OSK Investment Banking Wealth Management Trading

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1HFY12 Results Review

Supermax Corp

Profit Spikes as Latex Price Slides

Supermax's 1HFY12 core earnings of RM58m were within expectations, representing 45% and 46% of our and consensus' full-year estimates respectively. Revenue was flat y-o-y but due to better cost efficiency and lower latex prices, the group's core earnings shot up 23% y-o-y. With the earnings largely in line, we are maintaining our forecast and BUY call for now. We also take this opportunity to roll over our valuations to FY13, pegged at an unchanged PE of 13x. This pushes up our FV to RM2.70 from RM2.50 previously. Supermax should continue to see healthy results in the upcoming quarters, boosted by higher production capacity as well as the introduction of new products. Maintain BUY.

Largely in line. Supermax's 1HFY12 results were within consensus and our expectations, with its 1H core earnings making up 45% of our full FY12 forecast. On a YTD basis, revenue was flat, ticking up by only 0.3% to RM481m despite an 18% jump in rubber gloves sold y-o-y. We attribute this to the lower average selling prices. Nonetheless, the group's YTD PBT and core earnings jumped 29% and 23% y-o-y respectively to RM64m and RM58m, thanks to lower raw material costs which fell by 27% during the quarter (mainly latex), as well as improved operating efficiency at its factories across the board. On a q-o-q basis, the group's revenue slipped slightly by 7% owing to lower average selling prices. However, the better operating efficiency as well as prudent cost control led to an improvement in PBT and core earnings, which went up at a healthy 8% and 7% growth pace respectively to RM33m and RM30m.

Margins expand as latex price sinks. We note that the average latex price dropped 4% q-o-q (the average 1QCY12 price was RM7.46/kg vs RM7.16/kg in 2QCY12). This resulted in increases in Supermax's EBITDA, PBT and core earnings margins, which widened by 400bps, 200bps and 165bps q-o-q respectively. Latex prices - currently at RM5.33/kg - have been easing due to tepid demand for rubber as a result of a slowdown in the automotive industry. That said, we believe that the decline in vehicle sales has led to delays in restocking by tyre manufacturers, which has in turn dampened the demand for natural rubber. In the near term, we expect latex prices to remain weak on expectations that demand would remain lacklustre for the rest of the year. As such, glove manufacturers may still enjoy a fair degree of margin expansion as they benefit from the time lag in passing on the lower latex cost to their customers.

BUY

Fair Value	RM2.70
Previous	RM2.50
Price	**RM2.13**

RUBBER GLOVES

Supermax's principal activities are in the manufacture of medical rubber gloves.

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	680.2
Market Cap	1,448.7
52 week H | L Price	2.38 | 1.13
3mth Avg Vol (000)	2,171.0
YTD Returns	11.2
Beta (x)	1.46
Shariah Compliant	YES

Major Shareholders (%)

Tan Sri Stanley Thai	20.44
Tan Bee Geok	15.13
EPF	9.31

Share Performance (%)

Month	Absolute	Relative
1m	1.4	-4.2
3m	35.6	18.0
6m	9.3	-1.5
12m	37.6	17.6

6-month Share Price Performance

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	814.8	977.3	1,026.9	1,135.5	1,286.1
Net Profit	129.8	158.9	106.1	127.6	137.8
% chg y-o-y	176.1	22.5	(33.2)	20.2	8.0
Consensus	-	-	-	126.5	143.2
EPS	19.2	24.0	16.0	19.2	20.8
DPS	11.0	7.5	7.5	8.5	9.5
Dividend yield (%)	5.2	3.5	3.5	4.0	4.5
ROE (%)	26.6	25.1	14.4	15.7	15.2
ROA (%)	13.5	15.2	9.0	9.9	9.5
PER (x)	11.1	8.9	13.3	11.1	10.3
BV/share	0.84	1.06	1.16	1.29	1.44
P/BV (x)	2.8	2.2	2.0	1.8	1.6
EV/EBITDA (x)	9.8	8.8	8.4	11.7	12.0

Results Table (RMm)

