



# BIMB SECURITIES RESEARCH MARKET INSIGHT

PP16795/03/2013(031743)

1QFY13

## Supermax Corporation

**Buy** ◀ ▶

**Inline**

**As Expected**

**Price:**

**RM2.02**

**Target Price:**

**(+12.8%) RM2.28**

### Stock Data

Bloomberg Ticker	SUCB MK	Altman Z-score	3.9
Market Cap	1,371.9	YTD price chg	4.7%
Issued shares	679.2	YTD KLCI chg	5.1%
52-week range (H)	2.25	Beta	1.4
52-week range (L)	1.79	<b>Major Shareholders</b>	
3-mth avg daily volume	3,369,802	Dato Seri Stanley Thai	20.5%
Free Float	59.4%	Datin Seri Cheryl Tan	15.2%
Shariah Compliant	Y	EPF	5.0%
Financial Derivatives	n.a.		

### Share Performance (%)

	1mth	3mth	12mth
Absolute	1.5	10.4	10.7
vs. KLCI	(3.3)	1.8	(3.3)

### Consensus

	2012	2013	2014
Net Profit	126.3	140.3	160.4
EPS (sen)	18.8	21.1	23.9

### Historical Price Ratio (x)

	FY 2009	FY 2010	FY 2011
Price Earnings	10.4	9.9	10.5
Price to Book	2.4	1.7	1.5

### Financial Highlights

FYE 31 Dec (RMm)	2010	2011	2012	2013E	2014E
Turnover	977.3	1,021.	1,048.	1,235.	1,396.
EBIT	155.8	94.3	125.9	120.5	132.5
Pretax profit	183.9	112.0	139.3	143.5	154.0
<b>Core Net Profit</b>	<b>159.0</b>	<b>108.1</b>	<b>120.6</b>	<b>129.1</b>	<b>138.6</b>
EBIT margin	15.9%	9.2%	12.0%	9.8%	9.5%
Pretax margin	18.8%	11.0%	13.3%	11.6%	11.0%
Effective tax rate	13.5%	7.2%	13.4%	10.0%	10.0%
ROE	25.4%	14.8%	14.7%	14.0%	13.5%
ROA	15.8%	9.2%	9.9%	9.8%	9.7%
Net Gearing (x)	0.3	0.3	0.2	0.2	0.1
Core EPS (sen)	23.4	15.9	17.7	19.0	20.4
PER (x)	8.6	12.7	11.4	10.6	9.9
DPS (sen)	0.9	2.4	5.0	5.0	5.0
Div. Yield (%)	0.5%	1.2%	2.5%	2.5%	2.5%
NTA/share (RM)	0.97	1.09	1.25	1.39	1.54

### Growth ratios

	2010	2011	2012	2013E	2014E
Turnover	21.6%	4.5%	2.6%	17.8%	13.0%
EBIT	18.1%	-39.5%	33.5%	-4.2%	9.9%
Pretax profit	21.4%	-39.1%	24.4%	3.0%	7.3%
Core Net profit	25.6%	-32.0%	11.7%	7.0%	7.3%
Core EPS growth	25.6%	-32.0%	11.7%	7.0%	7.3%

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Supermax 1QFY13 net earnings of RM31.8m is within our expectation but lower than consensus by about 10%. YoY revenue and EBIT grew by 29% and 29.2% respectively, mainly due to contribution from new installed capacity. Despite the strong topline growth, net earnings only grew by 13.6% due to lower profit contribution from associate companies. EBIT margin remains stable due to the steady latex price. We make no changes to our earnings forecast and maintain our target price at RM2.28 based on an average 5 year PE band of 12x. We maintain our BUY recommendation on Supermax.

**Lower QoQ earnings.** QoQ saw some decline in the EBIT (-23%) mainly due to softer selling price in the nitrile segment due to competition. Nonetheless, a markedly lower taxation rate in the current quarter negated the impact hence net earnings declined by just 1.1%.

**Stabilised latex price.** Latex price has stabilised for the past 3 months averaging slightly below RM6.00/kg, therefore, we expect margins shall remain stable in the coming quarters.

**New surgical lines getting ready.** The surgical glove capacity expansion at the Sg. Buloh plant is progressing with the commissioning of 5 out of the 7 lines since 1H2012 while the remaining lines will be commissioned in stages.

**Expanding nitrile division.** Besides surgical gloves, Supermax is also expanding its nitrile division on plants no.10 and no.11 by end of 2013 in Meru, Klang. These new plants will have the flexibility to switch between natural rubber and Nitrile glove. Upon completion in 4QFY13, production capacity will increase by 6.8bn pieces bringing Supermax Group's current Nitrile capacity from 5.4bn pieces per annum to 12.3bn pieces per annum.

**Maintaining our forecast.** With the stabilised latex price, we do not see a great deal of changes on the company's earnings trend hence maintaining our FY13 and FY14 earnings forecasts at RM129.1m and RM138.6m respectively. Meanwhile financial leverage is manageable with net gearing of 0.1x.

**Valuation & Recommendation.** Maintain our target price at RM2.28 based on its 5-year average PER band of 12x. We reiterate our BUY recommendation on Supermax.

### Share Price Chart



## Quarterly figures

FY 31 Dec (RMm)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	QoQ Chg	YoYChg
Revenue	248.5	232.1	245.5	322.3	320.5	-0.5%	29.0%
EBIT	24.4	28.6	32.0	40.9	31.5	-23.0%	29.2%
<b>Pretax profit</b>	<b>30.7</b>	<b>33.3</b>	<b>32.7</b>	<b>42.6</b>	<b>36.8</b>	<b>-13.8%</b>	<b>19.7%</b>
Taxation	(2.7)	(3.3)	(2.2)	(10.5)	(4.7)	-55.5%	74.4%
Minority Interest	(0.0)	(0.0)	0.0	0.0	(0.3)	-3160.0%	611.6%
<b>Net Profit</b>	<b>28.0</b>	<b>30.0</b>	<b>30.5</b>	<b>32.1</b>	<b>31.8</b>	<b>-1.1%</b>	<b>13.6%</b>
<b>Core Net Profit</b>	<b>28.0</b>	<b>30.0</b>	<b>30.5</b>	<b>32.1</b>	<b>31.8</b>	<b>-1.1%</b>	<b>13.6%</b>
EPS (sen)	4.1	4.4	4.5	4.7	4.7	-1.1%	13.6%
Net gearing (x)	0.3	0.3	0.2	0.2	0.2	0.7%	-31.9%
EBIT margin (%)	9.8%	12.3%	13.0%	12.7%	9.8%	-22.6%	0.2%
PBT margin (%)	12.4%	14.3%	13.3%	13.2%	11.5%	-13.3%	-7.2%
Net profit margin (%)	11.3%	12.9%	12.4%	10.0%	9.9%	-0.6%	-11.9%
Effective tax rate (%)	-8.7%	-9.9%	-6.8%	-24.6%	-12.7%	-48.3%	45.6%

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>NEUTRAL</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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