



PP16795/03/2012(029624)

Supermax Corporation

Buy ◀ ▶

Inline As expected

Price: RM1.93

Target Price: (23.2% Upside) RM2.38

Stock Data

Bloomberg Ticker	SUCB MK	Altman Z-score	3.6
Market Cap	1,312.7	YTD price chg	0.8%
Issued shares	680.2	YTD KLCI chg	1.7%
52-week range (H)	2.38	Beta	1.3
52-week range (L)	1.13	Major Shareholders	
3-mth avg daily volume	3,792,370	Dato Seri Stanley Thai	20.4%
Free Float	55.8%	Datin Seri Cheryl Tan	15.1%
Shariah Compliant	Y	EPF	8.7%
Financial Derivatives	n.a.		

Share Performance (%)	1mth	3mth	12mth
Absolute	(9.8)	5.8	(2.6)
vs. KLCI	(8.7)	0.0	(8.7)

Financial Highlights

FYE 31 Dec	2009	2010	2011	2012E	2013E
Turnover	803.6	977.3	1,026.9	1,194.3	1,342.6
EBIT	131.9	155.7	95.2	143.4	158.8
Pretax profit	151.5	183.7	113.0	163.2	174.9
Core Net Profit	126.6	158.9	110.1	147.0	157.6

EBIT margin	16.4%	15.9%	9.3%	12.0%	11.8%
Pretax margin	18.8%	18.8%	11.0%	13.7%	13.0%
Effective tax rate	16.4%	13.5%	6.1%	10.0%	10.0%
ROE	26.0%	25.4%	15.1%	17.6%	16.3%
ROA	13.4%	15.8%	9.4%	11.7%	11.3%
Net Gearing (x)	0.32	0.29	0.28	0.15	0.05
Core EPS (sen)	18.6	23.4	16.2	21.6	23.2
PER (x)	10.4	8.3	11.9	8.9	8.3
DPS (sen)	0.7	0.9	2.4	3.0	3.0
Div. Yield (%)	0.4%	0.5%	1.2%	1.6%	1.6%
NTA/share (RM)	0.78	0.97	1.09	1.28	1.48

Growth ratios

Turnover	-1.0%	21.6%	5.1%	16.3%	12.4%
EBIT	87.9%	18.0%	-38.8%	50.7%	10.7%
Pretax profit	191.3%	21.3%	-38.5%	44.5%	7.2%
Core Net profit	98.9%	25.6%	-30.7%	33.5%	7.2%
Core EPS growth	98.9%	25.6%	-30.7%	33.5%	7.2%

Share Price Chart



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Supermax' FY11 core net earnings of RM110.1m came in within our expectation. Revenue is 11.2% higher but core net profit declined by 30.7%; nonetheless, it is not a surprise given the all-time high latex price for the financial year. Expect earnings to rebound in FY12 year given that the latex price had stabilised coupe with improved demand. We maintain our FY12 and FY13 net earnings estimates at RM147m and RM157.6m respectively. Target price remains unchanged at RM2.38. Maintain BUY.

Lower Margins. Full year EBIT margin has dropped by almost half to 9.3% due to high latex price and stronger MYR throughout the year. Management highlighted that the company is able to pass on the additional cost to customers; however, due to (i) the timing differences and (ii) the increase in latex cost is faster than selling price revision, the company has taken a hit. We expect margins and earnings to improve in the next quarter due to more stable latex price and improved demand.

Stabilised latex price. Most recently, the Thai government intervened in the rubber gloves industry to support rubber price, enabling natural latex prices to stay above RM7.00/kg in the short term. Earlier, most rubber glove buyers around the world have been keeping their inventory low (2 months compared to their usual inventory level of about 4 months). This level has been maintained despite latex price had dropped below RM7/kg as they anticipate further decline in latex price. Now, when the floor price has been determined; there shall be no more expectation of further drop in latex price and we expect buyers to increase their inventory level back to their normal level as current price is around its floor level. With this, the demand of rubber gloves shall return to normal.

Bird flu threat. Recently, the number of bird flu cases has escalated. In January, Mexico recorded 1,623 cases, including 1,456 H1N1 cases while in New Jersey, there have been more than 300 confirmed cases; and in Vietnam, the Ho Chi Minh City Pasteur Institute confirmed that a new kind of porcine flu virus, A/H3N1, has appeared, apparently a combination of the swine-related A/H1N1 and A/H3N2 flu viruses. Over in Europe, Norway is facing an outbreak of influenza A, which is caused by a new strain of virus known as H3N2. France has issued a warning about the H3N2 swine flu. The bird flu threat will have positive impact on our glove producers as this has been proven in 2009-2010 where most of our glove players made record high earnings.

