

Supermax Corp

SUCB MK / SUPM.KL

1Q12 RESULTS NOTE

➤ **Market Cap**
US\$386.9m
RM1,217m

➤ **Avg Daily Turnover**
US\$0.82m
RM2.51m

➤ **Free Float**
59.4%
680.2 m shares

Current **RM1.79**
Target ➤ **RM2.43**
Previous Target **RM2.43**
Up/downside **36.0%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-4.5	-7.2	-5.2
Absolute	-5.3	-7.3	-4.8
Major shareholders		% held	
Thai Kim Sim, Stanley			20.7
Tan Bee Geok, Cheryl			14.8
Koperasi Permodalan Felda			5.2

Superb rebound in 1Q

A 17% yoy bounce in Supermax's 1Q12 core net profit took it to 23% of our and consensus full-year forecasts, which is in line as the remaining quarters will be better. The 1Q yoy rise reflects lower interest cost, illustrating the impact of financial leverage in Supermax's model.

Management's guidance of a 20% yoy increase in FY12 core EPS was in line with our expectations. This will be underpinned by the expansion of its surgical and nitrile glove-making divisions. We are maintaining our Outperform call and valuation basis of 9.8x forward P/E, which is 25% below Top Glove's two-year average.

Core EPS up by 17% yoy ➤

1Q12 revenue rose by 3% yoy to RM249m due to higher demand and average selling prices. Costs edged up by 2.8% to RM209m as a result of an increase in production output. As a result, EBITDA margins expanded by 0.1% pts and EBITDA rose by 4% to RM39m. Yet, pretax profit jumped by 20% due to a 22% drop in financing costs. Even with a 4% pt increase in the tax rate, core net profit still rose by 17%.

Surgical and nitrile will underpin FY12 growth ➤

Supermax has commissioned two of the seven surgical glove-making lines planned for its Sungai Buloh plant. Earnings from this will be reflected in 2Q onwards. The remaining five manufacturing lines will be commissioned throughout FY12. We assume that Supermax will add 28m pairs/month of capacity in FY12, generating annual pretax profits of RM23m. In addition, management intends to add to its capacity 5.3bn pieces of nitrile gloves p.a., taking total nitrile capacity to 10.5bn pieces annually by end-FY13 or 52% of Supermax's total capacity. The cash cost of nitrile is 28% below NR, illustrating its relative attractiveness.

Core EPS guidance in line ➤

The company also indicated that it expects FY12 net profit to be 20% higher yoy. This is in line with our FY12 core EPS growth estimate of 21.5%. Supermax will not hold an analyst briefing for 1Q12.

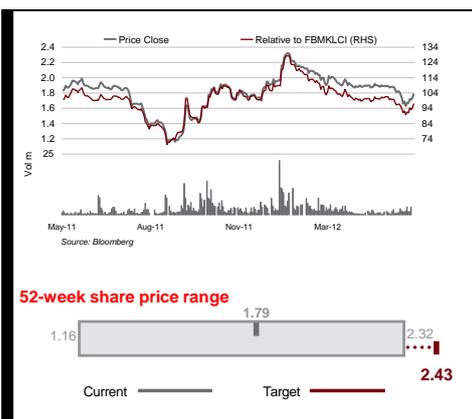
Results Comparison

FYE Dec (RM m)	1Q FY12	1Q FY11	yoy % chg	4QFY11	qoq % chg	Prev. FY12F	Comments (cum yoy comparison)
Revenue	248.5	241.4	3.0	276.2	(10.0)	1,378.0	Increase due to higher demand for gloves
Operating costs	(209.4)	(203.8)	2.8	(242.1)	(13.5)	(1,229.7)	Increase due to higher production output
EBITDA	39.1	37.6	4.0	34.1	14.7	148.3	Increase as top line growth exceeded cost inflation
EBITDA margin (%)	15.7	15.6	1.0	12.3	27.5	10.8	Expansion due to higher rate of top line growth
Depn & amort.	(5.8)	(7.7)	(25.0)	(6.3)	(7.7)	(53.3)	PPE of RM430.3m as at 31 Mar 2012
EBIT	25.0	18.4	35.7	27.8	(10.0)	95.0	Higher due to margin expansion
Interest expense	(2.6)	(3.3)	(22.0)	(2.9)	(9.2)	(17.8)	Total borrowings of RM323.8m as at 31 Mar 2012
Interest & invt inc	-	-	na	-	na	17.8	Cash balance of RM107.8m as at 31 Mar 2012
Associates' contrib	8.9	10.5	(14.9)	4.4	104.2	45.4	Distribution of gloves in Brazil, Canada and Belgium
Exceptionals	(0.7)	-	na	-	na	-	Foreign currency translation loss
Pretax profit	30.7	25.6	19.9	29.3	4.8	140.7	Accounted for 22% of our full year estimate
Tax	(2.7)	(1.2)	121.5	(1.3)	113.5	(14.0)	Lower than the statutory rate of 25% due to the availability of allowances and incentives
Tax rate (%)	8.7	4.7	84.8	4.3	na	10.0	
Minority interests	(0.0)	-	na	0.1	na	-	None expected
Net profit	28.0	24.4	14.7	28.2	(0.7)	126.7	Accounted for 22% of our full year estimate
Core net profit	28.6	24.4	17.3	28.2	1.6	126.7	Accounted for 23% of our full year estimate
EPS (sen)	4.6	4.0	14.7	4.6	(0.7)	20.7	Based on 612.1m total shares outstanding
Core EPS (sen)	4.7	4.0	17.3	4.6	1.6	20.7	Excluding exceptional items

