

Supermax (SUCB MK)

Industrial - Misc. Manufacturer

Market Cap: USD561m

Buy (Maintained)

 Target Price: **MYR3.01**

 Price: **MYR2.67**

Another Solid Quarter

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	8.08m/2.50m
Cons. Upside (%)	-8.6
Upside (%)	12.9
52-wk Price low/high (MYR)	1.80 - 2.80
Free float (%)	53
Shareholders (%)	
Dato' Seri Stanley Thai	20.4
Datin Seri Cheryl Tan	15.1
EPF	5.0

Shariah compliant

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Supermax (SUCB)'s solid 9MFY13 core earnings of MYR103.6m were largely within expectations, at 71.7% and 75.1% of our and consensus' full-year estimates respectively. This was attributed to stable raw material prices and increased automation at its plants. **Maintain BUY**, with an unchanged FV of MYR3.01, based on the existing target P/E of 12.0x on FY14 earnings.

- ◆ **A steady quarter.** SUCB's 9MFY13 net profit was largely in line with our and consensus estimates, at 71.7% and 75.1% of the respective FY13 full-year forecasts. The glove maker's 9MFY13 revenue surged 28.8% y-o-y to MYR935.1m, buoyed by increased production capacity as well as improved operating efficiency while net profit rose 15.8% y-o-y to MYR103.7m due to lower raw material costs during the period. Meanwhile, 3QFY13 revenue was 13.8% lower q-o-q but was higher by 15.9% y-o-y at MYR284.6m due to lower average selling prices (ASPs) amid a drop in raw material prices. However, SUCB managed to improve its margins via cost savings and increased production efficiency, thus boosting its net profit to MYR35.8m (+1.1% q-o-q, 13.3% y-o-y).
- ◆ **Planned business park to boost earnings.** SUCB is embarking on a capacity expansion plan that will involve building an integrated glove manufacturing facility called Supermax Business Park on a piece of newly acquired 100-acre land in Selangor over two phases. Phase 1 will involve the construction of 28 production lines with a combined installed capacity of 10.9bn pieces from 2014-18, while Phase 2 – to be implemented between 2019-22 – will have 12 production lines with capacity totaling 4.6bn pieces. We believe that this move will propel the company's production and in turn, earnings growth.
- ◆ **Maintain BUY.** Overall, we continue to like SUCB's growth prospects in view of: i) stable raw material prices; ii) increase in its production capacity, and iii) increasing automation at its plants, which will enhance operating efficiency. Hence, we maintain our BUY call and FV of MYR3.01, with the existing 12.0x FY14 P/E, in line with the stock's 1-year historical average.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	977	1,021	997	1,172	1,328
Reported net profit (MYRm)	159	104	121	145	167
Recurring net profit (MYRm)	159	104	121	145	167
Recurring net profit growth (%)	25.6	(34.5)	16.5	19.1	15.2
Core EPS (MYR)	0.27	0.16	0.18	0.22	0.25
DPS (MYR)	0.08	0.05	0.05	0.07	0.08
Dividend Yield (%)	2.8	1.8	1.9	2.5	2.8
Core P/E (x)	10.0	17.0	14.6	12.2	10.6
Return on average equity (%)	25.4	14.3	15.1	16.3	16.8
P/B (x)	2.56	2.30	2.12	1.89	1.68
P/CF (x)	25.4	31.4	10.8	17.1	15.5
EV/EBITDA (x)	7.5	13.7	10.7	9.2	8.5
Net debt to equity (%)	28.7	29.4	18.6	18.5	18.3
Our vs consensus EPS (%)				3.4	4.7

Source: Company data, RHB estimates

Figure 1: FYE Dec (MYR m)

