

Company Update

Supermax

SUCB MK
RM2.33

BUY (upgrade)

Target Price: RM2.82 (↑)



Price Performance

	1M	3M	12M
Absolute	+7.9%	+14.2%	+13.1%
Rel to KLCI	+11.5%	+17.0%	+8.5%

Stock Data

Issued shares (m)	679.2
Mkt cap (RMm)	1,582.4
Avg daily vol - 6mth (m)	3.08
52-wk range (RM)	1.79 – 2.44
Est free float	53%
NTA per share (RM)	1.23
P/NTA (x)	1.89
Net cash/ (debt) (RMm) (2Q13)	(117.6)
ROE (FY13E)	13%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin' Seri Cheryl Tan	15.2%
EPF	4.9%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	20.7	23.2	26.2
Curr EPS (sen)	20.2	23.5	26.3
Chg (%)	-2.4	+1.3	+0.4
Prev target price (RM)		2.32	
Curr target price (RM)		2.82	

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Capacity and efficiencies to drive earnings growth

A visit to Supermax's newest plant

Yesterday, we visited Supermax's newest production facility namely, Plant 10 and 11 in Meru, Klang. Thanks to the group's continuous investment in R&D, the production lines in these plant is able to generate minimum 30k pieces of gloves/hour vis-à-vis its older lines of only c.24k pcs/hour. Management guided that these 2 plants (equipped with interchangeable lines for both natural rubber (NR) and nitrile) will be completed by 1Q14 and that they have successfully secured orders for 60% of the total production capacity for Plant 10 and 11 from both new and existing customers.

Nitrile gloves is the group's key focus for now

During our plant tour, management guided that the industry's demand for synthetic nitrile gloves remains resilient, typically from its quality demanding customers in US, UK, Canada and Germany. Management highlighted that they have an 'oversold position' of 2 months for its nitrile gloves and 30-45 days for NR gloves. As such, the group is currently fast-tracking the construction of its new production lines to raise its nitrile gloves production capacity to 12.3bn pieces by 1H14, a step up from 6.9bn pieces currently. This will then lead to a significant shift in product mix, from 39% currently to 53%. Despite the potential intense price competition within the nitrile gloves segment, management is committed to achieve a net profit margin of at least 10% going forward, (FY12: 12.2%) brought by: 1) the group's continuous effort in plant automation; and 2) the favorable raw material prices in light of the soft auto sales growth in China and additional latex supplies from countries such as Vietnam and Cambodia.

Earnings revision for FY13-15

We revised down our FY13 net profit forecast growth from +15% yoy to +13% yoy, as we lower our ASP assumption for its NR glove products. We understand that there was weaker demand for the group's latex gloves as customers began to shift their usage to nitrile. Hence, Supermax has trimmed its ASPs to remain competitive. On the other hand, we are tweaking up our FY14-15 EPS slightly by +1.3% and +0.4% to 23.5sen and 26.3sen respectively, as we adjust our capacity assumption (mainly contributed by Plant 10 and 11, producing nitrile gloves) by an additional 3m pieces of gloves to 23bn pieces. Notwithstanding the capacity ramp-up, plant utilization will be sustained at 75-78%.

