

28 August 2013

**Buy**

Price  
RM2.23

Target price  
RM2.60

Bloomberg code  
SUCB MK

Equity | Malaysia | Health Care Equip & Serv

**Flashnote**

# Supermax

## Sequential improvement

**Supermax's 2Q13 earnings improved 18% yoy and 12% qoq, mainly due to higher sales volumes on additional capacity, coupled with lower raw material prices and production efficiency. The stock has been a laggard and provides a cheaper proxy to the sector, at 11.2x FY13 PE and 1.6x PB supported by 15% ROE. Maintain Buy.**

- On a yoy basis, 2Q13 revenue was up 42% while operating profit was up 31%. Management attributed this to higher sales volumes with new capacity being added from new and refurbished lines. Net profit was up by a lower quantum of 18% due to lower contributions from associates, which declined 38% yoy, and higher taxes, which increased 50% yoy, albeit offset by lower finance costs, which declined 18% yoy.
- On a qoq basis, revenue was up 3% while operating profit was up 4%. The improved profitability was due to lower raw material costs and improved production efficiency. At the net level, earnings grew 12% qoq due to improvements in associates' contributions, from RM3.1m in 1Q13 to RM4.6m in 2Q13. This is still lower than the associates' contributions achieved over FY09-FY12 averaging RM9.6m on a quarterly basis.
- There was a slight improvement in operating margin to 11.3% in 2Q13 from 11.2% in 1Q13. However, this is lower than the 12.3% achieved in 2Q12.
- Overall, 1H13 earnings made up 50% of our full-year forecast and 49% of Bloomberg consensus forecasts. We expect subsequent quarters to improve further as new production capacity comes on stream, albeit price competition in the nitrile segment would also need to be managed.
- According to management, the group's surgical gloves production lines will be further commissioned in stages as additional sterilization facility and automatic packaging machineries are in place. Since May 2012, the group has commissioned five of the planned eight lines of surgical gloves.
- For nitrile gloves, Supermax plans to fast track the completion of two new plants in Meru, Klang in the next two quarters to cater for the higher demand of nitrile gloves. These new plants coupled with refurbished lines are expected to add 6.9 bn pieces of nitrile gloves, bringing its nitrile capacity to 12.3bn pieces p.a., or 53% of its total product mix by 1Q14.

Analyst

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**Table 1 : Quarterly performance trends**

(RM m)	Quarter						Change		Cumulative			KAF		
	FYE Dec	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	% qoq	% yoy	1H12	1H13	% chg	FY13F	1H/F
Turnover		248.5	232.1	245.5	322.5	320.5	330.0	3	42	480.6	650.5	35	1,106.7	59
<b>Operating profit</b>		<b>24.4</b>	<b>28.6</b>	<b>33.2</b>	<b>40.6</b>	<b>35.8</b>	<b>37.4</b>	<b>4</b>	<b>31</b>	<b>53.0</b>	<b>73.3</b>	<b>38</b>	<b>151.4</b>	<b>48</b>
Operating margin (%)		9.8%	12.3%	13.5%	12.6%	11.2%	11.3%			11.0%	11.3%		13.7%	
Finance costs		(2.6)	(2.7)	(2.7)	(2.0)	(2.2)	(2.2)	0	(18)	(5.3)	(4.4)	(17)	(16.1)	27
Associates		8.9	7.3	3.3	3.8	3.1	4.6	47	(38)	16.3	7.7	(53)	24.5	31
<b>Pretax profit</b>		<b>30.7</b>	<b>33.3</b>	<b>33.8</b>	<b>42.3</b>	<b>36.8</b>	<b>39.8</b>	<b>8</b>	<b>20</b>	<b>64.0</b>	<b>76.6</b>	<b>20</b>	<b>159.8</b>	<b>48</b>
Pretax margin (%)		12.4%	14.3%	13.8%	13.1%	11.5%	12.1%			13.3%	11.8%		14.4%	
Tax		(2.7)	(3.3)	(2.2)	(10.5)	(4.7)	(4.9)	5	50	(6.0)	(9.6)	61	(24.0)	40
Minority interest		(0.0)	(0.0)	-	0.3	(0.3)	0.6	nm	nm	(0.1)	0.3	nm		
<b>Net profit</b>		<b>28.0</b>	<b>30.0</b>	<b>31.6</b>	<b>32.1</b>	<b>31.8</b>	<b>35.5</b>	<b>12</b>	<b>18</b>	<b>58.0</b>	<b>67.3</b>	<b>16</b>	<b>135.9</b>	<b>50</b>
Net profit margin (%)		11.3%	12.9%	12.9%	10.0%	9.9%	10.8%			12.1%	10.3%		12.3%	

