

**29 May 2012**

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**12-month upside potential**

Target price	1.95
Current price (as at 28 May)	1.79
Capital upside (%)	8.9
Net dividends (%)	2.9
Total return (%)	11.8

**Key stock information**

Syariah-compliant?	Yes
Market cap (RM m)	1,218
Issued shares (m)	680
Free float (%)	49
52-week high / low (RM)	2.32 / 1.15
3-mth avg volume ('000)	1,392
3-mth avg turnover (RM m)	3

**Share price performance**

	1M	3M	6M
Absolute (%)	-5.3	-11.4	-1.9
Relative (%)	-3.8	-10.5	-8.9

**Share price chart**

Source: Bloomberg

**Supermax Corporation****Rubber Glove****Bloomberg Ticker: SUCB MK | Bursa Code: 7106****Neutral****Results in line**

Supermax's 1QFY12 results came in broadly within expectations. Sales volume growth (+8.6% y-o-y, +2.2% q-o-q) was partly offset by lower ASP, leading to 14.7% y-o-y and -0.7% q-o-q earnings growth. This implies earlier costs saving due to lower raw material costs have been passed through to customers as price competition persists in the industry. With no catalyst in sight and valuation not at compelling level, we maintain our Neutral recommendation with an unchanged TP of RM1.95.

**1QFY12 results in line, making up 22.2% of our full year forecasts**

- Supermax's 1QFY12 results came in broadly within expectations as core net profit achieved 22.2% and 21.5% of ours and consensus full year forecasts.
- 1QFY12 revenue grew by 3.0% y-o-y but contracted by 10.0% q-o-q due to lower ASP as latex costs declined and more customers are opting for thinner and lighter gloves.
- On the positive front, the group achieved higher sales volume in the quarter (+8.6% y-o-y, +2.2% q-o-q) as customers took advantage of the lower ASP.
- Core net profit grew to RM28.0m (+14.7% y-o-y, -0.7% q-o-q), translating to absolute profit per thousand glove of RM7.60, vis-à-vis RM7.83 in the 4QFY11. In terms of profit margin, core profit margin has stabilised at 10-11% over the past 5 quarters.
- On the flip side, inventory turnover continues to rise from 76.2 days in 4QFY11 to 83.0 days in 1QFY12.
- As expected, no dividend was declared in this quarter.

**Company's guidance on 2012**

- Management reiterates its view that latex price will moderate to RM6.00-RM6.50/kg range in 2012 from the current RM7.10/kg as more supply is expected to come in from Vietnam, Cambodia and Malaysia. However, we believe any costs saving would mostly be passed on to customers as the industry remains highly competitive.
- In addition, Supermax is also confident on achieving its earlier guidance of 20% earnings growth in FY12, after taking into account the high volatility of latex price and foreign exchange currencies, as well as lower manufacturing margin on nitrile gloves segment.
- With regards to its capacity expansion, Supermax has already commissioned 2 out of the 7 surgical glove production lines that it planned to add since April 2012. This is expected to start contributing to its earnings from 2QFY12 onwards.
- Besides surgical gloves, the group has also refurbished some of its older plants with new and more efficient lines, including one particular plant currently being converted from a natural rubber plant into a full nitrile producing facility.
- This coupled with its planned plant #10 and #11, could double its current nitrile capacity from 5.2bn pieces p.a. to 10.5bn pieces p.a., translating to 52% of its total installed capacity. The group expects both plants to be fully commissioned by 4QFY13.
- On the other hand, Supermax vows to further expand its reach in North America market by raising its stake in Supermax Canada from 50% to 67% from 1 July 2012 onwards and building a new office and warehouse at its newly acquired 14.06 acres of land in Chicago, Illinois, USA.

**Revised earnings up by 1-2% due to model up keeping**

- We revised earnings up by 1-2% due to model up keeping following the release of FY11 audited account. On top of that, we would also like to take the opportunity to introduce our FY14 forecasts.

**Remained Neutral on the company with TP of RM1.95**

- With no catalysts in sight and valuation not at compelling level, we maintain our Neutral call on Supermax with an unchanged TP of RM1.95, based on 10x 12-mth forward P/E. We believe without an industry upcycle, Supermax's valuation is fair at current price.



## SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	1QFY12	1QFY11	% y-o-y change	% q-o-q change	3MFY12	3MFY11	% y-o-y change	Comments
<b>Key financial highlights</b>								
Revenue (RM m)	248.5	241.4	3.0	-10.0	248.5	241.4	3.0	Sales volume +8.6% y-o-y, +2.2% q-o-q.
Operating profit (RM m)	24.4	18.4	32.1	-12.3	24.4	18.4	32.1	
Pretax profit (RM m)	30.7	25.6	19.9	4.8	30.7	25.6	19.9	Core net profit makes up 22.2% of our full year forecasts.
Net profit (RM m)	28.0	24.4	14.7	-0.7	28.0	24.4	14.7	
Core net profit (RM m)	28.0	24.4	14.7	-0.7	28.0	24.4	14.7	
<b>Per share data</b>								
EPS (sen)	4.1	3.6	14.7	-0.7	4.1	3.6	14.7	
Core EPS (sen)	4.1	7.2	14.7	-0.7	4.1	3.6	14.7	
Net DPS (sen)	-	-	-	-	-	-	-	
BV/share (RM)	1.17	1.04			1.17	1.04		
<b>Margins</b>								
Pretax (%)	12.4	10.6			12.4	10.6		Core net profit margin improved slightly but absolute profit drops from RM7.83 per thousand gloves to RM7.60.
Core net profit (%)	11.3	10.1			11.3	10.1		

Source: Company, Alliance Research

Figure 2 : Earnings revision

	Previous EPS Sen	Revised EPS Sen	Change %
2012F	18.5	18.9	1.8
2013F	20.9	21.2	1.3

Source: Alliance Research

Figure 3 : Key financial data

FYE 31 Dec	FY10	FY11	FY12F	FY13F	FY14F
Revenue (RM m)	977.3	1,021.4	1,101.7	1,174.0	1,291.4
EBITDA (RM m)	181.7	117.9	134.5	147.9	160.0
EBIT (RM m)	155.6	93.8	107.5	118.8	128.3
Pretax profit (RM)	183.8	112.1	142.3	161.3	178.0
Reported net profit (RM m)	158.9	104.2	128.2	144.2	158.7
Core net profit (RM m)	159.1	107.9	128.2	144.2	158.7
EPS (sen)	24.0	15.3	18.9	21.2	23.3
Core EPS (sen)	24.0	15.9	18.9	21.2	23.3
Alliance / Consensus (%)			98.5	100.6	94.7
Core EPS growth (%)	22.3	-33.9	18.9	12.5	10.1
P/E (x)	7.5	11.3	9.5	8.4	7.7
EV/EBITDA (x)	3.5	5.9	9.1	8.6	8.2
ROE (%)	25.4	14.8	15.8	15.9	0.2
Net gearing (%)	28.7	29.4	24.8	23.6	0.2
Net DPS (sen)	3.8	2.4	5.7	6.4	7.0
Net dividend yield (%)	2.1	1.3	3.2	3.6	3.9
BV/share (RM)	1.04	1.13	1.26	1.41	1.57
P/B (x)	1.7	1.6	1.4	1.3	1.1

Source: Alliance Research, Bloomberg



## DISCLOSURE

### Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

### Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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