

Supermax (SUCB MK)

Industrial - Misc. Manufacturer

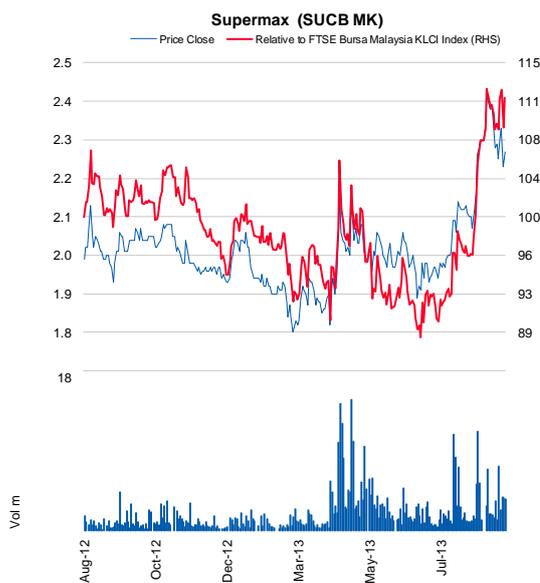
Market Cap: USD462m

Buy (Maintained)

Target Price: MYR2.84

Price: MYR2.27

Healthy 1HFY13 Numbers

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	5.54m/1.73m
Cons. Upside (%)	7.5
Upside (%)	25.1
52-wk Price low/high (MYR)	1.80 - 2.42
Free float (%)	53

Shareholders (%)	
Dato' Seri Stanley Thai	20.4
Datin Seri Cheryl Tan	15.1
EPF	8.2

Shariah compliant

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Supermax (SUCB)'s 1HFY13 core earnings of MYR67.8m were within expectations, at 49.0% and 49.6% of our and consensus full-year estimates respectively. We attribute the decent numbers to the easing of raw material prices as well as the increased automation in its plants that helped boost its bottomline. Maintain BUY, with our FV of MYR2.84 based on an unchanged 12x FY14 P/E.

- ◆ **Decent numbers.** SUCB's 1HFY13 core earnings came in at MYR67.8m, which were within our and consensus expectations, making up 49.0% and 49.6% of FY13 forecasts respectively. On a YTD basis, the company recorded revenue of MYR650.5m, which ticked up 35.4% y-o-y mainly due to the increase in its production capacity as well as improved operating efficiencies in its factories. Sequentially, 2QFY13 revenue improved 42.2% y-o-y and 2.9% q-o-q owing to the easing of lower material costs. Meanwhile, improved automation in its plants also increased production efficiency, which helped boost its 2QFY13 bottomline to MYR35.5m (+18.3% y-o-y; +11.6% q-o-q)
- ◆ **Latex prices to remain soft.** The average latex price dipped 7% q-o-q (1QCY13 latex price was MYR6.14/kg vs. MYR5.72/kg in 2QCY12) which resulted in the improvement of its PBT and PAT margins by 60bps and 90bps q-o-q respectively. Moving forward, we are anticipating latex prices to remain soft at current levels (ie MYR5.30/kg) on the grounds of weak auto global sales as well as increase in supply from Thailand and Cambodia.
- ◆ **Capacity expansion.** Upon the full commissioning of its two new plants - Lot 6058 and 6059 - by 1QFY14, SUCB's total nitrile capacity would more than double to 12.3bn pieces p.a. (from 5.4bn pieces currently). Nitrile gloves usually command a higher margin and are less prone to raw material price fluctuations.
- ◆ **Maintain BUY.** All in all, we remain positive on SUCB's growth prospects backed by: i) favourable raw material prices, ii) the increase in its production capacity, and iii) increasing automation in its plants to boost operational efficiency. Thus we maintain BUY with our FV of MYR2.84 at an unchanged 12x FY14 P/E.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	977	1,021	997	1,135	1,286
Reported net profit (MYRm)	159	104	121	138	157
Recurring net profit (MYRm)	159	104	121	138	157
Recurring net profit growth (%)	25.6	(34.5)	16.5	13.7	13.7
Core EPS (MYR)	0.27	0.16	0.18	0.21	0.24
DPS (MYR)	0.08	0.05	0.05	0.06	0.07
Dividend Yield (%)	3.3	2.1	2.2	2.7	3.1
Core P/E (x)	8.5	14.4	12.4	10.9	9.6
Return on average equity (%)	25.4	14.3	15.1	15.6	15.9
P/B (x)	2.17	1.96	1.81	1.62	1.45
P/CF (x)	21.6	26.7	9.2	14.3	14.2
EV/EBITDA (x)	6.8	12.4	9.5	8.6	8.2
Net debt to equity (%)	28.7	29.4	18.6	18.2	18.6
Our vs consensus EPS (%)				(1.4)	(1.4)

