Supermax (SUCB MK)

Buy (Maintained)

Industrial - Misc. Manufacturer

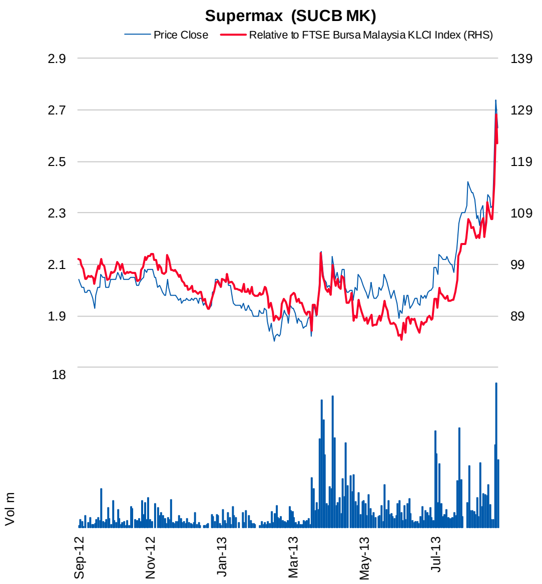
Market Cap: USD537m

Target Price: MYR3.01

Price: MYR2.63

Buoyant Outlook Ahead

Macro ◆◆
Risks ◆◆
Growth ◆◆
Value ◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	6.74m/2.08m
Cons. Upside (%)	-7.2
Upside (%)	14.6
52-wk Price low/high (MYR)	1.80 - 2.74
Free float (%)	53

Shareholders (%)	
Dato' Seri Stanley Thai	20.4
Datin Seri Cheryl Tan	15.1
EPF	5.0

Shariah compliant

The Research Team +603 9207 7688
Research2@rhbgroup.com

Supermax (SUCB)'s robust 2Q13 results met our estimates, buoyed by increased automation at its plants, which in turn boosted operating efficiency. We understand that SUCB's two new plants are well on track for full commissioning by 1Q14. Maintain BUY, with our FV tweaked higher to MYR3.01, pegged to an unchanged 12x 2014 P/E.

- **Healthy 2Q13 results.** SUCB recorded healthy 2Q13 results, with its bottomline improving 18.3% y-o-y and 11.6% q-o-q to MYR35.5m. This was driven by increasing automation at its plants, which in turn boosted its operating efficiency and production capacity.

- **Revising estimates.** In view of the strengthening of the USD against MYR, we are revising higher our currency exchange assumptions to MYR3.20 (from MYR3.10) for both 2013 and 2014, while incorporating higher logistics costs arising from the recent hike in petrol prices. Correspondingly, we raise our net profit forecasts by 4.8% to MYR144.6m for 2013 and by 6.2% to MYR166.6m for 2014.

- **Capacity expansion full steam ahead.** Our channel checks indicate that SUCB's two new plants are well on track for full commissioning by 1Q14. Both plants will produce 3.2bn and 2.2bn pieces of nitrile gloves individually. Upon full completion, all three plants – including Lot 6070 - will more than double the company's annual nitrile capacity to 12.3bn pieces versus 5.9bn currently. This will also increase its production mix to 53% nitrile gloves. Nitrile gloves usually command higher margins and are less vulnerable to the fluctuations in raw material prices.

- **Maintain BUY.** All in, we remain positive on SUCB's growth prospects, backed by: i) favourable raw material prices, ii) rising production capacity, and iii) increasing automation at its plants, which in turn boosts its operating efficiency. Maintain BUY on the stock, with our FV nudged higher to MYR3.01 (from MYR2.84), at an unchanged 12x FY14 P/E. The target P/E is a discount to the average sector multiple of about 16x due to its smaller market share and lower mix of nitrile products.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	977	1,021	997	1,172	1,328
Reported net profit (MYRm)	159	104	121	145	167
Recurring net profit (MYRm)	159	104	121	145	167
Recurring net profit growth (%)	25.6	(34.5)	16.5	19.1	15.2
Core EPS (MYR)	0.27	0.16	0.18	0.22	0.25
DPS (MYR)	0.08	0.05	0.05	0.07	0.08
Dividend Yield (%)	2.9	1.8	1.9	2.5	2.9
Core P/E (x)	9.8	16.7	14.4	12.1	10.5
Return on average equity (%)	25.4	14.3	15.1	16.3	16.8
P/B (x)	2.52	2.27	2.09	1.86	1.66
P/CF (x)	25.0	30.9	10.7	16.8	15.2
EV/EBITDA (x)	7.4	13.5	10.5	9.0	8.3
Net debt to equity (%)	28.7	29.4	18.6	18.5	18.3
Our vs consensus EPS (%)				3.4	4.7

