

Supermax Corporation

Hit By High Latex Price

NEUTRAL ↔

Price: RM3.96
Target Price: RM4.00 ↓
STOCK DATA

Bloomberg Ticker	SUCB MK	YTD price chg	-0.5%
Market Cap	1,346.7	YTD KLCI chg	1.4%
Issued shares	340.1	Beta	1.5
52-week range (H)	6.60		
52-week range (L)	3.75	Major Shareholders	
3-mth avg daily volume	841,497	Dato' Seri Stanley Thai	20.4%
Free Float	55.5%	Datin Seri Cheryl Tan	15.1%
Altman Z-score	4.5	EPF	8.9%

Consensus

	2011	2012
Net Profit	158.0	176.4
EPS (sen)	47.9	53.8

FINANCIAL HIGHLIGHTS

FYE 31 Dec	2009	2010	2011E	2012E	2013E
Turnover	803.6	923.3	971.9	1,123.2	1,205.8
EBIT	131.9	148.5	113.7	131.5	142.1
Pretax profit	151.5	177.4	137.5	153.0	162.3
Net Profit	126.6	168.2	123.8	137.7	146.0

EBIT margin	16.4%	16.1%	11.7%	11.7%	11.8%
Pretax margin	18.8%	19.2%	14.1%	13.6%	13.5%
Effective tax rate	16.4%	5.2%	10.0%	10.0%	10.0%
ROE	26.0%	26.6%	16.3%	15.8%	14.7%
ROA	13.4%	16.0%	10.2%	10.3%	9.9%
Net Gearing (x)	0.32	0.27	0.17	0.11	0.03

Growth ratios

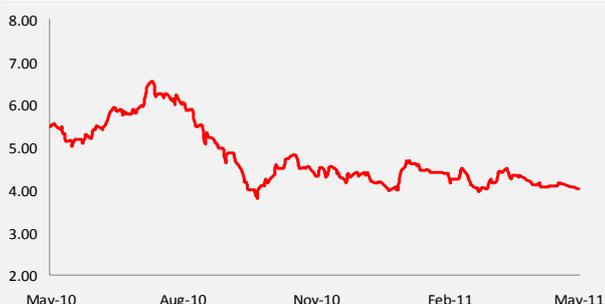
Turnover	-1.0%	14.9%	5.3%	15.6%	7.4%
EBIT	87.9%	12.6%	-23.4%	15.6%	8.1%
Pretax profit	191.3%	17.1%	-22.5%	11.2%	6.1%
Core Net profit	98.9%	32.8%	-26.4%	11.2%	6.1%

Per share data

EPS (sen)	37.2	49.4	36.4	40.5	42.9
EPS growth (%)	98.9%	32.8%	-26.4%	11.2%	6.1%
PER (x)	10.6	8.0	10.9	9.8	9.2
DPS (sen)	3.2	5.0	5.0	6.0	7.0
Div. Yield (%)	0.8%	1.3%	1.3%	1.5%	1.8%
NTA/share (RM)	1.56	1.99	2.31	2.65	3.01

Historical price ratio

(X)	2006	2007	2008	2009	2010
Price /Earnings	18.5	16.1	5.6	13.6	11.2
Price /Book	1.9	1.8	0.8	1.9	2.6

SHARE PRICE CHART


The Research Team

research@kenanga.com.my

Tel: 603-2713 2292

Supermax registered its 1QFY11 net earnings of RM24.4m; when annualised only made up of 67% of our full year forecast (consensus 62%). YoY and QoQ net earnings slipped 52.6% and 25.4% respectively, resulted from downtime in the production due to conversion from natural latex production into surgical and nitrile. Depreciation of USD and Euro and high latex price have also resulted the lower earnings and weaker margins. Nevertheless, latex price has shown some decline in the past one month and we believe profit should improve in the following quarters. We have reduced our FY11 earnings forecast by 16.11% and target price by 13% to RM4.00 (previous TP RM4.60). Maintain NEUTRAL.

Lower margins. 1Q EBIT margin of 7.6% is much lower than the previous year of 21.6% and previous quarter of 9.6% due to sharp increase in latex price.

Management expecting lower latex price speculation activities. Latex price has dropped by 14% to RM9.36/kg from its peak of RM10.93/kg one month ago; and management believes the worst should be over as wintering season for rubber tree has ended and production of latex is increasing. Moreover, other commodities such as crude oil and palm oil has fallen by 17% and 18% respectively, and thus, speculation on natural latex price may not be bullish in the near term.

