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Buy

Price
RM2.24

Target price
RM3.00

Bloomberg code
SUCB MK

Equity | Malaysia | Health Care Equip & Serv

Flashnote

Analyst

Diana Teo
+60 3 2168 8092
diana@kaf.com.my

Supermax

A flattish quarter

Supermax's 2Q14 net profit declined 1% qoq and 25% yoy, mainly impacted by the loss of output from its automation process and gradual recovery in output after a plant fire in 4Q13, coupled with intense competition in the nitrile segment. The stock trades at 11.3x FY14F PE and 1.5x PB, offering the cheapest exposure to the gloves sector which trades at 13.3x FY14F PE and 2.1x PB.

- On a yoy basis, 2Q14 revenue was down 28% while operating profit declined 12%. Management attributed this to the temporary loss of production caused by a fire at its Alor Gajah plant in 4Q13, in which the output was only resolved towards end of 2Q14. In addition, its scheduled automation program also exacerbated the output loss. Average selling prices for gloves have declined by 5-20% in 2Q14 which we believe is due to intense competition in the nitrile segment. Net profit declined 25% with higher finance costs and taxes.
- On a qoq basis, revenue rose by 3% but operating profit declined 2% due to the competitive environment. One of its plants was also affected by the Selangor state water rationing exercise for a month in 2Q14.
- Overall, 1H14 earnings were down 21% yoy and constituted 39% of ours and Bloomberg consensus' forecasts. We expect 2H14 earnings to pick up on the back of normalization in production output coupled with commissioning of new lines at its two new plants in Klang.
- According to management, capacity from its two new plants in Meru (Klang) has come on-stream progressively with the first batch of lines being commissioned in August 2014. Upon full commissioning, total nitrile capacity will increase by 6.9bn pieces, bringing total nitrile capacity to 12.3bn pieces p.a. Hence, the group's nitrile composition will be 53% of total product mix versus 47% currently. Management anticipates the intense competition in the nitrile segment to continue and are factoring in lower margins of 9-11%.
- Upon the completion of its two new plants by early 2015, the group will embark on its Glove City project which will have 6 plants being built over 10-12 years. Each plant will have a capacity of 4.1bn pieces and construction should commence in 2015.
- The Supermax Business Park project on its 100-acre land acquisition in Serendah to build an integrated glove manufacturing complex will have a GDV of RM350-400m and is targeted to be fully developed within 3 to 5 years. Around 40% will be allocated for supporting industries and the balance of 60% will be developed in two phases costing between RM700-750m. There will be 40 production lines and total capacity of 15.5bn pieces p.a.
- The first phase will be developed from 2014 to 2018 for 28 production lines with capacity of 10.85bn pieces. The second phase will be from 2019-2022 with 12 production lines and capacity of 4.65bn pieces.

Quarterly performance trends

(RM m)	Quarter						Change		Cumulative			KAF		
	FYE Dec	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	% qoq	% yoy	1H13	1H14	% chg	FY14F	1H/F
Turnover		320.5	330.0	284.6	192.2	232.3	238.1	3	(28)	650.5	470.4	(28)	1,203.7	39
Operating profit		35.8	37.4	38.8	36.8	33.5	32.8	(2)	(12)	73.3	66.3	(10)	167.5	40
Operating margin (%)		11.2%	11.3%	13.6%	19.1%	14.4%	13.8%			11.3%	14.1%		13.9%	
Finance costs		(2.2)	(2.2)	(2.1)	(2.3)	(2.3)	(2.4)	5	10	(4.4)	(4.7)	8	(18.0)	26
Associates		3.1	4.6	3.8	3.5	1.6	1.9	19	(59)	7.7	3.4	(55)	12.8	27
Exceptionals		-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax profit		36.8	39.8	40.5	38.0	32.7	32.3	(1)	(19)	76.6	65.0	(15)	162.3	40
Pretax margin (%)		11.5%	12.1%	14.2%	19.8%	14.1%	13.5%			11.8%	13.8%		13.5%	
Tax		(4.7)	(4.9)	(4.1)	(12.2)	(5.8)	(5.3)	(8)	8	(9.6)	(11.2)	16	(27.1)	41
Minority interest		(0.3)	0.6	(0.6)	(0.8)	(0.3)	(0.2)	(45)	(126)	0.3	(0.4)	nm		
Net profit		31.8	35.5	35.8	25.0	26.6	26.8	1	(25)	67.3	53.4	(21)	135.2	39
Net profit margin (%)		9.9%	10.8%	12.6%	13.0%	11.5%	11.2%			10.3%	11.3%		11.2%	
Normalized net profit		31.8	35.5	35.8	25.0	26.6	26.8	1	(25)	67.3	53.4	(21)	135.2	39
Normalized net margin (%)		9.9%	10.8%	12.6%	13.0%	11.5%	11.2%			10.3%	11.3%		11.2%	

