

11 November 2013

Supermax Corporation

A New Hub in the Pipeline

News

- In an announcement to Bursa Malaysia, Supermax Corporation (SUPERMX)'s wholly-owned Maxwell Glove Manufacturing Berhad has entered into an agreement with Dragonline Resources Sdn Bhd to buy a piece of land measuring 40.47 hectares (approximately 100 acres) located in Mukim Serendah, Daerah Ulu Selangor for RM78.4m.
- The acquisition is expected to be completed within three months from the date of signing the SPA.

Comments

- This land acquisition came as a surprise to us as earlier there was already a planned Glove City project. To recap, SUPERMX has plans to set up new factories in Bukit Kapar, Klang in a development called Glove City. Supposed to start in 2011, the project has yet to take off. SUPERMX had planned to progressively transfer all its rubber gloves production to this project to enhance operating efficiency. This 'glove city' would have its own independent electricity generator, together with a mix of natural gas and bio-fuel facilities.
 - Hence with this latest land acquisition, we do not discount the possibility of Glove City being replaced with this latest new project.
 - We understand that this piece of land would allow SUPERMX to embark on its long-term expansion plan to expand its gloves capacity to meet the rising demand for nitrile gloves, including medical, dental examination and surgical types; the demand catalysts being a growing global population, increase in healthcare reforms and rising affluence in developing countries and widening applications for nitrile gloves beyond traditional uses.
 - The land acquisition will be funded via internally generated funds and borrowings. For illustrative purposes, assuming 100% financing via debt, this acquisition will raise SUPERMX's net debt and net gearing from RM118m to RM195m and 0.12x to 0.21x, respectively, as at 30 June 2013. However, with its operating cash-flow estimated at RM121m p.a. over FY13 and FY14, this acquisition could be easily funded.
 - Salient points of the project are: (i) the project will be located at the new site measuring 100 acres of which 60 acres will be utilised for an integrated glove manufacturing complex, which will be named "Supermax Business Park"; and (ii) the remaining balance 40 acres will be opened to the glove manufacturing's supporting industries such as chemical, printing and packaging suppliers, engineering and automation companies, logistics services providers and porcelain/ceramic former manufacturers, to set up their operations here.
 - Currently, details are scarce as to how many plants, number of lines and timeline for the commencement and completion of the project. We understand details will only be furnished in its next briefing of which no dates were given yet.
 - For illustrative purposes, based on our back-of-the-envelope calculations, the allocated 60 acres for a manufacturing complex are expected to produce 40b pieces of gloves (73% higher compared to 23b pieces upon completion of Lot 6059 and Lot 6058 in 2014) by extrapolating the earlier Glove City's estimate of 36 acres yielding 24b pieces of gloves.
- Maintain OUTPERFORM** with a TP of RM2.82 based on 12x FY14 EPS (The targeted PER is at +1.0SD level above the 5-year historical average).
- Delay in the commercial production of Lot 6059 and Lot 6058.

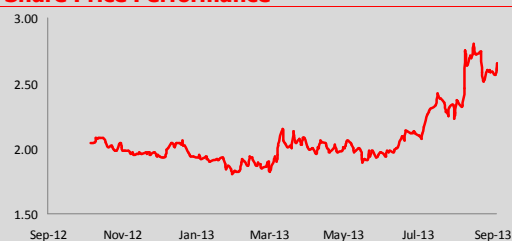
Rating

Risk to Our Call

OUTPERFORM ↔

Price: RM2.51
Target Price: RM2.82 ↔

Share Price Performance



KLCI	1,804.48
YTD KLCI chg	6.8%
YTD stock price chg	30.1%

Stock Information

Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,704.7
Issued shares	679.2
52-week range (H)	2.84
52-week range (L)	1.79
3-mth avg daily vol:	3,228,763
Free Float	59%
Beta	0.9

Major Shareholders

KIM SIM THAI	20.5%
BEE GEOK TAN	15.2%

Summary Earnings Table

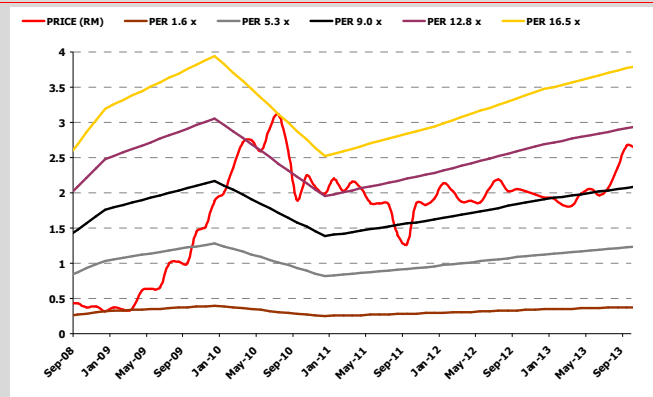
FY Dec (RM'm)	2012A	2013E	2014E
Turnover	1048.2	1200.1	1340.2
EBIT	126.7	152.4	171.2
PBT	140.2	165.2	184.1
Net Profit (NP)	121.8	143.2	159.6
Consensus (NP)		138.8	156.3
Earnings Revision		N.A.	N.A.
EPS (sen)	17.9	21.1	23.5
EPS growth (%)	17.0	17.6	11.4
NDPS (sen)	5.0	6.3	7.0
BVPS (RM)	1.29	1.43	1.60
PER (X)	14.0	11.9	10.7
PBV (X)	1.9	1.7	1.6
Net Gearing (%)	18.3	11.3	6.3
Net Div. Yield (%)	2.0	2.5	2.8

