

Results Note

Supermax

SUCB MK
RM2.67

BUY (maintain)

Target Price: RM2.82 (↔)



Price Performance

	1M	3M	12M
Absolute	+7.7%	+17.6%	+34.8%
Rel to KLCI	+8.4%	+9.8%	+20.0%

Stock Data

Issued shares (m)	679.1
Mkt cap (RMm)	1,813.3
Avg daily vol - 6mth (m)	2.95
52-wk range (RM)	1.79-2.85
Est free float	53.1%
NTA per share (RM)	0.65
P/NTA (x)	4.13
Net cash/ (debt) (RMm) (3Q13)	(119.0)
ROE (FY13E)	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)	20.2	23.5	26.3
Curr EPS (sen)	20.2	23.5	26.3
Chg (%)	-	-	-
Prev target price (RM)		2.82	
Curr target price (RM)		2.82	

Mandy Teh
(603) 2142 5815
ssteh@affininvestmentbank.com.my

On track to meet our FY13 growth forecast of +13%

9MFY13 core net profit grew 13.7% yoy to RM102m

Supermax's (SUCB) 9MFY13 revenue surged by +29% yoy to RM935m. This was mainly driven by higher volume sales underpinned by the company's refurbished and expanded production lines. Notwithstanding the strong growth in revenue, Supermax's 9MFY13 EBIT margin was relatively flat, up +0.1%-points yoy to 12%, as this was held back by a sharp rise in operating cost (+28.6% yoy) following the implementation of minimum wage on January 2013. On a whole, Supermax's core earnings rose by +13.7% yoy to RM102m, brought by a sharp fall in interest expense (-18.4% yoy). Results were within both our and street expectation, accounting for 74% of both Affin and street full year forecast. The group had also declared a first single tier interim dividend of 2 sen/share. We believe the group will continue to reward its shareholders by announcing an additional DPS of 5 sen in 4Q13 (on track to meet our full year DPS forecast of 7 sen, dividend payout: 35%).

3QFY13 topline revenue was dragged down by lower ASP

Sequentially, Supermax's 3Q13 revenue fell -14% to RM285m, brought by lower average selling prices (ASP -6% qoq) and also lower gloves production. We understand that SUCB has continued to automate its production facilities and closed down some of its older production lines in 3Q13 for upgrading activities. Notwithstanding the fall in topline revenue, SUCB had managed to lift its 3Q13 EBITDA margin by +2.3%-points to 13.6%, as SUCB's operating expenses had dropped sharply by -16% qoq. Taken together with a lower interest expenses and a lower effective tax rate, SUCB posted a +4.5% qoq growth in core earnings to RM36m. On a yoy comparison, revenue surged by +16% on the back of higher volume sales, brought by the company's capacity expansion on nitrile gloves production. Coupled with a lower (-21.5% yoy) interest expense, and higher earnings contribution for its associate companies (+15% yoy), 3Q13 core net profit was up +13.3% yoy.

Maintain BUY with TP unchanged at RM2.82

Pending a meeting with management next week, we maintain our **BUY** rating and TP of **RM2.82**, pegged at 12x CY14 EPS. We remain positive on SUCB's capacity expansion plan and plant automations exercise. We reckon that SUCB's current valuation at only 11x FY14 PER is undemanding and there is scope for further re-rating closer to the prevailing industry average PE valuation of 14x. Key risk to our view is a delay in its manufacturing plant expansion, a sudden spike in raw material costs and stiffer-than-expected price competition environment.

Earnings and valuation summary

FYE Dec	2011	2012	2013E	2014E	2015E
Revenue (RMm)	1,021.4	997.4	1,155.7	1,331.2	1,485.3
EBITDA (RMm)	117.3	147.0	165.8	195.2	221.7
Pretax profit (RMm)	115.5	137.3	160.1	188.1	201.5
Net profit (RMm)	107.6	121.7	137.6	159.8	179.6
EPS (sen)	15.8	17.9	20.2	23.5	26.3
PER (x)	16.9	14.9	13.2	11.4	10.1
Core net profit (RMm)	111.6	121.7	137.6	159.8	179.6
Core EPS (sen)	16.4	17.9	20.2	23.5	26.3
Core EPS chg (%)	-29.8	9.1	13.1	16.1	12.1
Core PER (x)	16.3	14.9	13.2	11.4	10.1
DPS (sen)	3.3	6.0	7.0	8.0	11.0
Dividend Yield (%)	1.2	2.2	2.6	3.0	4.1
EV/EBITDA (x)	17.4	12.2	10.6	8.6	7.2
Consensus profit (RMm)			138.0	156.2	170.1
Affin/Consensus (x)			1.0	1.0	1.1

