



BUY

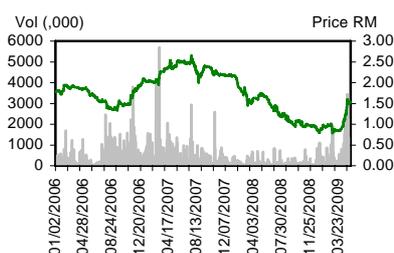
1QFY09 Results

Analyst

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Price Target **RM1.51**
RM1.84
KLIC Index **1027**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	47.7	62.9	58.8
Relative (%)	35.0	42.0	38.0

Stock Information

Ticker code	SUPM.KL SUCB MK
Market cap (US\$m)	113.8
52-week high (RM)	1.75
52-week low (RM)	0.78
Shares issued (m)	265.3
6m avg d.vol (US\$)	132,409
Free float (%)	40.0
Major shareholders (%)	
Thai Kim See / Tan Bee Geok	(50.4)
Employee Provident Fund	(7.1)

Key Indicators

ROE (%)	14.5
Net gearing (%)	72.1
NTA (RM)	1.54
Interest cover (x)	3.8

Supermax Corporation Berhad

Bullish Guidance

1QFY09 results were above expectations

1QFY09 EPS of 7.4 sen came in at 30% of our FY09 forecast and consensus estimates. Pretax profit rose 38% YoY, despite flat revenue, due to better operating margins and higher trading income from associates. Operating margins rose to 10.6% from 8.4% in 1Q09, aided by a RM3.3m reduction in operating expenses whilst the Ringgit fell to RM3.62:US\$ from RM3.23:US\$ in 1Q08. Contribution from its Brazilian associate was also higher as Supermax was one of only two companies certified under the new more stringent guidelines. Meanwhile, the group has also improved its working capital and risk management - with 1Q09 receivables cycle falling to 2.74 months (FY08: 3.46 months) and inventory turnover falling to 1.65 months (FY08: 2 months) - and ceased equity-accounting APLI's losses. However, core net profit rose by a lesser 22% YoY as the tax charge rose from 5% in 1Q08 to 16% as the group was unable to fully utilise its reinvestment allowances due to the lack of capex in 1Q09.

Profit to rebound in FY09 on lower input costs and stronger US\$

Despite ~90% of its gloves being sold to the Americas and Europe, demand for rubber gloves continues to be robust amid the global recession, with global consumption of 130b gloves expected to grow by 10% p.a. Supermax is guiding for EPS of between 26-27 sen in FY09. We have accordingly raised our EPS forecasts by 8% in FY09 and 7% in FY10 as EBITDA margins are projected to rise to 11.7% from 9.3% in FY08 amid lower latex prices and a stronger US\$. Latex is currently trading at RM4.50/kg wet from a high of RM7.20/kg in July 2008 whilst electricity and gas prices were cut by 5% and 32% respectively on 1 Mar 2009. The Ringgit is also expected to be weaker than in FY08. Elsewhere, Supermax has deferred the installation of new capacity of 1.7m gloves (costing RM35m) to 2010. By end-2010, its installed capacity will increase to 16.2b gloves from 14.5b gloves currently.

Undemanding valuations; BUY

Despite a near-doubling of its share price from a low of RM0.78 on 24 Feb 2009, Supermax's FY09 and FY10 PERs of 5.8x and 5.4x are relatively undemanding compared to the sector average of 9.3x for FY09. We reiterate our BUY recommendation with a price target of RM1.84, based on 7x FY09 EPS of 26.3 sen.

Year End Dec 31	2006	2007	2008E	2009E	2010E
Sales (RM m)	389.1	574.3	811.8	860.0	950.0
Pre-tax (RM m)	47.2	58.6	52.0	81.0	89.0
Net profit (RM m)	40.8	56.0	47.0	69.7	74.8
EPS (sen)	18.1	24.1	17.7	26.3	28.2
EPS growth (%)	11.3	33.5	-26.6	48.3	7.3
PER (x)	8.4	6.3	8.5	5.8	5.4
EV/EBITDA (x)	9.8	9.2	10.2	7.5	6.5
Yield (%)	2.9	2.9	2.9	2.8	2.8