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E	FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	977.3	1021.4	1048.2	1200.1	1340.2	Growth					
EBITDA	181.4	114.4	151.3	177.6	198.3	Turnover (%)	21.6%	4.5%	2.6%	14.5%	11.7%
Depreciation	-26.0	-24.1	-24.3	-25.2	-27.1	EBITDA (%)	-9.7%	-36.9%	32.2%	17.4%	11.7%
Operating Profit	155.5	90.4	127.0	152.4	171.2	Operating Profit (%)	-14.2%	-41.9%	40.6%	20.0%	12.4%
Other Income	0.3	0.0	0.0	0.0	0.0	PBT (%)	92.5%	-39.0%	25.3%	17.6%	11.4%
Interest Exp	-13.9	-13.1	-9.9	-11.2	-11.2	Core Net Profit (%)	88.1%	-34.5%	16.9%	17.6%	11.4%
Associate	42.0	34.8	23.4	24.1	24.1						
Exceptional Items	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	183.8	112.1	140.5	165.2	184.1	EBITDA Margin	18.6%	11.2%	14.4%	14.8%	14.8%
Taxation	-24.9	-8.1	-18.7	-22.0	-24.5	Operating Margin	15.9%	8.8%	12.1%	12.7%	12.8%
Minority Interest	0.0	0.1	0.0	0.0	0.0	PBT Margin	18.8%	11.0%	13.4%	13.8%	13.7%
Net Profit	158.9	104.2	121.8	143.2	159.6	Core Net Margin	16.3%	10.2%	11.6%	11.9%	11.9%
						Effective Tax Rate	13.5%	7.2%	13.3%	13.3%	13.3%
						ROA	14.9%	8.6%	9.7%	10.3%	10.6%
						ROE	23.0%	13.5%	13.9%	14.7%	14.7%
Balance Sheet						DuPont Analysis					
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E	Net Margin (%)	16.3%	10.2%	11.6%	11.9%	11.9%
Fixed Assets	387.9	402.2	450.5	461.0	493.8	Assets Turnover (x)	1.1	1.2	1.2	1.2	1.1
Investments in associates	193.5	228.4	251.7	251.7	251.7	Leverage Factor (x)	1.5	1.6	1.4	1.4	1.4
Intangible Assets	28.7	28.7	28.7	28.7	28.7	ROE (%)	23.0%	13.5%	13.9%	14.7%	14.7%
Other FA	10.1	5.1	2.4	2.4	2.4	Leverage					
Inventories	133.1	223.1	233.6	272.5	298.7	Debt/Asset (x)	0.3	0.3	0.2	0.2	0.2
Receivables	119.4	115.6	171.8	197.5	211.6	Debt/Equity (x)	0.4	0.4	0.3	0.3	0.3
Other CA	95.2	97.8	0.0	0.0	0.0	Net Cash/(Debt)	28.7	29.4	18.4	11.3	6.3
Cash	97.4	104.5	122.3	173.2	214.8	Net Debt/Equity (x)	28.7	29.4	18.4	11.3	6.3
Total Assets	1065.4	1205.4	1261.1	1387.0	1501.9	Valuations					
Payables	40.1	60.0	48.7	51.3	66.1	EPS (sen)	23.4	15.3	17.9	21.1	23.5
ST Borrowings	155.1	190.5	142.1	142.1	142.1	NDPS (sen)	7.5	4.8	5.0	6.3	7.0
Other ST Liability	24.5	27.3	41.0	64.1	52.5	BVPS (RM)	1.0	1.1	1.3	1.4	1.6
LT Borrowings	140.5	140.5	141.2	141.2	141.2	PER (x)	10.7	16.4	14.0	11.9	10.7
Other LT Liability	13.6	18.2	12.4	12.4	12.4	Net Div. Yield (%)	3.0	0.7	2.0	2.5	2.8
Minorities Int.	0.1	-0.1	0.0	0.0	0.0	P/BV (x)	2.6	2.3	1.9	1.7	1.6
Net Assets	691.5	769.1	875.7	976.0	1087.7						
Share Capital	170.0	170.0	340.1	340.1	340.1						
Reserves	521.4	599.1	535.7	635.9	747.6						
Equity	691.5	769.1	875.7	976.0	1087.7						
Cashflow Statement											
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E						
Operating CF	46.9	43.6	167.8	123.0	119.6						
Investing CF	(46.1)	(38.1)	(68.1)	(60.0)	(60.0)						
Financing CF	(21.6)	0.6	(81.0)	(13.0)	(17.9)						
Change In Cash	(20.8)	6.0	18.6	50.1	41.7						
Free CF	0.3	5.4	99.7	63.0	59.6						

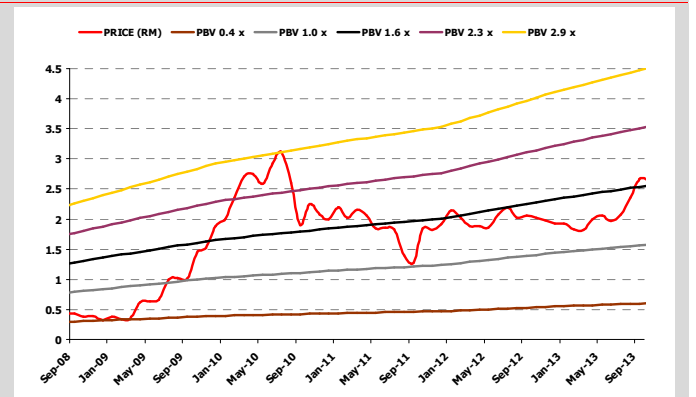
Source: Kenanga Research

Fwd PER Band



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Fwd PBV Band



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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%
UNDERWEIGHT : 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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Published and printed by:

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