



Supermax Corporation Berhad

Raw Material Prices Remain Weak

TP: RM2.90 (+27.8%)

Last traded: RM2.27

BUY

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TA Research Team Coverage

+603-2072-1277 ext: 1612

paulyp@ta.com.my

www.taonline.com.my

Review

- Supermax reported 1H FY13 net profit of RM67.9mn, representing 52.4% and 49.6% of ours' and consensus estimates of RM129.5mn and RM136.8mn respectively. EPS improved 16.5% YoY to 9.9 sen from 8.5 sen a year ago.
- Year to date, net profit increased 17.1% YoY attributing to a 35.4% YoY jump in revenue to RM650.5mn. This was on the back of capacity added from new and refurbished lines. Holding back revenue, average selling prices (ASPs) for latex and nitrile gloves fell in comparison to the previous year. Compared to 2Q FY12, ASPs for powdered latex gloves and powder-free latex gloves fell to USD20.95-29.95/1,000pcs (-14.5% YoY) and USD26.95-33.95/1,000pcs (-12.9% YoY). Nitrile gloves remain the cheaper alternative with ASPs of between USD23.25-33.95/1,000pcs (-2.1% YoY). That said, we believe the fall in ASPs were largely attributed to decreasing material prices rather than competition.
- In line with increasing revenue, operating expenses increased 35.0% YoY to RM577.3mn. Part of the increase was attributed to the implementation of the minimum wage policy in the beginning of the year. In terms of material prices, natural rubber latex declined by 18.1% YoY to USD1,862/mtw (RM5,717/mtw). Similarly, albeit at a faster pace, synthetic latex prices declined 21.3% YoY to USD1,217/mtw (RM3,736/mtw). Prices of both natural rubber latex and synthetic latex are expected to remain soft due to current oversupply.
- Sequentially, net profit increased by 11.6% QoQ to RM35.5mn. Revenue widened by 3.0% QoQ to RM330.0mn along with higher operating expenses at RM292.6mn (+2.8% QoQ). During the quarter, ASPs for powdered latex gloves (-11.4% QoQ), powder-free latex gloves (-12.4% QoQ) and nitrile gloves (-4.7% QoQ) trended down. In tandem with ASPs, material prices for natural rubber latex and synthetic latex declined by 6.6% QoQ and 5.7% QoQ respectively. Judging from the relative change in ASPs to material price, we deduce that demand for nitrile gloves continue to outpace natural latex gloves. Elsewhere, despite the short-lived strengthening of the ringgit post election, Supermax's average USD/MYR rate remained stable at RM3.07 vs. RM3.08 in 1Q FY13.

Impact

- Factoring in better than expected demand and margins, we increase our FY13/FY14/FY15 utilisation rate to 86.0%/84.0%/82.0% respectively (Previously: 85.0%/82.5%/80.0%). We also increase our USD/MYR rate assumption to 3.15 for FY13 and FY14 from 3.10. As a result, we raise our FY13/FY14/FY15 earnings estimates to RM140.3mn/RM176.7mn/RM183.6mn from RM129.5mn/RM164.9mn/ RM170.8mn.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	679.2
Market Cap (RMmn)	1541.7
Par Value	0.50
52-wk Hi/Lo (RM)	2.44/1.79
12-mth Avg Daily Vol ('000 shrs)	2100.1
Estimated Free Float (%)	53.1
Beta	1.2

Major Shareholders (%)

Dato' Seri Stanley Thai - 35.6

Forecast Revision

	FY13	FY14
Forecast Revision (%)	8.3	7.2
Net profit (RMm)	140.3	176.7
Consensus	136.8	154.4
TA's / Consensus (%)	102.6	114.5
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY13	FY14
Net gearing (x)	0.1	0.0
CFPS (RM)	0.3	0.3
P/CFPS (x)	7.5	8.8
ROAA (%)	10.8	12.5
ROAE (%)	15.9	17.8
NTA/Share (RM)	1.3	1.5
Price/ NTA (x)	1.7	1.5