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Table 1: Quarterly Results

(RMm)	Q108	Q208	Q308	Q408	Q109	% chg Q/Q	% chg Y/Y
Revenue	191.5	193.3	244.3	204.4	192.4	5.2	0.5
Operating profit	16.1	15.1	19.1	21.4	20.4	4.5	26.2
Interest expense	-5.0	-6.4	-5.6	-5.1	-5.0	-0.2	17.8
Associates	5.2	4.9	2.4	6.2	8.1	28.5	56.3
Impairment of Inv in Associate (APLI)				-16.7	0.0		
Pretax Profit	16.4	13.5	15.9	5.9	23.5	473.5	37.5
Taxation	-0.6	0.3	-0.4	-4.4	-3.8	44.2	340.7
Net Profit	15.7	13.8	15.5	1.5	19.7	1226.2	21.5
EPS (sen)	5.9	5.2	5.8	0.6	7.4	1226.2	21.5
Output (m pieces)	2655	2445	2785	2915	2920	0.2	10.0
EBIT margins (%)	8.4	7.8	7.8	10.5	10.6		
Tax Rate (%)	3.8	-2.0	2.6	73.9	16.0		

Sources: Company data, KE estimates

Table 2: FY08 Sales by Products (%)

Powdered gloves	Latex examination	26
	Nitrile synthetic	1
	Sterile surgical	3
Powder-free gloves	Latex examination	45
	Nitrile synthetic	25
Total		100

Source: Company data

Table 3: Sales by geographical regions (%)

	FY06	FY07	FY08
Americas (north/central/south)	65.0	64.0	60.5
Europe	23.5	23.0	26.5
Asia/Australasia	5.5	6.0	6.5
Africa/Middle East	6.0	7.0	6.5

Source: Company data

Table 4: Working Capital Management

	FY06	FY07	FY08	1Q09
Receivables cycle (mths)	4.47	4.35	3.46	2.74
Inventory Turnover cycle (mths)	1.26	2.22	2.00	1.65
Gearing ratio (net)	0.78	0.88	0.90	0.82

Source: Company data

Table 5: Key Assumptions

	2006	2007	2008	2009	2010
Installed capacity (m pieces)	10,706	13,516	14,476	14,476	16,204
Prod'n output (m pieces) *	9,315	11,736	12,050	13,000	13,900
Utilisation rate (%)	87%	87%	83%	90%	86%
Forex rate US\$/RM	3.60	3.40	3.50	3.60	3.50
Avg latex price/kg wet (RM)	5.12	5.20	5.50	4.50	5.00

* Supermax and Seal Polymer

Table 6: Relative valuations

Company FYE	Top Glove Aug-09	Kossan Dec-09	Supermax Dec-09	Hartalega* Mar-10
Share price (RM)	5.85	3.46	1.51	3.34
Share capital (m shrs)	294.5	159.9	265.3	242.3
Market cap (RMm)	1722.8	553.3	400.6	809.3
Installed Capacity (m pieces/annum)	30000	11100	14476	6200
Net Profit	135.4	73.6	69.7	90.1
EPS (sen)	46.0	46.0	26.3	37.2
PER (x)	12.7	7.5	5.8	9.0
NTA/share (RM)	2.34	1.87	1.46	0.87
Price/book (x)	2.5	1.9	1.0	3.8
Net debt (RMm)	-39.5	185.5	347.6	49.0
Net gearing (%)	-5.4	54.0	72.1	23.3
Revenue – gloves (RMm)	1467.0	877.0	860.0	545.3
Market cap/revenue (x)	1.17	0.63	0.47	1.48
Sales/share (RM)	4.98	5.48	3.24	2.25

* based on consensus estimates

Profit and Loss

YE Dec (RM m)	2006	2007	2008	2009	2010
Sales	389.1	574.3	811.8	860.0	950.0
Cost of goods sold	298.0	455.1	658.9	698.0	775.0
Gross Profit	91.1	119.2	152.9	162.0	175.0
Operating expenses	48.1	63.8	82.8	87.0	93.0
Operating Profit	43.1	55.4	70.2	75.0	82.0
Net interest	-13.7	-15.3	-20.3	-20.0	-21.0
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	-13.7	-15.3	-20.3	-20.0	-21.0
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	17.8	18.4	18.8	26.0	28.0
Net extraordinary	0.0	0.0	-16.7	0.0	0.0
Pretax income	47.2	58.6	52.0	81.0	89.0
Income taxes	-6.4	-2.6	-5.0	-11.3	-14.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net profit	40.8	56.0	47.0	69.7	74.8
EBITDA	53.8	75.9	75.8	99.7	108.3
EPS (sen)	18.1	24.1	17.7	26.3	28.2

