

Supermax (SUCB MK)

Industrial - Misc. Manufacturer

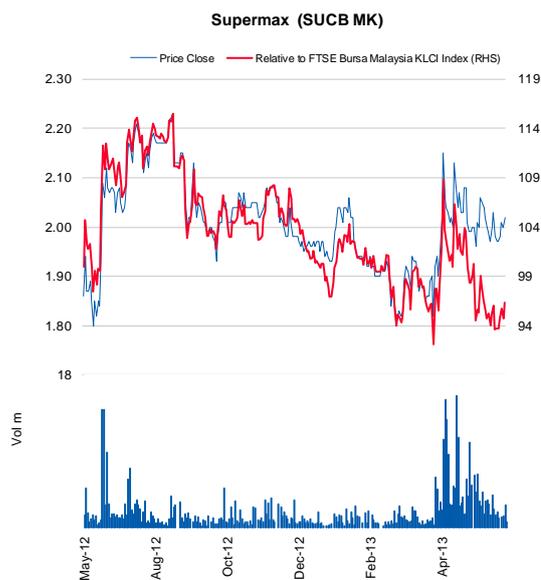
Market Cap: USD447m

Buy (Maintained)

Target Price: MYR2.84

Price: MYR2.02

1QFY13 Within Expectations

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	6.59m/2.17m
Cons. Upside (%)	20.8
Upside (%)	40.6
52-wk Price low/high (MYR)	1.80 - 2.23
Free float (%)	53
Shareholders (%)	
Dato' Seri Stanley Thai	20.4
Datin Seri Cheryl Tan	15.1
EPF	8.2

Shariah compliant

The Research Team +603 9207 7688
Research2@my.oskgroup.com

Supermax's 1QFY13 results were within our and consensus estimates, making up 23% of both full-year forecasts. The improvement in 1QFY13 numbers was due to higher sales volume and production efficiency. Following an internal reallocation of coverage, we revisited our financial model and revised our assumptions. Rolling over our valuations to FY14, we derive a new FV of MYR2.84, based on a 12x P/E.

- ◆ **Within expectations.** Supermax (SUCB)'s 1QFY13 results were largely in line with our and consensus earnings estimates, making up 23% of both the annual forecasts. The company recorded revenue of MYR320.5m (-0.6% q-o-q; 29.0% y-o-y), which we attribute to higher sales volume and larger production capacity. Correspondingly, its net profit improved by 13.6% y-o-y (though dipped slightly by 0.3% q-o-q) to MYR31.8m on higher gloves sales as production capacity expands and its production lines became more automated and efficient.
- ◆ **Expansion plans to drive future earnings.** We gather from Management that SUCB will be focusing on expanding its production capacity in the nitrile gloves segment through the construction of two new plants at Lot 6058 and 6059. Nitrile gloves command comparatively higher margins and are less subject to raw materials price volatility. Once the company's plants are fully commissioned by 4QFY13, SUCB's total nitrile production capacity would more than double from the current annual capacity of 5.9bn pieces to 12.3bn pieces.
- ◆ **Still a BUY.** We remain positive on SUCB's outlook as it continues to expand its production capacity in the nitrile glove segment as well as increasingly automate its production lines. Following an internal reallocation of coverage, we revise our assumptions and arrived at a new MYR2.84 FV, pegged to a 12x FY14F P/E. We continue to recommend a BUY on this stock.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (MYRm)	1,021	997	1,135	1,286	1,328
Reported net profit (MYRm)	104	121	138	157	174
Recurring net profit (MYRm)	104	121	138	157	174
Recurring net profit growth (%)	(34.5)	16.5	13.7	13.7	11.2
Core EPS (MYR)	0.16	0.18	0.21	0.24	0.26
DPS (MYR)	0.05	0.05	0.06	0.07	0.08
Dividend Yield (%)	2.4	2.5	3.1	3.5	3.9
Core P/E (x)	12.9	11.0	9.7	8.5	7.7
Return on average equity (%)	14.3	15.1	15.6	15.9	15.8
P/B (x)	1.74	1.61	1.44	1.29	1.15
P/CF (x)	23.7	8.2	12.7	12.6	10.5
EV/EBITDA (x)	10.8	8.3	7.5	7.1	6.7
Net debt to equity (%)	29.4	18.6	18.2	18.6	17.4
Our vs consensus EPS (%)			(1.4)	(1.4)	9.6

