



29 February 2012

Supermax Corporation

Expanding to surgical glove

Supermax's FY11 net earnings of RM106.1m came in within our estimates and the consensus. QoQ, the revenue improved slightly by 2%, attributable to lower average selling price although customers have started to replenish their minimum stock level of 1-2 months previously. The PBT margin meanwhile dropped from 12.6% to 10.6% mainly due to the higher priced inventory in some of its associated companies and overseas subsidiaries. Nonetheless, given the now brighter industry prospect and its historical PE range of 11.0x-13.0x, we have ascribed a higher PE multiple for Supermax from 7.0x to 11x on its FY12 EPS and consequently, derived a new Target Price (TP) for the stock of RM2.06 (from RM1.47 previously). Given the limited upside potential for the stock price from here to our new TP, we are maintaining a Market Perform rating on the stock.

Within expectations. FY11 net profit of RM106.1m came in within expectations with it accounting for 93% and 97% of our full year forecast and consensus estimates respectively. QoQ, its revenue improved slightly by 2% due to a lower average selling price although customers have started to replenish their minimum stock level of 1-2 months previously. Meanwhile, its net profit declined by 28% with the PBT margin dropping from 12.6% to 10.6% despite the company recording a lower average latex price of RM7.22/kg (vs RM8.63/kg in 3Q10). This is mainly due to the higher priced inventory in some of its associated companies and overseas subsidiaries.

3.5% tax exempt interim dividend. Supermax also announced a final dividend of 1.8 sen, totalling 4.8 sen. This translates to a dividend yield of 2.5%, which is below our FY11 dividend forecast of 7.5 sen.

Beefing up its nitrile division. Supermax will build two new plants which are expected to commission by 4Q13, adding new nitrile capacity from its current 5.2b pieces per annum to 10.5b pieces per annum. This will bring up its production ratio to 52% on nitrile glove. Aside from that, its Sungai Buloh plant, which is expected to be fully operational by 2012, will add 350 million pairs of surgical gloves to its existing capacity. As more players are increasing its nitrile glove capacity, we expect some potential margins contraction for the segment due to increased competition albeit this should be mitigated in Supermax's case given the balanced portfolio of products under its stable and supported also by the increasing demand for nitrile glove. Nonetheless, given our cautious stance, we have trimmed our FY12 earnings by 7% to RM127.1m from RM136.8m previously.

Valuation and recommendation. Historically, Supermax has traded at average historical PERs of 11.0x-13.0x (apart from a dip to 5.0x during the global financial crisis in 2009 and the exorbitant latex price last year). With its now brighter industry prospects and rising earnings trend ahead, we believe that the market would likely rerate the stock back to its average PER band of 11x-13.0x. Given so, we have upgraded our PER valuation multiple on Supermax from 7.0x to 11.0x and consequently, derived a new Target Price (TP) for the stock of RM2.06 (from RM1.47 previously). Given the limited upside potential, we maintain our Market Perform call on the stock.

MARKET PERFORM ↔

Price: **RM1.93**
Target Price: **RM2.06** ↑

STOCK DATA

Bloomberg	SUCB MK Equity	YTD price chg	0.8%
Market Cap	1,312.7	YTD KLCI chg	1.7%
Issued shares	680.2	Beta	1.3
52-week range	2.38		
52-week range (L)	1.13		
3-mth avg daily	3,834,128		
Free Float	55.8%		
Altman Z-score	3.6		

Major Shareholders

KIM SIM THAI	20.4%
BEE GEOK TAN	15.1%
EPF	8.7%

AT A GLANCE

Target Price (RM):	2.06	Revised Up
Valuation:	11x PER FY12 EPS	
Current Price (RM):	1.93	

Report Reason: 4Q11 results within expectations

Action: **Market Perform** **Maintain**

Reason: -

Basis of call: -

Catalyst: New capacity from nitrile and surgical glove

FYE31Dec RMm	2011A	2012F	2013F
Turnover	1,026.9	1,137.9	1,204.0
Net Profit (NP)	106.1	127.1	109.8
Consensus (NP)		108.9	134.5
Earnings Revision:		-	-

