

29 November 2013

**Buy**

Price  
RM2.67

Target price  
RM3.00

Bloomberg code  
SUCB MK

Equity | Malaysia | Health Care Equip & Serv

**Flashnote**

# Supermax

## On track

**Supermax's 3Q13 earnings improved 13% yoy due to higher output and lower operating costs but was flattish qoq, as some lines were shut down temporarily to accelerate its automation program. The stock has been a laggard in terms of share price performance ytd and provides a cheaper proxy to the sector, at 11.8x FY13 PE and 1.7x PB supported by 16% ROE. Maintain Buy.**

- On a yoy basis, 3Q13 revenue was up 16% while operating profit rose 17%. Management attributed this to higher output from refurbished and new lines while the better profitability was due to lower raw material costs. Net profit increased by 13% due to lower finance costs and higher associate contributions which are slightly offset by higher tax and minority charges.
- On a qoq basis, revenue declined 14% due to lower output as some production lines were temporarily shut down to accelerate its automation program. Management stated that this was necessary in order to improve productivity going forward. However, operating profit improved by 4% due to lower operating costs while net profit was flattish at 1% due to a decline in associates' contribution.
- There was an improvement in operating margin to 13.6% in 3Q13 from 11.3% in 2Q13 and 13.5% achieved in 3Q12.
- Overall, 9M13 earnings constituted 76% of our full-year forecast. We expect the subsequent quarter to improve further as new production capacity comes on stream, albeit price competition in the nitrile segment would also need to be managed.
- According to management, its two new plants will be commissioned in batches starting from 1Q14 which would add to its nitrile gloves capacity by 6.9bn pieces, bringing total nitrile capacity to 12.3bn pieces p.a. or 53% of total product mix.
- As for its Glove City project, management updated that the project will comprise 6 plants which will be built over 10-12 years with an installed capacity of 4bn pieces per plant. The construction of the first plant will begin from 3Q14.
- Management also gave more clarity on its recent 100-acre land acquisition in Serendah to build an integrated glove manufacturing complex, where 40% will be allocated for supporting industries which will have a GDV of RM350-400m and is targeted to be fully developed within 3 to 5 years. For the remaining 60% of the land, this will be developed in 2 phases costing between RM700-750m with 40 production lines and total capacity of 15.5bn pieces p.a.
- The first phase will be developed from 2014 to 2018 for 28 production lines with capacity of 10.85bn pieces. The second phase will be from 2019-2022 with 12 production lines and capacity of 4.65bn pieces.

**Analyst**

Diana Teo  
+60 3 2168 8092  
diana@kaf.com.my

**Table 1 : Quarterly performance trends**

(RM m)	Quarter							Change		Cumulative			KAF	
	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	% qoq	% yoy	9M12	9M13	% chg	FY13F	9M/F
<b>FYE Dec</b>														
Turnover	248.5	232.1	245.5	322.5	320.5	330.0	284.6	(14)	16	726.1	935.1	29	1,105.6	85
<b>Operating profit</b>	<b>24.4</b>	<b>28.6</b>	<b>33.2</b>	<b>40.6</b>	<b>35.8</b>	<b>37.4</b>	<b>38.8</b>	<b>4</b>	<b>17</b>	<b>86.2</b>	<b>112.0</b>	<b>30</b>	<b>151.4</b>	<b>74</b>
Operating margin (%)	9.8%	12.3%	13.5%	12.6%	11.2%	11.3%	13.6%			11.9%	12.0%		13.7%	
Finance costs	(2.6)	(2.7)	(2.7)	(2.0)	(2.2)	(2.2)	(2.1)	(4)	(22)	(7.9)	(6.5)	(18)	(10.4)	62
Associates	8.9	7.3	3.3	3.8	3.1	4.6	3.8	(16)	15	19.6	11.5	(41)	18.7	62
Exceptionals	-	-	-	-	-	-	-			-	-			
<b>Pretax profit</b>	<b>30.7</b>	<b>33.3</b>	<b>33.8</b>	<b>42.3</b>	<b>36.8</b>	<b>39.8</b>	<b>40.5</b>	<b>2</b>	<b>20</b>	<b>97.8</b>	<b>117.1</b>	<b>20</b>	<b>159.7</b>	<b>73</b>
Pretax margin (%)	12.4%	14.3%	13.8%	13.1%	11.5%	12.1%	14.2%			13.5%	12.5%		14.4%	
Tax	(2.7)	(3.3)	(2.2)	(10.5)	(4.7)	(4.9)	(4.1)	(17)	82	(8.2)	(13.7)	67	(24.0)	57
Minority interest	(0.0)	(0.0)	-	0.3	(0.3)	0.6	(0.6)	nm	nm	(0.1)	(0.3)	nm		
<b>Net profit</b>	<b>28.0</b>	<b>30.0</b>	<b>31.6</b>	<b>32.1</b>	<b>31.8</b>	<b>35.5</b>	<b>35.8</b>	<b>1</b>	<b>13</b>	<b>89.6</b>	<b>103.1</b>	<b>15</b>	<b>135.7</b>	<b>76</b>
Net profit margin (%)	11.3%	12.9%	12.9%	10.0%	9.9%	10.8%	12.6%			12.3%	11.0%		12.3%	

