

Supermax Corp

SUCB MK / SUPM.KL

1Q13 RESULTS NOTE

| | | |
|--|--|---|
| Market Cap US\$446.6m RM1,372m | Avg Daily Turnover US\$2.17m RM6.59m | Free Float 59.4% 612.1 m shares |
|--|--|---|

| | |
|--------------|---------------|
| Current | RM2.02 |
| Target | RM2.37 |
| Prev. Target | RM2.37 |
| Up/Downside | 17.3% |

| | |
|---------------------------|-------------------|
| 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 | -1.8 | 2 | 0.1 |
| Absolute | 1.5 | 10.4 | 12.8 |

Major shareholders

| | % held |
|----------------------------------|--------|
| Dato' Seri Thai Kim Sim, Stanley | 20.7 |
| Datin Seri Tan Bee Geok, Cheryl | 14.8 |
| Koperasi Permodalan Felda | 5.2 |

Making a comeback

1Q13 core EPS rose by 13.6% yoy on the back of a 29% yoy increase in revenue as the company benefited from capacity adds, more efficient refurbished lines and superior cost pass through. At 23% of our and 25% of consensus estimates, 1Q13 earnings broadly met expectations.

As expected, no dividends were declared. We retain our earnings estimates and Supermax remains an Outperform as we believe strong demand and stable cost are catalysts. Our target price is unchanged, based on 10.6x FY14 P/E or 25% below Top Glove's two-year average of 14.15x, which is within the historical range.

Great recovery

1Q13 revenue rose by a whopping 29% yoy due in part to the low base of the previous year but also a result of higher output from new capacity and refurbished lines. Natural rubber and nitrile cost have been stable and have not escalated like previous periods, meaning Supermax has been able to pass on cost more effectively. Consequently, EBITDA recovered and surged by 49.5% yoy due to operating leverage. Likewise margins rose by 2.5% pts yoy. However, core net profit rose by a more subdued rate of 13.6% yoy due to a 65.2% yoy plunge in Supermax's

share of associate earnings and a 4% pt yoy increase in the tax rate.

Muted sequential growth

While yoy comparisons were spectacular, sequential growth was less so. Revenue fell slightly by 0.5% qoq though EBITDA was up by 46.8% qoq due to a 4.8% qoq decline in cost. 1Q13 core EPS was also flat, falling by 1% qoq.

CEO gets vocal

News reports suggest EPF sold down its Supermax holdings due to comments made by Supermax's CEO. It was also reported that the tax authorities visited Supermax's office after the comments were made. However, we believe there should be limited impact on Supermax's underlying glovemaking operations as revenue is predominantly export-oriented. For example North America accounts for 40% of sales and Europe another 28%.

| Results Comparison | | | | | | | |
|------------------------|-------------|-------------|-------------|-------------|---------------|--------------|--|
| FYE Dec (RM m) | 1Q FY13 | 1Q FY12 | yoy % chg | 4QFY12 | qoq % chg | Prev. FY13F | Comments (cum yoy comparison) |
| Revenue | 320.5 | 248.5 | 29.0 | 322.3 | (0.5) | 1,532.0 | Due to new capacity and refurbished lines |
| Operating costs | (262.1) | (209.4) | 25.1 | (275.4) | (4.8) | (1,347.0) | Increase in cost due to higher output |
| EBITDA | 58.5 | 39.1 | 49.5 | 46.8 | 24.8 | 185.0 | Better cost control and pass through to clients |
| EBITDA margin (%) | 18.2 | 15.7 | 15.9 | 14.5 | 25.5 | 12.1 | Shows ability of Supermax to pass cost through |
| Deprn & amort. | (24.2) | (5.8) | 317.3 | (6.3) | 287.0 | (61.2) | PPE of RM464.0m as at 31 Mar 2013 |
| EBIT | 35.8 | 24.4 | 47.1 | 40.6 | (11.6) | 123.8 | Better topline growth and cost control |
| Interest expense | (2.2) | (2.6) | (15.7) | (2.0) | 9.3 | 0.4 | Total borrowings of RM283.0m as at 31 Mar 2013 |
| Interest & invt inc | - | - | nm | - | nm | (19.5) | Cash balance of RM122.3m as at 31 Mar 2013 |
| Associates' contrib | 3.1 | 8.9 | (65.2) | 3.8 | (17.4) | 28.1 | Distribution of gloves in Brazil, Canada and Belgium |
| Exceptionals | - | - | nm | - | nm | - | None expected, count forex movement as core |
| Pretax profit | 36.8 | 30.7 | 19.7 | 42.3 | (13.1) | 152.2 | Accounted for 24.2% of our full year estimate |
| Tax | (4.7) | (2.7) | 74.4 | (10.5) | (55.5) | (15.2) | Lower than the statutory rate of 25% due to |
| Tax rate (%) | 12.7 | 8.7 | 45.7 | 24.8 | (48.7) | 10.0 | the availability of allowances and incentives |
| Minority interests | (0.3) | (0.0) | 611.6 | 0.3 | nm | - | None expected |
| Net profit | 31.8 | 28.0 | 13.6 | 32.1 | (1.0) | 137.0 | Accounted for 23.2% of our full year estimate |
| Core net profit | 31.8 | 28.0 | 13.6 | 32.1 | (1.0) | 137.0 | Accounted for 23.2% of our full year estimate |
| EPS (sen) | 5.2 | 4.6 | 13.6 | 5.2 | (1.0) | 22.4 | Based on 612.1m total shares outstanding |
| Core EPS (sen) | 5.2 | 4.6 | 13.6 | 5.2 | (1.0) | 22.4 | Excluding exceptional items |

