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Supermax

Super performance in 1Q

RECOM	BUY
PRICE	RM1.51
MKT CAPITALISATION	RM400.6m
BOARD	Main (Syariah stock)
SECTOR	Industrial
INDEX COMPONENT	KLCI, FBMSC, FBMS FBMEMAS

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Results highlights

- **Well above expectations.** Supermax's annualised 1Q09 net profit came in well above expectations, at 123% of our estimate and 120% of consensus. As expected, no dividends were declared for the quarter. The company usually announces dividends during 2H.
- **Better performance overall.** Overall, Supermax turned in a better performance qoq as well as yoy. Net profit rose 21.5% yoy on a revenue of RM192.4m, up 0.5% yoy and 5.2% qoq. We were slightly surprised by the increase in 1Q sales as we understand that glove customers worldwide have reduced their orders since late last year in anticipation of a further decline in latex prices. However, we gather from the company that the upsurge came mainly from higher contribution from its distribution centres and favourable RM:US\$ exchange rates.
- **Starting the year with a clean state.** With APLI being fully written off last year, the group is starting 2009 with a clean state. Management will continue to focus on stepping up its risk, receivable, inventory and productivity management, as well as optimising production efficiency.
- **Upgrade to BUY.** Taking our cue from the strong results and the expected improvement in demand, we are now revising our earnings upwards by 2-12%. To reflect the positive outlook for the company and the rubber glove sector, we are lowering our discount to our revised target market P/E of 13.5x (12x previously) from 70% to 50%, giving us a revised target price of RM1.97, up from RM1.03. In light of this, we are upgrading our recommendation from Hold to a BUY. We stress that this call is trading oriented and is premised on the re-rating catalysts of this quarter's better-than-expected results, cost reductions and improving demand.

Key stock statistics

FYE Dec	2008	2009F
EPS (sen)	17.5	27.0
P/E (x)	8.6	5.6
Dividend/Share (sen)	3.2	5.2
NTA/Share (RM)	1.5	1.5
Book Value/Share (x)	1.0	0.8
Issued Capital (m shares)		265.3
52-weeks Share Price Range (RM)	RM1.75/RM0.78	
Major Shareholders:		%
Dato' Seri Thai Kim Sim, Stanley		20.4
Datin Seri Tan Bee Geok, Cheryl		15.0
Lembaga Tabung Haji		10.0

Per share data

FYE Dec	2006	2007	2008	2009F
Book Value (RM)	1.6	1.0	1.0	0.8
Cash Flow (sen)	12.8	26.4	37.4	39.0
Earnings (sen)	18.0	21.1	17.5	27.0
Dividend (sen)	4.5	4.9	3.2	5.2
Payout Ratio (%)	18.1	16.8	13.2	13.8
P/E (x)	8.4	7.1	8.6	5.6
P/Cash Flow (x)	11.8	5.7	4.0	3.9
P/Book Value (x)	0.9	1.6	1.6	1.8
Dividend Yield (%)	3.0	3.3	2.1	3.4
ROE (%)	18.1	22.5	19.0	17.3
Net Gearing (%)	74.4	59.6	71.1	62.4

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	1QFY09	1QFY08	% Change
Revenue	192.4	191.5	0.5
Operating Profit (EBIT)	28.5	21.3	33.5
Depreciation	(7.2)	(7.3)	(1.1)
Interest Expenses	(5.0)	(4.3)	17.8
Associates	8.1	5.2	56.3
Pretax Profit	23.5	17.1	37.5
Net Profit	19.7	16.2	21.5
Operating Margin	14.8	11.2	32.9
Pretax Margin	12.2	8.9	36.8
Net Margin	10.2	8.5	21.0

Source: Company

Figure 2: P&L analysis (RM m)

FYE Dec	2006	2007	2008	2009F
Revenue	389.1	574.3	833.4	850.1
Operating Profit (EBIT)	42.0	55.4	71.7	85.2
Depreciation	(12.9)	(20.2)	(28.6)	(28.1)
Interest Expenses	(13.7)	(15.3)	(22.1)	(22.3)
Pretax Profit	47.2	58.6	51.6	82.4
Effective Tax Rate (%)	13.6	4.4	10.0	13.0
Net Profit	40.8	55.9	46.5	71.7
Operating Margin (%)	10.8	9.6	8.6	10.0
Pretax Margin (%)	12.1	10.2	6.2	9.7
Net Margin (%)	10.5	9.7	5.6	8.4

Source: Company, CIMB estimates

Recent developments

Outlook stays favourable. Prospects for the rubber glove industry remain positive, with demand expected to rise by an estimated 10-12% p.a. Furthermore, the recent swine flu outbreak could provide a fillip to glove demand this year.

