

Company Result

28 November 2012

Supermax Corp Berhad

BUY

Expecting a better 4Q

Maintained

| | |
|---------------------|---------------|
| Share Price | RM2.01 |
| Target Price | RM2.59 |

Company Description

Supermax Corporation Berhad is an investment holding company whose subsidiaries manufacture, sell and export various type of latex gloves around the world.

Stock Data

| | |
|--------------------------------------|-------------------|
| Bursa / Bloomberg code | 7106 / SUCB MK |
| Board / Sector | Main / Industrial |
| Syariah Compliant status | Yes |
| Issued shares (m) | 680.2 |
| Par Value (RM) | 0.50 |
| Market cap. (RM'm) | 1367.11 |
| 52-week price Range(RM) | 1.63-2.38 |
| Beta (against KLCI) | 1.46 |
| 3-m Average Daily Volume | 1.25m |
| 3-m Average Daily Value [^] | RM2.55m |

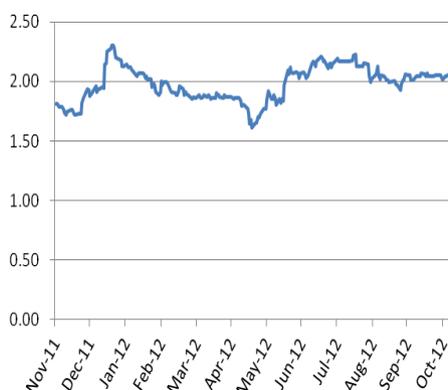
Share Performance

| | 1m | 3m | 12m |
|------------------|------|------|------|
| Absolute (%) | -2.0 | -2.4 | 13.2 |
| Relative (%-pts) | 2.6 | -3.1 | 1.4 |

Major Shareholders

| | % |
|--------------|------|
| Thai Kim Sin | 20.4 |
| Tan Geok Bee | 15.1 |
| EPF | 7.9 |

Historical Chart



Source: Bloomberg

Result

- Supermax recorded RM245.5m of revenue and RM31.6m of net profit in 3QFY12 that brings its 9MFY12 revenue to RM726.1m and net profit to RM89.6m. As a result, net profit was up 15% yoy but revenue was down 3.3% yoy.
- **Slightly below expectation** – Bottomline only accounted for 68% and 69% of our and street's estimates, whilst topline was 71% of our forecast but only 66% of consensus'. We are not surprised by the lower revenue as raw material prices have been easing, resulting in lower average selling price (ASP). Meanwhile, lower profits from the associate companies contribute to the lower-than-expected net earnings.

Comment

- **Cheaper rubber gloves but higher orders** – As raw material prices of both natural and synthetic rubber continue to be on downtrend, Supermax has priced its gloves at a lower ASP in order to pass through the discount back to its customers. Thus, the 3.3% drop in revenue was not worrying. We understand that the Group is currently in the oversold position in respect of its longer period of product booking and delivery to customers as market responded positively to the cheaper gloves.
- **Disappointing from associates** - 9MFY2012 operating profit saw a jump of 35.5% yoy to RM91.3 from RM67.4 as the margin rose 3.6ppts to 13.2% from 9% a year ago. However, the net earnings growth was not as impressive as operating profit, merely at 15% growth due to the lower contribution from associated companies which saw a yoy decline of 35.7% as depreciating local currency against USD and MYR affected the performance of the companies. However, we are convinced that things will improve once the forex stabilizes.
- **Expecting a better 4Q** – Operation wise, Supermax delivered a reasonably good 3QFY2012 by capitalizing on the cheaper raw material prices, and thus expanded its earnings margins. Moving forward, we are expecting a better 4Q to conclude its FY2012 as we believe the raw material prices will continue to be favourable for all the glovemakers. The latex price closed at RM5.67 on 27th November 2012, 6% lower than the average price of RM6.04 recorded in the 3QFY2012.
- **Dividend declared** – Supermax has declared a first interim dividend of 2 sen per share. We expect the Group to give out dividend of 6 sen per share in FY2012, assuming a dividend payout ratio of 30%.

