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9MFY11 Results Review

Supermax Corp

A Buoyant Quarter

Supermax's 9MFY11 results were within expectations as revenue and core net profit were up by between 14% and 16%, buoyed by higher sales volume and lower latex prices. Overall, the company outperformed its peer Top Glove, which posted flat q-o-q results. Going forward, the worst may be over since latex price has retraced to below RM8.00/kg for the first time in 2011 which indicates that speculation on the commodity has eased. Besides this, the industry's incremental growth in new capacity is gradually slowing. We reiterate our Buy on Supermax.

Within expectations. Supermax's 9MFY11 results were below consensus but within our expectations, making up 69% and 73% of the FY11 forecasts. We had earlier held the view that its performance would normalize after the H1N1 impact in FY09/10 wore off and had accordingly tweaked our FY11-12 numbers to incorporate this expectation. Nevertheless, its 3QFY11 revenue and core net profit of RM271.4m and RM30.9m respectively were 14.1% and 16.0% higher q-o-q. The better revenue was contributed by higher sales volume and stronger sales of nitrile gloves while core net profit improved due to a lower average latex price (RM8.67/kg in 3Q vs RM9.73/kg in 2Q). Since the company has not been fully passing on the higher costs to consumers due to the slight oversupply of examination gloves, it will benefit from any reduced cost such as that for latex as the company would be facing a lower incremental cost instead. Of course, on a YTD comparison, the poorer performance was due to heftier latex prices and the higher capacity in 2011, which resulted in glove makers losing their bargaining power.

Robust results. Among the listed rubber glove manufacturers, Top Glove is the ideal candidate for the purpose of comparing with Supermax since both companies have nearly the same product mix, with about 70%-80% of natural rubber gloves. In Top Glove's recently announced quarterly results, its numbers were almost flat q-o-q, which contrasts with Supermax's 14%-16% q-o-q improvement.

Maintain Buy. Our fair value for Supermax remains unchanged at RM5.50, based on the existing PER of 13x FY12 EPS. We continue to like the stock's attractive valuation (trading at a single digit FY12 PER valuation) as well as the recession-proof nature of the industry it is in. Meanwhile, Supermax has declared an interim dividend of 3 sen.

BUY ↻

Fair Value

RM5.50

Previous

RM5.50

Price

RM3.24

RUBBER GLOVES

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

Stock Statistics

| | |
|---------------------|-------------|
| Bloomberg Ticker | SUCB MK |
| Share Capital (m) | 340.08 |
| Market Cap | 1101.86 |
| 52 week H L Price | 4.86 2.26 |
| 3mth Avg Vol (000) | 967.8 |
| YTD Returns | -25.4 |
| Beta (x) | 1.60 |

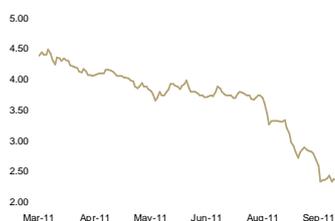
Major Shareholders (%)

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

Share Performance (%)

| Month | Absolute | Relative |
|-------|----------|----------|
| 1m | 3.9 | 12.4 |
| 3m | -23.7 | -11.9 |
| 6m | -29.2 | -19.6 |
| 12m | -28.6 | -25.0 |

6-month Share Price Performance



| FYE Dec (RMm) | FY08 | FY09 | FY10 | FY11f | FY12f |
|--------------------|-------|-------|-------|---------|---------|
| Revenue | 811.8 | 814.8 | 923.3 | 1,026.9 | 1,135.5 |
| Net Profit | 47.0 | 129.8 | 168.2 | 106.5 | 140.3 |
| % chg y-o-y | -20.9 | 176.1 | 29.6 | (36.6) | 31.7 |
| Consensus | - | - | - | 113.0 | 135.0 |
| EPS (sen) | 13.7 | 37.7 | 50.7 | 32.1 | 42.3 |
| DPS (sen) | 4.0 | 11.0 | 7.5 | 7.5 | 10.5 |
| Dividend yield (%) | 1.2 | 3.4 | 2.3 | 2.3 | 3.2 |
| ROE (%) | 11.5 | 26.3 | 26.6 | 14.2 | 16.5 |
| ROA (%) | 5.1 | 13.5 | 16.0 | 9.0 | 10.9 |
| PER (x) | 23.7 | 8.6 | 6.4 | 10.1 | 7.7 |
| BV/share (RM) | 1.29 | 1.68 | 2.13 | 2.40 | 2.74 |
| P/BV (x) | 2.6 | 2.1 | 1.6 | 1.4 | 1.2 |
| EV/ EBITDA (x) | 12.2 | 7.7 | 7.3 | 11.7 | 8.8 |