SOURCE: CIMB, COMPANY REPORTS

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Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (RMm)	977	1,021	1,378	1,532	1,603
Operating EBITDA (RMm)	181.5	148.7	148.3	185.0	222.5
Net Profit (RMm)	159.2	96.9	126.7	152.6	176.9
Core EPS (RM)	0.26	0.17	0.21	0.25	0.29
Core EPS Growth	0.9%	(34.5%)	21.5%	20.5%	15.9%
FD Core P/E (x)	6.88	10.51	8.65	7.18	6.19
DPS (RM)	0.042	0.036	0.041	0.050	0.058
Dividend Yield	2.33%	2.02%	2.31%	2.78%	3.26%
EV/EBITDA (x)	5.82	7.32	6.68	4.86	3.42
P/FCFE (x)	18.97	14.55	18.66	8.27	5.83
Net Gearing	19.5%	28.5%	10.0%	1.0%	(9.9%)
P/BV (x)	1.53	1.42	1.20	1.05	0.92
Recurring ROE	25.0%	14.0%	15.1%	15.7%	15.9%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.07	1.19	1.18

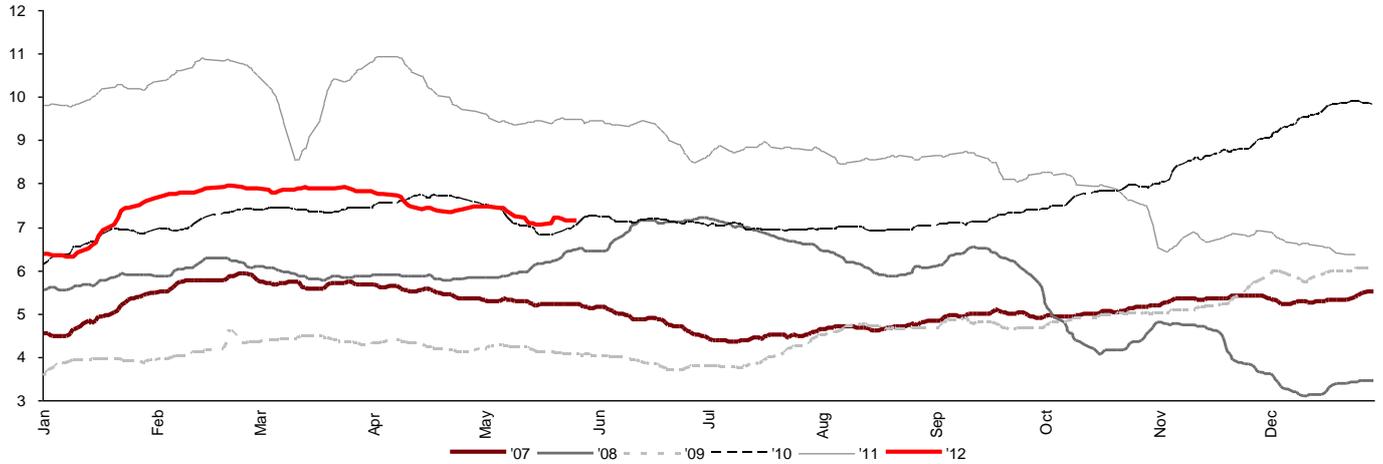
SOURCE: CIMB, COMPANY REPORTS

Figure 1: Sector comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		2-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY12	CY13		CY12	CY13	CY12	CY13	CY12	CY13
Astra Agro Lestari	AAIJ	Outperform	19,600	25,000	3,307	17.7	12.5	0.4%	3.71	3.20	21.4%	27.4%	3.8%	2.8%
BW Plantation	BWPT	Outperform	1,240	1,900	537	16.1	10.9	10.5%	2.96	2.43	20.4%	27.6%	0.5%	1.3%
Genting Plantations	GENP	Neutral	9.04	9.35	2,180	16.4	15.5	-1.6%	1.96	1.80	12.2%	12.1%	1.8%	1.9%
Hap Seng Plantations	HAPL	Trading Buy	2.91	3.27	740	10.8	10.0	-2.6%	1.18	1.13	10.9%	11.5%	5.5%	6.0%
London Sumatra	LSIP	Outperform	2,475	3,780	1,809	12.8	9.2	1.3%	2.68	2.25	22.5%	26.7%	3.1%	5.0%
Sampoerna Agro	SGRO	Outperform	2,775	4,200	562	13.1	9.2	1.3%	1.82	1.57	15.1%	18.5%	2.2%	1.6%
Plantation (upstream)						15.1	11.6	0.5%	2.40	2.13	16.6%	19.5%	3.0%	3.1%
Golden Agri-Resources	GGR	Neutral	0.65	0.75	6,134	11.7	10.0	2.3%	0.73	0.69	6.4%	7.0%	1.7%	2.0%