Source: Company data, RHB Estimates

Figure 1: 1QFY13 results review

FYE Dec	1Q13	4Q12	% chg	YTD FY13	YTD FY12	% chg	Comments
Revenue	320.5	322.3	-0.6%	320.5	248.5	29.0%	Revenue increased 29.0% y-o-y owing to the increase of automation of the company's production lines.
EBITDA	58.4	47.1	24.0%	54.1	30.2	79.1%	
Depreciation	-22.6	-6.5	247.7%	-22.6	-5.8	289.7%	
Net interest expense	-2.2	-2.0	10.0%	2.2	-2.6	-184.6%	
Associates	3.1	3.8	-18.4%	3.1	8.9	-65.2%	
PBT before EI	33.7	38.6	-12.7%	33.7	21.8	54.6%	
EI	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	36.8	42.3	-13.0%	36.8	30.7	19.9%	
Tax	-4.7	-10.5	-55.2%	-4.7	-2.7	74.1%	
MI	-0.3	0.1	-400.0%	-0.3	0.0	0.0%	
Reported Net Profit	31.8	31.9	-0.3%	31.8	28.0	13.6%	
Core Net Profit	31.8	31.9	-0.3%	31.8	28.0	13.6%	1QFY13 net profit increased 13.6% due to the increase in sales volumes as well as better production efficiency.
Core EPS (sen)	4.70	4.70		4.70	4.10		
Gross DPS (sen)	0.00	3.00		0.00	0.00		
EBITDA margin	16.9%	14.6%		16.9%	12.1%		
NTA/share (MYR)	0.96	0.92		0.96	1.13		

Source: RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover	1,021	997	1,135	1,286	1,328
Cost of sales	(826)	(743)	(885)	(1,017)	(1,053)
Gross profit	196	254	250	269	275
Other operating costs	(112)	(140)	(124)	(140)	(145)
Operating profit	84	114	126	129	130
Operating EBITDA	108	139	152	157	161
Depreciation of fixed assets	(24)	(24)	(26)	(28)	(31)
Operating EBIT	84	114	126	129	130
Net income from investments	35	23	43	63	83
Other recurring income	6	8	8	8	8
Interest income	0	-	-	-	-
Interest expense	(13)	(9)	(9)	(9)	(9)
Pre-tax profit	112	137	169	192	213
Taxation	(8)	(16)	(31)	(35)	(39)
Minority interests	0	(0)	(0)	(0)	(0)
Profit after tax & minorities	104	121	138	157	174
Reported net profit	104	121	138	157	174
Recurring net profit	104	121	138	157	174

Source: Company data, RHB Estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	84	114	126	129	130
Depreciation & amortisation	24	24	26	28	31
Change in working capital	(56)	10	(32)	(32)	(5)
Other operating cash flow	5	9	7	7	2
Operating cash flow	57	158	127	132	158
Interest received	(0)	-	-	-	-
Interest paid	13	9	9	9	9
Tax paid	(13)	(3)	(31)	(35)	(39)
Cash flow from operations	56	163	105	106	128
Capex	(38)	(69)	(69)	(69)	(69)
Cash flow from investing activities	(38)	(69)	(69)	(69)	(69)
Dividends paid	(27)	(12)	(41)	(47)	(52)
Increase in debt	27	(53)	-	-	-
Other financing cash flow	(13)	(11)	(9)	(9)	(9)
Cash flow from financing activities	(12)	(76)	(50)	(56)	(61)
Cash at beginning of period	97	104	123	109	85
Total cash generated	6	18	(14)	(19)	(2)
Forex effects	1	(0)	-	-	-
Implied cash at end of period	104	123	109	90	82