Source: Company data, RHB estimates

Figure 1: Results review

FYE Dec	2Q13	1Q13	% chg	YTD FY13	YTD FY12	% chg	Comments
Revenue	330.0	320.5	3.0%	650.5	480.6	35.4%	1HFY13 revenue increased 35.4% y-o-y owing to the easing of raw material prices as well as the increase in production capacity.
EBIT	37.4	35.8	4.4%	73.3	53.0	38.3%	EBIT margins improved due to the cost savings on lower material costs.
Net interest expense	-2.2	-2.2	0.3%	4.4	-5.3	-183.2%	
Associates	4.6	3.1	47.4%	7.7	16.3	-52.7%	
PBT before EI	39.8	36.8	8.3%	76.6	64.0	19.6%	
EI	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	39.8	36.8	8.3%	76.6	64.0	19.6%	
Tax	-4.9	-4.7	5.5%	-9.6	-6.0	60.9%	
MI	-0.6	-0.3	99.7%	-0.9	0.0	1810.4%	
Reported Net Profit	35.5	31.8	11.6%	67.8	58.0	17.0%	
Core Net Profit	35.5	31.8	11.6%	67.8	58.0	17.0%	2QFY13 net profit came in line with our and consensus expectations. Core earnings increased 11.6% q-o-q due to the increase the automation in its plants resulting in better production efficiency.
Core EPS (sen)	5.04	4.67		9.71	8.52		
Gross DPS (sen)	0.00	0.00		0.00	0.00		
EBIT margin	11.3%	11.2%		11.3%	11.0%		
NTA/share (MYR)	1.29	1.24		1.29	1.15		

Source: RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	977	1,021	997	1,135	1,286
Cost of sales	(701)	(826)	(743)	(885)	(1,017)
Gross profit	276	196	254	250	269
Other operating costs	(128)	(112)	(140)	(124)	(140)
Operating profit	149	84	114	126	129
Operating EBITDA	175	108	139	152	157
Depreciation of fixed assets	(26)	(24)	(24)	(26)	(28)
Operating EBIT	149	84	114	126	129
Net income from investments	42	35	23	43	63
Other recurring income	7	6	8	8	8
Interest income	0	0	-	-	-
Interest expense	(14)	(13)	(9)	(9)	(9)
Pre-tax profit	184	112	137	169	192
Taxation	(25)	(8)	(16)	(31)	(35)
Minority interests	(0)	0	(0)	(0)	(0)
Profit after tax & minorities	159	104	121	138	157
Reported net profit	159	104	121	138	157
Recurring net profit	159	104	121	138	157

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	149	84	114	126	129
Depreciation & amortisation	26	24	24	26	28
Change in working capital	(57)	(56)	10	(32)	(32)
Other operating cash flow	(45)	5	9	7	7
Operating cash flow	73	57	158	127	132
Interest received	(0)	(0)	-	-	-
Interest paid	14	13	9	9	9
Tax paid	(24)	(13)	(3)	(31)	(35)
Cash flow from operations	62	56	163	105	106
Capex	(47)	(38)	(69)	(69)	(69)
Other investing cash flow	(0)	-	-	-	-
Cash flow from investing activities	(47)	(38)	(69)	(69)	(69)
Dividends paid	(32)	(27)	(12)	(41)	(47)
Proceeds from issue of shares	6	-	-	-	-
Increase in debt	3	27	(53)	-	-
Other financing cash flow	(14)	(13)	(11)	(9)	(9)
Cash flow from financing activities	(37)	(12)	(76)	(50)	(56)
Cash at beginning of period	119	97	104	123	109
Total cash generated	(22)	6	18	(14)	(19)
Forex effects	0	1	(0)	-	-
Implied cash at end of period	97	104	123	109	90

