29 February 2012

AFFIN INVESTMENT BANK

PP 10251/07/2012(030525)

Results Note

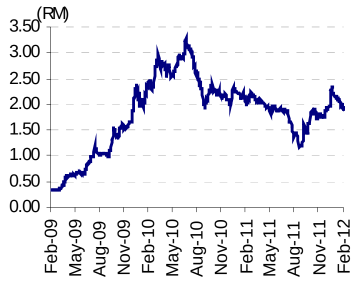
Supermax

SUCB MK

RM1.93

BUY (maintain)

Price Target: RM2.60 (↔)



Price Performance

	1M	3M	12M
Absolute	-9.8%	+5.8%	-4.7%
Rel to KLCI	-11.9%	+0.0%	-8.7%

Stock Data

Issued shares (m)	680.2
Mkt cap (RMm)	1,312.7
Avg daily vol - 6mth (m)	3.5
52-wk range (RM)	1.13 – 2.38
Est free float	64.0%
NTA per share (RM)	1.09
P/NTA (x)	1.77
Net cash/ (debt) (RMm) (4Q11)	(219.3)
ROE (FY12E)	14.3%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin Seri Cheryl Tan	15.1%

Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	19.8	23.0	-
Curr EPS (sen)	19.8	23.0	26.8
Chg (%)	-	-	-
Prev target price (RM)			2.60
Curr target price (RM)			2.60

Shakira Hatta
(603) 2142 8158
shakira@affininvestmentbank.com.my

Impacted by clearance of higher priced stocks

Within expectations

FY11 was a challenging year for Supermax, as average latex and NBR prices surged by +18.1% and 32.4%, respectively. Despite a revenue growth of +5.1% yoy (FY10: RM977.3m, FY11: RM1,026.9m) , FY11 net profit declined by -33.2% to RM106.1m, dragged down by: 1) lower EBIT margin of 9.3% (FY10: 15.9%) mainly due to higher raw material costs, and; 2) lower contribution from its associates, Supermax Brazil and Supermax Canada (-17% yoy). Excluding a RM4m write-off of investment in CLO bond due to repayment defaults, FY11 core net profit fell by a slightly lesser -30.7% yoy to RM110.1m. Results were largely within expectations, accounting for 95% and 101% of our and consensus estimates. Supermax also declared a final tax exempt DPS of 3.5% (1.75 sen). This brings total FY11 net DPS to 3.25 sen (yield: 1.7%, adjusted for the 1-for-1 bonus issue), which is slightly below our forecast of 4 sen.

Weaker associate contribution due to clearance of higher priced stocks

4QFY11 was a slightly disappointing quarter as EBIT margin fell to 10.1% (3QFY11: 11%) despite average latex price declining by -16.4% qoq. We gather from management that in anticipation of latex price falling further, Supermax had opted to clear out higher priced inventories in its overseas subsidiaries and associates at 4QFY11 ASPs (thus realizing lower profits at a lower margin). This impacted both EBIT margin (from the overseas subsidiaries) and associate contributions (-51.4% qoq). Contribution from associates and overseas subsidiaries is expected to pick up again from here on, as they would now have brought in lower priced inventories from 4QFY11. Altogether, 4QFY11 net profit declined by -8.8% qoq to RM28.2m (-7.3% yoy).

Maintain BUY with an unchanged target price of RM2.60

Management has guided for a FY12 EPS growth of 20%, driven by: 1) margin improvement from lower average latex price in FY12; 2) strong demand from customers replenishing inventory levels at lower ASPs, and; 3) additional production capacity, both in the surgical and nitrile glove segments. Supermax's surgical glove factory is expected to start production in March 2012, albeit on a staggered basis. We expect some initial contribution in 2QFY12. Management's guided EPS growth is in line with our own FY12 EPS growth forecast of +22.4% yoy. No change to our FY12-13 earnings forecasts, pending further details on the results at Supermax's briefing tomorrow. Maintain BUY, with an unchanged target price of RM2.60 (13x CY12 EPS). Key risks to the stock are: 1) sustained higher latex and NBR prices; 2) a slowdown in demand, and; 3) increased price competition in the nitrile glove segment due to over capacity.

