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FY11 Results Review

Supermax Corp

A Stable Quarter

Supermax's FY11 results were within expectations. Its revenue was quite flattish q-o-q as the higher sales volume was offset by the lower selling price of gloves. However, its net profit was lower q-o-q due to the continuous stiff competition as well as lower contribution from its associates. We are downgrading our FY12 earnings by 9% since latex price continues to be high and we expect some negative impact on its demand growth as well as a potential price war. Maintain Buy but with a lower fair value of RM2.50.

BUY ↻

Fair Value **RM2.50**
Previous Price **RM2.75**
RM1.93

RUBBER GLOVES

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

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	680.15
Market Cap	1312.69
52 week H L Price	2.38 2.38
3mth Avg Vol (000)	3,758.3
YTD Returns	11.7
Beta (x)	1.39
Shariah Compliant	YES

Major Shareholders (%)

Dato' Seri Stanley Tai	20.44
Datin Seri Cheryl Tan	15.13
EPF	8.34

Share Performance (%)

Month	Absolute	Relative
1m	12.8	13.2
3m	22.4	14.2
6m	18.7	19.5
12m	0.3	-2.2

6-month Share Price Performance



Within expectations. Supermax's FY11 results were within consensus and our expectations, making up 95% and 100% of FY11 forecasts. Its 4QFY11 revenue of RM276.2m was quite flattish q-o-q as the higher sales volume was offset by the lower selling price of glove since latex price was lower in 4QFY11 versus 3QFY11 at RM7.25/kg versus RM8.67/kg. However, the 4QFY11 net profit of RM28.2m was 8.9% lower q-o-q due to the 70% cost pass following the continuous stiff competition as well as lower contribution from its associates. Finally, on a YTD comparison, its FY11 revenue of RM1,026.9m was higher by 5.1% due to the higher selling price as a result of higher latex price in FY11 versus FY10 at RM8.95 versus RM7.47 and higher sales volume of gloves sold as a result of bigger capacity. Nevertheless, its FY11 net profit of RM106.0m was again lower by 33.2% due to margin erosion from strong competition, lower associates contribution and investment bond written off.

Downgrading FY12 earnings by 9%. Earlier, we had expected the latex price to stay within the RM7.00/kg range but unfortunately, the price has shot past this level due to the news of hard rubber floor price support by the Thai Government at RM11.84/kg (latex expected to be about RM7.10/kg with the assumption of having 60% hard rubber content and the balance 40% water). Latex price also rose driven somewhat by the rise in oil price due to tensions in Iran, causing its direct substitute, nitrile latex, to also be on a rising trend since it is a by-product of oil. Hence, we think this would negatively impact demand growth going forward and may eventually lead to some price war to move out rubber glove inventories.

Maintain Buy. Our fair value for Supermax has been downgraded to RM2.50 (previously RM2.75) based on existing PER of 13x FY12 EPS. We continue to like the company for its attractive valuation as well as operating in a recession proof industry. Also, Supermax has declared an interim dividend of 1.8sen.

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	814.8	977.3	1,026.9	1,135.5	1,286.1
Net Profit	129.8	158.9	106.1	127.6	137.8
% chg y-o-y	176.1	22.5	(33.2)	20.2	8.0
Consensus	-	-	113.0	135.0	-
EPS (sen)	19.2	24.0	16.0	19.2	20.8
DPS (sen)	11.0	7.5	7.5	8.5	9.5
Dividend yield (%)	5.7	3.9	3.9	4.4	4.9
ROE (%)	26.6	25.1	14.4	15.7	15.2
ROA (%)	13.5	15.2	9.0	9.9	9.5
PER (x)	10.0	8.1	12.1	10.0	9.3
BV/share (RM)	0.84	1.06	1.16	1.29	1.44
P/BV (x)	2.5	2.0	1.8	1.6	1.5
EV/ EBITDA (x)	9.0	8.1	7.7	10.7	11.1

Results Table (RMm)**Results Table (RMm)**

FYE Dec	4Q11	3Q11	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Turnover	276.2	271.4	1.8%	1026.9	977.3	5.1%	Flattish q-o-q as higher sales volume was offset by the lower selling price of glove since the latex price was lower in 4QFY11 versus 3QFY11 (RM7.25 versus RM8.67). Higher YTD due to the higher selling price as a result of higher latex price in FY11 versus FY10 (RM8.95 versus RM7.47) and sales volume of gloves as a result of bigger capacity.
EBITDA	38.8	40.8	-4.9%	139.1	198.5	-29.9%	Lower due to only about 70% cost pass following the continuous stiff competition.
Depreciation	-11.0	-11.0	0.0%	-44.0	-42.8	3.0%	
Net interest expense	-2.9	-4.7	-38.9%	-13.0	-13.9	-6.6%	
Associates	4.4	9.0	-51.4%	34.8	42.0	-17.0%	Lower due to less favorable exchange rate.
PBT before EI	29.3	34.1	-14.0%	116.9	183.8	-36.4%	
EI	0.0	0.0	-	-4.0	0.0	-	Investment bond written off following the repayment defaults by some of the other obligors in 2QFY11.
PBT	29.3	34.1	-14.0%	112.9	183.8	-38.6%	
Tax	-1.3	-3.2	-60.6%	-6.9	-24.9	-72.1%	
MI	0.1	0.0		0.1	0.0		
Reported Net Profit	28.2	30.9	-8.9%	106.1	158.9	-33.2%	
Core Net Profit	28.2	30.9	-8.9%	110.1	158.9	-30.7%	Movement inline with EBITDA
EPS (sen)	8.3	9.1		31.2	46.7		
DPS (sen)	1.8	3.0		4.8	7.5		
EBITDA margin	14.0%	15.0%		13.5%	20.3%		
NTA/share (RM)	2.27	2.21		2.27	2.03		

EARNINGS FORECAST

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	814.8	977.3	1,026.9	1,135.5	1,286.1
EBITDA	162.3	181.8	193.5	136.0	142.2
PBT	152.1	183.8	113.0	135.7	146.5
Net Profit	129.8	158.9	106.1	127.6	137.8
EPS (sen)	19.2	24.0	16.0	19.2	20.8
DPS (sen)	11.0	7.5	7.5	8.5	9.5
Margin					
EBITDA (%)	19.9	18.6	18.8	12.0	11.1
PBT (%)	18.7	18.8	11.0	11.9	11.4
Net Profit (%)	15.9	16.3	10.3	11.2	10.7
ROE (%)	26.6	25.1	14.4	15.7	15.2
ROA (%)	13.5	15.2	9.0	9.9	9.5
Balance Sheet					
Fixed Assets	569.5	614.8	662.6	778.1	756.8
Current Assets	364.6	546.6	522.8	615.3	751.8
Total Assets	934.1	1,161.5	1,185.3	1,393.4	1,508.6
Current Liabilities	202.2	289.5	244.9	366.0	383.5
Net Current Assets	162.4	257.1	277.9	249.4	368.2
LT Liabilities	173.9	165.9	169.9	169.9	169.9
Shareholders Funds	558.0	706.1	770.6	857.6	955.1
Net Gearing (%)	31.5	27.0	28.5	21.2	31.1

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