Indofood Agri Resources	IFAR	Outperform	1.20	1.80	1,353	8.4	7.4	4.4%	0.89	0.79	11.2%	11.3%	0.0%	0.0%
IOI Corporation	IOI	Underperform	5.00	5.04	10,209	14.9	14.0	3.9%	2.49	2.35	17.2%	17.3%	3.4%	3.6%
Kuala Lumpur Kepong	KLK	Underperform	22.08	19.36	7,490	16.8	15.8	2.3%	3.15	2.87	19.0%	19.0%	3.2%	3.3%
Sime Darby Bhd	SIME	Trading Buy	9.52	10.90	18,179	14.0	13.1	5.1%	2.14	1.98	15.8%	15.7%	3.6%	3.8%
Wilmar International	WIL	Neutral	3.76	4.80	18,862	12.6	10.8	4.8%	1.31	1.20	10.9%	11.6%	1.6%	1.9%
Plantation (integrated)						13.5	12.1	4.2%	1.59	1.47	12.2%	12.6%	2.6%	2.9%
Mewah International	MII	Underperform	0.41	0.37	484	10.5	9.6	8.0%	0.83	0.78	8.3%	8.4%	1.9%	2.1%
Noble Group	NOBL	Outperform	1.08	1.42	5,435	9.2	7.0	33.7%	0.91	0.83	10.4%	12.3%	3.5%	3.6%
Olam International	OLAM	Outperform	1.67	2.61	3,186	10.4	8.4	14.7%	1.53	1.35	15.3%	17.0%	2.4%	3.0%
Supply chain managers						9.7	7.6	25.0%	1.05	0.95	11.4%	13.2%	3.0%	3.3%
Sri Trang Agro-Industry	STA	Trading Buy	15.10	24.55	611	6.2	5.2	29.8%	0.90	0.79	15.8%	16.2%	3.0%	5.1%
Rubber processor						6.2	5.2	29.8%	0.90	0.79	15.8%	16.2%	3.0%	5.1%
Adventa	ADV	Underperform	1.33	1.49	65	9.8	8.1	26.8%	0.64	0.55	7.1%	7.2%	3.1%	3.7%
Hartalega Holdings	HART	Outperform	3.61	9.41	839	5.8	5.0	17.0%	1.86	1.55	34.9%	33.7%	7.7%	9.0%
Kossan Rubber Industries	KRI	Outperform	3.12	3.66	317	9.5	7.8	12.0%	1.65	1.41	18.7%	19.6%	2.6%	3.2%
Latexx Partners	LTX	Neutral	1.38	1.44	98	7.1	6.0	11.4%	0.95	0.84	13.9%	14.8%	2.8%	3.3%
Supermax Corp	SUCB	Outperform	1.79	2.43	387	8.7	7.2	12.1%	1.20	1.05	14.4%	15.7%	2.3%	2.8%
Top Glove Corporation	TOPG	Underperform	4.40	3.63	865	17.7	15.8	11.1%	2.11	1.93	12.6%	12.7%	2.5%	2.5%
Glove manufacturers						9.9	8.4	11.0%	1.60	1.40	17.3%	17.8%	3.5%	4.0%
Average (all)						12.9	11.1	6.6%	1.56	1.43	12.6%	13.4%	2.8%	3.0%