Upgrade to BUY with higher TP of RM2.82

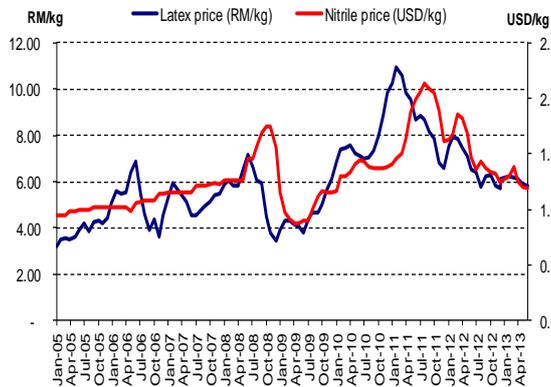
Backed by: 1) resilient demand growth; 2) favorable raw material prices; and 3) Supermax's healthy plant automation to boost operating efficiencies, we remain positive on the group's prospects going forward. We raise our TP for Supermax to RM2.82 (from RM2.32) attaching a higher target PER of 12x vis-à-vis 10x previously in light of the group's improve earnings visibility spurred by its healthy capacity expansion on both nitrile and surgical gloves which typically fetch higher margins as compared to NR gloves. With an upside potential of +21%, we upgrade the stock from ADD to **BUY**. Importantly, we think that Supermax's current valuation at 8.6x FY14 PER is highly attractive, and there is scope for a re-rating closer to the prevailing industry average of 14x. Key risk to our view is a delay in its manufacturing plant expansions, a sudden spike in raw material prices and a stiffer-than-expected price competition environment.

Earnings and valuation summary

FYE Dec	2011	2012	2013E	2014E	2015E
Revenue (RMm)	1,021.4	997.4	1,155.7	1,331.2	1,485.3
EBITDA (RMm)	117.3	147.0	165.8	195.2	221.6
Pretax profit (RMm)	115.5	137.3	160.1	188.1	201.5
Net profit (RMm)	107.6	121.7	137.6	159.8	179.6
EPS (sen)	15.8	17.9	20.2	23.5	26.3
PER (x)	12.8	11.3	10.0	8.6	7.7
Core net profit (RMm)	111.6	121.7	137.6	159.8	179.6
Core EPS (sen)	16.4	17.9	20.2	23.5	26.3
Core EPS chg (%)	-29.8	9.1	13.1	16.1	12.1
Core PER (x)	12.3	11.3	10.0	8.6	7.7
DPS (sen)	3.3	6.0	7.0	8.0	11.0
Dividend Yield (%)	1.6	3.0	3.5	4.0	5.4
EV/EBITDA (x)	13.6	9.2	7.9	6.3	3.8
Consensus profit (RMm)			137.7	155.3	169.5
Affin/Consensus (x)			1.0	1.0	1.1

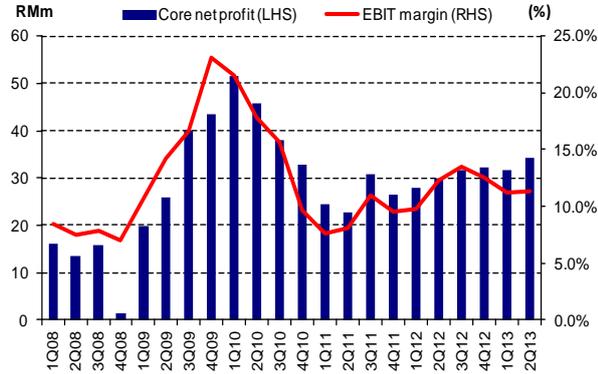
FOCUS CHARTS

Fig 1: Latex prices (LHS) vs Nitrile prices (RHS)



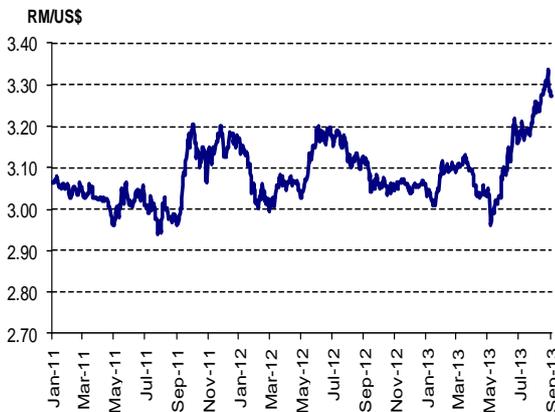
Source: Bloomberg, Affin

Fig 2: Supermax's core net profit (LHS) and EBIT margin (RHS)



