

Company Update

Supermax

SUCB MK
RM2.69

BUY (maintain)

Target Price: RM3.60 (↑)



Price Performance

	1M	3M	12M
Absolute	+3.1%	+15.5%	+35.9%
Rel to KLCI	+2.3%	+9.1%	+19.7%

Stock Data

Issued shares (m)	679.2
Mkt cap (RMm)	1,829.6
Avg daily vol - 6mth (m)	2.95
52-wk range (RM)	1.79 – 2.85
Est free float	53%
NTA per share (RM)	1.33
P/NTA (x)	2.02
Net cash/ (debt) (RMm) (3Q13)	(119.0)
ROE (FY13E)	13%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin'Seri Cheryl Tan	15.2%
EPF	4.9%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	19.8	22.9	25.7
Curr EPS (sen)	19.8	24.1	26.4
Chg (%)	-	+4.7	+2.7
Prev target price (RM)			2.82
Curr target price (RM)			3.60

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A cheaper proxy

Demand is still strong

Yesterday, we attended Supermax's (SUCB) 9MFY13 analysts briefing, hosted by MD Dato Seri' Stanley Thai. SUCB's 9MFY13 core net profit growth of +13.7% was driven by strong volume sales growth. We gathered from the Malaysia Rubber Glove Exports Council (MREPC) that the global demand and consumption (barring any viral outbreak) will continue to grow by around 8% to 12% annually. The assessment as realistic judging from recent historical demand trend, spurred by rising healthcare reforms globally.

Nitrile gloves is the group's key focus for now

Management guided that the industry demand for synthetic nitrile gloves remains resilient, particularly from its quality demanding customers in US, UK, Canada and Germany. Riding on the strong demand, the group is currently fast-tracking the construction of new production lines to raise its nitrile gloves production capacity to 12.3bn pieces by 1H14, doubling from 6.9bn pieces currently. This will lead to a significant shift in product mix, from 39% currently to 53%. Despite the rising price competition within the nitrile gloves segment, management is confident to achieve a net profit margin of at least 10% going forward, (FY12: 12.2%) brought by: 1) the group's continuous effort in plant automation; and 2) favourable raw material prices in light of the additional latex supply from Vietnam and Cambodia. Management have allocated around RM66m of CAPEX for plant automations as well as refurbishment activities on older lines.

Green light for glove city

We are upgrading our FY14-15 EPS forecast by +4.7% and +2.7% to 24.1 sen and 27 sen respectively, as we lift our capacity assumption for Plant 10 (Lot 6058) and 11 (Lot 6059). This two plants will produce an additional 4bn pieces of gloves bringing total production to 23bn pieces in FY14. We also incorporate a further capacity of 4bn pieces of gloves from Glove City in FY15. Recalled that SUCB had deferred the construction of the Glove City project for two years pending the ironing out of gas and water supply. This issue has now been resolved and construction work will start soon. It is expected that the 1st Phase of Glove City (equipped with 30 lines) will be commissioned by 1HFY15.

Maintain BUY, with TP upgraded to RM3.60

Backed by: 1) resilient demand growth; 2) favourable raw material costs; and 3) increasing plant automation to boost operating efficiencies, we remain positive on the group's prospects. In tandem with our earnings upgrade, we raise our TP for SUCB to **RM3.60** (from RM2.82) by pegging a higher target PER of 15x (on par with Kossan) from 12x previously in light of the group's improved earnings visibility. Besides, we are also positive on the resolution of gas supply for Glove City. Importantly, we think that SUCB's current valuation at 11x FY14 PER is highly attractive, and there is scope for further re-rating closer to the prevailing industry average of 15x. Maintain **BUY**.

Earnings and valuation summary

FYE Dec	2011	2012	2013E	2014E	2015E
Revenue (RMm)	1,021.4	997.4	1,155.7	1,370.8	1,522.9
EBITDA (RMm)	117.3	147.0	165.0	209.6	242.1
Pretax profit (RMm)	115.5	137.3	156.4	190.3	209.6
Net profit (RMm)	107.6	121.7	134.4	163.6	180.1
EPS (sen)	15.8	17.9	19.8	24.1	26.4
PER (x)	17.0	15.0	13.6	11.2	10.2
Core net profit (RMm)	111.6	121.7	134.4	163.6	180.1
Core EPS (sen)	16.4	17.9	19.8	24.1	26.4
Core EPS chg (%)	-29.8	9.1	10.4	21.7	9.7
Core PER (x)	16.4	15.0	13.6	11.2	10.2
DPS (sen)	3.3	6.0	6.0	8.0	11.0
Dividend Yield (%)	1.2	2.2	2.2	3.0	4.1
EV/EBITDA (x)	17.5	12.3	11.0	8.5	7.5
Consensus profit (RMm)			139.0	157.9	171.0
Affin/Consensus (x)			1.0	1.0	1.1

