

Supermax (SUCB MK)

Industrial - Misc. Manufacturer

Market Cap: USD567m

Buy (Maintained)

Target Price: MYR3.01

Price: MYR2.69

Full Speed Ahead

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	8.06m/2.51m
Cons. Upside (%)	-9.3
Upside (%)	12.1
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

The Research Team +603 9207 7668
Research2@rhbgroup.com

We attended Supermax (SUCB)'s analysts briefing yesterday and came away feeling positive on the company's growth prospects. The gas supply issue for its Glove City has been resolved while the expansion of its new business park is taking shape. We reiterate our BUY call, with our FV unchanged at MYR3.01, based on an existing 12.0x FY14 P/E.

- ◆ **New plants on track.** SUCB's two new plants – namely Lot 6058 and Lot 6059 in Meru, Klang – are well on track to be fully commissioned by end-2014. Upon full completion, both plants would boost the company's nitrile production capacity to 12.3bn pieces (from 6.9bn pieces). This will shift its product mix to 53% nitrile vs 39% currently.
- ◆ **Glove City to take off.** Recall that in 2011, SUCB intended to build six new factories in Bukit Kapar, Klang in a development called Glove City, which was subsequently put on hold due to gas supply issues. On a positive note, management confirmed that the infrastructure is already in place and Phase 1 construction is slated to commence in 1H2015.
- ◆ **Business park to take shape.** SUCB is also embarking on an expansion plan to build an integrated glove manufacturing facility called Supermax Business Park in Selangor. It will involve construction in two phases with Phase 1 expected to be carried out from 2014-2018 and Phase 2 from 2019-2022, with total installed production capacity estimated at 15.5bn pieces per annum.
- ◆ **Muted impact from electricity hike.** Management stated that the electricity tariff hike on Monday would incur an additional cost of MYR3.5m, which it believes can be easily passed on to customers. Additionally, SUCB is also looking into renewable energy as an alternative source to electricity. We expect any forthcoming hikes in industrial gas prices will be mostly passed on to customers.
- ◆ **Maintain BUY.** All in, we are optimistic on SUCB's extensive expansion plans as we believe that this will boost the company's market share moving forward. Reiterate BUY, with our MYR3.01 FV (unchanged) pegged to an existing 12.0x FY14 P/E, in line with the stock's 12-month historical average P/E.

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
Recurring EPS (MYR)	0.27	0.16	0.18	0.22	0.25
DPS (MYR)	0.08	0.05	0.05	0.07	0.08
Recurring P/E (x)	10.0	17.1	14.7	12.3	10.7
P/B (x)	2.58	2.32	2.14	1.91	1.70
P/CF (x)	25.6	31.6	10.9	17.2	15.6
Dividend Yield (%)	2.8	1.8	1.9	2.4	2.8
EV/EBITDA (x)	7.6	13.8	10.8	9.3	8.6
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
Our vs consensus EPS (%)				3.4	4.7

Source: Company data, RHB estimates

Corporate Highlights

New plants on track. The company's two new plants – namely Lot 6058 and Lot 6059 in Meru, Klang – are well on track to be fully commissioned by the end of 2014. Upon full completion, both plants would lift its nitrile glove production capacity to 12.3bn pieces (from 6.9bn pieces). This will shift its product mix to 53% nitrile vs 39% currently. Moving forward, management guided that net margins would remain around 10-11%, which we believe could be further enhanced in view of SUCB's fully automated production lines, which would lead to improved production efficiency and productivity.

Glove City ready to take off. SUCB initially planned to set up six new factories on a 36-acre piece of land in Bukit Kapar, Klang, in a development called Glove City. Construction was slated to commence in 2011 but was put on hold due to gas supply shortage. On a positive note, management has confirmed during the briefing that ground works (ie water and natural gas supply) are currently in place and Phase 1 construction will commence by 1H2015. Upon completion, the total installed production capacity of these six plants would be 24.6bn nitrile gloves per annum. The expansion, which will incur a capex of around MYR550.0m, will be carried out over a period of 10-12 years.

Further details on its business park. Meanwhile, SUCB announced on 11 Nov that it has acquired a 100-acre land plot in Serendah, Selangor. The company aims to build an integrated glove manufacturing complex (IGMC) called the Supermax Business Park as part of its capacity expansion plan. Management shared that of the 70% of the land that will be utilised, 60% will be allocated for its IGMC, and the other 40% for glove-related supporting industries. The remaining 30% of the land would be allocated for infrastructure and landscaping.

The business park will involve the construction of two phases. Phase 1, which will be carried out from 2014-2018, will include the construction of 28 production lines with a combined installed capacity of 10.9bn pieces. Phase 2, which will comprise 12 production lines with a combined capacity of 4.6bn pieces, will be carried out from 2019-2022. Management has allocated MYR700m-750m capex for its business park. Note that construction will be carried out over a period of nine years. Given SUCB's strong operating cash flow of ~MYR160m per annum, we believe the capex funding will not be an issue. Moreover, management has stated that the land allocated for glove-related supporting industries has a gross development value (GDV) of up to MYR400m and will be completed in the next 3-5 years, which will also help partially fund its capex.

