



## Supermax Corporation Berhad

*Back to the Hunting Grounds*

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TA Research Team Coverage

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**TP: RM2.90 (+24.5%)**

*Last traded: RM2.33*

**BUY**

### Aggressive Marketing Efforts

In recent months, management has stepped up marketing efforts, looking to secure new customers in anticipation of additional capacity from Lot #6058 and #6059. Areas of interest include Germany, US, Canada, Brazil, UK and the Emerging Markets. By type of glove, Supermax aims to capture a higher market share of Nitrile gloves through its OBM and distribution network. In particular, they aspire to increase their market share in the US dental market (Nitrile Glove) from 6.1% to more than 10.0% within three years. Through their combined efforts, management targets to maintain an EBITDA margin of at least 15.0%.

We believe marketing efforts will be crucial going forward, as rival glove manufacturers continue to ramp up capacities. Evident by their strong OBM presence, we are confident Supermax's marketing capabilities will help ensure new capacities are utilized as and when they arrive. That said, we are neutral on prospects in emerging markets. While these markets remain relatively untapped by local glove manufacturers, they pose the potential risk of margin compression. To recap, consumers in emerging markets tend to place more emphasis on price rather than quality. Meanwhile, we believe the targeted EBITDA margin of at least 15.0% is achievable – in line with our FY13/FY14/FY15 estimates of 15.1%/15.3%/15.8%.

### Diverse Customer Base

Supermax currently supplies its products to 750 customers, with no one customer contributing more than 3% to 4% of total sales. Accordingly, this helps mitigate single customer risk, providing the company with more stable earnings. It also offers the company with a larger clientele base to distribute its products. In descending order, Top Glove has the most diverse customer base, followed by Supermax, Kossan and Hartalega.

### Undemanding valuations

Maintaining our earnings, we leave our TP unchanged at RM2.90/share. Our valuation is based on a 20% discount to the industry's targeted PE multiple of 14x. Nevertheless, we believe our implied FY14 PER ratio of 11.2x is undemanding compared to the industry average of 14.2x (see Table 2). With a total potential upside of 27.8%, we reiterate our BUY call on Supermax. Key buying/selling points include: 1) Second largest glove manufacturer in the world; 2) Strong OBM presence which makes up 69.0% of sales mix; 3) Diverse customer base and 3) Inability to start Glove City project due to the lack of natural gas supply.

### Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	679.2
Market Cap (RMmn)	1582.4
Par Value	0.50
52-wk Hi/Lo (RM)	2.44/1.79
12-mth Avg Daily Vol ('000 shrs)	2116.3
Estimated Free Float (%)	53.1
Beta	1.2

### Major Shareholders (%)

Dato' Seri Stanley Thai - 20.5

Datin Seri Cheryl Tan - 15.2

### Forecast Revision

	FY13	FY14
Forecast Revision (%)	-	-
Net profit (RMm)	140.3	176.7
Consensus	137.7	155.3
TA's / Consensus (%)	101.9	113.8
Previous Rating	Buy (Maintained)	

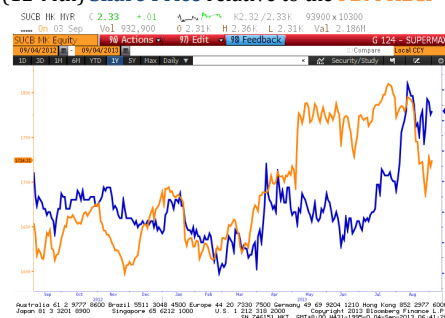
### Financial Indicators

	FY13	FY14
Net gearing (x)	0.1	0.0
CFPS (RM)	0.3	0.3
P/CFPS (x)	7.7	9.1
ROAA (%)	10.8	12.5
ROAE (%)	15.9	17.8
NTA/Share (RM)	1.3	1.5
Price/ NTA (x)	1.8	1.5

### Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	(1.3)	(0.2)
3 mth	18.3	(2.8)
6 mth	28.0	3.1
12 mth	13.1	5.3

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



Source: Bloomberg

**Table 1: Earnings Summary**

FYE Dec 31	2011	2012	2013f	2014f	2015f
Revenue	1,021.4	997.4	1,282.2	1,545.8	1,520.4
Other income	41.0	31.9	16.4	17.2	18.0
Total Cost	(937.7)	(883.2)	(1,123.7)	(1,346.7)	(1,314.9)
Finance Cost	(12.5)	(8.7)	(13.0)	(12.4)	(11.7)
PBT	112.1	137.3	161.8	203.9	211.8
Taxation	(8.1)	(15.9)	(21.6)	(27.2)	(28.3)
Net profit	104.1	121.4	140.3	176.7	183.6
EPS (sen)	30.6	17.9	20.6	26.0	27.0
EPS Growth (%)	(34.5)	(41.7)	15.5	26.0	3.9
Div Yield (sen)	8.0	1.7	6.2	7.8	8.1
Div Yield (%)	2.8	2.1	2.7	3.3	3.5
PER (x)	7.6	13.0	11.3	9.0	8.6

**Table 2: Peers Comparison**

	Price (RM)	TP (RM)		Mkt Cap RM mn	EPS		EPS Growth		PER	
					FY13 (sen)	FY14 (sen)	FY13 (%)	FY14 (%)	FY13 (x)	FY14 (x)
Top Glove	6.20	7.20	BUY	3,843.4	34.0	39.5	3.8	16.1	18.2	15.7
Supermax	2.33	2.90	BUY	1,582.4	20.6	26.0	15.2	26.0	11.3	9.0
Hartalega	6.66	7.50	HOLD	4,888.4	32.0	37.0	(42.0)	15.5	20.8	18.0
Kossan	6.39	6.90	BUY	2,035.9	42.5	49.5	32.9	16.5	15.0	12.9
<b>Simple average</b>				3,438.1	28.9	34.1	(7.7)	19.2	16.8	14.2

	NTA/Share		P/NTA		ROE		DPS		Div yield	
	FY13 (x)	FY14 (x)	FY13 (x)	FY14 (x)	FY13 (%)	FY14 (%)	FY13 (sen)	FY14 (sen)	FY13 (%)	FY14 (%)
Top Glove	2.2	2.4	2.8	2.6	15.8	16.9	17.3	20.1	2.8	3.2
Supermax	1.3	1.5	1.8	1.5	15.9	17.8	6.2	7.8	2.7	3.3
Hartalega	1.0	1.2	6.4	5.4	33.8	32.2	14.5	16.6	2.2	2.5
Kossan	2.1	2.4	3.0	2.7	21.2	21.9	19.1	22.3	3.0	3.5
<b>Simple average</b>	1.5	1.7	3.7	3.2	21.8	22.3	12.7	14.9	2.5	3.0

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