



Supermax Corporation Berhad

Margin Improve on Cost Mitigating Measures

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TP: RM3.50 (+31.1%)

Last traded: RM2.67

BUY

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Review

- Supermax reported 9M FY13 net profit of RM103.7mn, which came in within ours' and consensus estimates at 73.5% and 74.7%. The group also declared a first interim single-tier dividend of 4.0%,
- YTD, net profit increased by 15.7% YoY from RM89.6mn. Revenue increased by 28.8% YoY to RM935.1mn on the back of capacity added from new and refurbished lines. However, PBT margin contracted by 1.0%-point to 12.5% due to implementation of the minimum wage policy in the beginning of the year.
- Sequentially, net profit expanded 0.9% QoQ to RM35.8mn. Despite the increase, revenue declined 13.8% QoQ to RM284.6mn. The decrease was attributed to lower ASPs as raw material prices (-7.6%-11.2% QoQ) declined. Additionally, lines were shut down as part of the group's automation program to ensure higher productivity going forward. Meanwhile, reflecting cost mitigating measures, PBT margins improved 2.2%-points to 14.2%.

Impact

- No change to our earnings estimates.

Outlook

- On the expansion side, Plant #10 and #11 is expected to be commissioned in batches beginning from 1Q FY14. These two plants will more than double nitrile capacity to 12.3bn pieces/annum. Once completed, efforts will then be placed on the Glove City Project with construction of the first plant targeted to commence in 3Q FY14. Elsewhere, the recent purchase of a land in Serendah will be used to house the Supermax Business Park. To be developed in two phases (2014-2018 and 2019-2022), this project will have a production capacity of 15.5bn pieces/annum.
- Despite global uncertainties, demand for gloves remains resilient in the Eurozone and US. However, management observes that demand growth has been significantly stronger in emerging markets. This includes regions such as the Middle East, Africa and Asia. With expectations of additional capacity coming on board, we anticipate increased marketing efforts within these regions. However, this might result in lower margins due to the relative price sensitivity of consumers in these areas,

Valuation

- We maintain our TP at RM3.50/share. This is based on our industry targeted PE multiple of 14x against FY14 EPS of 25.1 sen. Maintain BUY on Supermax with total potential upside of 33.9%. Key buying/selling points include: 1) Second largest glove manufacturer under our coverage; 2) Strong OBM presence which makes up 69.0% of sales mix; 3) Diverse customer base and 4) Inability to start Glove City project due to a lack of natural gas supply.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	679.2
Market Cap (RMmn)	1813.3
Par Value	0.50
52-wk Hi/Lo (RM)	2.85/1.79
12-mth Avg Daily Vol ('000 shrs)	2591.2
Estimated Free Float (%)	53.1
Beta	0.9

Major Shareholders (%)

Dato' Seri Stanley Thai - 35.6

Forecast Revision

	FY13	FY14
Forecast Revision (%)	-	
Net profit (RMm)	140.3	170.9
Consensus	138.8	156.2
TA's / Consensus (%)	101.1	109.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY13	FY14
Net gearing (x)	0.1	0.1
CFPS (RM)	0.3	0.3
P/CFPS (x)	8.9	10.3
ROAA (%)	10.8	11.9
ROAE (%)	15.9	17.2
NTA/Share (RM)	1.3	1.5
Price/ NTA (x)	2.0	1.8

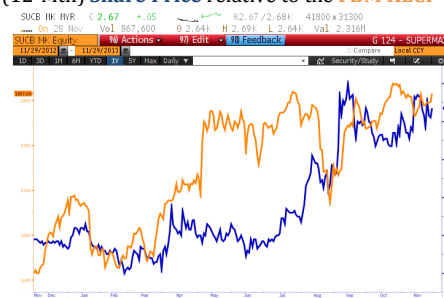
Scorecard

	% of FY	
vs TA	73.5	Within
vs Consensus	74.7	Within

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	1.1	0.0
3 mth	13.1	4.6
6 mth	29.6	2.2
12 mth	34.8	12.2

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Table 1: Earnings Summary

FYE Dec 31	2011	2012	2013f	2014f	2015f
Revenue	1,021.4	997.4	1,282.2	1,545.8	1,520.4
Other income	41.0	31.9	16.4	17.2	18.0
Total Cost	(937.7)	(883.2)	(1,123.7)	(1,352.0)	(1,319.8)
Finance Cost	(12.5)	(8.7)	(13.0)	(13.8)	(13.1)
PBT	112.1	137.3	161.8	197.2	205.6
Taxation	(8.1)	(15.9)	(21.6)	(26.3)	(27.4)
Net profit	104.1	121.4	140.3	170.9	178.2
EPS (sen)	30.6	17.9	20.6	25.1	26.2
EPS Growth (%)	(34.5)	(41.7)	15.5	21.9	4.2
Dividend (sen)	8.0	1.7	6.2	7.5	7.9
Div Yield (%)	2.4	1.9	2.3	2.8	2.9
PER (x)	8.7	14.9	12.9	10.6	10.2

Table 2: 3Q FY13 Results Analysis (RMmn)

FYE Dec	3Q FY12	2Q FY13	3Q FY13	QoQ	YoY	YTD FY12	YTD FY13	YoY
Revenue	245.5	330.0	284.6	-13.8	15.9	726.1	935.1	28.8
Operating expenses	-212.3	-292.6	-245.8	-16.0	15.7	-640.0	-823.1	28.6
Finance costs	-2.7	-2.2	-2.1	-4.1	-21.5	-7.9	-6.5	-18.4
Associates Profit	3.3	4.6	3.8	-16.1	15.0	19.6	11.5	-41.2
PBT	33.8	39.8	40.5	1.8	19.8	97.8	117.1	19.7
Taxation	-2.2	-4.9	-4.1	-17.3	82.3	-8.2	-13.7	66.7
PAT(-MI)	31.6	35.5	35.8	0.9	13.3	89.6	103.7	15.7
EPS	4.7	5.1	5.4	4.5	15.3	13.2	15.2	15.3
PBT Margin (%)	13.8	12.1	14.2	2.2	0.5	13.5	12.5	-1.0
PAT Margin (%)	12.9	10.8	12.6	1.8	-0.3	12.3	11.1	-1.2

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