Muted impact from electricity hike. It was announced on Monday that effective 1 Jan 2014, the electricity tariff for industrial consumers such as the rubber glove players would increase by 16.85% from 33.5sen/kWh to 39.0sen/kWh. Management has stated that the hike would incur an additional cost of MYR3.5m, which the company believes can be passed on to customers. We believe that the impact of the electricity hike on SUCB is minimal as electricity cost only accounts for 2-3% of its total production cost. Additionally, SUCB is looking into renewable energy as an alternative to electricity. We also expect any forthcoming hikes in industrial gas prices to be substantially passed on to customers.

Risks. Key risks include: i) a surge in raw material prices, ii) decreasing ASPs due to intense competition, and iii) delays in its expansion plans

Maintain BUY. Overall, we came away from the briefing feeling optimistic on SUCB's extensive expansion plans, as we believe that this will help to expand the company's market share moving forward and in turn, perk up earnings in the foreseeable future. We continue to like the company's growth prospects given the favourable operating environment of: i) easing raw material prices; ii) increased production capacity, and iii) increased automation in its facilities which could improve production efficiency. Hence, we maintain our BUY call and MYR3.01 FV, pegged to the existing 12.0x FY14 P/E (in line with the stock's 12-month historical average P/E).

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

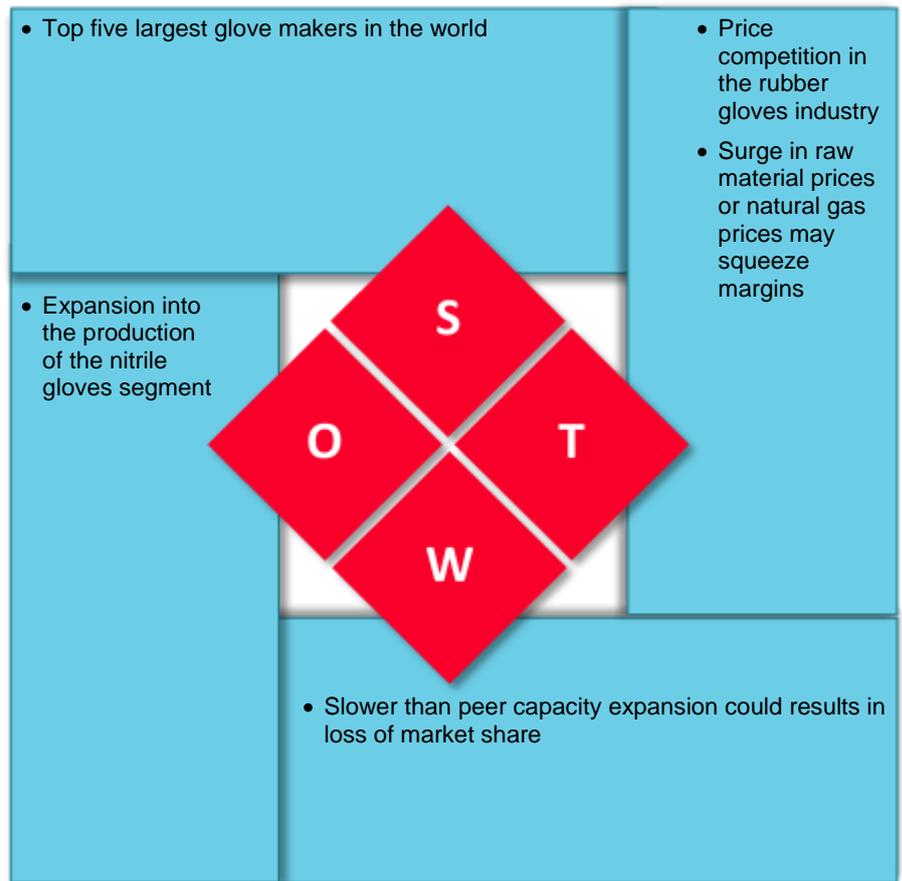
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	97	104	123	105	86
Inventories	133	223	234	275	311
Accounts receivable	114	104	101	118	134
Other current assets	101	109	106	107	108
Total current assets	445	541	564	605	639
Total investments	198	229	210	254	317
Tangible 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

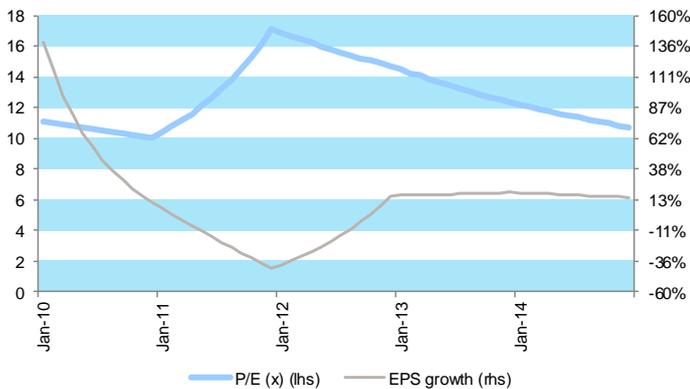
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	21.6	4.5	(2.3)	17.5	13.3
Operating profit growth (%)	13.5	(43.7)	36.5	17.4	5.1
Net profit growth (%)	25.6	(34.5)	16.5	19.1	15.2
EPS growth (%)	11.3	(41.3)	16.5	19.1	15.2
Bv per share growth (%)	(2.1)	11.1	8.4	12.1	12.5
Operating 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