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

| FYE Dec | 3Q11 | 2Q11 | Q-o-Q chg | YTD FY11 | YTD FY10 | Y-o-Y chg | Comments |
|----------------------|-------|-------|-----------|----------|----------|-----------|--|
| Turnover | 271.4 | 237.9 | 14.1% | 750.7 | 690.6 | 8.7% | Higher q-o-q contributed by higher sales volume and stronger sales of its nitrile gloves. Higher YTD due to the higher selling prices of gloves to partially pass on the cost increase to its customers. |
| EBITDA | 40.8 | 30.1 | 35.4% | 100.3 | 158.2 | -36.6% | Higher q-o-q, in line with the higher revenue as well as lower average latex price (RM8.67/kg in 3Q vs RM9.73/kg in 2Q). Given that the company did not pass on in full its higher costs due to the slight oversupply of examination gloves, any lower cost such as that for latex would benefit it as it would be absorbing a lower incremental cost. Lower YTD due to the higher latex price and only about 70% cost pass through as a result of stiffer competition. |
| Depreciation | -11.0 | -11.0 | 0.0% | -33.0 | -32.1 | 3.0% | |
| Net interest expense | -4.7 | -2.2 | 115.5% | -10.1 | -10.7 | -5.4% | |
| Associates | 9.0 | 11.0 | -18.2% | 30.5 | 29.2 | 4.5% | Lower q-o-q due to a less favorable USD-MYR exchange rate. |
| PBT before EI | 34.1 | 27.9 | 22.0% | 87.6 | 144.6 | -39.4% | |
| EI | 0.0 | -4.0 | - | -4.0 | 0.0 | - | Wrote off investment bonds on repayment default by some of the other obligors in 2QFY11. |
| PBT | 34.1 | 23.9 | 42.4% | 83.6 | 144.6 | -42.1% | |
| Tax | -3.2 | -1.3 | 148.6% | -5.7 | -9.1 | -37.5% | |
| MI | 0.0 | 0.0 | | 0.0 | 0.0 | | |
| Reported Net Profit | 30.9 | 22.7 | 36.4% | 78.0 | 135.4 | -42.4% | |
| Core Net Profit | 30.9 | 26.7 | 16.0% | 82.0 | 135.4 | -39.5% | Movement in line with EBITDA |
| EPS (sen) | 9.1 | 6.7 | | 22.9 | 39.9 | | |
| DPS (sen) | 3.0 | 0.0 | | 3.0 | 2.5 | | |
| EBITDA margin | 15.0% | 12.7% | | 13.4% | 22.9% | | |
| NTA/share (RM) | 2.21 | 2.12 | | 2.21 | 2.03 | | |

EARNINGS FORECAST

| FYE Dec (RMm) | FY08 | FY09 | FY10 | FY11f | FY12f |
|----------------------|-------------|-------------|-------------|--------------|--------------|
| Turnover | 811.8 | 814.8 | 923.3 | 1,026.9 | 1,135.5 |
| EBITDA | 115.2 | 162.3 | 174.5 | 103.1 | 136.0 |
| PBT | 52.0 | 152.1 | 177.4 | 113.3 | 149.2 |
| Net Profit | 47.0 | 129.8 | 168.2 | 106.5 | 140.3 |
| EPS (sen) | 13.7 | 37.7 | 50.7 | 32.1 | 42.3 |
| DPS (sen) | 4.0 | 11.0 | 7.5 | 7.5 | 10.5 |
| Margin | | | | | |
| EBITDA (%) | 14.2 | 19.9 | 18.9 | 10.0 | 12.0 |
| PBT (%) | 6.4 | 18.7 | 19.2 | 11.0 | 13.1 |
| Net Profit (%) | 5.8 | 15.9 | 18.2 | 10.4 | 12.4 |
| ROE (%) | 11.5 | 26.3 | 26.6 | 14.2 | 16.5 |
| ROA (%) | 5.1 | 13.5 | 16.0 | 9.0 | 10.9 |
| Balance Sheet | | | | | |
| Fixed Assets | 507.2 | 569.5 | 614.8 | 783.2 | 843.6 |
| Current Assets | 477.5 | 364.6 | 546.6 | 420.5 | 537.0 |
| Total Assets | 984.7 | 934.1 | 1,161.5 | 1,203.7 | 1,380.6 |
| Current Liabilities | 387.4 | 202.2 | 289.5 | 243.0 | 304.8 |
| Net Current Assets | 90.1 | 162.4 | 257.1 | 177.5 | 232.2 |
| LT Liabilities | 168.7 | 173.9 | 165.9 | 165.9 | 165.9 |
| Shareholders Funds | 428.6 | 558.0 | 706.1 | 794.7 | 909.9 |
| Net Gearing (%) | 78.1 | 31.5 | 27.0 | 17.1 | 14.1 |

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated (NR):** Stock is not within regular research coverage

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