

Results Note

Supermax

SUCB MK
RM2.01

BUY (maintain)

Target Price: RM2.50 (↔)



Price Performance

	1M	3M	12M
Absolute	-7.2%	-9.5%	-3.4%
Rel to KLCI	-6.5%	-12.7%	-10.5%

Stock Data

Issued shares (m)	679.1
Mkt cap (RMm)	1,222.5
Avg daily vol - 6mth (m)	1.08
52-wk range (RM)	1.63-2.25
Est free float	49.7%
NTA per share (RM)	1.20
P/NTA (x)	1.50
Net cash/ (debt) (RMm) (3Q12)	42.25
ROE (FY12E)	13%
Derivatives	Nil

Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin Seri Cherly Tan	15.2%
EPF	8.3%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	21.9	25.9	27.9
Curr EPS (sen)	21.9	25.9	27.9
Chg (%)	-	-	-
Prev target price (RM)		2.50	
Curr target price (RM)		2.50	

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All is well-within expectation

FY12 core net profit rise 12.4% yoy to RM121.7m

Supermax's FY12 topline revenue grew by a marginal +2.6% yoy to RM1,048.4m. This is mainly due to the higher volume sales from the contributions of some of its new production lines, though negated by the lower average selling prices (ASPs), in tandem with the lower raw material costs. Notwithstanding, the moderate growth in revenue, Supermax's FY12 EBIT margin expanded by a strong +3.0%-points yoy to 12.1% mainly driven by the sharp decline in major raw material cost (-24.5% yoy), (FY12's average latex price: RM6.62/kg vs FY11's average latex price: RM8.84/kg) and improved operating efficiency through increased automation of its plants. Consequently, FY12 core net profit increased by +12.4% yoy to RM121.7m. Results were within both our and street expectation, accounting for 98% of our and 96% of consensus full year forecasts.

4QFY12 core net earnings rise +1.6% qoq to RM32.1m

Although: 1) ASP was marginally lower on a sequential basis, (-5.3% to US\$26.95/1000 pieces for its main powdered latex gloves products), and 2) an unfavorable US\$/RM of RM3.06 vs 3QFY12's RM3.12, the group has managed to record a commendable growth in its 4QFY12 revenue by +31.3% qoq to RM322m. We attribute this to the increase in volume sales and new capacity added from new and refurbished lines. Recall that Supermax undertook a temporary production halt in 3QFY12 to improve its production facilities. Notwithstanding the commendable growth in revenue, the company's core net profit growth was a modest +1.6% to RM32.1m owing to a higher tax rate of 25% vs 3QFY12's 6.6%. On a yoy basis, revenue and EBIT margin grew healthily by +19% and +3.1%-points to 12.6%, brought by higher volume sales and favourable raw material cost. Consequently, core net profit grew by +22%.

Positive outlook going forward

We continue to like Supermax's prospects premised on: 1) a stable but lower major raw material cost 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	2012	2013E	2014E	2015E
Revenue (RMm)	977.3	1,021.4	1,048.4	1,259.6	1,469.8	1,550.7
EBITDA (RMm)	181.5	117.3	151.1	209.1	251.5	267.4
Pretax profit (RMm)	183.8	115.5	140.2	173.6	204.8	221.8
Net profit (RMm)	158.9	107.6	121.8	149.2	176.0	190.4
EPS (sen)	23.4	15.8	17.9	21.9	25.9	27.9
PER (x)	8.6	12.7	11.2	9.2	7.8	7.2
Core net profit (RMm)	158.9	111.6	121.8	149.2	176.0	190.4
Core EPS (sen)	23.4	16.4	17.9	21.9	25.9	27.9
Core EPS chg (%)	25.6	-29.8	9.1	22.5	18.0	7.8
Core PER (x)	8.6	12.3	11.2	9.2	7.8	7.2
DPS (sen)	3.8	3.3	6.0	7.0	9.0	11.0
Dividend Yield (%)	1.9	1.6	3.0	3.5	4.5	5.5
EV/EBITDA (x)	8.6	13.6	9.2	6.3	4.9	3.0
Consensus profit (RMm)			126.3	142.7	161.8	170.0
Affin/Consensus (x)			1.0	1.0	1.1	1.1

