

29 November 2013

Supermax Corporation

Solid Performance, Raised TP

- Period**
- 3Q13/9M13
- Actual vs. Expectations**
- The 9MY13 net profit of RM104m (+16% yoy) came in within expectations, accounting for 73% and 75% of our and the consensus full-year net profit forecasts respectively.
- Dividends**
- A first interim single-tier dividend of 2 sen was declared.
- Key Results Highlights**
- QoQ**, revenue fell by 14% to RM284m; hit by both lower volume sales and average selling price (ASP) of nitrile gloves. As a result of speeding up its production automation processes, some lines were shut down, leading to lower output, but we believe this will be temporary. The lower ASPs were due to lower input raw material prices. However, PBT grew at a higher rate than turnover. PBT rose 2% to RM40.5m thanks to margin expansion emanating from lower input raw material prices as well as better production efficiencies. As a result, PBT margin rose 2.1ppts to 14.2% from 12.1% in 2Q13. This brings 3Q13 net profit to RM35.8m (+0.5% QoQ). Interestingly, this quarter marks the second consecutive quarter of margins improvement.
 - YoY**, the 9M13's revenue rose 29% to RM935m on the back of new capacity from the new and refurbished lines from Lot 6070. Similarly, 9M13 net profit rose 16% to RM104m.
- Outlook**
- On Lot 6070, the conversion of the old latex-based lines to 12 new nitrile lines with 1.43b pieces capacity is now commercially operational. The other two plants namely Lot 6059 and Lot 6058 are on track to commission commercial productions gradually, starting from 4Q13 instead of 3Q13. Lot 6059 and 6058 will have 24 and 16 production lines producing 3.2b and 2.2b pieces of nitrile gloves, respectively. This will bring its total nitrile production capacity from 6.9b to 12.3b pieces p.a. or 52% of the total installed capacity.
- Change to Forecasts**
- No change to our estimates.
- Rating and Valuation**
- Since our upgrade report in Feb 2013, the stock has risen by 35%. We continue to like the stock for its steep 33% discount to peers as well as being a beneficiary of the weakening ringgit against the US dollar as it does not hedge its US dollar receipts. Since sales are USD denominated, theoretically, a depreciating ringgit against the dollar will lead to higher ringgit revenue receipts.
 - We are raising our target price (TP) from RM2.82 to RM3.06 from 12x PER to 13x FY14 EPS (The targeted PER is at the +1.0SD level above the 5-year historical average). Supermax is trading at 11.4x FY14 earnings while Kossan is trading at 14.7x FY14 earnings. We believe the valuation gap should narrow when we consider that Supermax's capacity and net profit are at levels similar to Kossan Rubber. **Reiterate Outperform.**
- Risks to Our Call**
- Slower-than-expected commissioning of new plants.

OUTPERFORM ↔

Price: RM2.67
Target Price: RM3.06 ↑

Share Price Performance



KLCI	1,807.60
YTD KLCI chg	7.0%
YTD stock price chg	38.3%

Stock Information

Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,813.3
Issued shares	679.2
52-week range (H)	2.85
52-week range (L)	1.79
3-mth avg daily vol:	3,278,625
Free Float	59%
Beta	0.9

Major Shareholders

KIM SIM THAI	20.5%
BEE GEOK TAN	15.2%
EPF	5.0%

Summary Earnings Table

FY Dec (RM'm)	2012A	2013E	2014E
Turnover	1048.2	1200.1	1340.2
EBIT	126.7	152.4	171.2
PBT	140.2	165.2	184.1
Net Profit (NP)	121.8	143.2	159.6
Consensus (NP)	-	138.3	156.2
Earnings Revision	-	-	-
EPS (sen)	17.9	21.1	23.5
EPS growth (%)	17.0	17.6	11.4
NDPS (sen)	5.0	6.3	7.0
BVPS (RM)	1.29	1.43	1.60
PER (X)	12.7	11.4	10.2
PBV (X)	1.9	1.7	1.5
Net Gearing (%)	18.3	11.3	6.3
Dividend Yield (%)	2.4	2.6	2.9

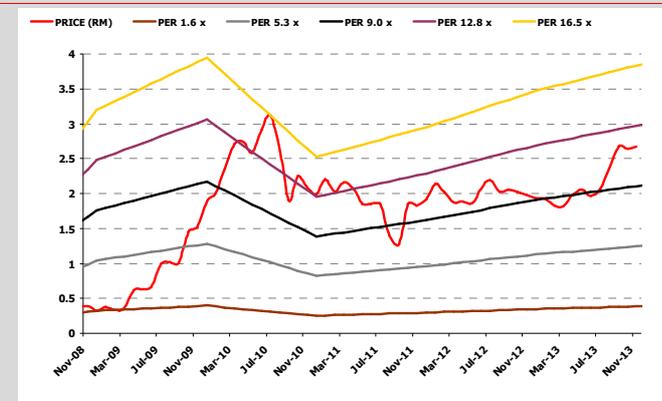
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Result Highlight

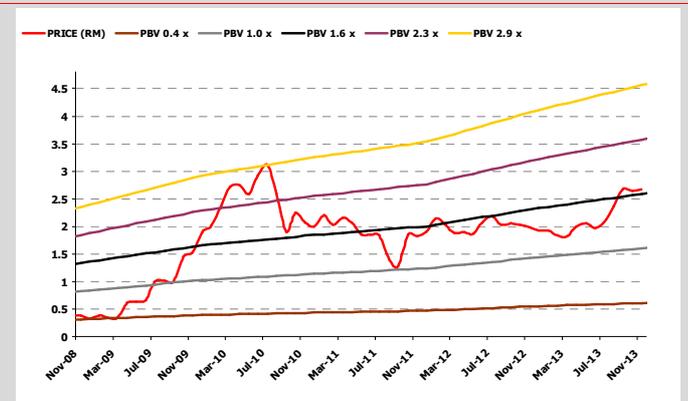
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Dec (RM 'm)	FY13	FY13	Chg	FY12	Chg	FY12	FY13	Chg
Turnover	284.6	330.0	(13.8)	245.5	15.9	726.1	935.1	28.8
EBITDA	49.2	48.5	1.5	42.8	15.0	123.6	143.1	15.8
EBIT	38.8	37.4	3.7	33.2	16.8	86.2	112.0	30.0
PBT	40.5	39.8	1.8	33.8	19.9	97.8	117.1	19.7
Net Profit (NP)	35.8	35.5	0.9	31.6	13.3	89.6	103.7	15.7
EPS (sen)	5.4	5.1	4.5	4.7	15.3	13.2	15.2	15.3
EBITDA margin (%)	17.3	14.7		17.4		17.0	15.3	
EBIT margin (%)	13.6	11.3		13.5		11.9	12.0	
PBT margin (%)	14.2	12.1		13.8		13.5	12.5	
Effective tax rate (%)	10.1	12.4		6.6		8.4	11.7	

Source: Company, Kenanga Research, Bursa Malaysia

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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