Earnings and valuation summary

FYE Dec	2010	2011	2012E	2013E	2013E
Revenue (RMm)	977.3	1,026.9	1,211.0	1,340.1	1,426.0
EBITDA (RMm)	181.5	119.3	125.9	146.8	165.4
Pretax profit (RMm)	183.8	112.9	149.7	174.0	203.4
Net profit (RMm)	158.9	106.1	134.7	156.5	183.0
EPS (sen)	23.4	15.6	19.8	23.0	26.8
PER (x)	8.3	12.4	9.7	8.4	7.2
Core net profit (RMm)	158.9	110.1	134.7	156.5	183.0
Core EPS (sen)	23.4	16.2	19.8	23.0	26.8
Core EPS chg (%)	25.6	-30.7	22.4	16.2	16.5
Core PER (x)	8.3	11.9	9.7	8.4	7.2
DPS (sen)	3.8	3.3	6.0	7.0	9.0
Dividend Yield (%)	1.9	1.7	3.1	3.6	4.7
EV/EBITDA (x)	8.3	12.1	10.2	8.5	7.2
Consensus profit (RMm)			134.5	154.3	-
Affin/Consensus (x)			1.0	1.0	-

Fig 1: Quarterly results comparison

FYE Dec (RMm)	4QFY10	3QFY11	4QFY11	QoQ % chg	YoY % chg	Comment
Revenue	246.2	271.4	276.2	1.8	12.2	Qoq: Stronger demand partially offset by lower selling prices
Operating cost	(221.2)	(241.6)	(248.4)	2.8	12.3	
EBIT	**25.0**	**29.9**	**27.8**	**(6.9)**	**11.2**	
EBIT margin (%)	*10.2*	*11.0*	*10.1*	*Nm*	*Nm*	*Impacted by sale of higher priced inventory from 3QFY11 at lower market prices*
Int expense	(3.4)	(4.8)	(2.9)	(40.2)	(15.1)	
Int and other inc	0.0	0.0	0.0	0.0	0.0	
Associates	12.8	9.0	4.4	(51.4)	(65.8)	*Impacted by sale of higher priced inventory from 3QFY11 at lower market prices*
EI	0.0	0.0	0.0	nm	nm	
Pretax profit	**34.4**	**34.1**	**29.3**	**(14.0)**	**(14.9)**	
Tax	(4.0)	(3.2)	(1.3)	(60.6)	68.8	
Tax rate (%)	*11.7*	*9.4*	*4.3*	*Nm*	*Nm*	
MI	0.0	0.0	0.1	0.0	0.0	
Net profit	**30.4**	**30.9**	**28.2**	**(8.8)**	**(7.3)**	
EPS (sen)	9.0	9.1	8.3	(8.8)	(7.3)	
Core net profit	**30.4**	**30.9**	**28.2**	**(8.8)**	**(7.3)**	*Accounts for 25% and 26% of our and consensus estimates*

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE Dec (RMm)	FY10	FY11	YTD % chg	Comment
Revenue	977.3	1,026.9	5.1	*Driven primarily by higher selling prices and additional production capacity*
Operating cost	(798.5)	(907.6)	13.7	
EBIT	**155.5**	**95.2**	**(38.8)**	
EBIT margin (%)	*15.9*	*9.3*	*Nm*	*Margins impacted by the +18.1% yoy increase in average latex prices and +32.4% yoy increase in average NBR prices*
Int expense	(13.9)	(13.1)	(5.9)	
Int and other inc	0.3	0.0	0.0	
Associates	42.0	34.8	(17.0)	
EI	0.0	(4.0)	nm	*FY11: Write off of investment in bond (CLO) due to repayment defaults*
Pretax profit	**183.8**	**112.9**	**(38.6)**	
Tax	(24.9)	(6.9)	(72.1)	
Tax rate (%)	*13.5*	*6.1*	*Nm*	
MI	(0.0)	0.1	0.0	
Net profit	**158.9**	**106.1**	**(33.2)**	
EPS (sen)	46.7	31.2	(33.2)	
Core net profit	**158.9**	**110.1**	**(30.7)**	*Accounts for 95% and 101% of our and consensus estimates*

Source: Company, 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

Affin Investment Bank Bhd (9999-V)
A Participating Organisation of Bursa Malaysia Securities Bhd

www.affininvestmentbank.com.my
Email : research@affininvestmentbank.com.my
Tel : 603-2143 8668
Fax : 603-2145 3005