Reiterate BUY, TP unchanged at RM2.50

With earnings within our expectation, we make no changes to our FY13-14 forecast, and introduce our FY15 net profit forecast of RM190.4m (+8.2% yoy) Hence, we maintain our **BUY** rating on Supermax with TP unchanged at **RM2.50** pegged at 11x CY13 EPS. We reckon that Supermax's valuation is attractive with the stock currently trading at 9x vs its smaller peers such as Adventa and Latexx, which were privatized at 13x and 14x respectively. Supermax is a laggard and share price should re-rate upward at least on par with peers.

Fig 1: Quarterly results comparison

FYE Dec (RMm)	4QFY11	3QFY12	4QFY12	QoQ % chg	YoY % chg	Comment
Revenue	271.2	245.5	322.3	31.3	18.8	Yoy revenue increase attributed to higher volume sales with new capacity installed
Operating cost	(239.4)	(206.3)	(275.6)	33.6	15.1	
EBITDA	31.8	39.2	46.6	18.9	46.6	
<i>EBITDA margin (%)</i>	<i>11.7</i>	<i>16.0</i>	<i>14.5</i>	<i>(1.5)</i>	<i>2.7</i>	
Depreciation	(6.0)	(6.1)	(6.1)	0.0	0.0	
EBIT	25.8	33.2	40.6	22.3	57.3	
<i>EBIT margin (%)</i>	<i>9.5</i>	<i>13.5</i>	<i>12.6</i>	<i>(0.9)</i>	<i>3.1</i>	Boosted by the -12% yoy decline in average latex price and improved operational efficiency
Int expense	(2.7)	(2.7)	(2.0)	(25.3)	(24.6)	
Int and other inc	0.0	0.0	0.0	0.0	0.0	
Associates	4.4	3.3	3.8	12.5	(13.9)	
EI	0.0	0.0	0.0	nm	nm	
Pretax profit	27.5	33.8	42.3	25.1	53.9	
Tax	(1.3)	(2.2)	(10.5)	369.2	(736.0)	
<i>Tax rate (%)</i>	<i>4.6</i>	<i>6.6</i>	<i>24.8</i>	<i>18.2</i>	<i>20.2</i>	Higher tax recognized this quarter due to under-provisions of tax in the past quarters
MI	0.1	0.0	0.3	0.0	0.0	
Net profit	26.3	31.6	32.1	1.6	21.8	
EPS (sen)	3.9	4.6	4.7	1.6	21.8	
Core net profit	26.3	31.6	32.1	1.6	21.8	Accounts for 25% of our and 23% consensus full year estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE Dec (RMm)	FY11	FY12	YTD % chg	Comment
Revenue	1,021.9	1,048.4	2.6	Revenue growth marginally due to lower ASPs and weakening USD vs RM
Operating cost	(904.6)	(897.4)	(0.8)	
EBITDA	117.3	151.0	28.7	
<i>EBITDA margin (%)</i>	<i>11.5</i>	<i>14.4</i>	<i>2.9</i>	
Depreciation	(24.1)	(24.3)	0.0	
EBIT	93.2	126.7	35.9	
<i>EBIT margin (%)</i>	<i>9.1</i>	<i>12.1</i>	<i>3.0</i>	Lifted by the -24.5% yoy decline in average latex price
Int expense	(12.9)	(9.9)	(23.0)	
Int and other inc	0.0	0.0	0.0	
Associates	34.8	23.4	(32.9)	
EI	(4.0)	0.0	nm	9MFY11: Write off of investment in bond (CLO) due to repayment defaults
Pretax profit	111.1	140.2	26.1	
Tax	(6.9)	(18.7)	169.5	
<i>Tax rate (%)</i>	<i>6.2</i>	<i>13.3</i>	<i>7.1</i>	
MI	0.1	0.2	0.0	
Net profit	104.3	121.7	16.7	Accounts for 98% and 96% of our and full year consensus estimates
EPS (sen)	15.3	17.9	16.7	
Core net profit	108.3	121.7	12.4	Accounts for 98% and 96% of our and full year 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

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