Source: Company, KAF

## Income statement

FYE Dec (RMm)	2011	2012	2013F	2014F	2015F
Turnover	1,021.4	997.4	1,106.7	1,236.2	1,388.9
Operating costs	(903.5)	(850.0)	(930.5)	(1,040.8)	(1,172.2)
<b>EBITDA</b>	<b>117.9</b>	<b>147.3</b>	<b>176.2</b>	<b>195.4</b>	<b>216.7</b>
Depreciation & amortisation	(24.1)	(24.4)	(27.0)	(29.9)	(33.1)
<b>EBIT</b>	<b>93.8</b>	<b>123.0</b>	<b>149.2</b>	<b>165.5</b>	<b>183.6</b>
Net interest income	(12.5)	(8.7)	(14.0)	(15.2)	(16.4)
Associated companies	34.8	23.4	24.5	25.8	27.1
<b>Pretax profit</b>	<b>112.1</b>	<b>137.6</b>	<b>159.8</b>	<b>176.1</b>	<b>194.2</b>
Taxation	(8.1)	(15.9)	(24.0)	(26.4)	(29.1)
<b>Net profit</b>	<b>104.1</b>	<b>121.7</b>	<b>135.9</b>	<b>149.7</b>	<b>165.1</b>

Source: Company, KAF

## Balance sheet

FYE December (RMm)	2011	2012	2013F	2014F	2015F
<b>Non-current assets</b>					
Property, plant and equipment	407.3	451.9	501.0	554.8	613.7
Associated companies	228.4	209.9	234.4	260.2	287.2
Other investment	-	-	-	-	-
Goodwill on consolidation	28.7	28.7	28.7	28.7	28.7
Deferred tax assets	-	-	-	-	-
<b>Total non-current assets</b>	<b>664.4</b>	<b>690.5</b>	<b>764.1</b>	<b>843.7</b>	<b>929.7</b>
<b>Current assets</b>					
Inventories	223.1	233.8	259.4	289.8	325.6
Trade receivables	104.5	100.8	111.9	125.0	140.4
Amount owing by associated companies	90.2	101.1	106.1	111.4	117.0
Other receivables and prepaid expenses	18.7	5.1	5.6	6.3	7.1
Cash and cash equivalents	104.5	122.9	133.7	145.0	157.3
<b>Total current assets</b>	<b>541.1</b>	<b>563.6</b>	<b>616.7</b>	<b>677.5</b>	<b>747.4</b>
<b>Total assets</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,380.9</b>	<b>1,521.2</b>	<b>1,677.0</b>
<b>Current liabilities</b>					
Trade payables	60.0	76.9	85.4	95.3	107.1
Other payables and accrued expenses	27.3	41.0	45.5	50.8	57.1
HP payables	-	-	-	-	-
Borrowings	190.5	162.9	162.9	162.9	162.9
Tax liabilities	-	4.3	4.3	4.3	4.3
<b>Total current liabilities</b>	<b>277.7</b>	<b>285.1</b>	<b>298.0</b>	<b>313.4</b>	<b>331.4</b>
<b>Financed by:</b>					
Share capital	170.0	340.1	340.1	340.1	340.1
Reserves	599.1	494.0	595.8	707.6	830.9
<b>Shareholders' funds</b>	<b>769.0</b>	<b>833.8</b>	<b>935.6</b>	<b>1,047.4</b>	<b>1,170.7</b>
<b>Non current liabilities</b>					
HP payables - non-current portion	-	-	-	-	-
Borrowings - non-current portion	140.5	115.2	115.2	115.2	115.2
Deferred tax liabilities	18.2	20.0	32.0	45.2	59.8
<b>Total non current liabilities</b>	<b>158.7</b>	<b>135.2</b>	<b>147.2</b>	<b>160.4</b>	<b>174.9</b>
<b>Total liabilities &amp; shareholders' funds</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,380.9</b>	<b>1,521.2</b>	<b>1,677.0</b>

Source: Company, KAF

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**Cash flow statement**

<b>FYE Dec (RMm)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
<b>Cashflow from operations (CFO)</b>					
Pretax profit	112.1	137.6	159.8	176.1	194.2
Non-cash items	5.7	16.9	16.4	19.3	22.5
Interest received	0.0	-	2.1	2.5	3.0
Tax paid	(13.4)	(3.1)	(12.0)	(13.2)	(14.6)
Net change in working capital	(48.1)	12.2	(29.4)	(34.1)	(39.5)
<b>CFO</b>	<b>56.4</b>	<b>163.6</b>	<b>137.0</b>	<b>150.6</b>	<b>165.6</b>
<b>Cashflow from investing (CFI)</b>					
Purchase of plant and equipment (CAPEX)	(38.1)	(69.2)	(76.1)	(83.7)	(92.0)
Proceeds from disposal of PPE	-	-	-	-	-
Investment in associated companies	-	-	-	-	-
<b>CFI</b>	<b>(38.1)</b>	<b>(69.2)</b>	<b>(76.1)</b>	<b>(83.7)</b>	<b>(92.0)</b>
<b>Cashflow from financing (CFF)</b>					
Interest paid	(12.5)	(8.7)	(16.1)	(17.7)	(19.4)
Dividends paid	(27.2)	(11.9)	(34.0)	(37.9)	(41.8)
Net proceeds from issuance of shares	-	-	-	-	-
Changes in borrowings	27.5	(53.2)	-	-	-
Share buyback	-	(2.0)	-	-	-
<b>CFF</b>	<b>(12.3)</b>	<b>(75.9)</b>	<b>(50.1)</b>	<b>(55.6)</b>	<b>(61.2)</b>
Net change in cash and cash equivalents	6.0	18.5	10.8	11.3	12.3
Cash and cash equivalents b/f	97.4	104.5	122.9	133.7	145.0
Cash and cash equivalents c/f	104.5	122.9	133.7	145.0	157.3

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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