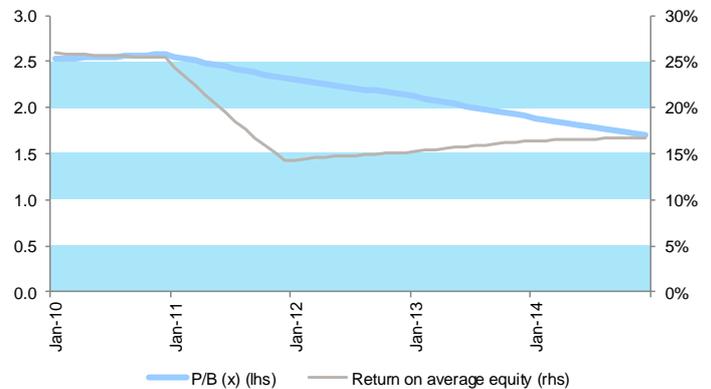


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

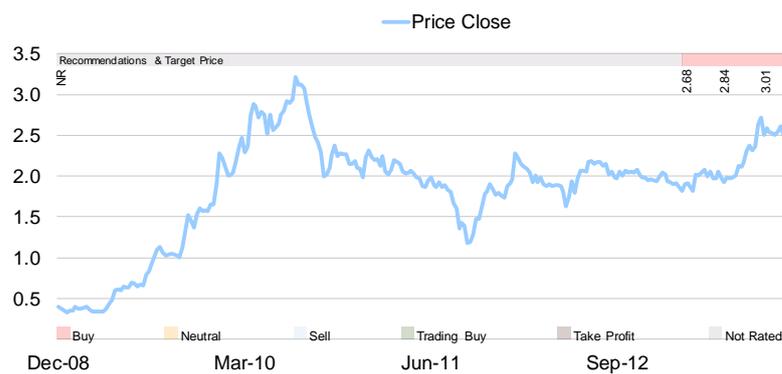


Source: Company data, RHB estimates

Company Profile

Supermax Corporation is an investment holding company 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

Disclosure & Disclaimer

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness. No part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. This report is general in nature and has been prepared for information purposes only. It is intended for circulation to the clients of RHB and its related companies. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate legal or financial advice to independently evaluate the particular investments and strategies.

RHB, its affiliates and related companies, their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities. Further, RHB, its affiliates and related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such investment, advisory or other services from any entity mentioned in this research report.

RHB and its employees and/or agents do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

The term "RHB" shall denote where applicable, the relevant entity distributing the report in the particular jurisdiction mentioned specifically herein below and shall refer to RHB Research Institute Sdn Bhd, its holding company, affiliates, subsidiaries and related companies.

All Rights Reserved. This report is for the use of intended recipients only and may not be reproduced, distributed or published for any purpose without prior consent of RHB and RHB accepts no liability whatsoever for the actions of third parties in this respect.

Malaysia

This report is published and distributed in Malaysia by RHB Research Institute Sdn Bhd (233327-M), Level 11, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, a wholly-owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Singapore

This report is published and distributed in Singapore by DMG & Partners Research Pte Ltd (Reg. No. 200808705N), a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group) and OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB", which in turn is a wholly-owned subsidiary of RHB Capital Berhad). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited. DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report.

As of 3 December 2013, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the securities covered in this report, except for:

a) -

As of 3 December 2013, none of the analysts who covered the securities in this report has an interest in such securities, except for:

a) -

Special Distribution by RHB

Where the research report is produced by an RHB entity (excluding DMG & Partners Research Pte Ltd) and distributed in Singapore, it is only distributed to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd.

Hong Kong

This report is published and distributed in Hong Kong by RHB OSK Securities Hong Kong Limited ("RHBSHK") (formerly known as OSK Securities Hong Kong Limited), a subsidiary of OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB"), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

RHBSHK, RHBIB and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company. RHBSHK, RHBIB and/or other affiliates may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company.

Risk Disclosure Statements

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. RHB SHK does not maintain a predetermined schedule for publication of research and will not necessarily update this report

Indonesia

This report is published and distributed in Indonesia by PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Thailand

This report is published and distributed in Thailand by RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Other Jurisdictions

In any other jurisdictions, this report is intended to be distributed to qualified, accredited and professional investors, in compliance with the law and regulations of the jurisdictions.

Kuala Lumpur	Hong Kong	Singapore
<p>Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693</p>	<p>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.) 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p>DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia) Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.) Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited) No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171</p>
Bangkok		
<p>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL) 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999</p>		