

**Company Result**

**22 August 2012**

**Supermax Corp Berhad**

**BUY**

*Benefiting from rubber price slump*

*Maintained*

<b>Share Price</b>	<b>RM2.13</b>
<b>Target Price</b>	<b>RM2.59</b>

**Company Description**

Supermax Corporation Berhad is an investment holding company whose subsidiaries manufacture, sell and export various type of latex gloves around the world.

**Stock Data**

Bursa / Bloomberg code	7106 / SUCB MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	680.2
Par Value (RM)	0.50
Market cap. (RM'm)	1448.7
52-week price Range(RM)	1.13-2.38
Beta (against KLCI)	1.48
3-m Average Daily Volume	2.17m
3-m Average Daily Value^	RM4.44m

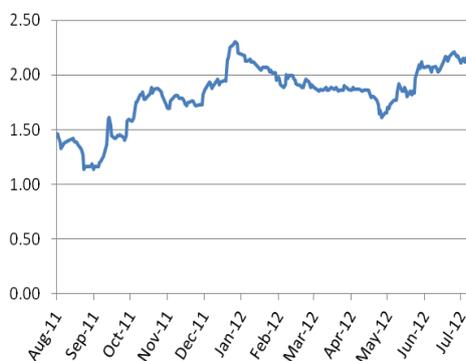
**Share Performance**

	1m	3m	12m
Absolute (%)	-2.29	2.90	36.98
Relative (%-pts)	-2.70	19.59	22.23

**Major Shareholders**

	%
Thai Kim Sin	20.4
Tan Geok Bee	15.1
EPF	9.3

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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**Result**

- Supermax raked in RM232.1m of revenue and RM30m of net profit in 2QFY12, bringing 1HFY12 revenue to RM460.6m and net profit to RM58m. Overall, net profit was 23.4% higher yoy while revenue marginally rose 0.3% yoy.
- **The results were within expectations** as net profit accounted for 44% and 45.8% of our and consensus's estimates. However, revenue was a tad below expectation by meeting only 38.2% and 40.9% of ours and street's estimation, due to a lower selling price.

**Comment**

- **Higher sales volume but lower revenue** – Supermax recorded RM232.1m of revenue in 2QFY12, which was 2.4% lower yoy, despite seeing c.18% growth in rubber gloves sales. This was mainly attributed to the lower average selling price (ASP) as main raw material, rubber price plummeted significantly by 25% during the periods. We believe that the move is to price its product competitively would help Supermax to further grasping the market share.
- **Enjoying the cheap raw material** – Witnessing the sharp plunge in raw material prices particularly natural rubber (NR), Supermax's profit margin showed sign of expanding. Operating margin stretch to 13.4% from 10.5% yoy, resulting a 23.4% surge in net profit to RM58m from RM47m a year ago. We expect the lower than expected NR prices to spur Supermax's earnings in the coming quarters as NR gloves currently make up 65% of its product mix.
- **Rubber price continues to favour glovemakers** - While Thailand, Indonesia and Malaysia's action to shore up the rubber price may serve as a temporary relieve to the rubber price, but in a longer run we still believe that the price will fundamentally determined by the demand, which is still dim considering the unresolved Europe's debt crisis, patchy recovery of US economy, and most importantly the sluggish performance of automotive industry in China. We reckon that the slash in rubber export may lift the NR price as much as 20%, but we still deem the price is favourable to the glovemakers at the region of RM6.5/kg (up 20% from RM5.40 at 18 Aug 2012), as compared to the average of RM8.92/kg in 2011 (27% lower).

**Earnings Outlook/Revision**

- **We fine-tuned our FY12-14F earnings forecasts for house keeping reason** by lowering the revenue by 12.2-19.5% to be in line with the declining ASP. We also revised upwards the operating margin from 10-12% to 14-15.5% to incorporate the cost savings from the easing of raw material price. As a result, net earnings are little changed in the region of

c.2%.

### Valuation & Recommendation

- **Maintain BUY with a higher Target Price of RM2.59 (previous: RM2.13).** We roll over our valuation to FY13F, pegged at 11.5x FY13F, in line with its +1 Standard Deviation of 5 year mean PE. Our TP represents an upside of 21.6% from last closing price.
- **We view Supermax as one of the biggest beneficiaries from the declining of NR price** as NR gloves remain a major product in its production mix. In addition, we expect the Group's efforts to fully automate its production line to further improve its efficiency and hence further expand its margins going forward.

### Quarterly Figures

Year Ending 31 Dec	2Q12	1Q12	2Q11	Q-o-Q (%)	Y-o-Y (%)	6MFY12	6MFY11	Change (%)
Revenue (RMm)	232.1	248.5	237.9	-6.6%	-2.4%	480.6	479.3	0.3%
Operating Profit (RMm)	35.0	29.5	32.5	18.6%	7.7%	64.5	50.4	28.0%
Profit Before Taxation (RMm)	33.3	30.7	23.9	8.5%	39.3%	64.0	49.6	29.0%
Net Profit (RMm)	30.0	28.0	22.7	7.1%	32.2%	58.0	47.0	23.4%
EPS(sen)	4.4	4.1	3.3	7.1%	32.2%	8.5	6.9	23.4%
Operating Margin (%)	15.1%	11.9%	13.7%	3.2ppt	1.4ppt	13.4%	10.5%	2.9ppt
Profit Before Tax Margin (%)	14.3%	12.4%	10.0%	1.9ppt	4.3ppt	13.3%	10.3%	3ppt
Net Profit Margin(%)	12.9%	11.3%	9.5%	1.6ppt	3.4ppt	12.1%	9.8%	2.3ppt

Source: Company, JF Apex

### Financial Summary (RMm)

	2010	2011	2012F	2013F	2014F
Revenue	977.3	1021.4	1021.0	1137.2	1347.8
Operating profit	165.1	95.2	128.4	153.3	185.0
Net profit	159.0	104.1	134.0	153.2	190.5
EPS (sen)	23.4	15.3	19.7	22.5	28.0
P/E (x)	9.5	14.5	11.5	9.7	8.1
P/BV (x)	2.1	1.9	1.7	1.3	1.1
EV/EBITDA (x)	5.2	7.5	6.3	5.3	4.3
Dividend yield	1.8%	1.5%	2.8%	3.2%	3.9%
Operating margin	16.9%	9.3%	14.3%	14.7%	15.5%
Net Gearing	28.7%	29.5%	29.5%	27.7%	25.0%
ROE	23.0%	13.5%	15.9%	16.6%	17.7%

Source: Company, JF Apex

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#### STOCK RECOMMENDATIONS

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

#### SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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