Source: Company data, RHB estimates

Financial Exhibits

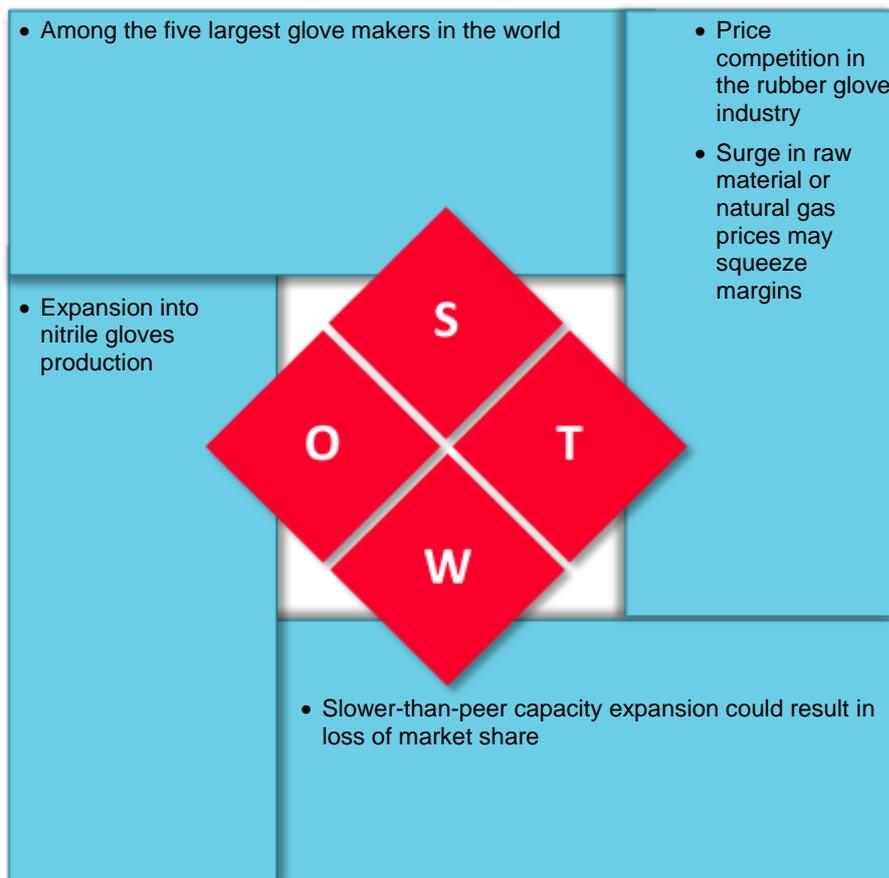
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	97	104	123	109	85
Inventories	133	223	234	266	301
Accounts receivable	114	104	101	115	130
Other current assets	101	109	106	107	107
Total current assets	445	541	564	597	623
Total investments	198	229	210	254	317
Tangible fixed assets	393	407	451	495	536
Intangible assets	29	29	29	29	29
Total other assets	1	-	-	-	-
Total non-current assets	620	664	690	777	881
Total assets	1,065	1,205	1,254	1,374	1,505
Short-term debt	155	190	163	163	163
Accounts payable	40	60	77	92	106
Other current liabilities	24	27	45	53	61
Total current liabilities	220	278	285	308	329
Total long-term debt	141	140	115	115	115
Other liabilities	14	18	20	20	20
Total non-current liabilities	154	159	135	135	135
Total liabilities	374	436	420	443	465
Share capital	170	170	340	340	340
Retained earnings reserve	446	523	494	591	700
Other reserves	76	77	-	-	-
Shareholders' equity	691	769	834	931	1,040
Minority interests	0	(0)	(0)	(0)	(0)
Other equity	(0)	0	(0)	0	(0)
Total equity	692	769	834	930	1,040
Total liabilities & equity	1,065	1,205	1,254	1,374	1,505