Source: Company data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	977	1,021	997	1,172	1,328
Cost of sales	(701)	(826)	(743)	(910)	(1,042)
Gross profit	**276**	**196**	**254**	**262**	**286**
Other operating costs	(128)	(112)	(140)	(128)	(145)
Operating profit	**149**	**84**	**114**	**134**	**141**
Operating EBITDA	175	108	139	160	169
Depreciation of fixed assets	(26)	(24)	(24)	(26)	(28)
Operating EBIT	**149**	**84**	**114**	**134**	**141**
Net income from investments	42	35	23	43	63
Other recurring income	7	6	8	8	8
Interest income	0	0	-	-	-
Interest expense	(14)	(13)	(9)	(9)	(9)
Pre-tax profit	**184**	**112**	**137**	**177**	**204**
Taxation	(25)	(8)	(16)	(32)	(37)
Minority interests	(0)	0	(0)	(0)	(0)
Profit after tax & minorities	**159**	**104**	**121**	**145**	**167**
Reported net profit	**159**	**104**	**121**	**145**	**167**
Recurring net profit	**159**	**104**	**121**	**145**	**167**

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	**149**	**84**	**114**	**134**	**141**
Depreciation & amortisation	**26**	**24**	**24**	**26**	**28**
Change in working capital	**(57)**	**(56)**	**10**	**(42)**	**(33)**
Other operating cash flow	(45)	5	9	9	7
Operating cash flow	**73**	**57**	**158**	**127**	**143**
Interest received	(0)	(0)	-	-	-
Interest paid	14	13	9	9	9
Tax paid	(24)	(13)	(3)	(32)	(37)
Cash flow from operations	**62**	**56**	**163**	**104**	**115**
Capex	(47)	(38)	(69)	(69)	(69)
Other investing cash flow	(0)	-	-	-	-
Cash flow from investing activities	**(47)**	**(38)**	**(69)**	**(69)**	**(69)**
Dividends paid	(32)	(27)	(12)	(43)	(50)
Proceeds from issue of shares	6	-	-	-	-
Increase in debt	3	27	(53)	-	-
Other financing cash flow	(14)	(13)	(11)	(9)	(9)
Cash flow from financing activities	**(37)**	**(12)**	**(76)**	**(52)**	**(59)**
Cash at beginning of period	119	97	104	123	105
Total cash generated	**(22)**	**6**	**18**	**(18)**	**(13)**
Forex effects	0	1	(0)	-	-
Implied cash at end of period	**97**	**104**	**123**	**105**	**92**