Additional highlights

Other key takeaways from the briefing:

- 1) SUCB has noticed a market trend towards super thin NR gloves, which require less latex. Currently, SUCB is producing NR gloves weighing between 5g to 7.2g. With technology advancement, management do not rule out the possibility of manufacturers producing NR gloves at 4.5g going forward.
- 2) The company is experiencing strong demand for both examination and surgical gloves in Brazil, following the country's imposition of more stringent healthcare requirements. The government has also revealed that certain surgical gloves imported by glove manufacturers had failed to meet established guidelines. As such, SUCB is fast tracking their supply of surgical gloves to Brazil, to meet the surge in demand.
- 3) SUCB is confident to pass on the higher electricity cost to its customers. However, the quantum of ASP adjustment has yet to be determined pending a meeting with the Malaysia Rubber Glove Manufacturers Association (MARGMA) on 6 December 2013.

Phase 1 of Glove city to start production by 1HFY15

To recap, SUCB had pushed back its capacity expansion plans for Glove City in 2011, due to infrastructure problems with gas pipes. As such, SUCB had since then focused on building its other two new plants (Lot 6059 and Lot 6058) located next to its current factories in Meru, Klang, where gas supply is already available. Lot 6059 and 6058 will have an annual production capacity of 3.22bn pieces and 2.15bn pieces respectively, and will come onstream in 1H14. On the same token, SUCB's 10-12 year Glove City project will take off in FY15. We understand that basic infrastructure such as water and natural gas are now available at Glove City, a 36-acre piece of land located in Bukit Kapar. Management guided that they will take around one year to build the production plant and is confident that the 1st Phase of Glove city (equipped with 30 lines) will start to commissioned by 1HFY15. The total capex will amount to RM289.5m over the next 3 years, in line with earlier guidance. These have been forecasted into our earnings assumptions.

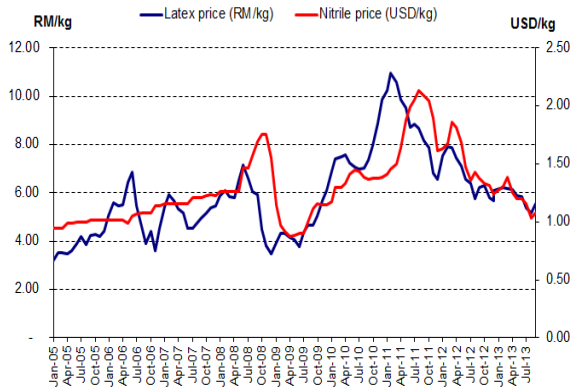
Peers comparison chart

Stock	Rating	Sh Pr (RM)	TP (RM)	Shares out	Mkt Cap (RMm)	Year End	Core PE (x)		EPS growth (%)		EV/EBITDA (x)	P/B (x)	ROE (%)		Net Div Yield (%)	
							CY13	CY14	CY13	CY14			FY13	FY14	FY13	FY14
Kossan	BUY	3.70	4.20	639.5	2,366	Dec	13.4	12.1	27.3	10.8	10.6	2.1	18.5	18.7	2.7	3.5
Top Glove	ADD	5.81	6.70	620.5	3,605	Aug	16.2	14.8	12.2	9.0	9.6	2.9	15.8	17.0	2.6	3.3
Supermax	BUY	2.69	3.60	679.2	1,827	Dec	11.2	10.1	21.7	10.1	10.0	1.8	14.7	13.5	2.6	3.0
Hartalega	ADD	7.30	7.75	744.9	5,438	Mar	19.9	17.1	16.2	16.6	13.0	7.4	31.3	30.3	2.0	2.3
Simple average							15.2	13.5	19.4	11.6	10.8	3.6	20.0	19.9	2.5	3.0

Source: Bloomberg, Affin

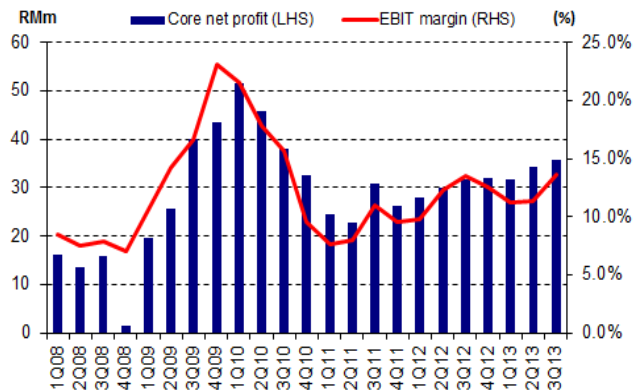
FOCUS CHARTS

Fig 1: Latex prices (LHS) vs Nitrile prices (RHS)



