

# Supermax (SUCB MK)

Consumer Non-cyclical - Rubber Products

Market Cap: USD327m

**Buy** (from Neutral)

Target Price: MYR1.87

Price: MYR1.69

## Value In Retracement

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	5.11m/1.53m
Cons. Upside (%)	86.4
Upside (%)	10.7
52-wk Price low/high (MYR)	1.61 - 3.04
Free float (%)	53
Share outstanding (m)	677
Shareholders (%)	
Dato' Seri Stanley Thai	20.4
Datin Seri Cheryl Tan	15.1
Employees Provident Fund	5.3

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(39.0)	(19.5)	(23.2)	(19.5)	(38.8)
Relative	(33.7)	(16.6)	(19.0)	(13.4)	(33.2)

### Shariah compliant

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The recent retracement of Supermax's share price – in line with the sell-down of the broad market – has left the stock with attractive valuations. Thus, we upgrade our call to **BUY** (from Neutral) with unchanged earnings forecast but a revised MYR1.87 TP (10.7x FY15F P/E, 10.7% upside). We believe the rubber glove sector will benefit from favourable macroeconomic conditions going forward.

- ◆ **Cost pressure relief.** Unlike 2014, which was beset with cost hikes (+15% electricity and +21% natural gas), we do not foresee significant cost headwinds for 2015. Weaker demand and a stronger supply situation in the rubber market are expected to persist, thus keeping natural latex prices low. Meanwhile, the current oil price weakness, from which nitrile is derived, is expected to keep nitrile prices favourable as well. Combined, these should help ease pressure on Supermax's margins.
- ◆ **Weaker MYR exchange rate.** The strength in the USD/MYR exchange rate will benefit Supermax. This is because sales are denominated in USD while cost structure is mainly denominated in MYR. An increase of 3% in the USD/MYR exchange rate could possibly raise earnings by around 3%.
- ◆ **Re-rating catalyst.** Earnings growth ought to be capacity driven. Should Supermax deliver on the execution of its expansion plans, namely Glove City and Supermax Business Park, we believe that market will re-rate the P/E multiple tagged.
- ◆ **Upgrade to BUY.** The recent retracement of share prices during the broad market sell-down has left the stock with attractive valuations. We maintain our earnings forecast but revise our TP to MYR1.87 (from MYR2.16). This is derived from 0.5SD below the 5-year historical mean of 10.7x FY15F P/E, which represents a 10.7% upside.

Forecasts and Valuations	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total turnover (MYRm)	997	1,127	1,032	1,074	1,187
Reported net profit (MYRm)	121	129	110	121	130
Recurring net profit (MYRm)	121	129	110	121	130
Recurring net profit growth (%)	16.5	6.1	(14.3)	9.6	7.4
Recurring EPS (MYR)	0.18	0.19	0.17	0.18	0.20
DPS (MYR)	0.05	0.05	0.05	0.05	0.06
Recurring P/E (x)	9.2	8.7	10.2	9.3	8.6
P/B (x)	1.34	1.25	1.15	1.06	0.97
P/CF (x)	6.86	4.98	4.77	9.04	9.86
Dividend Yield (%)	3.0	3.0	3.0	3.2	3.5
EV/EBITDA (x)	7.16	5.98	7.00	6.68	6.55
Return on average equity (%)	15.1	14.9	11.8	11.9	11.8
Net debt to equity (%)	18.6	24.0	12.4	13.2	15.0
Our vs consensus EPS (adjusted) (%)			(11.5)	(17.8)	(22.9)

Source: Company data, RHB

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total turnover	997	1,127	1,032	1,074	1,187
Cost of sales	(743)	(860)	(812)	(844)	(944)
<b>Gross profit</b>	<b>254</b>	<b>268</b>	<b>221</b>	<b>230</b>	<b>243</b>
Other operating costs	(140)	(128)	(113)	(117)	(129)
<b>Operating profit</b>	<b>114</b>	<b>140</b>	<b>108</b>	<b>113</b>	<b>114</b>
Operating EBITDA	139	181	140	147	151
Depreciation of fixed assets	(24)	(41)	(30)	(34)	(38)
Amortisation of intangible assets	-	-	(1)	-	-
<b>Operating EBIT</b>	<b>114</b>	<b>140</b>	<b>108</b>	<b>113</b>	<b>114</b>
Net income from investments	23	15	25	35	45
Other recurring income	8	8	8	8	8
Interest expense	(9)	(9)	(9)	(9)	(9)
<b>Pre-tax profit</b>	<b>137</b>	<b>154</b>	<b>133</b>	<b>147</b>	<b>158</b>
Taxation	(16)	(26)	(23)	(26)	(28)
Minority interests	(0)	0	0	0	0
<b>Profit after tax &amp; minorities</b>	<b>121</b>	<b>129</b>	<b>110</b>	<b>121</b>	<b>130</b>
<b>Reported net profit</b>	<b>121</b>	<b>129</b>	<b>110</b>	<b>121</b>	<b>130</b>
<b>Recurring net profit</b>	<b>121</b>	<b>129</b>	<b>110</b>	<b>121</b>	<b>130</b>