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

| | Dec-11A | Dec-12A | Dec-13F | Dec-14F | Dec-15F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 1,021 | 1,048 | 1,532 | 1,603 | 1,660 |
| Operating EBITDA (RMm) | 141.7 | 174.3 | 185.0 | 222.5 | 231.6 |
| Net Profit (RMm) | 84.2 | 121.7 | 137.0 | 161.3 | 159.0 |
| Core EPS (RM) | 0.15 | 0.20 | 0.22 | 0.26 | 0.26 |
| Core EPS Growth | (54.8%) | 33.2% | 12.6% | 17.7% | (1.4%) |
| FD Core P/E (x) | 13.54 | 10.16 | 9.02 | 7.66 | 7.77 |
| DPS (RM) | 0.036 | 0.041 | 0.050 | 0.058 | 0.058 |
| Dividend Yield | 1.79% | 2.04% | 2.46% | 2.89% | 2.89% |
| EV/EBITDA (x) | 8.68 | 6.48 | 5.70 | 4.18 | 3.42 |
| P/FCFE (x) | 16.27 | 18.47 | 10.78 | 7.27 | 6.65 |
| Net Gearing | 28.5% | 10.0% | 2.5% | (7.6%) | (16.6%) |
| P/BV (x) | 1.61 | 1.36 | 1.20 | 1.06 | 0.95 |
| Recurring ROE | 12.3% | 14.5% | 14.2% | 14.7% | 12.9% |
| % Change In Core EPS Estimates | | | 0% | 0% | 0% |
| CIMB/consensus EPS (x) | | | 1.07 | 1.12 | 1.00 |

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Sector Comparisons

| Company | Bloomberg Ticker | Recom. | Price | Target Price | Market Cap (US\$ m) | Core P/E (x) | | 3-year EPS CAGR (%) | P/BV (x) | | Recurring ROE (%) | | Dividend Yield (%) | |
|--------------------------|------------------|------------|--------------|--------------|---------------------|--------------|-------------|---------------------|-------------|-------------|-------------------|--------------|--------------------|-------------|
| | | | (local curr) | (local curr) | | CY13 | CY14 | | CY13 | CY14 | CY13 | CY14 | CY13 | CY14 |
| Hartalega Holdings | HART MK | Outperform | 5.64 | 6.11 | 1,344 | 16.5 | 15.0 | 12.8% | 4.17 | 3.19 | 28.8% | 24.0% | 2.7% | 3.0% |
| Kossan Rubber Industries | KRI MK | Outperform | 4.39 | 4.81 | 454 | 10.9 | 9.0 | 17.0% | 1.98 | 1.68 | 19.5% | 20.2% | 1.9% | 2.3% |
| Supermax Corp | SUCB MK | Outperform | 2.02 | 2.37 | 445 | 9.0 | 7.7 | 9.2% | 1.20 | 1.06 | 14.3% | 14.7% | 2.5% | 2.9% |
| Top Glove Corporation | TOPG MK | Neutral | 6.18 | 5.97 | 1,244 | 16.2 | 14.6 | 12.8% | 2.55 | 2.30 | 16.5% | 16.5% | 4.1% | 4.6% |
| Average | | | | | | 14.1 | 12.4 | 9.0% | 2.51 | 2.14 | 19.2% | 18.6% | 3.1% | 3.4% |

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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Spitzer Chart for stock being researched (2 year data)



| Distribution of stock ratings and investment banking clients for quarter ended on 30 April 2013 | | |
|---|-------------------------|--------------------------------|
| 1002 companies under coverage | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Outperform/Buy/Trading Buy | 51.4% | 7.8% |
| Neutral | 35.1% | 4.7% |
| Underperform/Sell/Trading Sell | 13.5% | 4.9% |

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, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay 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

Sector

OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.

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 +10% 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 +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; 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 -10% 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 +10% 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 -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, 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 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.