RESULTS UPDATE
Wednesday, August 27, 2014
FBM KLCI: 1,861.82
Sector: Healthcare

Supermax Corporation Berhad

Look Beyond Temporary Earnings Disruptions

TP: RM2.60 *(+16.1%)*
Last traded: RM2.24
BUY

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Review

- Supermax reported 1HFY14 net profit of RM53.4mn (+0.6% QoQ, -21.4% YoY). This was below ours and consensus expectations at 39.1% and 39.4% respectively. The variance was mainly due to a temporary loss in production from its Alor Gajah plant.
- From the previous year, revenue declined 27.7% YoY to RM470.4mn. This was attributed to lower ASPs and a loss of production in its Alor Gajah plant. Material prices for NR and NBR decreased by 20.5% YoY and 13.9% YoY. Similarly, lower ASPs were recorded for powdered latex gloves (-19.5% YoY), powder free latex gloves (-14.9% YoY) and nitrile gloves (-5.2% YoY). Also, there was a temporary loss of production due to a fire at the compounding area of its Alor Gajah plant (Capacity: 200mn gloves/month). This led to a decline in the average utilisation rate to 79.0% (1HFY13: 89.0%). Meanwhile, PBT margins expanded by 1.9%-points to 13.7% on the back of improvements to automation and its cost pass-through mechanism.
- Sequentially, revenue increased by 2.5% QoQ as production lines in Alor Gajah were restored. To recap, the last four lines of the plant were fully re-commissioned in June. However, this was partly offset by resumption in its automation programme and water rationing exercises. Lasting about a month, the Selangor state water rationing exercise affected one of its plants which was located close to a residential area (Capacity: ca. 100mn gloves/month).

Impact

- Adjust our average capacity assumption for FY14/FY15/FY16 downwards by -5.4%/-8.2%/-12.7% to 18.1bn/22.8bn/26.4bn. This is done after accounting delays for its Supermax Business Park project, which is now expected to be constructed in 2015. As a result, we decrease our FY14/FY15/FY16 earnings estimates by -4.9%/-10.9%/-16.1% to RM129.7mn/RM161.3mn/RM184.7mn.

Outlook

- On the expansion side, Plant #10 and #11 is expected to be under full commercial production by the 1QFY15. These two plants will increase nitrile capacity by 5.3bn pieces/annum. Once completed, efforts will then be placed on the Glove City Project (+24.6bn gloves/annum) with construction of the first plant targeted to commence in 1H2015. Elsewhere, the recent purchase of a land in Serendah will be used to house the Supermax Business Park. To be developed in two phases (2015-2019 and 2020-2023), this project will have a production capacity of 15.5bn gloves/annum.

Share Information	
Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	677.2
Market Cap (RMmn)	1516.8
Par Value	0.50
52-wk Hi/Lo (RM)	3.08/2.06
12-mth Avg Daily Vol ('000 shrs)	2520.8
Estimated Free Float (%)	43.4
Beta	0.5
Major Shareholders (%)	
	Dato' Seri Stanley Thai - 35.7
	EPF - 6.1

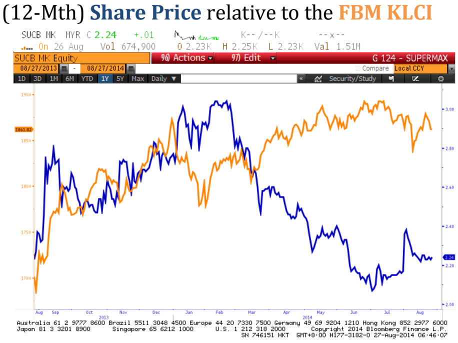
Forecast Revision	FY14	FY15
Forecast Revision (%)	(4.9)	(10.9)
Net profit (RMm)	129.7	161.3
Consensus	135.3	158.3
TA's / Consensus (%)	95.9	101.9
Previous Rating	Buy (Maintained)	