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Earnings Outlook/Revision

- **We keep our forecast unchanged as we are optimistic that the Group is able to put on a stellar performance in 4QFY2012.**

Valuation & Recommendation

- **Maintain BUY with unchanged Target Price of RM2.59** - Our TP is pegged at 11.5x FY13F, in line with its +1 Standard Deviation of 5 year mean PE, as well as the industry mean PER. Our TP represents an upside of 28.9% from last closing price of RM2.01.
- **Undemanding valuation** – The stock is currently trading at PER of 8.9x FY2013F, which is at a huge discount of c.45% to the PER of 16.5x and 16x we ascribed to Top Glove and Hartalega respectively. We view Supermax as a good buying opportunity on its laggard share price performance against its peers. Sector valuation turned lofty following recent share price surge of Top Glove and Hartalega pursuant to the recent series of M&A exercise in the industry involving Latexx Partners and Adventa.

Quarterly Figures

| Year Ending 31 Dec | 3Q12 | 2Q12 | 3Q11 | Q-o-Q (%) | Y-o-Y (%) | 9MFY12 | 9MFY11 | Change (%) |
|------------------------------|-------|-------|-------|-----------|-----------|--------|--------|------------|
| Revenue (RMm) | 245.5 | 232.1 | 271.4 | 5.8% | -9.5% | 726.1 | 750.7 | -3.3% |
| Operating Profit (RMm) | 33.2 | 28.6 | 29.9 | 16.1% | 11.0% | 91.3 | 67.4 | 35.5% |
| Profit Before Taxation (RMm) | 33.8 | 33.3 | 34.1 | 1.5% | -0.9% | 97.8 | 83.6 | 17.0% |
| Net Profit (RMm) | 31.6 | 30.0 | 30.9 | 5.3% | 2.3% | 89.6 | 77.9 | 15.0% |
| EPS(sen) | 4.6 | 4.1 | 4.5 | 12.9% | 2.3% | 13.2 | 11.5 | 15.0% |
| Operating Margin (%) | 13.5% | 12.3% | 11.0% | 1.2pptx | 2.5pptx | 12.6% | 9.0% | 3.6pptx |
| Profit Before Tax Margin (%) | 13.8% | 14.3% | 12.6% | -0.5pptx | 0.8pptx | 13.5% | 11.1% | 2.4pptx |
| Net Profit Margin(%) | 12.9% | 12.9% | 11.4% | - | 1.5pptx | 12.3% | 10.4% | 1.9pptx |

Source: Company, JF Apex

Financial Summary

| FYE 31 December (RM'm) | 2010 | 2011 | 2012F | 2013F | 2014F |
|------------------------|-------|--------|--------|--------|--------|
| Revenue | 977.3 | 1021.4 | 1021.0 | 1137.2 | 1347.8 |
| Operating profit | 165.1 | 95.2 | 128.4 | 153.3 | 185.0 |
| Net profit | 159.0 | 104.1 | 134.0 | 153.2 | 190.5 |
| EPS (sen) | 23.4 | 15.3 | 19.7 | 22.5 | 28.0 |
| P/E (x) | 8.6 | 13.1 | 10.2 | 8.9 | 7.2 |
| P/BV (x) | 2.0 | 1.8 | 1.6 | 1.3 | 1.1 |
| EV/EBITDA (x) | 4.9 | 7.0 | 5.8 | 4.9 | 4.0 |
| Dividend yield | 1.9% | 1.6% | 2.9% | 3.4% | 4.2% |
| Net Margin | 16.3% | 10.2% | 13.1% | 13.5% | 14.1% |
| Net Gearing | 28.7% | 29.5% | 29.5% | 27.7% | 25.0% |
| ROE | 23.0% | 13.5% | 15.9% | 16.6% | 17.7% |

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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Published & Printed By:
JF Apex Securities Berhad (47680-X)
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