

28 November 2012

Buy

Price
RM2.01

Target price
RM2.40

Equity | Malaysia | Health Care Equip & Serv

Flashnote

Supermax

Lower associates

Supermax's 3Q12 earnings was up just 2% yoy and 5% qoq due to lower associates' contributions. Overall, earnings constituted 72% of our forecast and 69% of Bloomberg consensus' forecast. We like the stock as a cheaper proxy to the gloves sector, at 9.8x FY13 PE and 1.4x PB supported by 15% ROE. Buy.

- On a yoy basis, 3Q12 revenue was down 10% as a result of lower average selling prices by 11-22% in line with lower raw material costs. Operating profit increased by 11% yoy while net profit only improved by 2%. This is due to lower associates' contribution declining by 63% yoy, which management attributed to foreign currency depreciation and a competitive market as new players attempted to gain market share.
- Operating margin improved to 13.5% in 3Q12 as compared to 12.3% in 2Q12 and 11% in 3Q11. Recall that average latex prices were as high as RM8.63/kg in 3Q11 as compared to about RM5.67/kg levels currently.
- On a qoq basis, revenue was up 6% due to the consolidation of Supermax Healthcare Canada which became a subsidiary and higher revenue from surgical gloves sales. Operating profit improved by 16% qoq while net profit was up only 5% being impacted by lower associates' contributions which declined 54%.
- Cumulatively, 9M12 revenue was lower by 3% while normalized net profit improved 9%. This made up 72% of our forecast and 69% of Bloomberg consensus' forecast. Management remains confident to achieve 20% earnings growth in FY12 which translates to RM125m, in line with our estimates.
- According to management, its expansion of surgical gloves capacity is going well with 5 out of 7 lines commissioned since May 2012. As for nitrile gloves, it plans to increase the production mix to 52% by 4Q13. The construction of Phase 1 of its National Distribution headquarters in USA has seen a ground-breaking ceremony on 13 August 2012 with the East building expected to be operational by May or June 2013.

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Quarterly performance trends

(RMm)	Quarter							Change		Cumulative			KAF	
	FYE Dec	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	% qoq	% yoy	9M11	9M12	% chg	FY12F
Turnover	241.4	237.9	271.4	276.2	248.5	232.1	245.5	6	(10)	750.7	726.1	(3)	996.8	73
Operating profit	18.4	19.1	29.9	27.8	24.4	28.6	33.2	16	11	67.4	86.2	28	128.4	67
Operating margin (%)	7.6%	8.0%	11.0%	10.1%	9.8%	12.3%	13.5%			9.0%	11.9%		12.9%	
Finance costs	(3.3)	(2.2)	(4.8)	(2.9)	(2.6)	(2.7)	(2.7)	0	(44)	(10.2)	(7.9)	(23)	(18.3)	43
Associates	10.5	11.0	9.0	4.4	8.9	7.3	3.3	(54)	(63)	30.5	19.6	(36)	36.6	54
Exceptionals	-	(4.0)	-	-	-	-	-			(4.0)	-			
Pretax profit	25.6	23.9	34.1	29.3	30.7	33.3	33.8	2	(1)	83.6	97.8	17	146.7	67
Pretax margin (%)	10.6%	10.1%	12.6%	10.6%	12.4%	14.3%	13.8%			11.1%	13.5%		14.7%	
Tax	(1.2)	(1.3)	(3.2)	(1.3)	(2.7)	(3.3)	(2.2)	(32)	(30)	(5.7)	(8.2)	44	(22.0)	37
Minority interest	(0.0)	(0.0)	(0.0)	0.1	(0.0)	(0.0)	-	nm	nm	(0.0)	(0.1)	nm		
Net profit	24.4	22.6	30.9	28.2	28.0	30.0	31.6	5	2	77.9	89.6	15	124.7	72
Net profit margin (%)	10.1%	9.5%	11.4%	10.2%	11.3%	12.9%	12.9%			10.4%	12.3%		12.5%	
Normalized net profit	24.4	26.6	30.9	28.2	28.0	30.0	31.6	5	2	81.9	89.6	9	124.7	72
Norm. net margin (%)	10.1%	11.2%	11.4%	10.2%	11.3%	12.9%	12.9%			10.9%	12.3%		12.5%	

