

Hold

 Target price
RM1.50

 Price
RM1.93

Flashnote

Supermax

Decent end

Supermax's FY11 normalised net profit of RM110m was generally in line with our and Bloomberg consensus forecasts. The industry continues to be hampered by volatility in latex prices and the USD coupled with a lack of pricing power given the overcapacity situation, in our view. We have a Hold on the stock.

- On a qoq basis, 4Q11 revenue was up 2%, while pre-tax profit was down 14% mainly due to a 51% decline in associates' contribution. Management attributed this to lower average selling prices as average latex prices were lower at about RM7.22/kg over 4Q11 compared to RM8.63/kg in 3Q11. This indicates the lack of pricing power, given the overcapacity situation faced by the industry, in our view.
- On a yoy basis, revenue was up 12% due to higher sales volumes while pre-tax profit fell by 15% mainly attributable to decline in associates' contribution by 66% from RM13m to RM4m.
- We note that operating margin also declined to 10.1% in 4Q11 versus 11% in 3Q11 and 10.2% in 4Q10. This compares to the historical average of 10.8% (FY02-FY08).
- Cumulatively, FY11's normalised net profit of RM110m declined 31% off the high base in FY10 and made up 107% of our full-year forecasts.
- Management is guiding for earnings growth of 20% in FY12. The new lines of its surgical gloves are expected to commission in stages from March 2012 and to contribute to 2Q12 earnings. The group also plans to increase its nitrile capacity to 52% by 4Q13.
- The stock trades at 12.2x FY12F PE and 1.5x P/B, which is above its historical PE of 8.9x. We have a Hold on the stock with a target price of RM1.50.

Quarterly performance trends

(RM m) FYE Dec	FY10				FY11				Change		Cumulative			KAF	
	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	% qoq	% yoy	FY10	FY11	% chg	FY11F	12MF
Turnover	220.7	234.8	235.1	246.2	241.4	237.9	271.4	276.2	2	12	977.3	1,026.9	5	947.3	108
Operating profit	47.6	41.7	36.8	25.0	18.4	19.1	29.9	27.8	(7)	11	155.8	95.2	(39)	101.4	94
Operating margin (%)	21.6%	17.8%	15.7%	10.2%	7.6%	8.0%	11.0%	10.1%			15.9%	9.3%		10.7%	
Finance costs	(3.7)	(3.3)	(3.7)	(3.4)	(3.3)	(2.2)	(4.8)	(2.9)	(40)	(15)	(13.9)	(13.1)	(6)	(17.1)	77
Associates	10.5	10.4	8.3	12.8	10.5	11.0	9.0	4.4	(51)	(66)	42.0	34.8	(17)	30.0	116
Exceptionals	-	-	-	-	-	(4.0)	-	-			-	(4.0)			
Pretax profit	54.3	48.8	41.4	34.4	25.6	23.9	34.1	29.3	(14)	(15)	183.8	113.0	(39)	114.3	99
Pretax margin (%)	24.6%	20.8%	17.6%	14.0%	10.6%	10.1%	12.6%	10.6%			18.8%	11.0%		12.1%	
Tax	(2.8)	(3.0)	(3.3)	(4.0)	(1.2)	(1.3)	(3.2)	(1.3)	(61)	(69)	(24.9)	(6.9)	(72)	(11.4)	61
Minority interest	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.1				(0.0)	0.1	nm		
Net profit	51.5	45.9	38.1	30.4	24.4	22.6	30.9	28.2	(9)	(7)	158.9	106.1	(33)	102.9	103
Net profit margin (%)	23.3%	19.5%	16.2%	12.4%	10.1%	9.5%	11.4%	10.2%			16.3%	10.3%		10.9%	
Normalized net profit	51.5	45.9	38.1	30.4	24.4	26.6	30.9	28.2	(9)	(7)	158.9	110.1	(31)	102.9	107
Normalized net margin (%)	23.3%	19.5%	16.2%	12.4%	10.1%	11.2%	11.4%	10.2%			16.3%	10.7%		10.9%	

Source: Company, KAF forecasts

Important disclosures can be found in the Disclosures Appendix.

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Income statement

RMm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	803.6	977.3	947.3	1004	1070
Cost of sales	-634.6	-795.8	-820.6	-871.0	-923.4
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	169.0	181.5	126.7	133.0	146.7
DDA & Impairment (ex gw)	-31.9	-26.0	-27.3	-29.3	-32.0
EBITA	137.1	155.5	99.4	103.7	114.8
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	137.1	155.5	99.4	103.7	114.8
Net interest	-22.0	-13.6	-15.1	-15.2	-16.5
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	-5.37	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	109.7	141.9	84.3	88.5	98.3
Taxation	-24.9	-24.9	-11.4	-12.0	-15.1
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	41.8	42.0	30.0	31.5	33.1
Reported net profit	126.6	159.0	102.9	108.0	116.3
Normalised Items Excl. GW	-5.37	0.00	0.00	0.00	0.00
Normalised net profit	132.0	159.0	102.9	108.0	116.3