FYE Dec (MYRm)	3Q12	2Q13	3Q13	q-o-q (%)	y-o-y (%)	9M12	9M13	y-o-y (%)	Comments
Revenue	245.5	330.0	284.6	(13.8)	15.9	726.1	935.1	28.8	Its 3QFY13 revenue dipped 13.8% q-o-q due to lower average selling prices (ASPs) in tandem with lower raw material costs.
EBITDA	33.2	38.5	41.3	7.4	24.6	105.6	112.6	6.6	
<i>EBITDA Margin (%)</i>	<i>13.5</i>	<i>11.7</i>	<i>14.5</i>			<i>14.5</i>	<i>12.0</i>		
Depreciation	0.0	0.0	0.0			0.0	0.0	0.0	
EBIT	33.2	38.5	41.3	7.4	24.6	105.6	112.6	6.6	
<i>EBIT Margin (%)</i>	<i>13.5</i>	<i>11.7</i>	<i>14.5</i>			<i>14.5</i>	<i>12.0</i>		
Interest expense	(2.7)	(2.2)	(2.1)	(4.6)	(21.5)	(7.9)	(6.5)	(18.4)	
Interest income	0.0	0.0	0.0			0.0	0.0	0.0	
Associates	3.3	4.6	0.0			0.0	11.5	0.0	
El/Others	0.0	0.0	0.0			0.0	0.0	0.0	
Pretax profit	33.8	40.9	39.2	(4.1)	16.0	97.7	117.6	20.4	PBT increased 20.4% y-o-y due to lower raw material prices.
<i>Pretax Margin (%)</i>	<i>13.8</i>	<i>12.4</i>	<i>13.8</i>			<i>13.5</i>	<i>12.6</i>		
Tax	(2.2)	(4.9)	(4.1)	(16.8)	82.3	(8.2)	(13.7)	66.7	
<i>Effective tax rate (%)</i>	<i>(6.6)</i>	<i>(12.0)</i>	<i>(10.4)</i>			<i>(8.4)</i>	<i>(11.6)</i>		
Minority Interest	0.0	(0.6)	0.6	(207.2)	0.0	0.0	(0.3)	0.0	
Net Profit	31.6	35.4	35.8	1.1	13.3	89.5	103.7	15.8	9MFY13 net profit increased 15.8% y-o-y due to the increase in production efficiency as well as the further automation in its production lines.
<i>Net Margin (%)</i>	<i>12.9</i>	<i>10.7</i>	<i>12.6</i>			<i>12.3</i>	<i>11.1</i>		

Source: RHB estimates, company data

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	977	1,021	997	1,172	1,328
Cost of sales	(701)	(826)	(743)	(910)	(1,042)
Gross profit	276	196	254	262	286
Other operating costs	(128)	(112)	(140)	(128)	(145)
Operating profit	149	84	114	134	141
Operating EBITDA	175	108	139	160	169
Depreciation of fixed assets	(26)	(24)	(24)	(26)	(28)
Operating EBIT	149	84	114	134	141
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	177	204
Taxation	(25)	(8)	(16)	(32)	(37)
Minority interests	(0)	0	(0)	(0)	(0)
Profit after tax & minorities	159	104	121	145	167
Reported net profit	159	104	121	145	167
Recurring net profit	159	104	121	145	167

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	149	84	114	134	141
Depreciation & amortisation	26	24	24	26	28
Change in working capital	(57)	(56)	10	(42)	(33)
Other operating cash flow	(45)	5	9	9	7
Operating cash flow	73	57	158	127	143
Interest received	(0)	(0)	-	-	-
Interest paid	14	13	9	9	9
Tax paid	(24)	(13)	(3)	(32)	(37)
Cash flow from operations	62	56	163	104	115
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)	(43)	(50)
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)	(52)	(59)
Cash at beginning of period	119	97	104	123	105
Total cash generated	(22)	6	18	(18)	(13)
Forex effects	0	1	(0)	-	-
Implied cash at end of period	97	104	123	105	92