Source: Company data, RHB Estimates

Financial Exhibits

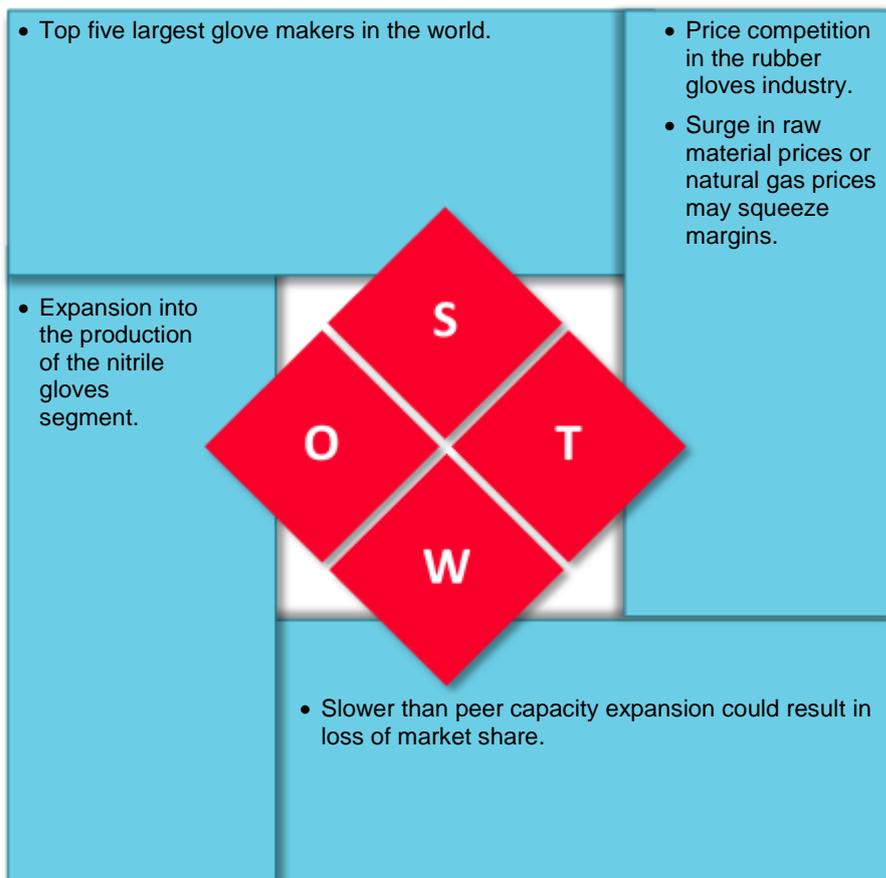
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	104	123	109	85	76
Inventories	223	234	266	301	311
Accounts receivable	104	101	115	130	134
Other current assets	109	106	107	107	108
Total current assets	541	564	597	623	629
Total investments	229	210	254	317	400
Tangible fixed assets	407	451	495	536	574
Intangible assets	29	29	29	29	29
Total non-current assets	664	690	777	881	1,003
Total assets	1,205	1,254	1,374	1,505	1,632
Short-term debt	190	163	163	163	163
Accounts payable	60	77	92	106	109
Other current liabilities	27	45	53	61	63
Total current liabilities	278	285	308	329	335
Total long-term debt	140	115	115	115	115
Other liabilities	18	20	20	20	20
Total non-current liabilities	159	135	135	135	135
Total liabilities	436	420	443	465	470
Share capital	170	340	340	340	340
Retained earnings reserve	523	494	591	700	822
Other reserves	77	-	-	-	-
Shareholders' equity	769	834	931	1,040	1,162
Minority interests	(0)	(0)	(0)	(0)	(0)
Other equity	0	(0)	0	(0)	0
Total equity	769	834	930	1,040	1,162
Total liabilities & equity	1,205	1,254	1,374	1,505	1,632