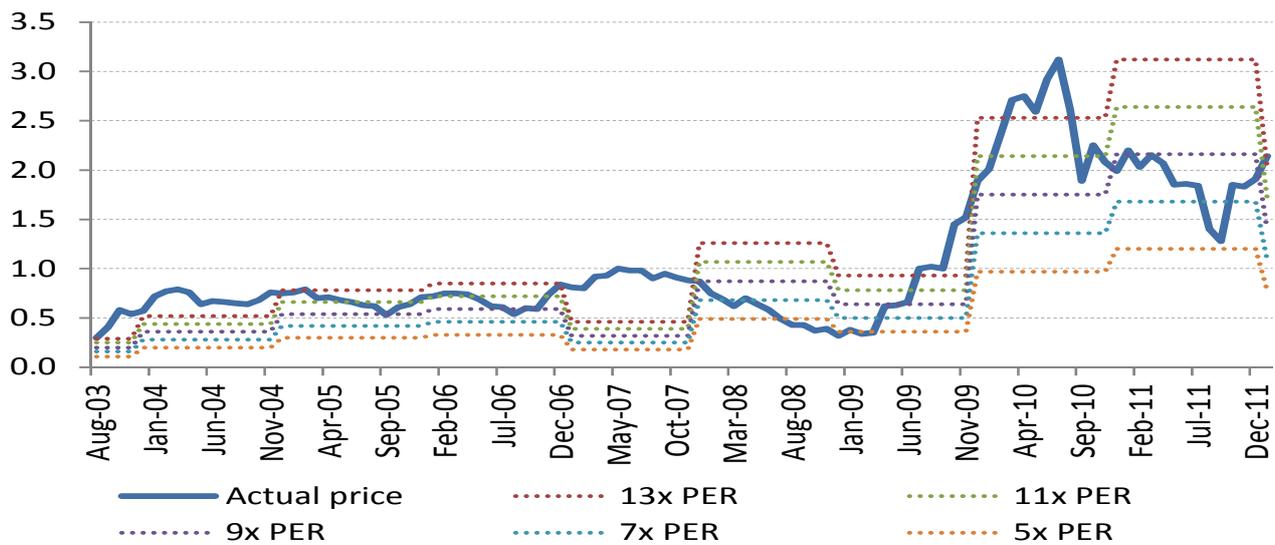
Earnings Revision: -
Rationale: -

SHARE PRICE CHART



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Supermax Historical PE Band



Source: Kenanga Research

Results Highlights

FY 31 Dec (RMm)	4Q10	1Q11	2Q11	3Q11	4Q11	QoQ Chg	YoY Chg	FY10	FY11	YTD Chg
Revenue	246.2	241.4	237.9	271.4	276.2	2%	12%	977.3	1,026.9	5%
EBIT	25.0	18.4	19.1	29.9	27.8	-7%	11%	155.8	91.2	-41%
Pretax profit	34.4	25.6	23.9	34.1	29.3	-14%	-15%	183.8	113.0	-39%
Taxation	-4.0	-1.2	-1.4	-3.2	-1.2	-0.6	-0.7	-24.9	-6.9	-0.7
Minority Interest	0.0	0.0	0.0	0.0	0.1	-11.6	n.m.	0.0	0.1	-8.5
Net Profit	30.3	24.4	22.6	30.9	28.2	-9%	-7%	158.9	106.1	-33%
EPS (sen)	8.9	7.2	6.6	9.1	4.1			23.4	15.6	
GDPS (sen)	2.5	0.0	0.0	3.0	1.8			7.5	4.8	
EBIT margin (%)	10.2%	7.6%	8.0%	11.0%	10.1%			15.9%	8.9%	
PBT margin (%)	14.0%	10.6%	10.1%	12.6%	10.6%			18.8%	11.0%	
Net profit margin (%)	-1.6%	10.1%	9.5%	11.4%	10.2%			16.3%	10.3%	
Effective tax rate (%)	-11.7%	-4.7%	-5.7%	-9.4%	-4.0%			-13.5%	-6.1%	

Source: Kenanga Research

Earnings Estimates

FYE 31Dec (RMm)	2009A	2010A	2011A	2012F	2013F
Turnover	803.6	977.3	1,026.9	1,137.9	1,204.0
EBIT	131.9	155.8	91.2	125.5	107.3
Pretax profit	151.5	183.8	113.0	141.1	121.9
Net Profit	126.6	158.9	106.1	127.1	109.8
EBIT margin	16.4%	15.9%	8.9%	11.0%	8.9%
Pretax margin	18.8%	18.8%	11.0%	12.4%	10.1%
Effective tax rate	16.4%	13.5%	6.1%	10.0%	10.0%
Growth ratios					
Turnover	-1%	22%	5%	11%	6%
EBIT	88%	18%	-41%	38%	-15%
Pretax profit	191%	21%	-39%	25%	-14%
Net profit	99%	26%	-33%	20%	-14%
ROE	26%	25%	15%	16%	12%
ROA	13%	16%	9%	10%	8%
Net Gearing (x)	0.3	0.3	0.3	0.2	0.1
Per share data					
EPS (sen)	18.6	23.4	15.6	18.7	16.1
EPS growth (%)	99%	26%	-33%	20%	-14%
PER (x)	10.4	8.3	12.4	10.3	12.0
EV/EBITDA (x)	9.2	8.4	12.7	8.9	9.7
Gross DPS (sen)	4.3	3.7	4.8	6.0	7.0
Div. Yield (%)	2.2%	1.9%	2.5%	3.1%	3.6%
NTA/share (RM)	0.8	1.0	1.1	1.2	1.3
P/NTA (x)	2.5	2.0	1.8	1.6	1.5
Historical Price Ratio	2006	2007	2008	2009	2010
PER (x)	4.9	7.2	4.4	46.3	12.6
PBV (x)	0.8	1.7	0.7	1.6	1.4

Source: Kenanga Research

Balance Sheet

FYE: 31Dec (RMm)	2009A	2010A	2011A	2012F	2013F
Non Current Assets	564.1	620.3	662.6	644.9	669.1
Current Assets	381.2	445.1	522.8	631.4	676.1
Total Assets	945.2	1,065.4	1,185.3	1,276.3	1,345.2
Current Liabilities	213.7	219.7	244.9	249.5	256.2
Non Current Liabilities	172.7	154.1	169.9	169.9	169.9
Shareholders' Fund	558.8	691.5	770.6	856.9	919.1
Minority Interest	0.0	0.1	-0.1	0.0	0.0
Equity & Liabilities	945.2	1,065.4	1,185.3	1,276.3	1,345.2

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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