Source: Company data, RHB estimates

Financial Exhibits

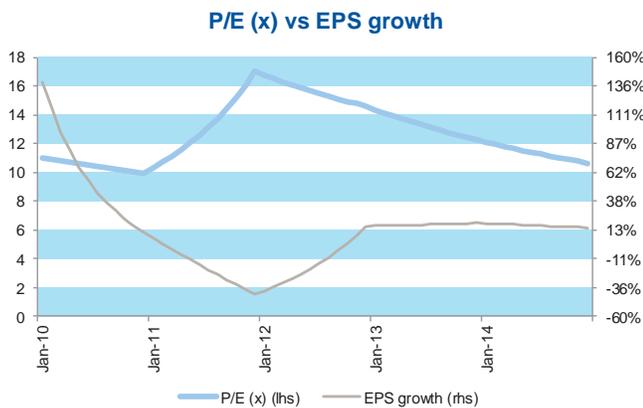
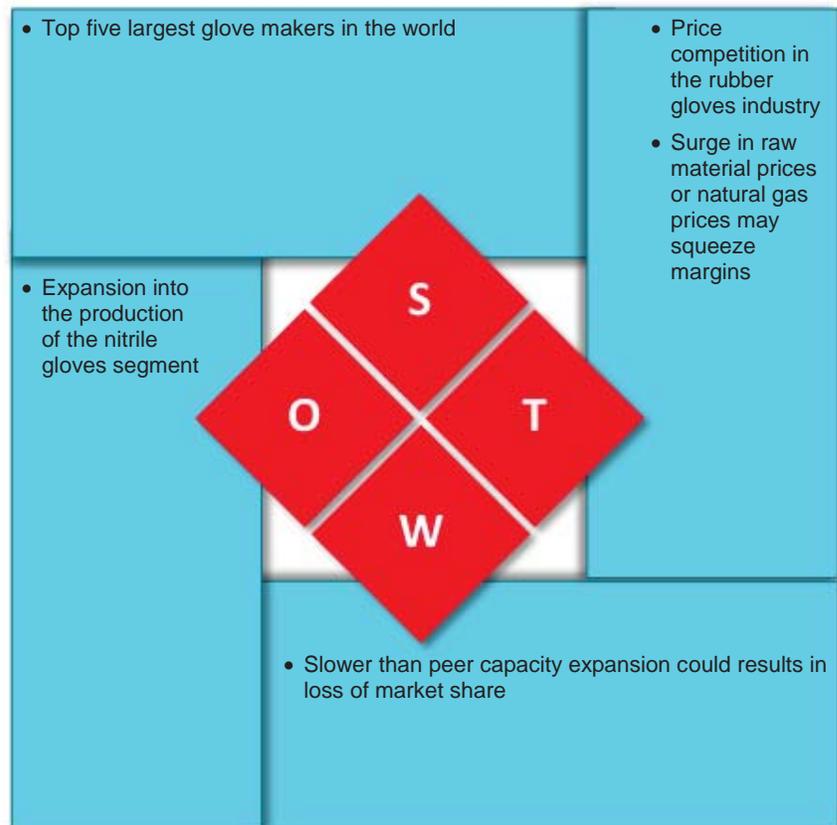
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	97	104	123	105	86
Inventories	133	223	234	275	311
Accounts receivable	114	104	101	118	134
Other current assets	101	109	106	107	108
Total current assets	445	541	564	605	639
Total investments	198	229	210	254	317
Tangible 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	1,382	1,520
Short-term debt	155	190	163	163	163
Accounts payable	40	60	77	95	108
Other current liabilities	24	27	45	55	62
Total current liabilities	220	278	285	312	333
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	447	469
Share capital	170	170	340	340	340
Retained earnings reserve	446	523	494	595	712
Other reserves	76	77	-	-	-
Shareholders' equity	691	769	834	935	1,052
Minority interests	0	(0)	(0)	(0)	(0)
Other equity	(0)	0	(0)	0	(0)
Total equity	692	769	834	935	1,052
Total liabilities & equity	1,065	1,205	1,254	1,382	1,520

Source: Company data, RHB estimates

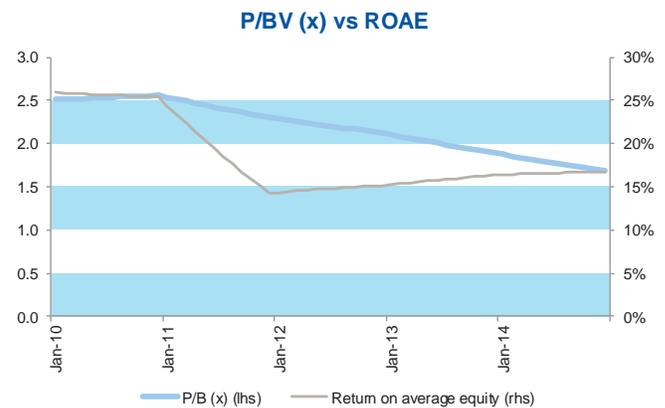
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	21.6	4.5	(2.3)	17.5	13.3
Operating profit growth (%)	13.5	(43.7)	36.5	17.4	5.1
Net profit growth (%)	25.6	(34.5)	16.5	19.1	15.2
EPS growth (%)	11.3	(41.3)	16.5	19.1	15.2
Bv per share growth (%)	(2.1)	11.1	8.4	12.1	12.5
Operating margin (%)	15.2	8.2	11.4	11.4	10.6
Net profit margin (%)	16.3	10.2	12.2	12.3	12.5
Return on average assets (%)	15.8	9.2	9.9	11.0	11.5
Return on average equity (%)	25.4	14.3	15.1	16.3	16.8
Net debt to equity (%)	28.7	29.4	18.6	18.5	18.3
DPS	0.08	0.05	0.05	0.07	0.08
Recurrent cash flow per share	0.10	0.09	0.25	0.16	0.17

Source: Company data, RHB estimates

SWOT Analysis



Source: Company data, RHB estimates



Source: Company data, RHB estimates

Company Profile

Supermax Corporation is an investment holding company whose subsidiaries are principally involved in the manufacturing and distribution of medical and rubber gloves.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-09-10	Buy	3.01	2.69
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

RHB Guide to Investment Ratings

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

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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