Source: Company data, RHB Estimates

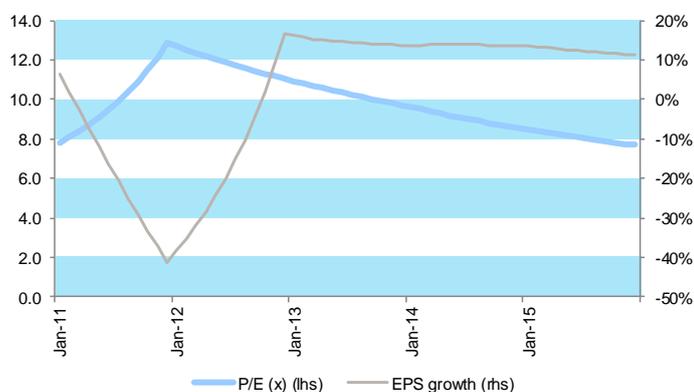
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	4.5	(2.3)	13.8	13.3	3.2
Operating profit growth (%)	(43.7)	36.5	10.3	2.5	1.1
Net profit growth (%)	(34.5)	16.5	13.7	13.7	11.2
EPS growth (%)	(41.3)	16.5	13.7	13.7	11.2
Bv per share growth (%)	11.1	8.4	11.6	11.8	11.7
Operating margin (%)	8.2	11.4	11.1	10.0	9.8
Net profit margin (%)	10.2	12.2	12.2	12.2	13.1
Return on average assets (%)	9.2	9.9	10.5	10.9	11.1
Return on average equity (%)	14.3	15.1	15.6	15.9	15.8
Net debt to equity (%)	29.4	18.6	18.2	18.6	17.4
DPS	0.05	0.05	0.06	0.07	0.08
Recurrent cash flow per share	0.09	0.25	0.16	0.16	0.19

Source: Company data, RHB Estimates

SWOT Analysis

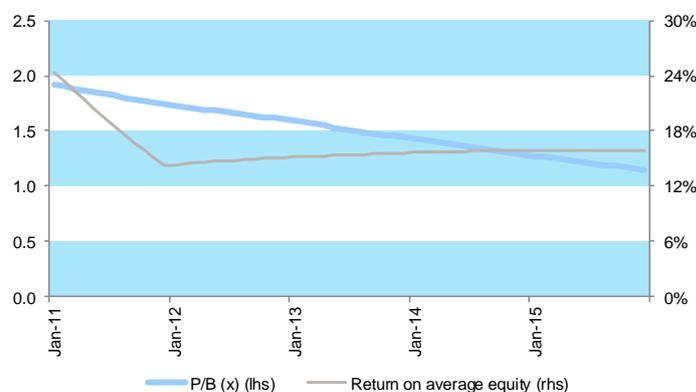


P/E (x) vs EPS growth



Source: Company data, RHB Estimates

P/BV (x) vs ROAE

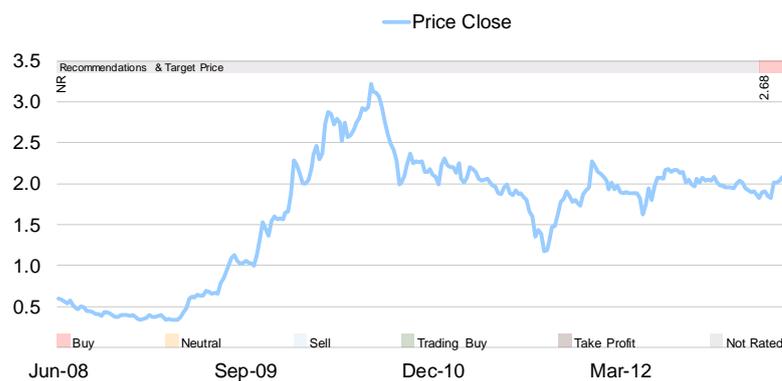


Source: Company data, RHB Estimates

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
2013-03-07	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

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