

Supermax Corp

SUCB MK / SUPM.KL

FLASH NOTE

➤ **Market Cap**
US\$483.3m
RM1,582m

➤ **Avg Daily Turnover**
US\$1.75m
RM5.59m

➤ **Free Float**
59.4%
612.1 m shares

Current **RM2.33**
Target ➤ **RM3.02**
Prev. Target **RM3.02**
Up/Downside **29.8%**

SHORT TERM (3 MTH) **LONG TERM**

TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	11.2	16.6	8.8
Absolute	7.9	14.2	13.1

Major shareholders	% held
Dato' Seri Thai Kim Sim, Stanley	20.7
Datin Seri Tan Bee Geok, Cheryl	14.8
Koperasi Permodalan Felda	5.2

Awaiting better growth

This morning's plant visit has given us reason to be more confident of Supermax's stronger sales and higher margins when its new nitrile production lines are commissioned. The on-going efforts to build its own distribution arm will also help to ease competitive pressure.

Supermax remains an Outperform, with strong demand and widening margins as catalysts. We maintain our FY13-14 net profit forecasts and increase our FY15 number by 8.4% to factor in the added capacity from its new plant in Glove City. We continue to peg Supermax at 13x CY14 P/E (30% discount to Hartalega's P/E).

What Happened ➤

We were among 22 analysts who visited Supermax's manufacturing plant in Klang this morning. The visit started with a plant tour of its existing manufacturing plant that has been refurbished with new lines. This was followed by a tour of its two new plants which are under construction. These new highly-automated plants are designed for the production of nitrile gloves. During the visit, we were also briefed on the rubber glove manufacturing process, and given insights into the prospects of the group's business.

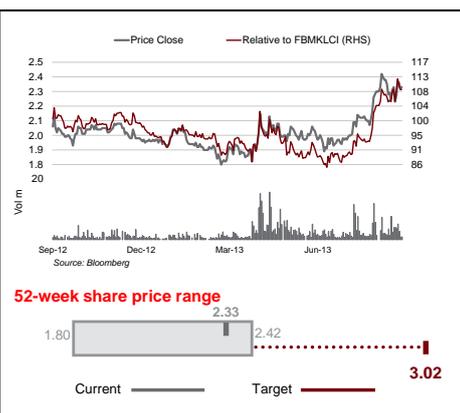
What We Think ➤

While the visit left us with a positive view of the prospects, the new nitrile glove plants with their higher operating efficiency was not a

surprise to us as this had been on-going for a while. The newly-refurbished existing plant started operating since early this year while the new plants have been under construction since a year ago and will be completed within the next two quarters. Aside from higher production capacity which will enable the group to take in more orders, the highly-automated new lines coupled with the increased nitrile glove production should boost Supermax's profit margins. We think 2H's results should be good due to: (i) higher production volume from the refurbished plant, and (ii) higher sales of nitrile gloves that command more lucrative margins. Also, its associate profit should continue to improve as smaller manufacturers in Brazil close down.

What You Should Do ➤

Investors should accumulate Supermax. The company is poised to tap on the strong demand of nitrile gloves. This will happen as soon as its new production capacities from the new plants kick in within the next two quarters. Its valuation is attractive at 9x CY14 P/E.



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (RMm)	1,021	997	1,340	1,400	1,470
Operating EBITDA (RMm)	141.7	138.5	201.9	237.0	245.9
Net Profit (RMm)	84.2	121.7	137.0	161.3	172.4
Core EPS (RM)	0.15	0.20	0.22	0.26	0.28
Core EPS Growth	(54.8%)	33.3%	12.6%	17.7%	6.9%
FD Core P/E (x)	15.61	11.71	10.41	8.84	8.27
DPS (RM)	0.036	0.041	0.050	0.058	0.058
Dividend Yield	1.55%	1.77%	2.14%	2.50%	2.50%
EV/EBITDA (x)	10.02	9.53	5.97	4.64	3.98
P/FCFE (x)	18.77	45.71	8.35	7.54	6.98
Net Gearing	28.5%	10.0%	(1.4%)	(9.5%)	(17.3%)
P/BV (x)	1.85	1.57	1.39	1.24	1.12
Recurring ROE	12.3%	14.5%	14.2%	14.8%	14.3%
% Change In Core EPS Estimates			0.00%	0.00%	8.42%
CIMB/consensus EPS (x)			1.09	1.14	1.11

SOURCE: CIMB, COMPANY REPORTS

Highlights from the visit ▶

We were among 22 analysts and fund managers who attended this morning's briefing cum plant visit in Klang. We visited the refurbished plant and two new plants which are still under construction. The purpose of the visit was to show us the new plants which are equipped with highly automated and more advanced machines. The visit was hosted by group managing director Dato' Seri Stanley Thai Kim Sim. Also present were director of corporate affairs, Denis Low, and group accountant, Andrew Lim. During the visit, we were briefed on the rubber glove manufacturing process and given insights into the prospects of the group's business.

Nine plants now and eleven soon ▶

Currently, Supermax owns 9 manufacturing plants throughout Malaysia. Six of the plants are located in Selangor state, two in Perak and one in Melaka. We visited three plants during this morning's visit – one of them is a refurbished plant and the other two plants are totally new and under construction.

More nitrile capacity coming on stream ▶

The refurbished plant, originally built in 1998, resumed operations early this year and is capable of producing 1.43bn gloves as compared to 1.12bn before the refurbishment. All capacities are catered for the production of nitrile gloves and not powdered natural rubber gloves like before.