Financial Indicators	FY14	FY15
Net gearing (x)	0.2	0.2
CFPS (RM)	0.2	0.2
P/CFPS (x)	9.5	10.7
ROAA (%)	9.2	10.8
ROAE (%)	13.7	15.4
NTA/Share (RM)	1.4	1.6
Price/ NTA (x)	1.6	1.4

Scorecard	% of FY	
vs TA	39.1	Below
vs Consensus	39.4	Below

Share Performance (%)		
Price Change	**SUCB**	**FBM KLCI**
1 mth	3.2	-0.5
3 mth	-6.7	-0.6
6 mth	-20.3	1.4
12 mth	-5.1	7.8

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



Source: Bloomberg

- Despite global uncertainties, demand for gloves remains resilient in the Eurozone and US. However, management observes that demand growth has been significantly stronger in emerging markets. This includes regions such as the Middle East, Africa and Asia. With expectations of additional capacity coming on board, we anticipate increased marketing efforts within these regions. However, this might result in lower margins due to the relative price sensitivity of consumers in these areas.

Valuation

- We revise our TP downwards to RM2.60/share from RM2.90/share previously. This is based on a PER of 11x against CY15 EPS of 23.7sen. In the second quarter, we expect the group to play catch up with improvements from the full resumption of lines in Alor Gajah and maiden contributions from Plant #10 and#11. We continue to favour the company based on its attractive valuations as compared to its peers. Maintain our BUY recommendation with a potential upside of 18.6%. Key buying/selling points include: 1) Among largest glove manufacturers in the world with annual capacity of 17.8bn gloves/annum; 2) Strong OBM presence which makes up 69.0% of sales mix; 3) Diverse customer base and 4) Continued delay to expansion plans.

Table 1: Earnings Summary (RMmn)

FYE Dec 31		FY12	FY13	FY14F	FY15F	FY16F
Revenue		997.4	1,048.2	1,263.3	1,510.7	1,706.0
Other income		31.9	27.0	17.6	18.5	19.4
Total Cost		(883.2)	(919.3)	(1,106.8)	(1,315.3)	(1,483.5)
Finance Cost		(8.7)	(7.6)	(12.0)	(12.3)	(11.0)
PBT		137.3	148.2	162.2	201.7	230.8
Taxation		(15.9)	(29.2)	(32.4)	(40.3)	(46.2)
Net profit		121.7	119.7	129.7	161.3	184.7
EPS	(sen)	17.9	17.5	19.1	23.7	27.2
EPS Growth	(%)	(41.7)	(2.0)	9.0	24.4	14.5
Dividend	(sen)	5.0	5.0	5.7	7.1	8.1
Div Yield	(%)	2.2	2.2	2.6	3.2	3.6
PER	(x)	12.5	12.7	11.7	9.4	8.2

Table 2: 1HFY14 Results Analysis (RMmn)

FYE Dec 31	2QFY13	1QFY14	2QFY14	QoQ	YoY	YTD FY13	YTD FY14	YoY
Revenue	330.0	232.3	238.1	2.5	(27.8)	650.5	470.4	(27.7)
Operating expenses	(292.6)	(199.4)	(205.3)	3.0	(29.8)	(577.3)	(404.7)	(29.9)
Finance costs	(2.2)	(2.3)	(2.4)	4.8	10.3	(4.4)	(4.7)	7.9
Associates Profit	4.6	1.6	1.9	19.4	(59.2)	7.7	3.4	(55.4)
PBT	39.8	32.1	32.3	0.4	(19.0)	76.6	64.4	(15.9)
Taxation	(4.9)	(5.8)	(5.3)	(8.5)	8.3	(9.6)	(11.2)	16.3
PAT(-MI)	35.5	26.6	26.8	0.6	(24.6)	67.9	53.4	(21.4)
EPS	5.2	3.9	3.9	0.5	(24.7)	10.0	7.8	(21.4)
PBT Margin (%)	12.1	13.8	13.5	(0.3)	1.5	11.8	13.7	1.9
PAT Margin (%)	10.8	11.5	11.2	(0.2)	0.5	10.4	11.3	0.9

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