Increasing nitrile glove production. Currently, Supermax has installed capacity of 17.6bn pieces per annum. For FY11, the company is planning to increase its production capacity by 4.1bn, mostly for nitrile gloves, bringing its annual capacity to 21.7bn pieces.

Additional margin from owned distribution. Up to date, Supermax owns six distribution centres cum corporate offices in the United States of America, Brazil, Europe, Australia and Canada, and collaborates with 250 independent distributors. In total, these distribution centres provide over 20% of the group's total PBT per annum.

Financials. With the lower 1Q earnings and adverse macro situation, we are reducing our FY11 and FY12 earnings by 16.3% and 9.6% to RM123.8m and RM137.7m, respectively. Financial leverage is manageable with net gearing of 0.4x, supported by a strong interest cover ratio of 5.6x.

Valuation. Following the earnings revision, we have revised our target price downwards by 13% to RM4.00 (previous TP RM4.60) by applying its 5-year average PE band over FY11 EPS of 36.4 sen. With the limited potential upside, we maintain our **NEUTRAL** recommendation on Supermax.

Results Highlights

FY 31 Dec (RMm)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	QoQ Chg	YoYChg
Revenue	220.7	234.8	235.1	232.7	241.4	3.7%	9.4%
EBIT	47.6	41.7	36.9	22.3	18.4	-17.4%	-61.2%
Pretax profit	54.3	48.8	41.4	32.8	25.6	-21.9%	-52.8%
Taxation	(2.8)	(3.0)	(3.3)	(0.1)	(1.2)	1086.3%	-56.9%
Minority Interest	0.0	0.0	(0.0)	0.0	0.0	n.a.	n.a.
Net Profit	51.5	45.9	38.1	32.7	24.4	-25.4%	-52.6%
EPS (sen)	15.1	13.5	11.2	9.6	7.2	-25.4%	-52.6%
Net gearing (x)	0.3	0.3	0.3	0.3	0.4	31.4%	18.7%
EBIT margin (%)	21.6%	17.8%	15.7%	9.6%	7.6%	-20.4%	-64.6%
PBT margin (%)	24.6%	20.8%	17.6%	14.1%	10.6%	-24.7%	-56.9%
Net profit margin (%)	23.3%	19.5%	16.2%	14.1%	10.1%	-28.1%	-56.7%
Effective tax rate (%)	-5.2%	-6.1%	-8.0%	-0.3%	-4.7%	1419.5%	-8.7%

Earnings Estimates

FY 31 Dec (RMm)	2009	2010	2011E	2012E	2013E
Revenue	803.6	923.3	971.9	1,123.2	1,205.8
EBITDA	163.8	181.4	148.9	169.8	183.9
Pretax profit	151.5	177.4	137.5	153.0	162.3
Tax	(24.9)	(9.2)	(13.8)	(15.3)	(16.2)
MI	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Net profit	126.6	168.2	123.8	137.7	146.0
EPS growth (%)	98.9%	32.8%	-26.4%	11.2%	6.1%
DPS (sen)	3.2	5.0	5.0	6.0	7.0
NTA/ share (RM)	1.6	2.0	2.3	2.7	3.0
Net gearing (x)	0.3	0.3	0.2	0.1	0.0
PER (x)	10.6	8.0	10.9	9.8	9.2
Div. yield (%)	0.8%	1.3%	1.3%	1.5%	1.8%
P/ NTA (x)	2.5	2.0	1.7	1.5	1.3
EV/ EBITDA (x)	9.4	8.2	9.7	8.1	7.0
ROE (%)	26.0%	26.6%	16.3%	15.8%	14.7%

Balance Sheet

FYE 31 Dec (RMm)	2009	2010	2011E	2012E	2013E
Non Current Assets	564.1	614.8	611.0	632.7	655.8
Current Assets	381.2	546.6	658.7	775.7	886.0
Total Assets	945.2	1,161.5	1,269.7	1,408.4	1,541.8
Current Liabilities	213.7	289.5	291.0	312.4	323.7
Non Current Liabilities	172.7	165.9	165.9	165.9	165.9
Shareholders' Fund	558.8	706.1	812.8	930.1	1,052.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Equity & Liabilities	945.2	1,161.5	1,269.7	1,408.4	1,541.8

This page has been intentionally left blank

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Chan Ken Yew
Associate Director