Source: Company data, RHB estimates

Financial Exhibits

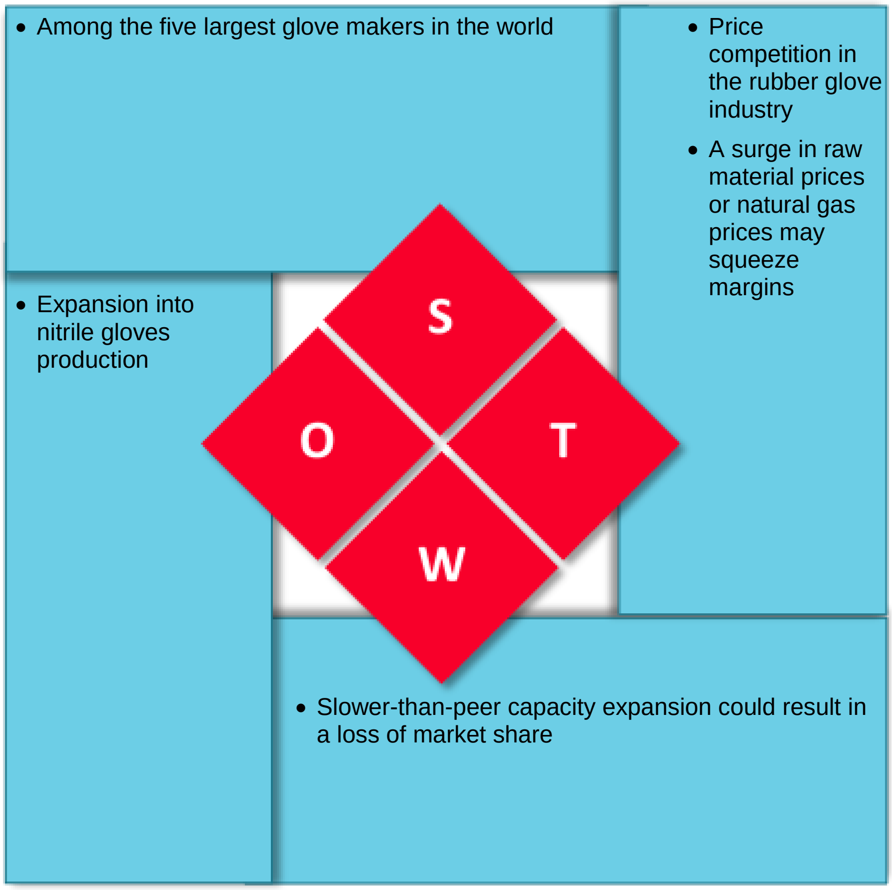
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	97	104	123	105	86
Inventories	133	223	234	275	311
Accounts receivable	114	104	101	118	134
Other current assets	101	109	106	107	108
Total current assets	**445**	**541**	**564**	**605**	**639**
Total investments	198	229	210	254	317
Tangible fixed assets	393	407	451	495	536
Intangible assets	29	29	29	29	29
Total other assets	1	-	-	-	-
Total non-current assets	620	664	690	777	881
Total assets	**1,065**	**1,205**	**1,254**	**1,382**	**1,520**
Short-term debt	155	190	163	163	163
Accounts payable	40	60	77	95	108
Other current liabilities	24	27	45	55	62
Total current liabilities	**220**	**278**	**285**	**312**	**333**
Total long-term debt	141	140	115	115	115
Other liabilities	14	18	20	20	20
Total non-current liabilities	**154**	**159**	**135**	**135**	**135**
Total liabilities	**374**	**436**	**420**	**447**	**469**
Share capital	170	170	340	340	340
Retained earnings reserve	446	523	494	595	712
Other reserves	76	77	-	-	-
Shareholders' equity	**691**	**769**	**834**	**935**	**1,052**
Minority interests	0	(0)	(0)	(0)	(0)
Other equity	(0)	0	(0)	0	(0)
Total equity	**692**	**769**	**834**	**935**	**1,052**
Total liabilities & equity	**1,065**	**1,205**	**1,254**	**1,382**	**1,520**

Source: Company data, RHB estimates

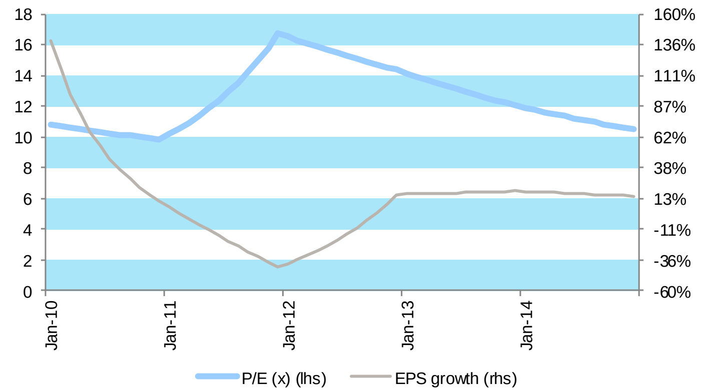
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	21.6	4.5	(2.3)	17.5	13.3
Operating profit growth (%)	13.5	(43.7)	36.5	17.4	5.1
Net profit growth (%)	25.6	(34.5)	16.5	19.1	15.2
EPS growth (%)	11.3	(41.3)	16.5	19.1	15.2
Bv per share growth (%)	(2.1)	11.1	8.4	12.1	12.5
Operating margin (%)	15.2	8.2	11.4	11.4	10.6
Net profit margin (%)	16.3	10.2	12.2	12.3	12.5
Return on average assets (%)	15.8	9.2	9.9	11.0	11.5
Return on average equity (%)	25.4	14.3	15.1	16.3	16.8
Net debt to equity (%)	28.7	29.4	18.6	18.5	18.3
DPS	0.08	0.05	0.05	0.07	0.08
Recurrent cash flow per share	0.10	0.09	0.25	0.16	0.17