Source: Company data, RHB estimates

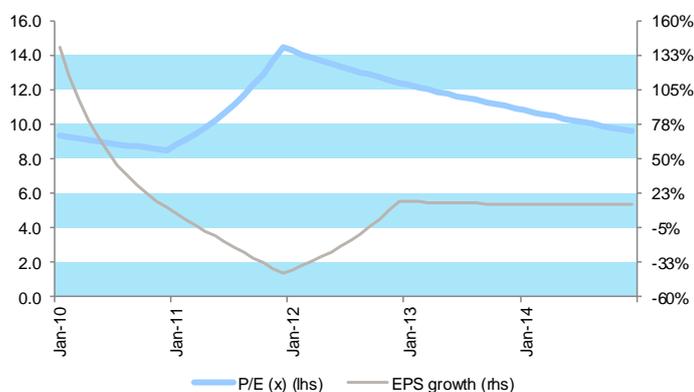
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	21.6	4.5	(2.3)	13.8	13.3
Operating profit growth (%)	13.5	(43.7)	36.5	10.3	2.5
Net profit growth (%)	25.6	(34.5)	16.5	13.7	13.7
EPS growth (%)	11.3	(41.3)	16.5	13.7	13.7
Bv per share growth (%)	(2.1)	11.1	8.4	11.6	11.8
Operating margin (%)	15.2	8.2	11.4	11.1	10.0
Net profit margin (%)	16.3	10.2	12.2	12.2	12.2
Return on average assets (%)	15.8	9.2	9.9	10.5	10.9
Return on average equity (%)	25.4	14.3	15.1	15.6	15.9
Net debt to equity (%)	28.7	29.4	18.6	18.2	18.6
DPS	0.08	0.05	0.05	0.06	0.07
Recurrent cash flow per share	0.10	0.09	0.25	0.16	0.16

Source: Company data, RHB estimates

SWOT Analysis

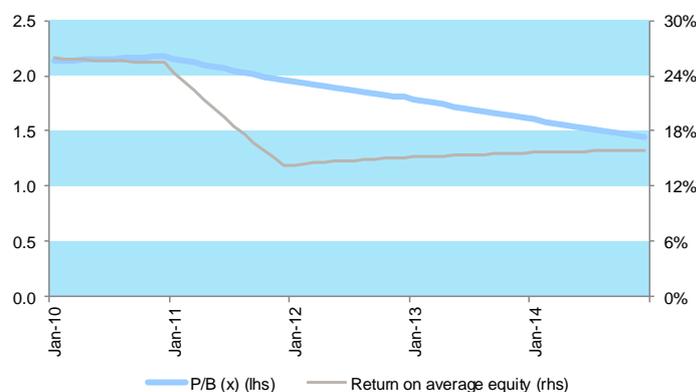


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

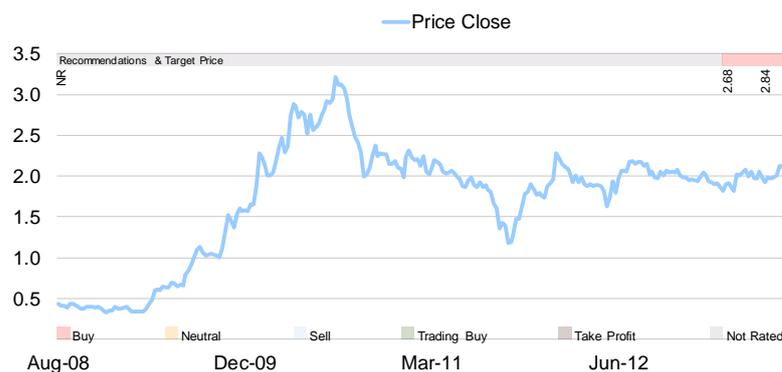


Source: Company data, RHB estimates

Company Profile

Supermax Corporation is an investment holding company. The principal activities of its subsidiaries are in the manufacturing and distribution of medical gloves.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-31	Buy	2.84	2.06
2013-03-07	Buy	2.68	1.91
2013-02-27	Buy	2.68	1.82

Source : RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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