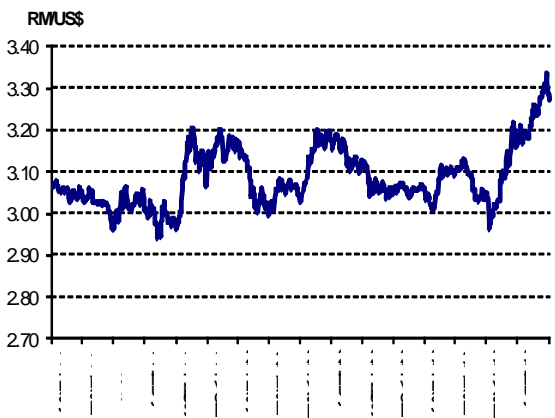
Source: Bloomberg, Affin

Fig 2: Supermax's core net profit (LHS) and EBIT margin (RHS)



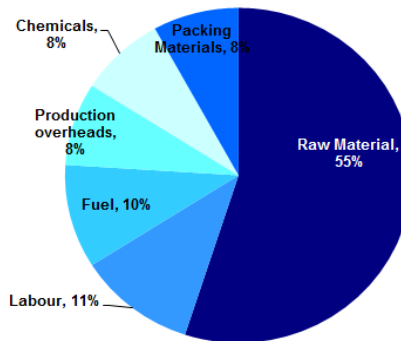
Source: Company, Affin

Fig 3: RM/US\$ exchange rate



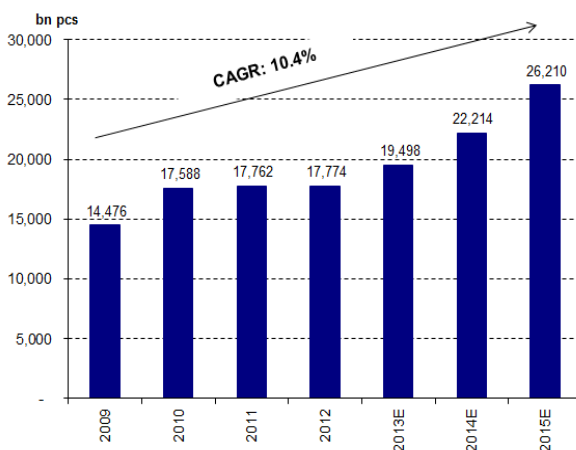
Source: Bloomberg

Fig 4: Supermax's cost breakdown



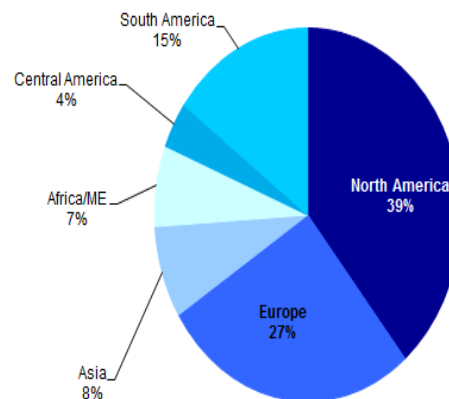
Source: Bloomberg

Fig 5: Supermax capacity expansion



Source: Affin

Fig 6: Supermax's sales by region



Source: Company, Affin

Supermax – FINANCIAL SUMMARY

Profit & Loss Statement

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Total revenue	1021.4	997.4	1155.7	1370.8	1522.9
Operating expenses	(904.1)	(850.3)	(990.7)	(1161.2)	(1280.8)
EBITDA	117.3	147.0	165.0	209.6	242.1
Depreciation	(24.0)	(24.3)	(32.4)	(36.4)	(44.7)
Amortisation	0.0	1.0	2.0	3.0	4.0
EBIT	93.2	122.7	132.6	173.1	197.4
Net interest income/(expense)	(12.5)	(8.7)	(8.6)	(6.6)	(5.0)
Associates' contribution	34.8	23.4	32.4	23.9	17.2
Others	0.0	0.0	0.0	0.0	0.0
Pretax profit	115.5	137.3	156.4	190.3	209.6
Tax	(8.1)	(15.9)	(21.9)	(26.6)	(29.3)
Minority interest	0.1	0.3	(0.1)	(0.1)	(0.2)
Net profit	107.6	121.7	134.4	163.6	180.1