No change in forecast. We are maintaining our FY12 and FY13 net earnings forecast at RM147.0m and RM157.6m respectively. Meanwhile, financial leverage is manageable at 0.3x supported by strong interest coverage of 9.1x.

Valuation & Recommendation. We maintain our target price at RM2.38 based on its 5-year average PE band of 11x over FY12 core EPS of 21.6sen. Maintain **BUY**.

Quarterly figures

FY 31 Dec (RMm)	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	QoQ	YoYChg	FY10	FY11	YTD Chg
Revenue	286.7	241.4	237.9	271.4	276.2	1.8%	-3.7%	977.3	1,026.9	5.1%
EBIT	29.5	18.4	19.1	29.9	27.8	-6.9%	-5.8%	155.7	95.2	-38.8%
Pretax profit	39.1	25.6	23.9	34.1	29.3	-14.0%	-25.1%	183.7	113.0	-38.5%
Taxation	(15.8)	(1.2)	(1.4)	(3.2)	(1.2)	-62.9%	-92.5%	(24.9)	(6.9)	-72.1%
Minority Interest	0.1	0.0	(0.0)	0.0	0.1	1333.3%	-6.5%	0.1	0.1	0.0%
Net Profit	23.5	24.4	22.6	30.9	28.3	-8.6%	20.3%	158.9	106.1	-33.2%
Core Net Profit	23.5	24.4	26.6	30.9	28.3	-8.6%	20.3%	158.9	110.1	-30.7%
EPS (sen)	3.5	3.6	3.9	4.5	4.2	-8.6%	20.3%	23.4	16.2	-30.7%
Net gearing (x)	0.3	0.4	0.3	0.3	0.3	4.7%	5.2%	0.3	0.3	5.2%
EBIT margin (%)	10.3%	7.6%	8.0%	11.0%	10.1%	-8.5%	-2.2%	15.9%	9.3%	-41.8%
PBT margin (%)	13.7%	10.6%	10.1%	12.6%	10.6%	-15.5%	-22.3%	18.8%	11.0%	-41.5%
Net profit margin (%)	8.2%	10.1%	9.5%	11.4%	10.2%	-10.2%	24.9%	16.3%	10.3%	-36.5%
Effective tax rate (%)	-40.3%	-4.7%	-5.7%	-9.4%	-4.0%	-56.9%	-90.0%	-13.5%	-6.1%	-54.7%

Source: BIMB Securities

Income Statement

FY 31 Dec (RMm)	2009	2010	2011	2012E	2013E
Revenue	803.6	977.3	1,026.9	1,194.3	1,342.6
EBITDA	163.8	181.7	119.3	181.1	198.5
Pretax profit	151.5	183.7	113.0	163.2	174.9
Tax	(24.9)	(24.9)	(6.9)	(16.3)	(17.5)
MI	0.0	0.1	0.1	0.2	0.2
Net profit	126.6	158.9	106.1	147.0	157.6
Core Net Profit	126.6	158.9	110.1	147.0	157.6
EPS growth (%)	98.9%	25.6%	-30.7%	33.5%	7.2%
DPS (sen)	0.7	0.9	2.4	3.0	3.0
NTA/ share (RM)	0.8	1.0	1.1	1.3	1.5
Net gearing (x)	0.3	0.3	0.3	0.2	0.0
PER (x)	10.4	8.3	11.9	8.9	8.3
Div. yield (%)	0.4%	0.5%	1.2%	1.6%	1.6%
P/ NTA (x)	2.5	2.0	1.8	1.5	1.3
EV/ EBITDA (x)	9.2	8.4	12.1	7.5	6.3
ROE (%)	26.0%	25.4%	15.1%	17.6%	16.3%

Source: BIMB Securities

Balance Sheet

FYE 31 Dec (RMm)	2009	2010	2011	2012E	2013E
Non Current Assets	564.1	620.3	662.6	654.9	655.2
Current Assets	381.2	445.1	522.8	665.6	812.9
Total Assets	945.2	1,065.4	1,185.3	1,320.5	1,468.1
Current Liabilities	213.7	219.7	244.9	253.4	263.8
Non Current Liabilities	172.7	154.1	169.9	169.9	169.9
Shareholders' Fund	558.8	691.5	770.6	897.2	1,034.4
Minority Interests	0.0	0.1	(0.1)	0.0	0.0
Equity & Liabilities	945.2	1,065.4	1,185.3	1,320.5	1,468.1

Source: BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in 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. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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