28 November 2012

AFFIN INVESTMENT BANK
KDN: PP 10251/07/2013(032736)

Results Note

Supermax

SUCB MK
RM2.01

BUY (maintain)

Target Price: RM2.50 (↔)

Price Performance

	1M	3M	12M
Absolute	-2.0%	-6.1%	+13.2%
Rel to KLCI	+2.6%	-3.1%	+1.4%

Stock Data

Issued shares (m)	680.2
Mkt cap (RMm)	1,367.0
Avg daily vol - 6mth (m)	1.73
52-wk range (RM)	1.63-2.38
Est free float	50.4%
NTA per share (RM)	1.15
P/NTA (x)	1.74
Net cash/ (debt) (RMm) (3Q12)	42.25
ROE (FY12E)	13%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin Seri Cherly Tan	15.1%
EPF	7.9%

Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	18.2	21.4	25.3
Curr EPS (sen)	18.2	21.4	25.3
Chg (%)	-	-	-
Prev target price (RM)			2.50
Curr target price (RM)			2.50

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Results intact, on track to achieve our full year forecast

9MFY12 core net profit rise 9.3% yoy to RM89.6m

Supermax's 9MFY12 topline revenue decreased by -9.5% yoy to RM246m. This is mainly due to: 1) lower average selling prices (ASPs), in tandem with the lower raw material prices and, 2) a relatively flattish sales volume as the group undertook a temporary production halt to improve its factories. Notwithstanding, the lower revenue, Supermax's 9MFY12 EBIT margin expanded by a strong +2.5%-points yoy to 13.5% mainly driven by the sharp decline in major raw material prices (latex prices fell by -31% yoy, synthetic nitrile prices slid by -39% yoy) and an improved operating efficiency through increased automation of its plants. Consequently, 9MFY12 core net profit increased by +9.3% yoy to RM89.6m. Results were within our expectation but slightly below street, accounting for 72% of our and 69% of consensus full year forecasts. The group has declared a first tax-exempt DPS of 4 sen. We revised upward our divided payout assumption from 20% to 30% for FY12-14 and consequently, our DPS is increased to 7-9 sen for FY12-14 respectively. This is also in line with management's target minimum payout ratio of 30% of PAT.

3QFY12 core net earnings rise 5.3% qoq to RM31.6m

Although ASP was marginally lowered on a sequential basis, (-2.2% to US$23.95/1000 pieces for its main powdered latex gloves products and -7.9% to US$34.95/1000 pieces for its powder-free latex gloves) the group's 3QFY12 revenue of RM246m were up by +5.8% qoq. We attribute this to the increase in volume sales, in particular surgical gloves, which typically fetch higher margins. In view of the fall in average latex price of –13% qoq, and coupled with the improved in capacity production, brought by better operating efficiencies, Supermax's 3QFY12 EBIT margin expanded by 1.2%-points qoq to 13.5%and core net profit increased by +5.3% to RM31.6m.

Positive outlook going forward

We continue to like Supermax's prospects going forward premised on: 1) a stable but lower major raw material prices due to the sluggish auto demand in China, which is the largest source of demand for natural rubber, 2) resilient demand for rubber gloves, 3) improved operating efficiency once its factories are fully automated and 4) an aggressive plant expansion in its three factories – Lot 6058, 6059 and 6070 - to produce nitrile gloves. We understand that Supermax currently has oversold position of 4 months for its nitrile gloves. As such, the group is currently fast-tracking the construction of these 3 factories and is aiming to increase its nitrile gloves capacity production to 12bn pieces p.a. As a result, this will lead to a significant shift in product mix, from 35% currently to 52% for nitrile.