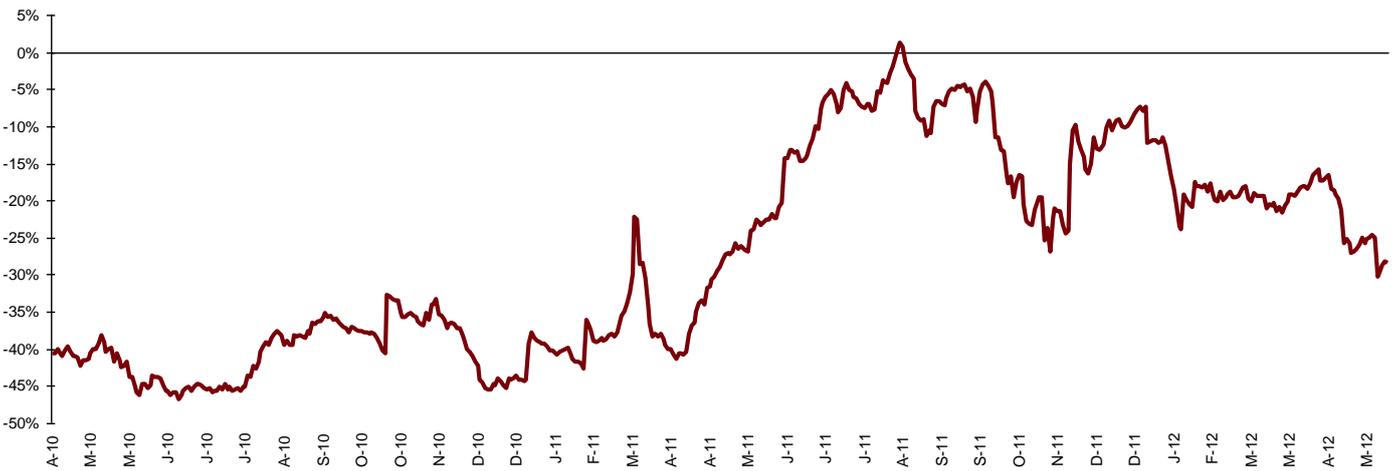
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG, EFA

Figure 2: NR latex price (RM/kg)



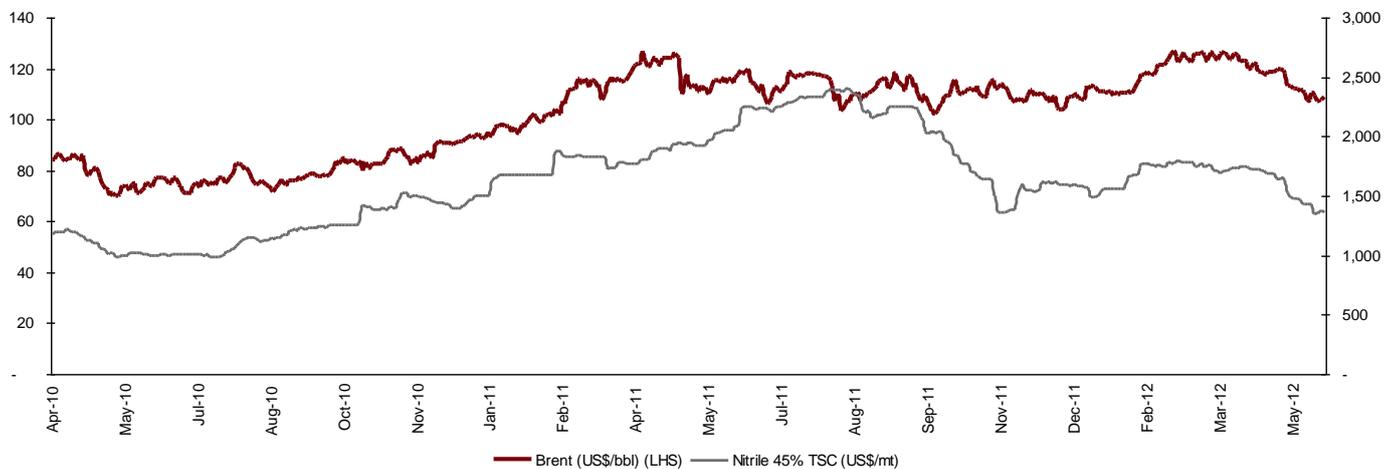
SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 3: Cash cost NR against nitrile, premium / (discount)



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 4: Brent versus nitrile price



SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: 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.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, AMATA - Very Good, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCP - Excellent, BEC - Very Good, BECL - Very Good, BGH - not available, BH - Very Good, BIGC - Very Good, BTS - Very Good, CCET - Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, GLOBAL - not available, GLOW - Very Good, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, ITD - Good, IVL - Very Good, KBANK - Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - not available, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Very Good, SPALI - Very Good, STA - Very Good, STEC - Very Good, TCAP - Very Good, THAI - Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TUF - Very Good.