Fig 1: Quarterly results comparison

FYE Dec (RMm)	3QFY12	2QFY13	3QFY13	QoQ % chg	YoY % chg	Comment
Revenue	245.5	330.0	284.6	(13.8)	15.9	Yoy revenue grew commendably attributed to higher volume sales with new capacity installed. Qoq lower due to lower ASP and lower production output, as SUCB undertook upgrading facilities
Operating cost	(212.3)	(292.6)	(245.8)	(16.0)	15.7	Higher cost due to higher labor cost
EBITDA	33.2	37.4	38.8	3.7	16.9	
<i>EBITDA margin (%)</i>	<i>13.5</i>	<i>11.3</i>	<i>13.6</i>	<i>2.3</i>	<i>0.1</i>	Healthy margins
Depreciation	0.0	0.0	0.0	0.0	0.0	
EBIT	33.2	37.4	38.8	3.7	16.9	
<i>EBIT margin (%)</i>	<i>13.5</i>	<i>11.3</i>	<i>13.6</i>	<i>2.3</i>	<i>0.1</i>	Caused by sharp drop in raw material prices
Int expense	(2.67)	(2.19)	(2.10)	(4.1)	(21.5)	Lower interest charges as Supermax has pared down their debts. As of June 2013, total secured borrowings was at RM8.13m
Int and other inc	0.0	0.0	0.0	0.0	0.0	
Associates	3.3	4.6	3.8	(16.1)	15.0	
EI	0.0	0.0	0.0	nm	nm	
Pretax profit	33.8	39.8	40.5	1.8	19.8	
Tax	(2.2)	(4.9)	(4.1)	(17.3)	(82.3)	
<i>Tax rate (%)</i>	<i>6.6</i>	<i>12.4</i>	<i>10.1</i>	<i>(2.3)</i>	<i>3.5</i>	Incentive tax allowances
MI	0.0	(0.6)	(0.6)	0.0	0.0	
Net profit	31.6	34.3	35.8	4.5	13.3	Accounts for 24% of our and consensus full year estimates
EPS (sen)	4.6	5.0	5.3	4.5	13.3	
Core net profit	31.6	34.3	35.8	4.5	13.3	Accounts for 24% of our and consensus full year estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE Dec (RMm)	9MFY12	9MFY13	YTD % chg	Comment
Revenue	726.1	935.1	28.8	Revenue grew commendably due to higher volume sales from new capacity installed
Operating cost	(640.0)	(823.1)	28.6	Mainly due to higher labour costs
EBITDA	86.2	112.0	30.0	
<i>EBITDA margin (%)</i>	<i>11.9</i>	<i>12.0</i>	<i>0.1</i>	Stable margins despite the higher labour costs
Depreciation	0.0	0.0	0.0	
EBIT	86.2	112.0	30.0	
<i>EBIT margin (%)</i>	<i>11.9</i>	<i>12.0</i>	<i>0.1</i>	
Int expense	(7.9)	(6.5)	(18.4)	Lower interest charges as Supermax has pared down their debts. As of June 2013, total secured borrowings was at RM8.13m
Int and other inc	0.0	0.0	0.0	
Associates	19.6	11.5	(41.2)	
EI	0.0	0.0	nm	
Pretax profit	97.8	117.1	19.7	
Tax	(8.2)	(13.7)	66.7	
<i>Tax rate (%)</i>	<i>8.4</i>	<i>11.7</i>	<i>3.3</i>	Slightly higher tax rate
MI	(0.0)	(1.6)	0.0	
Net profit	89.6	101.9	13.7	Within expectation, accounts for 74% of our and consensus full year consensus estimates
EPS (sen)	13.2	113.7	763.3	
Core net profit	89.6	101.9	13.7	Within expectation, accounts for 74% of our and consensus 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

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such, Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinions presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its affiliates and related companies, their directors, associates, connected parties and/or employees be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities.

Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. Further, Affin Investment Bank, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this research report and may from time to time assume an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entities mentioned in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence, an independent evaluation is essential. In addition, this report is general in nature and it is intended for circulation for Affin Investment Bank and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situations and the particular needs of any specific person who may receive this report. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Simulations or model portfolio are prepared on a hypothetical basis and are for illustrations only.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, transmitted to, photocopied or reproduced in any form - sold or redistributed, directly or indirectly in whole or in part without the prior written express consent of Affin Investment Bank.

This report is printed and published by:
Affin Investment Bank Bhd (9999-V)
 A Participating Organisation of Bursa Malaysia Securities Bhd
 Chulan Tower Branch,
 3rd Floor, Chulan Tower,
 No 3, Jalan Conlay,
 50450 Kuala Lumpur.

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