Source: Company data, RHB estimates

SWOT Analysis

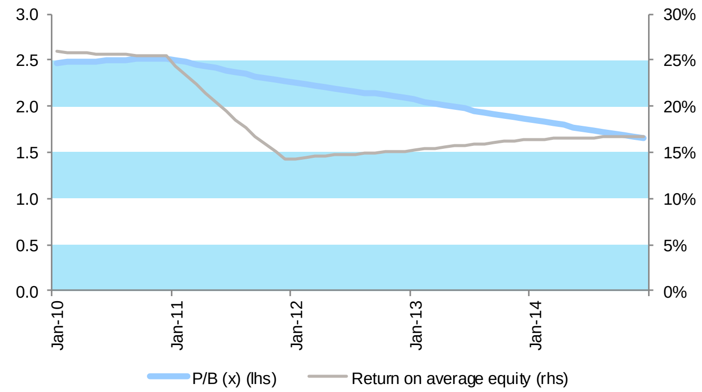


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

Supermax Corporation is an investment holding company whose subsidiaries are principally involved in the manufacturing and distribution of medical and rubber gloves.

Recommendation Chart

Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-31	Buy	2.84	2.06
2013-03-07	Buy	2.68	1.91
2013-02-27	Buy	2.68	1.82

Source : RHB estimates, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

Disclosure & Disclaimer

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness. No part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. This report is general in nature and has been prepared for information purposes only. It is intended for circulation to the clients of RHB and its related companies. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate legal or financial advice to independently evaluate the particular investments and strategies.

RHB, its affiliates and related companies, their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities. Further, RHB, its affiliates and related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them 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 entity mentioned in this research report.

RHB and its employees and/or agents do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

The term "RHB" shall denote where applicable, the relevant entity distributing the report in the particular jurisdiction mentioned specifically herein below and shall refer to RHB Research Institute Sdn Bhd, its holding company, affiliates, subsidiaries and related companies.

Malaysia

This report is published and distributed in Malaysia by RHB Research Institute Sdn Bhd (233327-M), Level 11, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, a wholly-owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Singapore

This report is published and distributed in Singapore by DMG & Partners Research Pte Ltd (Reg. No. 200808705N), a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group) and OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB", which in turn is a wholly-owned subsidiary of RHB Capital Berhad). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited. DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report.

As of 8 September 2013, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the securities covered in this report, except for:
a) -

As of 8 September 2013, none of the analysts who covered the securities in this report has an interest in such securities, except for:
a) -

Special Distribution by RHB

Where the research report is produced by an RHB entity (excluding DMG & Partners Research Pte Ltd) and distributed in Singapore, it is only distributed to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd.

Hong Kong

This report is published and distributed in Hong Kong by RHB OSK Securities Hong Kong Limited ("RHBSHK") (formerly known as OSK Securities Hong Kong Limited), a subsidiary of OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB"), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

RHBSHK, RHBIB and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company. RHBSHK, RHBIB and/or other affiliates may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company.

Risk Disclosure Statements

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. RHBSHK does not maintain a predetermined schedule for publication of research and will not necessarily update this report

Indonesia

This report is published and distributed in Indonesia by PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Thailand

This report is published and distributed in Thailand by RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Other Jurisdictions

In any other jurisdictions, this report is intended to be distributed to qualified, accredited and professional investors, in compliance with the law and regulations of the jurisdictions.

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693	**RHB OSK Securities Hong Kong Ltd.** **(formerly known as OSK Securities Hong Kong Ltd.)** 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	**DMG & Partners** **Securities Pte. Ltd.** 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	**Shanghai**	**Phnom Penh**
PT RHB OSK Securities Indonesia **(formerly known as PT OSK Nusadana Securities Indonesia)** Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777	**RHB OSK (China) Investment Advisory Co. Ltd.** **(formerly known as OSK (China) Investment Advisory Co. Ltd.)** Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	**RHB OSK Indochina Securities Limited** **(formerly known as OSK Indochina Securities Limited)** No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171
	Bangkok	
	RHB OSK Securities (Thailand) PCL **(formerly known as OSK Securities (Thailand) PCL)** 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road,Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999	