



19 February 2010

Supermax Corporation

OUTPERFORM

RM5.47

Supermax finished FY09 well with normalized earnings of RM135m, a significant turnaround of 112% yoy. Although we believe the supply shortage situation is favourable, we remain cautious of increasing cost pressures toward 2H2010. Due to strong share price performance, downgrade to Outperform (from Buy) with a revised target price of RM6.30 (from RM4.40).

Financial Highlights					(RMm)
Year to December	FY07	FY08	FY09	FY10F	FY11F
Revenue	574.3	811.8	814.8	1,109.1	1,199.2
Pretax profit	58.6	52.0	152.1	190.1	202.2
Normalized net profit	55.9	63.7	135.1	162.1	172.5
Normalized EPS (sen)	21.1	24.0	50.4	60.4	64.3
EPS growth (%)	1.5	13.8	109.8	20.0	6.4
Net DPS (sen)	3.2	3.2	11.0	12.4	13.2
P/E (x)	25.9	30.9	11.3	9.0	8.5
ROE (%)	17.9	11.7	26.6	26.0	22.7
Net yield (%)	0.6	0.6	2.0	2.3	2.4
Net gearing (%)	87.9	93.2	33.1	4.1	(8.9)
P/B (x)	3.8	3.5	2.6	2.1	1.8

Source: Company, KAF

PERFORMANCE

- On a qoq basis, Supermax's revenue was down 17% due to lower sales volume as a result of temporary labour shortage, water supply disruptions at one of its factories and slight depreciation of the USD.
- However, it managed to increase its normalized net profit by 23% qoq through higher average selling prices enabled by the shortage of supply situation. The group incurred an exceptional interest expense of RM5.4m in 4Q09 due to early redemption of its bond.
- Net profit in 4Q08 was distorted by RM16.7m full impairment of its APLI investment. Thus, comparing on a normalized basis, 4Q09 earnings grew 172% yoy which is a marked improvement.
- There was also significant normalized net margin expansion from 17% in 3Q09 to 25% in 4Q09, compared to 10% in 4Q08. Besides the favourable operating environment of low latex prices, this was also due to higher associates' contribution.
- Full year net profit of RM129.8m exceeded our forecast by 13%. The group also declared a special tax-exempt dividend of 9%.

REVISIONS

- We have revised our FY10 and FY11 earnings up by 34-35% to RM162m and RM173m to reflect higher sales volumes and selling prices. Management's internal target for FY10 is RM168m.

TARGET PRICE

- Consequently, our target price is revised to RM6.30 from RM4.40. We downgrade the stock to Outperform due to the recent strong share price performance.

FINISHING WELL

Market Data

Bloomberg code	SUCB MK
Shares o/s (m)	270
Mkt Cap (RMm)	1,477
52 week high/low (RM)	6.18 / 0.78
Avg daily trading value (RMm)	6.7
KLCI	1,258

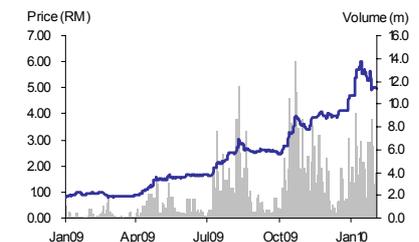
Target Price Methodology

Target (RM)	: 6.30 (+15%)
Methodology	: Gordon growth, P/B
Key Assumptions:	COE = 13.2%, g = 5.5%
FY10 PER (x)	: 10.4
FY10 P/B (x)	: 2.4
FY10 Net Yield	: 2.0%

Share Price Performance

	1m	3m	12m
Absolute	(3)	40	467
Relative to KLCI	1	42	306

Share Price Movement



Source: Bloomberg

Analyst

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SUPERMAX CORPORATION QUARTERLY TRENDS

(RM m) FYE Dec	Quarter								Change		Cumulative			KAF	
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	% qoq	% yoy	FY08	FY09	% chg	FY09F	12M/F
Turnover	191.5	193.3	244.3	182.8	192.4	188.5	237.6	196.4	(17)	7	811.8	814.8	0	872.1	93
Operating profit	16.1	15.1	19.1	36.5	20.4	26.8	39.5	45.7	16	25	86.9	132.4	52	117.0	113
Operating margin (%)	8.4%	7.8%	7.8%	20.0%	10.6%	14.2%	16.6%	23.3%			10.7%	16.3%		13.4%	
Finance costs	(4.3)	(5.7)	(4.9)	(5.4)	(5.0)	(4.5)	(4.1)	(3.1)	(25)	(43)	(20.3)	(16.7)	(18)	(18.5)	91
Associates	5.2	4.9	2.4	(10.3)	8.1	9.0	11.3	13.4	18	(229)	2.1	41.8	1,854	37.4	112
Exceptionals	-	-	-	(16.7)	-	-	-	(5.4)			(16.7)	(5.4)	(68)		
Pretax profit	17.1	14.2	16.6	4.1	23.5	31.3	46.7	50.6	8	1,137	52.0	152.1	193	136.0	112
Pretax margin (%)	8.9%	7.4%	6.8%	2.2%	12.2%	16.6%	19.7%	25.8%			6.4%	18.7%		15.6%	
Tax	(0.9)	(0.7)	(0.8)	(2.6)	(3.8)	(5.6)	(6.6)	(6.5)	(1)	149	(5.0)	(22.4)	347	(21.2)	105
Net profit	16.2	13.5	15.8	1.5	19.7	25.8	40.2	44.1	10	2,869	47.0	129.8	176	114.7	113
Net profit margin (%)	8.5%	7.0%	6.5%	0.8%	10.2%	13.7%	16.9%	22.5%			5.8%	15.9%		13.2%	
Normalized net profit	16.2	13.5	15.8	18.2	19.7	25.8	40.2	49.5	23	172	63.7	135.1	112	114.7	118
Normalized net margin (%)	8.5%	7.0%	6.5%	9.9%	10.2%	13.7%	16.9%	25.2%			7.8%	16.6%			
No. of shares (m)	265.3	265.3	265.3	265.3	265.3	265.3	265.3	268.3							
EPS (sen)	6.1	5.1	5.9	0.6	7.4	9.7	15.1	16.4	9	2,836	17.7	48.7	175	43.3	113
Net DPS (sen)	-	-	1.5	-	-	-	2.5	8.5	240	nm	1.5	11.0	633	5.0	220

Source: Company, KAF

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Neutral	The stock is expected to perform in line with the sector and market in the next 12 months
Underperform	The stock is expected to perform below the sector and market in the next 12 months
Sell	High conviction stock with an expected price depreciation in excess of 20% in the next 12 months

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