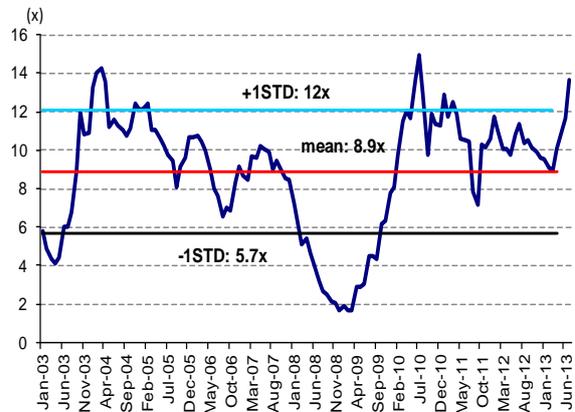
Source: Bloomberg, Affin

Fig 3: RM/US\$ exchange rate



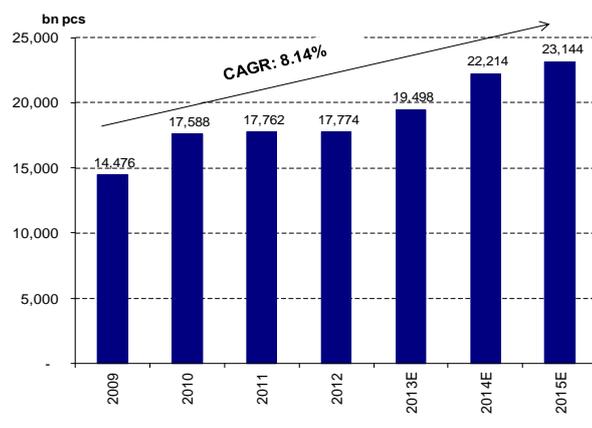
Source: Bloomberg

Fig 4: Supermax's 10 yr average PER



Source: Bloomberg

Fig 5: Supermax capacity expansion



Source: Affin

Fig 6: Supermax's product mix

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Powdered Gloves						
Latex examination	30	30	30	29	29	29
Sterile Gloves	3	3	3	3	3	3
Powdered Free Gloves						
Latex examination	32	32	32	30	30	30
Nitrile	35	35	35	38	38	38
	100	100	100	100	100	100

Source: Company, Affin

Supermax – FINANCIAL SUMMARY

Profit & Loss Statement

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Total revenue	1021.4	997.4	1155.7	1331.2	1485.3
Operating expenses	(904.1)	(850.3)	(989.9)	(1136.0)	(1263.7)
EBITDA	117.3	147.0	165.8	195.2	221.7
Depreciation	(24.0)	(24.3)	(29.4)	(30.6)	(31.8)
Amortisation	0.0	1.0	2.0	3.0	4.0
EBIT	93.2	122.7	136.3	164.5	189.8
Net interest income/(expense)	(12.5)	(8.7)	(8.6)	(6.6)	(5.0)
Associates' contribution	34.8	23.4	32.4	30.2	16.7
Others	0.0	0.0	0.0	0.0	0.0
Pretax profit	115.5	137.3	160.1	188.1	201.5
Tax	(8.1)	(15.9)	(22.4)	(28.2)	(23.4)
Minority interest	0.1	0.3	(0.1)	(0.1)	1.4
Net profit	107.6	121.7	137.6	159.8	179.6

Balance Sheet Statement

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Fixed assets	402.2	442.0	462.6	482.0	532.0
Other long term assets	262.2	262.1	262.0	262.0	262.0
Total non-current assets	664.4	704.1	724.7	744.0	794.0
Cash and equivalents	104.5	352.9	397.6	469.2	554.6
Stocks	223.1	199.4	250.0	285.8	316.4
Debtors	115.6	112.9	130.9	150.7	168.2
Other current assets	90.2	90.2	90.2	90.2	90.2
Total current assets	533.5	755.5	868.6	996.0	1129.4
Creditors	87.3	78.0	97.8	111.8	123.7
Short term borrowings	190.5	190.5	190.5	190.5	190.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Total current liabilities	277.7	268.5	288.2	302.2	314.2
Long term borrowings	140.5	140.5	140.5	140.5	140.5
Other long term liabilities	18.2	18.2	18.2	18.2	18.2
Total long term liabilities	158.7	158.7	158.7	158.7	158.7
Shareholders' Funds	769.0	1040.1	1154.0	1286.6	1428.7