Sources: Company data, KE estimates

Cashflow

YE Dec (RM m)	2006	2007	2008	2009	2010
Operating cash flow	55.4	73.9	98.3	89.7	98.3
Net profit	40.8	56.0	47.0	69.7	74.8
Depreciation & amortisatn	13.0	19.9	28.8	30.0	33.5
Change in working capital	-3.4	-1.9	2.7	-10.0	-10.0
Others	5.0	-0.1	19.8	0.0	0.0
Investment cash flow	-48.1	-45.2	-57.2	-15.0	-35.0
Net capex	-25.6	-33.9	-38.5	-15.0	-35.0
Change in LT investment	-22.5	-13.9	-18.6	0.0	0.0
Change in other assets	0.0	2.7	0.0	0.0	0.0
Cash flow after invt.	7.3	28.8	41.2	74.7	63.3
Financing cash flow	-19.1	-28.7	-48.1	-37.5	-37.1
Change in share capital	1.5	4.8	-5.9	1.2	1.6
Net change in debt	-12.8	-26.2	-33.7	-30.0	-30.0
Change in other LT liab.	-7.8	-7.4	-8.6	-8.7	-8.7
Net cash flow	-11.8	0.0	-7.0	37.2	26.2

Sources: Company data, KE estimates

Balance Sheet

YE Dec (RM m)	2006	2007	2008	2009	2010
Total assets	522.0	868.5	946.7	985.0	1020.6
Current assets	221.8	354.2	407.3	419.0	426.6
Cash & ST investment	28.7	29.2	31.0	26.4	30.0
Inventories	42.1	106.4	135.5	128.0	130.0
Accounts receivable	149.0	208.2	234.2	261.0	263.0
Others	2.0	10.5	6.6	3.6	3.6
Other assets	300.2	514.3	539.4	566.0	594.0
LT investments	126.9	95.7	116.0	116.0	116.0
Net fixed assets	173.2	378.5	388.2	412.0	443.0
Others	0.0	40.1	35.2	38.0	35.0
Total liabilities	282.1	484.7	530.3	503.2	466.9
Current liabilities	123.5	255.1	347.4	306.2	291.6
Accounts payable	55.1	97.9	109.1	112.0	115.0
ST borrowings	67.5	152.5	230.8	189.0	172.0
Others	0.9	4.8	7.5	5.2	4.6
Long-term liabilities	158.6	229.6	183.0	197.0	175.3
Long-term debts	147.9	216.8	174.9	185.0	165.0
Others	10.7	12.8	8.1	12.0	10.3
Shareholder's equity	239.9	383.8	416.4	481.8	553.7
Paid-in capital	113.2	132.6	132.6	132.6	132.6
Reserve	129.3	251.2	289.6	355.1	427.0
Others	-2.5	0.0	-5.9	-5.9	-5.9

Sources: Company data, KE estimates

Key ratios

YE Dec	2006	2007	2008	2009	2010
Growth (% YoY)					
Sales	36.7	47.6	41.4	5.9	10.5
OP	25.0	28.7	26.6	6.9	9.3
EBITDA	26.3	41.1	-0.2	31.6	8.6
NP	12.5	37.1	-16.1	48.3	7.3
EPS	11.3	33.5	-26.6	47.9	7.3
Profitability (%)					
Gross margin	23.4	20.8	18.8	18.8	18.4
Operating margin	11.1	9.7	8.6	8.7	8.6
EBITDA margin	13.8	13.2	9.3	11.6	11.4
Net Profit margin	4.6	4.2	2.2	3.0	3.0
ROE	17.0	14.6	11.3	14.5	13.5
ROA	7.8	6.4	5.0	7.1	7.3
Stability					
Gross debt/equity (%)	89.8	96.2	97.4	77.6	60.9
Net debt/equity (%)	77.9	88.6	90.0	72.1	55.4
Int. coverage (X)	3.1	3.6	3.4	3.8	3.9
Int. & ST debt coverage (X)	0.5	0.5	0.5	0.5	0.5
Cash flow int. coverage (X)	4.1	4.8	4.8	4.5	4.7
Cash flow int. & ST debt (X)	0.5	0.6	0.6	0.6	0.6
Current ratio (X)	1.7	1.6	1.6	1.6	1.6
Quick ratio (X)	0.7	0.7	0.7	0.7	0.7
Net debt (RMm)	186.8	340.1	374.7	347.6	307.0
Per share data					
EPS (sen)	18.1	24.1	17.7	26.2	28.1
CFPS (sen)	24.6	31.9	37.1	33.7	36.9
BVPS (RM)	1.07	1.66	1.57	1.81	2.08
SPS (RM)	1.73	2.48	3.06	3.23	3.57
EBITDA/share (RM)	23.9	32.7	28.6	37.5	40.7
DPS (sen)	4.5	4.4	4.4	4.3	4.3

Sources: Company data, KE estimates

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Recommendation definitions
Our recommendation is based on the following expected price performance within 12 months:

- +15% and above: BUY
- 15% to +15%: HOLD
- 15% or worse: SELL

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AND
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