Earnings and valuation summary

FYE Dec	2010	2011	2012E	2013E	2014E
Revenue (RMm)	977.3	1,021.4	1,070.6	1,259.6	1,469.8
EBITDA (RMm)	181.5	113.9	163.9	204.7	246.5
Pretax profit (RMm)	183.8	112.1	144.1	169.4	199.9
Net profit (RMm)	158.9	104.2	123.9	145.6	171.8
EPS (sen)	23.4	15.3	18.2	21.4	25.3
PER (x)	8.6	13.1	11.1	9.4	8.0
Core net profit (RMm)	158.9	108.2	123.9	145.6	171.8
Core EPS (sen)	23.4	15.9	18.2	21.4	25.3
Core EPS chg (%)	25.6	-31.9	14.5	17.5	18.0
Core PER (x)	8.6	12.7	11.1	9.4	8.0
DPS (sen)	3.8	3.3	7.0	8.0	9.0
Dividend Yield (%)	1.9	1.6	3.5	4.0	4.5
EV/EBITDA (x)	8.6	14.0	8.4	6.4	5.0
Consensus profit (RMm)			129.8	148.0	166.9
Affin/Consensus (x)			1.0	1.0	1.0

Reiterate BUY, TP unchanged at RM2.50

With earnings within our expectation, we maintain our BUY rating on Supermax with TP unchanged at RM2.50 pegged at 12x CY13 EPS. We reckoned that Supermax's valuation is attractive with the stock is trading at 9x vs its smaller peers such as Adventa and Latexx, which were privatized at 13x and 14x respectively. We reiterate Supermax as a laggard and share price should re-rate upwards at least on par with peers.

Fig 1: Quarterly results comparison

FYE Dec (RMm)	3QFY11	2QFY12	3QFY12	QoQ % chg	YoY % chg	Comment
Revenue	271.4	232.1	245.5	5.8	(9.5)	*Yoy revenue decrease attributed to lower ASPs in tandem with lower latex costs and fewer gloves sold*
Operating cost	(241.6)	(203.5)	(212.3)	*4.4*	*(12.1)*	
Depreciation	0.0	0.0	0.0	*0.0*	*0.0*	
EBIT	**29.9**	**28.6**	**33.2**	***15.9***	***11.1***	
EBIT margin (%)	*11.0*	*12.3*	*13.5*	*1.2*	*2.5*	*Boosted by the -12% qoq decline in average latex price and improved operational efficiency*
Int expense	(4.8)	(2.7)	(2.7)	*0.3*	*(43.9)*	
Int and other inc	0.0	0.0	0.0	*0.0*	*0.0*	
Associates	9.0	7.3	3.3	*(54.5)*	*(62.8)*	
EI	0.0	0.0	0.0	*nm*	*nm*	
Pretax profit	**34.1**	**33.3**	**33.8**	***1.6***	***(0.7)***	
Tax	(3.2)	(3.3)	(2.2)	*(32.0)*	*29.9*	
Tax rate (%)	*9.4*	*9.9*	*6.6*	*Nm*	*Nm*	
MI	0.0	(0.0)	0.0	*0.0*	*0.0*	
Net profit	**30.9**	**30.0**	**31.6**	***5.3***	***2.2***	
EPS (sen)	4.5	4.4	4.6	*5.3*	*2.2*	
Core net profit	**30.9**	**30.0**	**31.6**	***5.3***	***2.2***	*Accounts for 25% of our and 20% consensus full year estimates*

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE Dec (RMm)	9MFY11	9MFY12	YTD % chg	Comment
Revenue	750.7	726.1	(3.3)	*Revenue growth contracted due to lower ASPs and fewer gloves sold as the group undergo a production halt for a few days to improve its factories*
Operating cost	(683.3)	(640.0)	*(6.3)*	
Depreciation	0.0	0.0	*0.0*	
EBIT	**67.4**	**86.2**	***27.8***	
EBIT margin (%)	*9.0*	*11.9*	*2.9*	*Lifted by the -31% yoy decline in average latex price*
Int expense	(10.2)	(7.9)	*(22.6)*	
Int and other inc	0.0	0.0	*0.0*	
Associates	30.5	19.6	*(35.6)*	
EI	(4.0)	0.0	*nm*	*9MFY11: Write off of investment in bond (CLO) due to repayment defaults*
Pretax profit	**83.6**	**97.8**	***17.0***	
Tax	(5.7)	(8.2)	*44.4*	
Tax rate (%)	*6.8*	*8.4*	*Nm*	
MI	(0.0)	(0.0)	*0.0*	
Net profit	**77.9**	**89.6**	***14.9***	
EPS (sen)	11.5	13.2	*14.9*	
Core net profit	**81.9**	**89.6**	***9.3***	*Accounts for 72% and 69% of our and full year consensus estimates*

Source: Company, Affn

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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