Source: Company data, RHB

<b>Cash flow (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
<b>Operating profit</b>	<b>114</b>	<b>140</b>	<b>108</b>	<b>113</b>	<b>114</b>
<b>Depreciation &amp; amortisation</b>	<b>24</b>	<b>41</b>	<b>32</b>	<b>34</b>	<b>38</b>
<b>Change in working capital</b>	<b>10</b>	<b>11</b>	<b>93</b>	<b>(7)</b>	<b>(23)</b>
Other operating cash flow	9	47	16	2	5
<b>Operating cash flow</b>	<b>158</b>	<b>239</b>	<b>249</b>	<b>142</b>	<b>133</b>
Interest paid	9	9	9	9	9
Tax paid	(3)	(22)	(23)	(26)	(28)
<b>Cash flow from operations</b>	<b>163</b>	<b>225</b>	<b>235</b>	<b>124</b>	<b>114</b>
Capex	(69)	(93)	(93)	(93)	(93)
Other new investments	-	(7)	-	-	-
<b>Cash flow from investing activities</b>	<b>(69)</b>	<b>(100)</b>	<b>(93)</b>	<b>(93)</b>	<b>(93)</b>
Dividends paid	(12)	(34)	(33)	(36)	(39)
Increase in debt	(53)	34	-	-	-
Other financing cash flow	(11)	(9)	(9)	(9)	(9)
<b>Cash flow from financing activities</b>	<b>(76)</b>	<b>(9)</b>	<b>(42)</b>	<b>(45)</b>	<b>(48)</b>
Cash at beginning of period	104	123	97	192	172
<b>Total cash generated</b>	<b>18</b>	<b>116</b>	<b>100</b>	<b>(15)</b>	<b>(28)</b>
Forex effects	(0)	(60)	(6)	(6)	(6)
<b>Implied cash at end of period</b>	<b>123</b>	<b>179</b>	<b>190</b>	<b>171</b>	<b>139</b>

Source: Company data, RHB

## Financial Exhibits

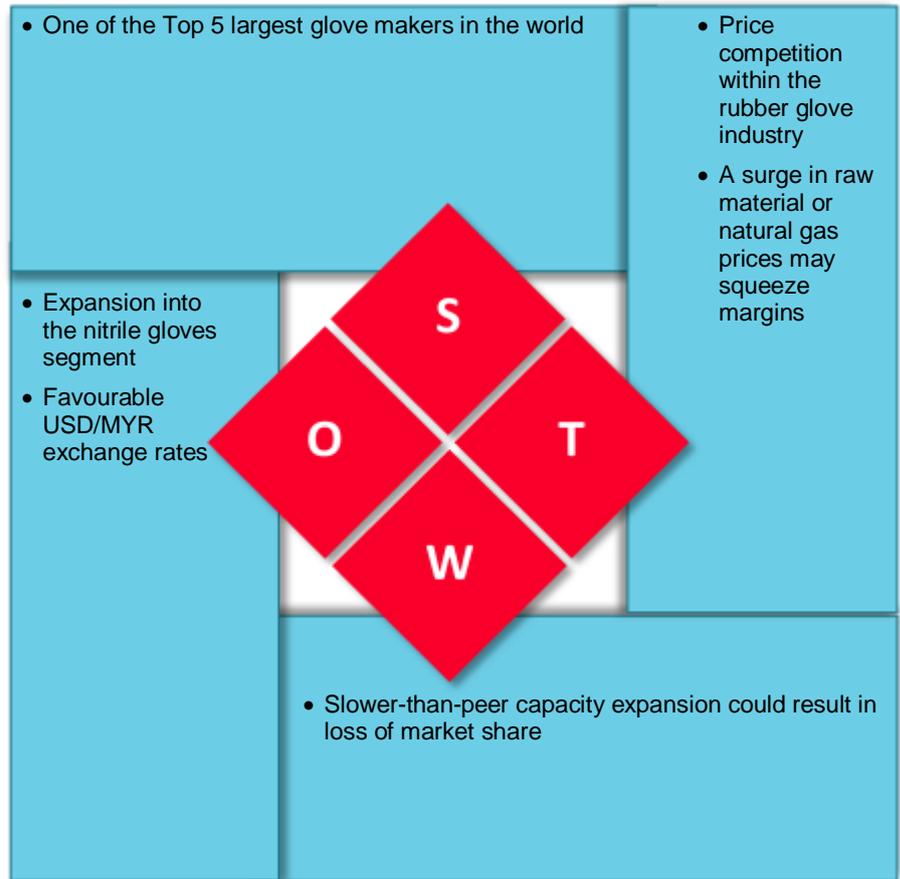
<b>Balance Sheet (MYRm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total cash and equivalents	123	97	192	172	140
Inventories	234	215	242	252	278
Accounts receivable	101	231	104	109	120
Other current assets	106	15	5	5	6
<b>Total current assets</b>	<b>564</b>	<b>557</b>	<b>543</b>	<b>538</b>	<b>543</b>
Total investments	210	202	227	262	307
Tangible fixed assets	451	581	644	704	759
Intangible assets	29	29	29	29	29
Total other assets	-	1	-	-	-
Total non-current assets	690	813	900	994	1,095
<b>Total assets</b>	<b>1,254</b>	<b>1,370</b>	<b>1,443</b>	<b>1,532</b>	<b>1,638</b>
Short-term debt	163	161	161	161	161
Accounts payable	77	95	83	87	97
Other current liabilities	45	53	60	61	67
<b>Total current liabilities</b>	<b>285</b>	<b>309</b>	<b>304</b>	<b>309</b>	<b>324</b>
Total long-term debt	115	152	152	152	152
Other liabilities	20	13	13	13	13
<b>Total non-current liabilities</b>	<b>135</b>	<b>165</b>	<b>165</b>	<b>165</b>	<b>165</b>
<b>Total liabilities</b>	<b>420</b>	<b>474</b>	<b>469</b>	<b>474</b>	<b>490</b>
Share capital	340	340	340	340	340
Retained earnings reserve	494	556	634	719	810
<b>Shareholders' equity</b>	<b>834</b>	<b>896</b>	<b>974</b>	<b>1,059</b>	<b>1,150</b>
Minority interests	(0)	0	(0)	(1)	(1)
Other equity	(0)	(0)	0	(0)	0
<b>Total equity</b>	<b>834</b>	<b>896</b>	<b>974</b>	<b>1,058</b>	<b>1,149</b>
<b>Total liabilities &amp; equity</b>	<b>1,254</b>	<b>1,370</b>	<b>1,443</b>	<b>1,532</b>	<b>1,638</b>

