

02 March 2015

# Supermax Corporation

Looking Forward to FY15

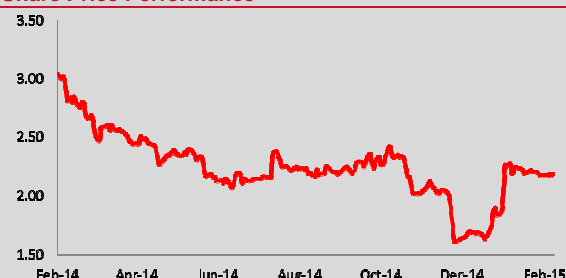
By the Kenanga Research Team | [research@kenanga.com.my](mailto:research@kenanga.com.my)

**OUTPERFORM** ↔

Price: **RM2.19**  
Target Price: **RM2.75** ↓

- Period**
  - 4Q14/FY14
- Actual vs. Expectations**
  - The FY14 net profit of RM100.8m (-15.8% yoy) came in 11% below our and consensus full-year forecasts. The negative variance from our forecast was due to lower-than-expected sales volume and margin.
- Dividends**
  - A final tax exempt dividend of 3.0 sen was proposed. This brings FY14 total tax exempt dividend to 5.0 sen which is inline with our expectation.
- Key Result Highlights**
  - **QoQ**, 4Q14 revenue fell by 7% to RM258.8m despite higher gloves volume sales (+1%) as production lines had since fully recovered from the fire that broke out at its Alor Gajah plant due to lower ASPs. Pret-ax profit was flat at RM32.5m but PATAMI was 27% lower to RM20m due to final year-end adjustments on its current year tax and deferred tax provisioning.
  - **YoY**, FY14 revenue fell by 4% largely due to lower ASPs on the back of a flattish volume growth (-1%) as some production was temporarily halted due to the fire in the Alor Gajah plant. This brings FY14 PATAMI to RM101.2m (-15.8%) due to start-up costs incurred as the Group continued to install and test-run brand new lines at its two new plants in Meru, Klang. These state-up costs will be absorbed once all the lines have been installed and are running at optimum levels.
- Outlook**
  - Growth going forward is expected to be driven by two new plants and we understand that the building structures for Plant #10 and Plant #11 i.e Lot 6059 and 6058 in Meru, Klang are up and the first batch of lines has commissioned. Lot 6059 and 6058 will have 24 and 16 production lines producing 3.2b and 2.2b pieces of nitrile gloves p.a., respectively, bringing the total nitrile production capacity from 6.9b (including the 1.4bn in Lot 6070) to 12.3b pieces p.a. or 52% of the total installed capacity.
- Change to Forecasts**
  - We are downgrading our FY15E and FY16E net profits by 10% and 8%, respectively, taking into account lower ASPs and margins.
- Rating & Valuation**
  - Correspondingly our TP is reduced by 10% from RM3.06 to RM2.75 based on unchanged 14x FY15E revised EPS. We like Supermax for: (i) re-rating catalyst upon commercial production of its new plant expected which dispelled market skepticism of persistent delays in the new plant, (ii) steep 40% discount to the sector average, and (iii) being a beneficiary of the strengthening USD against RM. **Reiterate OUTPERFORM.**
- Risks to Our Call**
  - Slower-than-expected commissioning of new plants.

## Share Price Performance



KLCI 1,821.21  
YTD KLCI chg 3.4%  
YTD stock price chg 30.4%

## Stock Information

	SUCB MK Equity
Bloomberg Ticker	
Market Cap (RM m)	1,482.8
Issued shares	677.1
52-week range (H)	2.97
52-week range (L)	1.58
3-mth avg daily vol:	2,689,813
Free Float	59%
Beta	1.0

## Major Shareholders

KIM SIM THAI	20.5%
BEE GEOK TAN	15.2%
EMPLOYEES PROVIDENT	4.9%

## Summary Earnings Table

FYE Dec (RM'm)	2014A	2015E	2016E
Turnover	1007.5	1335.4	1495.7
PBT	129.3	161.1	174.6
<b>Net Profit (NP)</b>	<b>100.8</b>	<b>133.7</b>	<b>144.9</b>
Consensus (NP)	-	137.3	155.4
Earnings Revision		-10%	-8%
EPS (sen)	14.8	19.7	21.3
EPS growth (%)	(21.6)	32.7	8.3
NDPS (sen)	5.1	5.9	6.4
BVPS (RM)	1.44	1.57	1.72
PER (X)	14.8	11.1	10.3
PBV (X)	1.5	1.4	1.3
Net Gearing (%)	22.5	20.0	16.4
Dividend Yield (%)	2.3	2.7	2.9

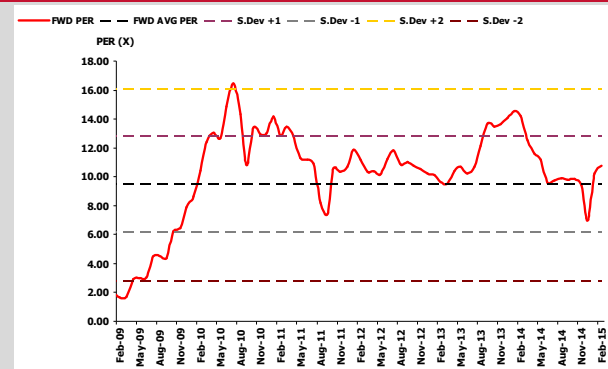
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### Result Highlight

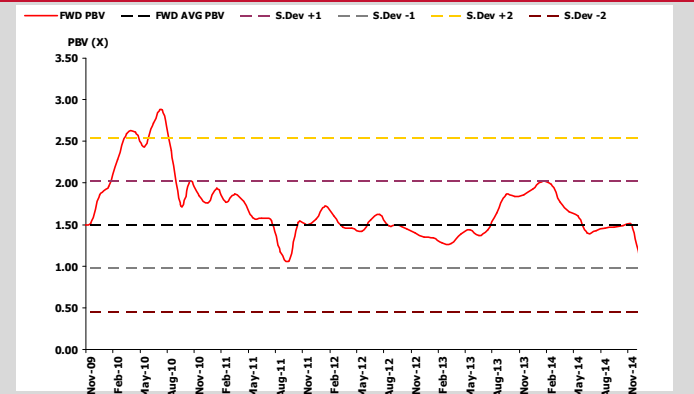
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Dec (RM'm)	FY14	FY14	Chg (%)	FY13	Chg (%)	FY13	FY14	Chg (%)
Turnover	258.8	278.4	(7.1)	192.2	34.6	1,048.2	1,007.5	(3.9)
EBITDA	48.3	39.5	22.3	46.8	3.2	182.5	165.8	(9.1)
PBT	32.5	32.4	0.5	38.0	(14.4)	148.2	129.3	(12.7)
Net Profit (NP)	20.1	27.8	(27.8)	25.0	(19.9)	119.7	100.8	(15.8)
EPS (sen)	3.0	4.1	(27.9)	3.7	(19.8)	17.6	14.8	(15.8)
EBITDA margin (%)	18.6	14.2		24.3		17.4	16.5	
PBT margin (%)	12.6	11.6		19.8		14.1	12.8	
Effective tax rate (%)	38.3	15.1		32.0		17.4	22.0	

Source: Company, Kenanga Research, Bursa Malaysia

### Fwd PER Band



### Fwd PBV Band



Source: Bloomberg, Kenanga Research



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**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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