31 May 2013

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

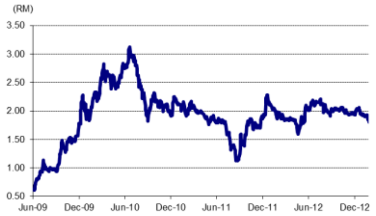
## Results Note

# Supermax

**SUCB MK**
**RM2.02**

## ADD (downgrade)

## Target Price: RM2.32 (↓)




### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | +1.5% | +10.4% | +12.8% |
| Rel to KLCI | -1.8% | +1.8% | +0.1% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 679.1 |
| Mkt cap (RMm) | 1,371.9 |
| Avg daily vol - 6mth (m) | 2.20 |
| 52-wk range (RM) | 1.79-2.25 |
| Est free float | 53.1% |
| NTA per share (RM) | 1.19 |
| P/NTA (x) | 1.70 |
| Net cash/ (debt) (RMm) (1Q13) | (160.7) |
| ROE (FY12E) | 13% |
| Derivatives | Nil |

### Key Shareholders

| | |
|---|---|
| Dato' Seri Stanley Thai | 20.4% |
| Datin Seri Cherly Tan | 15.2% |

### Earnings & Valuation Revisions

| | 13E | 14E | 15E |
|---|---|---|---|
| Prev EPS (sen) | 23.1 | 26.3 | 29.7 |
| Curr EPS (sen) | 20.7 | 23.2 | 26.3 |
| Chg (%) | -10.4 | -11.8 | -11.4 |
| Prev target price (RM) | | | 2.60 |
| Curr target price (RM) | | | 2.32 |

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# 1QFY13: Below our expectation by 5%

### 1QFY13 core net profit rise 13.6% yoy to RM31.8m

Supermax's 1QFY13 topline revenue grew by +29% yoy to RM320.5m. This is mainly driven by higher volume sales from its expanded production lines, though negated by the lower average selling prices (ASPs), in tandem with the lower raw material costs. Notwithstanding, the strong growth in revenue, Supermax's 1QFY13 EBIT margin was flat yoy at 9.8%. This is held back by a sharp rise in operating cost (+32.5% yoy to RM289m), mainly due to the implementation of minimum wage effective January 2013. Consequently, 1QFY13 core net profit increased by a slower +13.6% yoy to RM31.8m. Results were below both our and street expectation, accounting for 20% of our and 22% of consensus full year forecasts.

### Lower sequential earnings due to stiffer-than-expected price competition

Sequentially, Supermax's topline revenue declined -0.5%. Key culprit was the lower ASP, as well as stiffer-than-expected price competition within the nitrile gloves segment. Coupled with higher labor cost (+5% qoq) which offset the impact from the marginal growth in revenue, the group's EBIT margin fell from 12.6% in 4QFY12 to 9.8%. Notwithstanding that, the group's core net earnings fell by a marginal -1% qoq, thanks to a lower effective tax expense. (1QFY13 effective tax rate: 12.7% vs 4QFY12's 24.8%)

### Revising our capacity expansion and effective tax rate assumption

We gather that the company's Sg Buloh surgical glove plant which was partially commissioned in May 2012 is only 71% complete currently. (5 out of 7 production lines are commissioned) Management indicates that the remaining lines will continue to be commissioned in stages when the additional capacity of sterilization facility is available. This is below our expectation, as we had earlier expected its surgical gloves plant to be fully commissioned by 1QFY13. Hence, we are trimming down our production capacity (Lot 6058-6059) by 7.7-9.1% to 14.8bn-17.5 bn pieces for FY13-15. Besides, we are also revising upward our effective tax rate assumption to 16% from 14% as management has clarified that the group is close to have fully utilize its reinvestment allowance claims. As a result, our FY13-15 EPS forecast is slashed by 10-12% to 20.7 sen, 23.2 sen and 26.3 sen respectively.

### Downgrade to ADD with TP revised downward to RM2.30

Following our EPS downgrade and rolling over our valuation window to FY14 EPS, our TP is lowered to **RM2.32**, (RM2.60 previously) pegged to an unchanged PER of 10x. With potential upside of only 15%, we are downgrading the stock from BUY to an **ADD** rating. Key risk to our view is a further delay in its manufacturing plant expansions.