Source: Company data, RHB

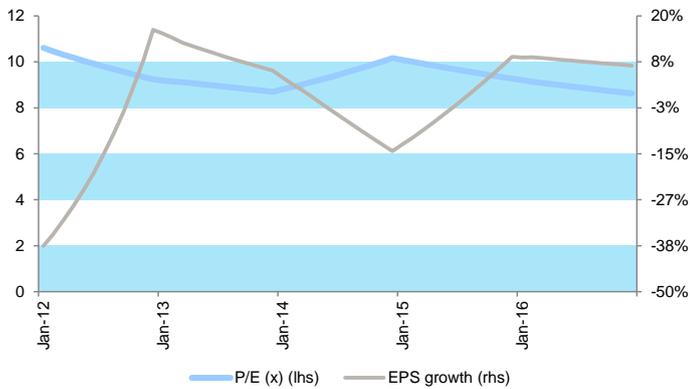
<b>Key Ratios (MYR)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Revenue growth (%)	(2.3)	13.0	(8.4)	4.0	10.5
Operating profit growth (%)	36.5	22.5	(22.6)	4.0	0.8
Net profit growth (%)	16.5	6.1	(14.3)	9.6	7.4
EPS growth (%)	16.5	6.1	(14.3)	9.6	7.4
Bv per share growth (%)	8.4	7.4	8.7	8.7	8.6
Operating margin (%)	11.4	12.4	10.5	10.5	9.6
Net profit margin (%)	12.2	11.4	10.7	11.3	10.9
Return on average assets (%)	9.9	9.8	7.8	8.1	8.2
Return on average equity (%)	15.1	14.9	11.8	11.9	11.8
Net debt to equity (%)	18.6	24.0	12.4	13.2	15.0
DPS	0.05	0.05	0.05	0.05	0.06
Recurrent cash flow per share	0.25	0.34	0.35	0.19	0.17

Source: Company data, RHB

## SWOT Analysis

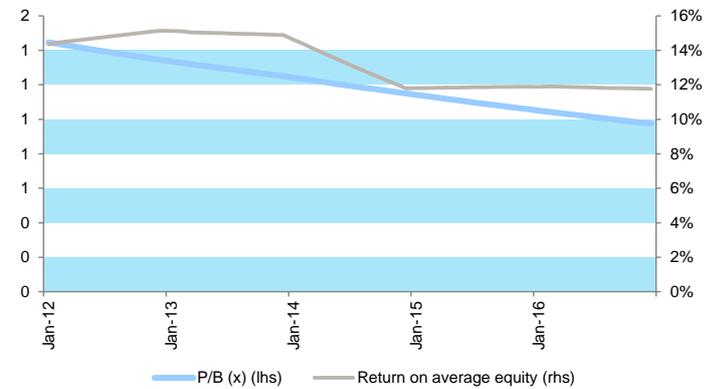


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

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

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-11-10	Neutral	2.16	2.17
2014-08-27	Neutral	2.31	2.21
2014-05-30	Buy	2.68	2.40
2014-02-28	Neutral	2.68	2.81
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, 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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