Balance sheet

RMm, year ended December	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	118.7	97.4	150.8	164.1	178.8
Other current assets	262.5	347.7	317.0	335.3	356.2
Tangible fixed assets	373.4	393.1	421.7	459.5	501.4
Intang assets (incl gw)	28.7	28.7	28.7	28.7	28.7
Oth non-curr assets	162.0	198.5	228.5	260.0	293.1
Total assets	945.2	1065	1147	1248	1358
Short term debt (2)	124.8	153.8	153.8	153.8	153.8
Trade & oth current liab	88.9	65.9	64.1	67.6	71.7
Long term debt (3)	164.8	140.0	140.0	140.0	140.0
Oth non-current liab	7.95	14.2	19.9	25.9	33.4
Total liabilities	386.4	373.8	377.7	387.2	398.8
Total equity (incl min)	558.8	691.5	768.9	860.4	959.3
Total liab & sh equity	945.2	1065	1147	1248	1358
Net debt	170.9	196.4	143.0	129.6	114.9

Cash flow statement

RMm, year to December	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	169.0	181.5	126.7	133.0	146.7
Change in working capital	75.0	-94.9	28.9	-14.8	-16.8
Net interest (pd) / rec	0.21	0.33	2.03	2.71	3.24
Taxes paid	-13.1	-24.5	-5.72	-6.00	-7.55
Other oper cash items	-5.24	-0.14	0.00	0.00	0.00
Cash flow from ops (1)	225.9	62.3	151.9	115.0	125.6
Capex (2)	-17.2	-46.6	-56.0	-67.1	-73.9
Disposals/(acquisitions)	0.00	0.56	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-17.2	-46.1	-56.0	-67.1	-73.9
Incr / (decr) in equity	27.0	5.73	0.00	0.00	0.00
Incr / (decr) in debt	-102.3	2.72	0.00	0.00	0.00
Ordinary dividend paid	-15.0	-31.6	-25.5	-16.5	-17.3
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-21.1	-13.9	-17.1	-17.9	-19.7
Cash flow from fin (5)	-111.5	-37.0	-42.6	-34.4	-37.0
Forex & disc ops (6)	0.25	0.16	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	97.4	-20.6	53.4	13.4	14.7
Equity FCF (1+2+4)	208.6	15.7	96.0	47.8	51.7

Source: Company data, KAF forecasts

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

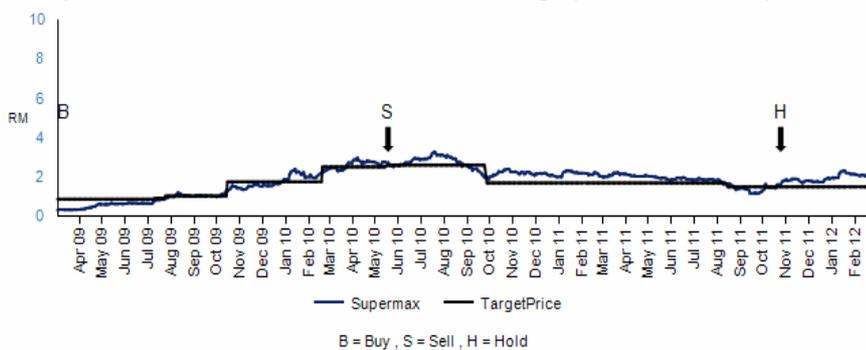
Relative views: Our strategy teams and analysts may provide strategy views on sectors and/or markets. An Overweight, Underweight or Neutral view implies outperformance, underperformance or a neutral performance in an indicated relative context

Valuation and risks to target price

Supermax (RIC: SUPM.KL, Rec: Hold, CP: RM1.93, TP: RM1.50) We value the company using the Gordon growth model. Upside risks to target price include: 1) higher pricing power than expected; 2) sustainable fall in latex prices; 3) strengthening of the US dollar. Downside risks include: 1) oversupply situation causing limited pricing power, 2) unsustainable latex price declines and 3) further weakening of the US dollar.

Supermax coverage data (SUPM.KL, SUCB MK)

Stock performance, recommendations and coverage (as at 29 Feb 2012)



Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: KAF

Price perf (at Close 28 Feb 2012)

	(1M)	(3M)	(12M)
Price (RM)	2.15	1.77	2.03
Absolute (%)	-10.2	8.7	-4.7
Rel to mkt*(%)	-12.3	-0.0	-8.7

Source: Bloomberg
Market: KL Composite
Sector: Medical Supplies

Diana Teo started covering this stock on 19 Jan 09. The recommendation structure changed from October 2010. Historic coverage data prior to the change shows Buy and Outperform ratings as Buys and Sell and Underperform ratings as Sells.

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