Source: Company, KAF

Income statement

FYE Dec (RMm)	2012	2013	2014F	2015F	2016F
Turnover	997.4	1,127.3	1,203.7	1,371.0	1,582.3
Operating costs	(850.0)	(951.6)	(1,007.7)	(1,142.1)	(1,313.4)
EBITDA	147.3	175.7	196.0	228.9	269.0
Depreciation & amortisation	(24.4)	(27.0)	(31.0)	(35.8)	(39.0)
EBIT	123.0	148.8	165.0	193.1	229.9
Net interest income	(8.7)	(8.8)	(15.5)	(16.8)	(17.9)
Associated companies	23.4	15.1	12.8	14.1	15.5
Pretax profit	137.6	155.1	162.3	190.3	227.5
Taxation	(15.9)	(25.8)	(27.0)	(31.7)	(37.9)
Net profit	121.7	128.8	135.3	158.6	189.6

Source: Company, KAF

Balance sheet

FYE Dec (RM m)	2012	2013	2014F	2015F	2016F
Non-current assets					
Property, plant and equipment	451.9	519.3	600.5	654.4	705.1
Associated companies	209.9	201.6	214.4	228.4	243.9
Other investment	-	-	-	-	-
Goodwill on consolidation	28.7	28.7	28.7	28.7	28.7
Deferred tax assets	-	1.2	1.2	1.2	1.2
Total non-current assets	690.5	750.8	844.7	912.7	978.9
Current assets					
Inventories	233.8	215.3	229.9	261.8	302.2
Trade receivables	100.8	230.9	246.5	280.8	324.0
Amount owing by associated companies	101.1	-	-	-	-
Other receivables and prepaid expenses	5.1	14.5	15.5	17.6	20.4
Cash and cash equivalents	122.9	158.0	156.7	178.8	217.9
Tax recoverable	-	0.4	0.4	0.4	0.4
Total current assets	563.6	619.1	648.9	739.5	864.9
Total assets	1,254.1	1,369.8	1,493.7	1,652.2	1,843.8
Current liabilities					
Trade payables	76.9	95.2	101.6	115.8	133.6
Other payables and accrued expenses	41.0	37.9	40.4	46.0	53.1
Amount owing to associated companies	-	-	-	-	-
HP payables	-	-	-	-	-
Borrowings	162.9	160.6	160.6	160.6	160.6
Tax liabilities	4.3	15.2	15.2	15.2	15.2
Dividend payable	-	-	-	-	-
Total current liabilities	285.1	308.8	317.8	337.5	362.5
Financed by:					
Share capital	340.1	340.1	340.1	340.1	340.1
Reserves	494.0	556.1	657.4	780.3	928.0
Shareholders' funds	833.8	895.9	997.2	1,120.1	1,267.8
Non current liabilities					
Other payables	-	-	-	-	-
HP payables - non-current portion	-	-	-	-	-
Borrowings - non-current portion	115.2	151.7	151.7	151.7	151.7
Deferred tax liabilities	20.0	13.5	27.0	42.9	61.8
Total non current liabilities	135.2	165.2	178.7	194.6	213.5
Total liabilities & shareholders' funds	1,254.1	1,369.8	1,493.7	1,652.2	1,843.8

Source: Company, KAF

Cash flow statement

FYE Dec (RM m)	2012	2013	2014F	2015F	2016F
Cashflow from operations (CFO)					
Pretax profit	137.6	155.1	162.3	190.3	227.5
Non-cash items	16.9	16.0	33.6	38.6	41.4
Interest received	-	-	2.6	3.0	3.9
Tax paid	(3.1)	(22.4)	(13.5)	(15.9)	(19.0)
Net change in working capital	12.2	(73.6)	(22.2)	(48.6)	(61.4)
CFO	163.6	75.1	162.8	167.4	192.5
Cashflow from investing (CFI)					
Purchase of plant and equipment (CAPEX)	(69.2)	(93.5)	(112.1)	(89.7)	(89.7)
Proceeds from disposal of PPE	-	0.0	-	-	-
Investment in associated companies	-	(6.7)	-	-	-
CFI	(69.2)	(100.2)	(112.1)	(89.7)	(89.7)
Cashflow from financing (CFF)					
Interest paid	(8.7)	(8.8)	(18.0)	(19.8)	(21.8)
Dividends paid	(11.9)	(34.0)	(34.0)	(35.7)	(41.9)
Net proceeds from issuance of shares	-	-	-	-	-
Changes in borrowings	(53.2)	34.2	-	-	-
Share buyback	(2.0)	-	-	-	-
CFF	(75.9)	(8.6)	(52.0)	(55.6)	(63.7)
Net change in cash and cash equivalents	18.5	(33.7)	(1.3)	22.2	39.1
Cash and cash equivalents b/f	104.5	122.9	89.8	88.5	110.6
Cash and cash equivalents c/f	122.9	89.8	88.5	110.6	149.7

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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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)