Balance Sheet Statement

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Fixed assets	402.2	442.0	509.6	573.2	748.2
Other long term assets	262.2	262.1	262.0	262.0	262.0
Total non-current assets	664.4	704.1	771.7	835.2	1010.2
Cash and equivalents	104.5	352.9	350.1	373.0	348.8
Stocks	223.1	199.4	251.0	293.3	323.6
Debtors	115.6	112.9	130.9	155.2	172.4
Other current assets	90.2	90.2	90.2	90.2	90.2
Total current assets	533.5	755.5	822.2	911.7	935.0
Creditors	87.3	78.0	98.2	114.7	126.6
Short term borrowings	190.5	190.5	190.5	190.5	190.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Total current liabilities	277.7	268.5	288.6	305.2	317.0
Long term borrowings	140.5	140.5	140.5	140.5	140.5
Other long term liabilities	18.2	18.2	18.2	18.2	18.2
Total long term liabilities	158.7	158.7	158.7	158.7	158.7
Shareholders' Funds	769.0	1040.1	1154.1	1290.6	1433.2

Cash Flow Statement

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
EBIT	93.2	122.7	132.6	173.1	197.4
Depreciation & amortisation	24.1	24.4	32.4	36.5	44.8
Working capital changes	(66.2)	17.2	(49.3)	(50.1)	(36.7)
Cash tax paid	(8.1)	(15.9)	(21.9)	(26.6)	(29.3)
Others	13.4	23.4	32.4	23.9	17.2
Cashflow from operation:	56.4	171.7	126.2	156.7	193.3
Capex	(38.1)	(64.1)	(100.0)	(100.0)	(175.0)
Disposal/(purchases)	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(38.1)	(64.1)	(100.0)	(100.0)	(175.0)
Debt raised/(repaid)	35.3	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.7	170.0	0.0	0.0	0.0
Net interest income/(expense)	(12.5)	(8.7)	(8.6)	(6.6)	(5.0)
Dividends paid	(11.1)	(20.4)	(20.4)	(27.2)	(37.5)
Others	(24.6)	0.0	0.0	0.0	0.0
Cash flow from financing	(12.3)	140.9	(29.0)	(33.8)	(42.5)
Free Cash Flow	18.3	107.6	26.2	56.7	18.3

Key Financial Ratios and Margins

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Growth					
Revenue (%)	4.5	(2.3)	15.9	18.6	11.1
EBITDA (%)	(35.4)	25.4	12.2	27.0	15.5
Core net profit (%)	(32.3)	13.2	10.4	21.7	10.1
Profitability					
EBITDA margin (%)	11.5	14.7	14.3	15.3	15.9
PBT margin (%)	11.3	13.8	13.5	13.9	13.8
Net profit margin (%)	10.5	12.2	11.6	11.9	11.8
Effective tax rate (%)	7.0	11.6	14.0	14.0	14.0
ROA (%)	8.9	8.3	8.4	9.3	9.2
Core ROE (%)	15.3	13.5	12.2	13.4	13.2
ROCE (%)	8.9	9.9	9.3	11.1	11.7
Dividend payout ratio (%)	21	34	30	33	42
Liquidity					
Current ratio (x)	1.9	2.8	2.9	3.0	3.0
Op. cash flow (RMm)	56.4	171.7	126.2	156.7	193.3
Free cashflow (RMm)	18.3	107.6	26.2	56.7	18.3
FCF/share (sen)	2.7	15.8	3.8	8.3	2.7
Asset management					
Debtors turnover (days)	37	37	37	37	37
Stock turnover (days)	102	102	102	102	102
Creditors turnover (days)	27	27	27	27	27
Capital structure					
Core ROA (%)	9.3	8.3	8.4	9.3	9.2
ROCE (%)	8.9	9.9	9.3	11.1	11.7

Quarterly Profit & Loss

FYE 31 Dec (RMm)	3Q12	4Q12	1Q13	2Q13	3Q13
Revenue	245.5	322.3	320.5	330.0	284.6
Operating expenses	(212.3)	(281.7)	(284.7)	(292.6)	(245.8)
EBIT	33.2	40.6	35.8	37.4	38.8
Net int income/(expense)	(2.7)	(2.0)	(2.2)	(2.2)	(2.1)
Associates' contribution	3.3	3.8	3.1	4.6	3.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	33.8	42.3	36.8	39.8	40.5
Tax	(2.2)	(10.5)	(4.7)	(4.9)	(4.1)
Minority interest	0.0	0.3	(0.3)	(0.6)	(0.6)
Net profit	31.6	32.1	31.8	34.3	35.8
Core net profit	31.6	32.1	31.8	34.3	35.8
Margins (%)					
EBIT	13.5	12.6	11.2	11.3	13.6
PBT	13.8	13.1	11.5	12.1	14.2
Net profit	12.9	10.0	9.9	10.4	12.6

Source: Affin

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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