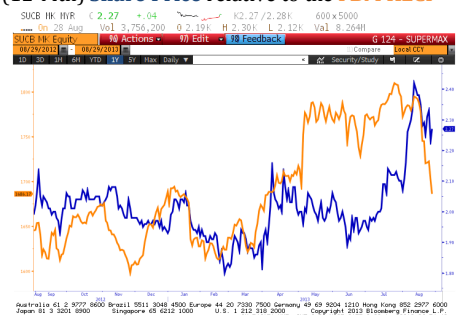
Scorecard

	% of FY	
vs TA	52.4	Within
vs Consensus	49.6	Within

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	9.7	(4.9)
3 mth	10.2	(4.7)
6 mth	24.0	3.0
12 mth	12.4	2.4

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



Source: Bloomberg

Outlook

- Demand for both natural rubber and nitrile gloves are expected to be strong. Management has pinpointed growth in regions such as the Middle East, Africa and Asia particularly China and India. Although undesirable, short term demand may be boosted by potential pandemics such as the H7N9 and MERS virus. Also, Supermax stands to gain from the weakening RM through higher export sales proceeds, thus translating to potentially higher income.
- Lot #6058 and #6059 have been delayed due to contractor issues. Initially scheduled to begin commissioning between June and September, the new-targeted timeline is now towards the end of the year. Assuming no further hiccups, the factories will be fully commissioned by the first quarter of 2014. To recap, Lot #6058 will have 16 lines producing 2.15bn pieces of gloves/year and Lot #6059 with 24 lines manufacturing 3.22bn pieces of gloves/year. Future expansion plans will likely be derived from the continuation of the Glove City project once the relevant infrastructures are available.

Valuation

- Based on our higher earnings estimates, we raise our TP to RM2.90/share from RM2.70/share previously. This is based on FY14 EPS of 26.0 sen and a 20% discount to the industry's targeted PE multiple of 14x. This represents a total potential upside of 31.2%. BUY maintained. Key buying/selling points include: 1) Second largest glove manufacturer in the world 2) Strong OBM presence in US dental market 3) Inability to start Glove City project due to lack of natural gas supply.

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)	(1,346.7)	(1,314.9)
Finance Cost	(12.5)	(8.7)	(13.0)	(12.4)	(11.7)
PBT	112.1	137.3	161.8	203.9	211.8
Taxation	(8.1)	(15.9)	(21.6)	(27.2)	(28.3)
Net profit	104.1	121.4	140.3	176.7	183.6
EPS (sen)	30.6	17.9	20.6	26.0	27.0
EPS Growth (%)	(34.5)	(41.7)	15.5	26.0	3.9
DPS (sen)	8.0	1.7	6.2	7.8	8.1
Div Yield (%)	3.9	0.9	3.0	3.8	4.0
PER (x)	6.7	11.4	9.9	7.9	7.6

Table 2: 2QFY13 Results Analysis (RMmn)

FYE Dec	2Q FY12	1Q FY13	2Q FY13	QoQ	YoY	YTD FY12	YTD FY13	YoY
Revenue	232.1	320.5	330.0	3.0	42.2	480.6	650.5	35.4
Operating Expenses	(203.5)	(284.7)	(292.6)	2.8	43.8	(427.6)	(577.3)	35.0
Finance costs	(2.7)	(2.2)	(2.2)	0.3	(17.9)	(5.3)	(4.4)	(16.8)
Share of associates profits	7.3	3.1	4.6	47.5	(37.6)	16.3	7.7	(52.7)
PBT	33.3	36.8	39.8	8.3	19.5	64.0	76.6	19.6
Taxation	(3.3)	(4.7)	(4.9)	5.5	49.8	(6.0)	(9.6)	60.9
PAT (-MI)	30.0	31.8	35.5	11.6	18.3	58.0	67.9	17.1
PBT margin (%)	14.3	11.5	12.1	0.6	(2.3)	13.3	11.8	(1.5)
EPS	4.4	4.7	5.1	8.7	16.3	8.5	9.9	15.5

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD^(14948-M)

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research