	1.62	2.10	2.67	3.31
P/BV (x)	4.0	3.6	2.8	2.2	1.8
EV/ EBITDA (x)	19.5	15.5	10.0	6.7	6.3

Results Table (RMm)

FYE Dec	4Q09	3Q09	Q-o-Q chg	YTD FY09	YTD FY08	Y-o-Y chg	Comments
Turnover	196.4	237.6	-17.3%	814.9	811.8	0.4%	Lower q-o-q due to the increase in sales of powder gloves (cheaper selling price compared to other gloves), lower output and lower sell-through following a temporary labour shortage and water disruption at one of its factories and the weakening of USD against RM.
EBITDA	54.0	47.7	13.2%	163.8	115.2	42.2%	Higher on increased selling prices of gloves following the latex cost increase pass through and demand outstripping supply.
Depreciation	-8.3	-8.2	1.3%	-31.4	-28.3	10.8%	
Net interest expense	-3.1	-4.1	-25.1%	-16.7	-20.3	-17.9%	
Associates	13.4	11.3	18.2%	41.8	2.1	1852.3%	Boosted by stronger distribution income from Brazil.
PBT before EI	56.0	46.7		157.5	68.7		
EI	-5.4	0.0	-	-5.4	-16.7	-67.8%	4QFY09 exceptional item was a one-off interest expense as a result of earlier bond repayment.
PBT	50.6	46.7	8.4%	152.1	52.0	192.5%	
Tax	-6.5	-6.6	-1.7%	-22.4	-5.0	347.7%	
MI	0.0	0.0		0.0	0.0		
Reported Net Profit	44.1	40.1	10.0%	129.7	47.0	176.0%	
Core Net Profit	49.5	40.1	23.4%	135.1	63.7	112.1%	Higher following production margin improvement, production efficiency and cost savings.
Core EPS (sen)	18.5	15.1		50.5	24.0		
DPS (sen)	8.5	2.5		11.0	3.3		
EBITDA margin	27.5%	20.1%		20.1%	14.2%		
NTA/share (RM)	2.05	1.88		2.05	1.47		

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09	FY10f	FY11f
Turnover	582.1	811.8	814.8	1,176.0	1,385.5
EBITDA	92.1	115.2	162.3	242.7	256.8
PBT	67.2	52.0	152.1	195.4	208.1
Net Profit	59.4	47.0	129.8	166.1	176.8
EPS (sen)	21.4	16.9	46.7	62.6	66.7
DPS (sen)	3.3	4.0	10.0	8.5	9.0
Margin					
EBITDA (%)	15.8	14.2	19.9	20.6	18.5
PBT (%)	11.5	6.4	18.7	16.6	15.0
Net Profit (%)	10.2	5.8	15.9	14.1	12.8
ROE (%)	18.8	11.4	26.3	26.2	22.3
ROA (%)	8.6	5.1	13.5	16.1	14.3
Balance Sheet					
Fixed Assets	510.6	507.2	569.5	658.8	741.0
Current Assets	359.0	479.5	364.6	467.2	599.4
Total Assets	869.6	986.7	934.1	1,126.0	1,340.3
Current Liabilities	309.7	387.4	202.2	244.2	289.3
Net Current Assets	49.3	92.1	162.4	222.9	310.1
LT Liabilities	168.7	168.7	173.9	173.9	173.9
Shareholders Funds	391.2	430.6	558.0	707.8	877.2
Net Gearing (%)	88.3	77.8	31.5	23.4	18.8

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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