Source: Company, KAF

Income statement

FYE Dec (RMm)	2010	2011	2012F	2013F	2014F
Turnover	977.3	1,021.4	996.8	1,003.6	1,058.9
Operating costs	(795.8)	(903.5)	(845.6)	(834.1)	(869.5)
EBITDA	181.5	117.9	151.2	169.5	189.4
Depreciation & amortisation	(26.0)	(24.1)	(24.9)	(26.2)	(27.6)
EBIT	155.5	93.8	126.3	143.3	161.8
Net interest income	(13.6)	(12.5)	(16.2)	(16.9)	(17.8)
Associated companies	42.0	34.8	36.6	38.4	40.3
Pretax profit	183.8	112.1	146.7	164.8	184.3
Taxation	(24.9)	(8.1)	(22.0)	(24.7)	(27.7)
Net profit	159.0	104.1	124.7	140.1	156.7
Normalized net profit	159.0	108.1	124.7	140.1	156.7

Source: Company, KAF

Balance sheet

FYE December (RMm)	2010	2011	2012F	2013F	2014F
Non-current assets					
Property, plant and equipment	393.1	407.3	428.2	452.3	480.1
Associated companies	193.5	228.4	264.9	303.3	343.7
Other investment	4.0	-	-	-	-
Goodwill on consolidation	28.7	28.7	28.7	28.7	28.7
Deferred tax assets	1.0	-	-	-	-
Total non-current assets	620.3	664.4	721.8	784.4	852.4
Current assets					
Inventories	133.1	223.1	217.8	219.3	231.3
Trade receivables	113.6	104.5	102.0	102.7	108.3
Amount owing by associated companies	93.7	90.2	94.7	99.5	104.4
Other receivables and prepaid expenses	7.3	18.7	18.3	18.4	19.4
Cash and cash equivalents	97.4	104.5	162.3	208.3	249.8
Total current assets	445.1	541.1	595.1	648.1	713.3
Total assets	1,065.4	1,205.4	1,316.9	1,432.5	1,565.7
Current liabilities					
Trade payables	38.6	60.0	58.5	58.9	62.2
Other payables and accrued expenses	21.7	27.3	26.6	26.8	28.3
HP payables	1.3	-	-	-	-
Borrowings	153.8	190.5	190.5	190.5	190.5
Tax liabilities	4.3	-	-	-	-
Total current liabilities	219.7	277.7	275.6	276.2	280.9
Financed by:					
Share capital	170.0	170.0	170.0	170.0	170.0
Reserves	521.4	599.1	701.6	804.3	919.0
Shareholders' funds	691.5	769.0	871.6	974.3	1,089.0
Non current liabilities					
HP payables - non-current portion	0.6	-	-	-	-
Borrowings - non-current portion	140.0	140.5	140.5	140.5	140.5
Deferred tax liabilities	13.6	18.2	29.2	41.6	55.4
Total non current liabilities	154.1	158.7	169.7	182.0	195.9
Total liabilities & shareholders' funds	1,065.4	1,205.4	1,316.9	1,432.5	1,565.7

Source: Company, KAF

Cash flow statement

FYE Dec (RMm)	2010	2011	2012F	2013F	2014F
Cashflow from operations (CFO)					
Pretax profit	183.8	112.1	146.7	164.8	184.3
Non-cash items	(2.5)	5.7	4.5	4.7	5.1
Interest received	0.3	0.0	2.1	3.2	4.3
Tax paid	(24.5)	(13.4)	(11.0)	(12.4)	(13.8)
Net change in working capital	(94.9)	(48.0)	1.7	(6.5)	(19.0)
CFO	62.3	56.4	144.0	153.8	160.9
Cashflow from investing (CFI)					
Purchase of plant and equipment (CAPEX)	(46.6)	(38.1)	(45.8)	(50.3)	(55.4)
Proceeds from disposal of PPE	0.6	-	-	-	-
Investment in associated companies	-	-	-	-	-
CFI	(46.1)	(38.1)	(45.8)	(50.3)	(55.4)
Cashflow from financing (CFF)					
Interest paid	(13.9)	(12.5)	(18.3)	(20.1)	(22.1)
Dividends paid	(31.6)	(27.2)	(22.1)	(37.4)	(42.0)
Net proceeds from issuance of shares	5.7	-	-	-	-
Changes in borrowings	2.7	27.5	-	-	-
Share buyback	-	-	-	-	-
CFF	(37.0)	(12.3)	(40.4)	(57.5)	(64.1)
Net change in cash and cash equivalents	(20.8)	6.0	57.9	46.0	41.4
Cash and cash equivalents b/f	118.0	97.4	104.5	162.3	208.3
Cash and cash equivalents c/f	97.4	104.5	162.3	208.3	249.8

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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