FYE Dec	2Q12	1Q12	Q-o-Q chg	1HFY12	1HFY11	Y-o-Y chg	Comments
Turnover	232.1	248.5	-6.6%	480.6	479.3	0.3%	Lower selling prices in 2Q12 vs 1Q11
EBITDA	40.2	32.3	24.5%	72.5	59.6	21.6%	Strong, owing to lower raw material costs
Depreciation	-11.6	-7.9	46.5%	-19.5	-22.0	-11.6%	
Net interest expense	-2.7	-2.6	3.0%	-5.3	-5.5	-4.2%	
Associates	7.3	8.9	-17.7%	16.3	21.5	-24.2%	
PBT before EI	26.0	30.7	-15.5%	56.7	32.1	76.6%	
EI	0.0	0.0	-	0.0	-4.0	-	
PBT	33.3	30.7	8.4%	64.0	49.6	29.2%	Lower raw material cost (latex) and improved operating efficiency
Tax	-3.3	-2.7	22.8%	-6.0	-2.5	139.5%	
MI	0.0	0.0		0.0	0.0		
Reported Net Profit	30.0	28.0	7.1%	58.0	47.1	23.2%	Lower production costs offset the lower sales volume.
Core Net Profit	30.0	28.0	7.1%	58.0	47.0	23.3%	
EPS (sen)	4.4	4.1		8.5	7.1		
DPS (sen)	0.0	0.0		0.0	0.0		
EBITDA margin	17%	13%		15%	12.4%		
NTA/share (RM)	1.8	1.2		1.8	1.72		

Government measures to boost NR prices. Last Friday, StarBiz reported that the International Tripartite Rubber comprising the world's three largest rubber producers Malaysia, Indonesia and Thailand are considering curbing exports by, among others, cutting trees to ease the volatility in latex prices. We believe that the recent downtrend in latex prices – hitting its lowest intraday price of RM5.22/kg last Friday – as well as the high volatility of NR versus nitrile (NBR) prices, were the main few reasons that sparked off the fall in NR companies' share prices vis-à-vis NBR producer Hartalega (NEUTRAL, FV RM4.83). Last Friday, the share prices of the NR glove makers Top Glove (BUY, FV RM6.00) and Supermax (BUY, FV RM2.70) fell 1.1% and 4.5% respectively vs Hartalega's 3.8% gain. We believe that measures to curb exports such as by cutting trees are not feasible since this will ruin the livelihood of rubber tappers. Nonetheless, should the three governments decide to restrict exports to boost latex prices, we do not think this will make a significant impact on glove players, especially their operating margins, as they are able to pass on the costs to their customers. Furthermore, with the increasing automation of Supermax's production lines moving forward and the introduction of new glove products, we are positive that the group's margin will stay at a healthy 10%-15%.

Maintain BUY. Supermax's sales volume may be affected in the event of any economic crisis since about 30% of its rubber gloves are sold to Europe. However, we are of the view that the favourable exchange rate and lower production cost due to lower material cost prices and higher operating efficiencies would more than compensate for the lower sales. With the company's earnings largely in line, we are maintaining our earnings projection for now, as well as increase our FV from RM2.50 to RM2.70 as we roll over our valuations to FY13 based on a PE of 13x.

EARNINGS FORECAST

FYE Dec	FY09	FY10	FY11	FY12f	FY13f
Turnover	814.8	977.3	1,026.9	1,135.5	1,286.1
EBITDA	162.3	181.8	193.5	136.0	142.2
PBT	152.1	183.8	113.0	135.7	146.5
Net Profit	129.8	158.9	106.1	127.6	137.8
EPS	19.2	24.0	16.0	19.2	20.8
DPS	11.0	7.5	7.5	8.5	9.5
Margin					
EBITDA (%)	19.9	18.6	18.8	12.0	11.1
PBT (%)	18.7	18.8	11.0	11.9	11.4
Net Profit (%)	15.9	16.3	10.3	11.2	10.7
ROE (%)	26.6	25.1	14.4	15.7	15.2
ROA (%)	13.5	15.2	9.0	9.9	9.5
Balance Sheet					
Fixed Assets	569.5	614.8	662.6	778.1	756.8
Current Assets	364.6	546.6	522.8	615.3	751.8
Total Assets	934.1	1,161.5	1,185.3	1,393.4	1,508.6
Current Liabilities	202.2	289.5	244.9	366.0	383.5
Net Current Assets	162.4	257.1	277.9	249.4	368.2
LT Liabilities	173.9	165.9	169.9	169.9	169.9
Shareholders Funds	558.0	706.1	770.6	857.6	955.1
Net Gearing (%)	31.5	27.0	28.5	21.2	31.1

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months	
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain	
Neutral: Share price may fall within the range of +/- 10% over the next 12 months	
Take Profit: Target price has been attained. Look to accumulate at lower levels	
Sell: Share price may fall by more than 10% over the next 12 months	
Not Rated (NR): Stock is not within regular research coverage	

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