Source: Company, KAF

## Income statement

FYE Dec (RMm)	2011	2012	2013F	2014F	2015F
Turnover	1,021.4	997.4	1,105.6	1,211.4	1,338.4
Operating costs	(903.5)	(850.0)	(929.7)	(1,007.5)	(1,117.7)
<b>EBITDA</b>	<b>117.9</b>	<b>147.3</b>	<b>175.9</b>	<b>203.8</b>	<b>220.7</b>
Depreciation & amortisation	(24.1)	(24.4)	(27.0)	(29.9)	(35.0)
<b>EBIT</b>	<b>93.8</b>	<b>123.0</b>	<b>149.0</b>	<b>174.0</b>	<b>185.7</b>
Net interest income	(12.5)	(8.7)	(8.0)	(8.3)	(8.8)
Associated companies	34.8	23.4	18.7	15.9	17.5
Pretax profit	112.1	137.6	159.7	181.6	194.4
Taxation	(8.1)	(15.9)	(24.0)	(27.2)	(29.2)
<b>Net profit</b>	<b>104.1</b>	<b>121.7</b>	<b>135.7</b>	<b>154.3</b>	<b>165.2</b>

Source: Company, KAF

## Balance sheet

FYE Dec (RM m)	2011	2012F	2013F	2014F	2015F
<b>Non-current assets</b>					
Property, plant and equipment	407.3	451.9	501.0	587.2	645.0
Associated companies	228.4	209.9	228.6	244.5	262.0
Other investment	-	-	-	-	-
Goodwill on consolidation	28.7	28.7	28.7	28.7	28.7
Deferred tax assets	-	-	-	-	-
<b>Total non-current assets</b>	<b>664.4</b>	<b>690.5</b>	<b>758.3</b>	<b>860.4</b>	<b>935.7</b>
<b>Current assets</b>					
Inventories	223.1	233.8	259.2	283.9	313.7
Trade receivables	104.5	100.8	111.8	122.5	135.3
Amount owing by associated companies	90.2	101.1	80.9	68.7	75.6
Other receivables and prepaid expenses	18.7	5.1	5.6	6.2	6.8
Cash and cash equivalents	104.5	122.9	164.9	178.7	201.7
Tax recoverable	-	-	-	-	-
Total current assets	541.1	563.6	622.3	660.0	733.1
<b>Total assets</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,380.6</b>	<b>1,520.3</b>	<b>1,668.8</b>
<b>Current liabilities</b>					
Trade payables	60.0	76.9	85.3	93.4	103.2
Other payables and accrued expenses	27.3	41.0	45.4	49.8	55.0
Amount owing to associated companies	-	-	-	-	-
HP payables	-	-	-	-	-
Borrowings	190.5	162.9	162.9	162.9	162.9
Tax liabilities	-	4.3	4.3	4.3	4.3
Dividend payable	-	-	-	-	-
<b>Total current liabilities</b>	<b>277.7</b>	<b>285.1</b>	<b>297.9</b>	<b>310.4</b>	<b>325.4</b>
Financed by:					
Share capital	170.0	340.1	340.1	340.1	340.1
Reserves	599.1	494.0	595.7	709.3	828.2
Shareholders' funds	769.0	833.8	935.5	1,049.1	1,168.0
<b>Non current liabilities</b>					
Other payables	-	-	-	-	-
HP payables - non-current portion	-	-	-	-	-
Borrowings - non-current portion	140.5	115.2	115.2	115.2	115.2
Deferred tax liabilities	18.2	20.0	32.0	45.6	60.2
Total non current liabilities	158.7	135.2	147.2	160.8	175.3
<b>Total liabilities &amp; shareholders' funds</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,380.6</b>	<b>1,520.3</b>	<b>1,668.8</b>

Source: Company, KAF

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**Cash flow statement**

<b>FYE Dec (RM m)</b>	<b>2011</b>	<b>2012F</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
<b>Cashflow from operations (CFO)</b>					
Pretax profit	112.1	137.6	159.7	181.6	194.4
Non-cash items	5.7	16.9	16.3	22.3	26.3
Interest received	0.0	-	2.4	3.1	3.8
Tax paid	(13.4)	(3.1)	(12.0)	(13.6)	(14.6)
Net change in working capital	(48.1)	12.2	(3.8)	(11.4)	(35.1)
<b>CFO</b>	<b>56.4</b>	<b>163.6</b>	<b>162.5</b>	<b>181.9</b>	<b>174.7</b>
<b>Cashflow from investing (CFI)</b>					
Purchase of plant and equipment (CAPEX)	(38.1)	(69.2)	(76.1)	(116.1)	(92.9)
Proceeds from disposal of PPE	-	-	-	-	-
Investment in associated companies	-	-	-	-	-
<b>CFI</b>	<b>(38.1)</b>	<b>(69.2)</b>	<b>(76.1)</b>	<b>(116.1)</b>	<b>(92.9)</b>
<b>Cashflow from financing (CFF)</b>					
Interest paid	(12.5)	(8.7)	(10.4)	(11.4)	(12.5)
Dividends paid	(27.2)	(11.9)	(34.0)	(40.7)	(46.3)
Net proceeds from issuance of shares	-	-	-	-	-
Changes in borrowings	27.5	(53.2)	-	-	-
Share buyback	-	(2.0)	-	-	-
<b>CFF</b>	<b>(12.3)</b>	<b>(75.9)</b>	<b>(44.4)</b>	<b>(52.1)</b>	<b>(58.8)</b>
Net change in cash and cash equivalents	6.0	18.5	42.1	13.8	23.1
Cash and cash equivalents b/f	97.4	104.5	122.9	164.9	178.7
Cash and cash equivalents c/f	104.5	122.9	164.9	178.7	201.7

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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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Dato' Ahmad Bin Kadis  
Managing Director  
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)