

Corporate Highlights

Results Note

27 February 2013

Supermax Corporation

Two New Plants Coming Onstream In FY13

Share Price : RM1.80
Fair Value : RM2.68
Recom : **Buy**
(Maintained)

Table 1 : Investment Statistics (SUPERMX; Code: 7106)

Bloomberg: SUCB MK

FYE	Turnover	Net Profit	EPS	Core EPS#	EPS Growth#	PER#	C.EPS*	P/NTA	Net Gearing	ROE	NDY
Dec	(RMm)	(RMm)	(sen)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2012	1048.4	121.2	17.8	17.8	-	10.1	-	1.2	0.3	14.3	3.0
2013f	1135.7	139.8	20.6	20.6	15.4	8.7	18.8	1.4	0.2	15.5	3.4
2014f	1376.5	172.3	25.4	25.4	23.2	7.1	21.3	1.5	0.2	17.0	4.2
2015f	1554.0	187.2	27.6	27.6	8.7	6.5	24.2	1.7	0.2	17.0	4.6

Main Market Listing /Non- Trustee Stock / Syariah-Approved Stock By The SC

Ex-EI

* Consensus Based On IBES Estimates

- ◆ **Within expectations.** