



Supermax Corporation Berhad

FY12 Results Within Expectations

TP: RM 2.45 (+36.1%)

Last traded: RM1.80

BUY

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TA Research Team Coverage	+603-2072-1277 ext: 1626	liwong@ta.com.my	www.taonline.com.my
---------------------------	--------------------------	------------------	---------------------

Review

- Supermax turned in another solid set of 4Q results. With that, FY12 net profit jumped to 16.7% YoY RM121.5mn (FY11: RM104.1mn) – representing 98.3% and 96.2% of ours' and consensus full year net profit estimates of RM123.6mn and RM126.3mn respectively.
- Sequentially, PBT advanced 25.1%, anchored by a 31.3% surge in revenue. Revenue rose on the back of new capacity added from new and refurbished lines. Demand remains healthy. Despite rising installed capacity by industry players, the backlog of orders stands at around 45-60 days and 4-5 months for natural rubber and nitrile gloves. Average selling prices (ASP) are also slightly higher for the group's nitrile gloves but saw some weaknesses for the powdered and powder-free (PF) latex gloves.
- EBITDA also improved 18.5% QoQ as average natural rubber latex price for Supermax stood at RM5.85/kg in 4Q 2012 vs. RM5.99/kg in 3Q 2012. Additionally, the price of synthetic latex was 1.3% lower at US1,273 per mtw from US1,290 per mtw in 3Q FY12 due to the abundance in supply. Despite the encouraging topline performance, the group's net profit only rose by marginal 0.8% QoQ after taking into account higher tax provisioning as a result of under-provisions in preceding quarters.
- Compared to FY11, net profit accelerated by 16.7%, most of which were underpinned by a reduction in operating expenses and finance costs. EBITDA climbed by some 17.2% YoY due to better operating efficiency at all of its factories along with lower raw material costs where natural rubber latex prices had fallen to a 4-year low of RM5.24/kg in August. As a result, the group's EBITDA margin climbed to 16.6% from 14.6% a year ago. Meanwhile, revenue only climbed by 2.6% despite resilient demand attributed to a drop in ASP of between 5% and 10% for PF and some nitrile glove segments.
- The group's balance sheet remained healthy with net gearing ratio of 0.18x (FY11: 0.28x). Elsewhere, Supermax is proposing a final tax exempt dividend of 6% per share. Including the 1st interim tax exempt dividend of 4%, total DPS for FY12 would stand at around 5.0 sen per share. This translates to a yield and payout of around 2.6% and 28% respectively.

Impact

- Incorporating FY12 results, we tweaked our FY13/14/15 net profit estimates to RM138.5/151.6/157.7mn from RM 147.0/159.9/168.8mn previously.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	679.2
Market Cap (RMmn)	1222.6
Par Value	0.50
52-wk Hi/Lo (RM)	2.25/1.63
12-mth Avg Daily Vol ('000 shrs)	1450.7
Estimated Free Float (%)	49.7
Beta	1.3
Major Shareholders (%)	
	Dato' Seri Stanley Thai - 35.6
	EPF - 8.3

Forecast Revision

	FY13	FY14
Forecast Revision (%)	(5.8)	(5.1)
Net profit (RMm)	138.5	151.6
Consensus	142.6	161.8
TA's / Consensus (%)	97.1	93.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY13	FY14
Net gearing (x)	0.3	0.3
CFPS (RM)	0.7	0.8
P/CFPS (x)	2.7	2.3
ROAA (%)	10.2	10.0
ROAE (%)	14.9	14.7
NTA/Share (RM)	1.4	1.5
Price/NTA (x)	1.3	1.2

Scorecard

	% of FY	
vs TA	98.3%	Within
vs Consensus	96.2%	Within

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	(6.2)	(0.2)
3 mth	(8.2)	0.8
6 mth	(10.0)	(1.3)
12 mth	(9.1)	3.5

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Outlook

- Management expects natural raw material prices to remain soft compared to high 2012 natural latex prices of close to RM8 per kg. Nitrile prices are to remain stable at the USD1,200 – USD1,500 per mtw levels in the short to medium term on the back of ample supply. Average 2012 latex and nitrile prices stood at RM6.60 per kg and USD1,422 per mtw respectively.
- Expansion plans have been fast tracked for two factories in Meru, Klang. Efforts to refurbish older plants are also underway. Lines installed will be inter-switchable to produce natural rubber and Nitrile gloves. These new plants as well as the converted plants are expected to be fully commissioned by 4Q 2013, thus raising production capacity for nitrile gloves from 5.2bn pieces per annum to 12.0bn pieces per annum, or 52% of group's total installed capacity.
- Taken together, management expects earnings to improve by another 16% in FY13. We are however, conservatively forecasting a net profit growth of 14% on the back of the impact from the rise in labour and energy costs in FY13. In spite of new added capacity, we believe the surge in production of nitrile gloves could see EBITDA margin compress further due to competition from players in China and Thailand. As such, we are projecting a slight drop in overall EBITDA margin to 15.5% from 16.6% in FY12.

Valuation

- Based on the slight downward revision to our earnings estimates, we reduce Supermax's TP to RM2.45 from RM2.65. Our valuation is based on the industry's targeted PE multiple 12x to Supermax's FY13e EPS of 20.4 sen. **BUY** maintained.

Table 1: Earnings Summary

FYE Dec	2011	2012	2013F	2014F	2015F
Turnover	1021.4	1048.4	1137.2	1223.3	1271.0
Pretax profit	112.1	140.2	163.0	178.4	185.5
Net profit	104.1	121.5	138.5	151.6	157.7
Net profit - adjusted	104.1	121.5	138.5	151.6	157.7
EPS	15.3	17.9	20.4	22.3	23.2
EPS - adjusted	15.3	17.9	20.4	22.3	23.2
EPS growth (%)	(34.5)	16.7	14.0	9.5	4.0
PER	11.8	10.1	8.8	8.1	7.8
Dividend (sen)	3.2	5.0	5.0	5.0	5.0
Dividend yield (%)	1.8	2.8	2.8	2.8	2.8

Table 2: 4Q FY12 Results Analysis (RMmn)

YE 31 Dec	4QFY11	3QFY12	4QFY12	QoQ	YoY	YTD FY11	YTD FY12	YoY
Revenue	271.2	245.5	322.3	31.3	18.8	1,021.4	1,048.4	2.6
Operating expenses	(245.4)	(212.3)	(281.7)	32.7	14.8	(931.0)	(921.7)	(1.0)
Finance costs	(2.7)	(2.7)	(2.0)	(25.3)	(24.6)	(13.1)	(9.9)	(24.2)
Share of profit of associa	4.4	3.3	3.8	12.5	(13.9)	34.8	23.4	(32.9)
Profit before tax	27.5	33.8	42.3	25.1	53.9	112.1	140.2	25.0
Taxation	(1.3)	(2.2)	(10.5)	369.2	736.0	(8.1)	(18.7)	131.4
Profit after tax	26.3	31.6	31.8	0.8	21.3	104.1	121.5	16.7
Net profit	3.9	4.6	4.7	0.8	21.3	15.3	17.9	16.7
PBT margin (%)	10%	14%	13%			11%	13%	

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD^(14948-M)

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research