The other two new plants have a total production capacity of 5.3bn pieces and are also catered for the production of nitrile gloves. Once these two plants are completed, Supermax will have the capability of producing up to 12.3bn pieces of nitrile gloves/annum (from 6.9bn pieces/annum currently), increasing its nitrile production capacity to 53% from 39% currently. When the new lines are fully commissioned and have all started start operating, the new plants will generate a total turnover of US\$134.25m (RM439m) per annum.

More advanced machines improve efficiency ▶

All new plants are equipped with highly automated machines and interchangeable to produce nitrile and natural rubber gloves. With the more advanced technology, the company can switch between the production of nitrile and natural rubber gloves, and even for non-powder-free rubber gloves (previously switching was only possible for powder-free lines). Also, downtime during the switch between products is shortened by 1-2 weeks.

While the refurbished plant is now highly automated, it is not fully automated yet as the company is still fine-tuning its last mile of automation; the packaging machine is currently working at the same packing rate as labour. Management is hopeful that the fine-tuning process will be completed by year end and could be used in its new plants, making them fully-automated. With full automation, Supermax could save about 40-50% of labour costs or RM20m-25m per year.

No issue in filling up new capacity ▶

The company has not secured orders to fill up its incoming capacity as customers only book in orders 2-3 months in advance. But management is not concerned about filling up the extra capacity as the orders that the company is receiving currently already exceed its capacity. The company is planning to fill up the new capacity with the order overflow.

Aggressively growing its own distribution arm ▶

Furthermore, rather than relying on third-party distributors, the company is aggressively building its own distribution network via online, joint investment with large rubber glove distributors etc, to distribute its own in-house brands. Canada, Brazil, UK and USA particularly are the main focus areas for the group. It is also setting up offices in strategic locations in emerging markets. In USA, Supermax has set up a national distribution headquarters which enables it to carry additional product lines to cater for different markets.

More new capacity at Glove City ▶

After the completion of the two new plants in Klang, Supermax will focus on the expansion in Glove City where it has acquired a 36 acre land. The original plan was to build six large plants with a total production capacity of 8.2bn pieces in Glove City but due to the shortage of gas supply, the plan has been put on hold. The company is now proceeding to build phase 1 which could house the production of up to 4.1bn pieces of gloves. While the gas shortage concerns still linger, the company has the alternative of using biomass (cheaper than gas but supply not consistent) as fuel. Phase 1 is targeted to be fully commissioned by FY14.

Valuation & recommendation ▶

With the incoming new capacities and strong demand for nitrile gloves, Supermax is poised to register strong growth. We like Supermax for its fast response to the strong demand for nitrile glove (ramping up nitrile production capacity within a short period from 39% currently to 52% by 1QFY14). We also like its efforts in building its own distribution arm rather than fully relying on third parties. While the new plants will start operating in 1QFY14 and the full commissioning of the new plants will generate revenue of ~RM439m, we do not expect this to be fully recognised in FY14 as the company will commission the new lines progressively. Hence, we maintain our FY13-14 net profit forecasts but increase our FY15 number by 8.4% as we factor in the added capacity from its new plant in Glove City. We continue to peg our target price at 13x CY14 P/E, (30% discount to Hartalega's target P/E). Despite its fast growth, the stock is trading at an attractive valuation of 9x CY14 P/E, supporting our unchanged Outperform rating.

Figure 1: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY13	CY14		CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Hartalega Holdings	HART MK	Neutral	6.66	6.70	1,510	18.9	16.9	11.1%	4.9	3.7	30.4%	25.3%	12.0	10.6	2.4%	2.7%
Kossan Rubber Industries	KRI MK	Outperform	6.39	7.94	622	14.9	12.0	17.9%	2.9	2.4	21.5%	21.6%	7.5	6.0	1.3%	1.7%
Supermax Corp	SUCB MK	Outperform	2.33	3.02	483	10.4	8.8	10.1%	1.4	1.2	14.6%	14.8%	5.8	4.6	2.1%	2.5%
Top Glove Corporation	TOPG MK	Neutral	6.20	6.55	1,174	18.1	16.2	na	2.6	2.4	15.0%	15.2%	9.5	8.2	3.7%	4.1%
Malaysia average						16.4	14.3	13.0%	2.9	2.5	19.4%	18.7%	9.2	7.9	2.6%	2.9%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Description:		Excellent	Very Good	Good	N/A

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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 31 July 2013		
1189 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	51.8%	7.5%
Neutral	33.5%	4.6%
Underperform/Sell/Trading Sell	14.8%	5.6%

Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, ADVANC - Excellent, AEONTS – Good, AMATA - Very Good, ANAN – not available, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCH – not available, BCP - Excellent, BEC - Very Good, BGH - not available, BJC – Very Good, BH - Very Good, BIGC - Very Good, BTS - Excellent, CCET - Good, CENTEL – Very Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, EGCO – Excellent, ERW – Excellent, GLOBAL - Good, GLOW - Very Good, GRAMMY – Excellent, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, INTUCH – Very Good, ITD – Very Good, IVL - Very Good, JAS – Very Good, KAMART – not available, KBANK - Excellent, KK – Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Good, MAKRO – Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - Excellent, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, RS – Excellent, SAMART – Excellent, SC – Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Good, SPALI - Very Good, SRICHA – not available, SSI – not available, STA - Good, STEC - Very Good, TCAP - Very Good, THAI - Excellent, THCOM – Very Good, TICON – Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TTW – Very Good, TUF - Very Good, VGI – not available, WORK – Good.