**Earnings and valuation summary**

| FYE Dec | 2011 | 2012 | 2013E | 2014E | 2015E |
|---|---|---|---|---|---|
| Revenue (RMm) | 1,021.4 | 1,048.4 | 1,236.3 | 1,396.5 | 1,511.4 |
| EBITDA (RMm) | 117.3 | 151.1 | 199.5 | 225.2 | 252.6 |
| Pretax profit (RMm) | 115.5 | 140.2 | 169.6 | 188.3 | 213.9 |
| Net profit (RMm) | 107.6 | 113.4 | 140.7 | 158.1 | 179.3 |
| EPS (sen) | 15.8 | 16.7 | 20.7 | 23.2 | 26.3 |
| PER (x) | 12.8 | 12.1 | 9.8 | 8.7 | 7.7 |
| Core net profit (RMm) | 111.6 | 113.4 | 140.7 | 158.1 | 179.3 |
| Core EPS (sen) | 16.4 | 16.7 | 20.7 | 23.2 | 26.3 |
| Core EPS chg (%) | -29.8 | 1.6 | 24.2 | 12.3 | 13.1 |
| Core PER (x) | 12.3 | 12.1 | 9.8 | 8.7 | 7.7 |
| DPS (sen) | 3.3 | 5.0 | 7.0 | 8.0 | 10.0 |
| Dividend Yield (%) | 1.6 | 2.5 | 3.5 | 4.0 | 5.0 |
| EV/EBITDA (x) | 13.6 | 9.3 | 6.7 | 5.6 | 3.3 |
| Consensus profit (RMm) | | | 141.3 | 162.2 | 174.5 |
| Affin/Consensus (x) | | | 1.0 | 1.0 | 1.0 |

## Fig 1: Quarterly results comparison

| FYE Dec (RMm) | 1QFY12 | 4QFY12 | 1QFY13 | QoQ % chg | YoY % chg | Comment |
|---|---|---|---|---|---|---|
| Revenue | 248.5 | 322.3 | 320.5 | *(0.5)* | *29.0* | *Yoy revenue increase attributed to higher volume sales with new capacity installed* |
| Operating cost | (218.1) | (275.6) | (284.7) | *3.3* | *30.5* | *Sharp rise in operating cost due to higher labor cost* |
| **EBITDA** | **30.4** | **46.6** | **35.8** | ***(23.1)*** | ***17.7*** | |
| *EBITDA margin (%)* | *12.2* | *14.5* | *11.2* | *(3.3)* | *(1.1)* | *Caused by stiffer-than-expected price competition and time lag factor* |
| Depreciation | (6.1) | (6.1) | 0.0 | *0.0* | *0.0* | |
| **EBIT** | **24.4** | **40.6** | **35.8** | ***(11.6)*** | ***47.1*** | |
| *EBIT margin (%)* | *9.8* | *12.6* | *11.2* | *(1.4)* | *1.4* | |
| Int expense | (2.6) | (2.0) | (2.2) | *9.3* | *(15.7)* | |
| Int and other inc | 0.0 | 0.0 | 0.0 | *0.0* | *0.0* | |
| Associates | 8.9 | 3.8 | 3.1 | *(17.4)* | *(65.2)* | |
| EI | 0.0 | 0.0 | 0.0 | *nm* | *nm* | |
| **Pretax profit** | **30.7** | **42.3** | **36.8** | ***(13.1)*** | ***19.7*** | |
| Tax | (2.7) | (10.5) | (4.7) | *(55.5)* | *(74.4)* | |
| *Tax rate (%)* | *8.7* | *24.8* | *12.7* | *(12.1)* | *4.0* | *Higher tax recognized in 4QFY12 due to under-provisions of tax in the past quarters* |
| MI | (0.0) | 0.3 | (0.3) | *0.0* | *0.0* | |
| **Net profit** | **28.0** | **32.1** | **31.8** | ***(1.0)*** | ***13.6*** | |
| EPS (sen) | 4.1 | 4.7 | 4.7 | *(1.0)* | *13.6* | |
| **Core net profit** | **28.0** | **32.1** | **31.8** | ***(1.0)*** | ***13.6*** | *Accounts for 20% of our and 22% consensus full year 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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