Running at full capacity. Supermax's glove orders have picked up strongly. Recently, the company secured an order of 37m pieces of latex examination gloves for its in-house brand, Aurelia, from the health ministry of a neighbouring country. Its plants are now running at full capacity to meet growing orders from its wide global network of 550 distributors in 145 countries and five distribution centres worldwide. However, we gather that Supermax might not be able to meet some delivery schedules as it is still clearing some back orders.

Focus for this year. Management's focus this year will be on stepping up its risk, receivable, inventory and productivity management, as well as optimising production efficiency.

Balance sheet improving. In 1Q09, Supermax improved its management of inventories and receivables. Its receivable cycle improved to 2.74 months in 1QFY09 compared to 3.46 months in 2008. It also managed to reduce its inventories, leading to a shorter inventory turnover cycle to 1.65 months in 1QFY09 vs. 2 months in 2008.

Figure 3: Receivable and inventory turnover cycle

	2006	2007	2008	1QFY09
Receivable Cycle (months)	4.47	4.35	3.46	2.74
Inventory Turnover Cycle (months)	1.26	2.22	2.00	1.65

Source: Company

Earnings outlook

Earnings upgrade. Taking our cue from the strong results and the expected improvement in demand, we are now revising our earnings upwards by 2-12%. Moreover, with APLI no longer a subsidiary, Supermax will be able to lock in stronger margins as there will be no more internal purchases from the former which had dampened its earnings and margins in the past few years.

Figure 4: Share price chart (RM)



Source: Bloomberg

Recommendation

Upgrade to BUY. Prospects for Supermax look promising. To reflect the positive outlook for the company and the rubber glove sector, we are lowering our discount to our revised target market P/E of 13.5x (12x previously) from 70% to 50%, giving us a revised target price of RM1.97, up from RM1.03. In light of this, we are upgrading our recommendation from Hold to BUY. We stress that this call is trading oriented and is premised on the re-rating catalysts of this quarter's better-than-expected results, cost reductions and improving demand.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (RM m)	574.3	833.4	850.1	884.1	910.6
EBITDA (RM m)	75.6	100.3	113.3	125.2	136.6
EBITDA margins (%)	13.2	12.0	13.3	14.2	15.0
Pretax profit (RM m)	58.6	51.6	82.4	89.0	94.9
Net profit (RM m)	55.9	46.5	71.7	77.4	82.6
EPS (sen)	21.1	17.5	27.0	29.2	31.1
EPS growth (%)	+17%	-17%	+54%	+8%	+7%
P/E (x)	7.1	8.6	5.6	5.2	4.9
Core EPS (sen)	21.1	23.8	27.0	29.2	31.1
Core EPS growth (%)	+17%	+13%	+13%	+8%	+7%
Core P/E (x)	7.1	6.3	5.6	5.2	4.9
Gross DPS (sen)	5.0	3.3	5.3	5.7	6.1
Dividend yield (%)	3.3	2.2	3.5	3.8	4.0
P/NTA (x)	1.6	1.0	1.0	0.9	0.8
ROE (%)	22.5	14.0	17.3	17.3	16.2
Net gearing (%)	59.6	71.1	62.4	44.8	38.0
P/CF (x)	5.7	4.0	3.9	3.9	3.5
EV/EBITDA (x)	7.3	6.6	5.9	5.9	5.0
% change in EPS estimates			11.5%	1.7%	1.8%
CIMB/Consensus (x)			1.10	1.04	1.00

Source: Company, CIMB Research, Reuters Estimates

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