Cash Flow Statement

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
EBIT	93.2	122.7	136.3	164.5	189.8
Depreciation & amortisation	24.1	24.4	29.5	30.7	31.8
Working capital changes	(66.2)	17.2	(48.7)	(41.7)	(37.1)
Cash tax paid	(8.1)	(15.9)	(22.4)	(28.2)	(23.4)
Others	13.4	23.4	32.4	30.2	16.7
Cashflow from operation:	56.4	171.7	127.0	155.5	177.9
Capex	(38.1)	(64.1)	(50.0)	(50.0)	(50.0)
Disposal/(purchases)	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(38.1)	(64.1)	(50.0)	(50.0)	(50.0)
Debt raised/(repaid)	35.3	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.7	170.0	0.0	0.0	0.0
Net interest income/(expense)	(12.5)	(8.7)	(8.6)	(6.6)	(5.0)
Dividends paid	(11.1)	(20.4)	(23.8)	(27.2)	(37.5)
Others	(24.6)	0.0	0.0	0.0	0.0
Cash flow from financing	(12.3)	140.9	(32.4)	(33.8)	(42.5)
Free Cash Flow	18.3	107.6	77.0	105.5	127.9

Key Financial Ratios and Margins

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Growth					
Revenue (%)	4.5	(2.3)	15.9	15.2	11.6
EBITDA (%)	(35.4)	25.4	12.7	17.7	13.6
Core net profit (%)	(32.3)	13.2	13.1	16.1	12.4
Profitability					
EBITDA margin (%)	11.5	14.7	14.3	14.7	14.9
PBT margin (%)	11.3	13.8	13.9	14.1	13.6
Net profit margin (%)	10.5	12.2	11.9	12.0	12.1
Effective tax rate (%)	7.0	11.6	14.0	15.0	11.6
ROA (%)	8.9	8.3	8.6	9.1	9.3
Core ROE (%)	15.3	13.5	12.5	13.1	13.2
ROCE (%)	8.9	9.9	9.5	10.6	11.2
Dividend payout ratio (%)	21	34	35	34	42
Liquidity					
Current ratio (x)	1.9	2.8	3.0	3.3	3.6
Op. cash flow (RMm)	56.4	171.7	127.0	155.5	177.9
Free cashflow (RMm)	18.3	107.6	77.0	105.5	127.9
FCF/share (sen)	2.7	15.8	11.3	15.5	18.7
Asset management					
Debtors turnover (days)	37	37	37	37	37
Stock turnover (days)	102	102	102	102	102
Creditors turnover (days)	27	27	27	27	27
Capital structure					
Core ROA (%)	9.3	8.3	8.6	9.1	9.3
ROCE (%)	8.9	9.9	9.5	10.6	11.2

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2Q12	3Q12	4Q12	1Q13	2Q13
Revenue	232.1	245.5	322.3	320.5	330.0
Operating expenses	(203.5)	(212.3)	(281.7)	(284.7)	(292.6)
EBIT	28.6	33.2	40.6	35.8	37.4
Net int income/(expense)	(2.7)	(2.7)	(2.0)	(2.2)	(2.2)
Associates' contribution	7.3	3.3	3.8	3.1	4.6
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	33.3	33.8	42.3	36.8	39.8
Tax	(3.3)	(2.2)	(10.5)	(4.7)	(4.9)
Minority interest	(0.0)	0.0	0.3	(0.3)	(0.6)
Net profit	30.0	31.6	32.1	31.8	34.3
Core net profit	30.0	31.6	32.1	31.8	34.3
Margins (%)					
EBIT	12.3	13.5	12.6	11.2	11.3
PBT	14.3	13.8	13.1	11.5	12.1
Net profit	12.9	12.9	10.0	9.9	10.4

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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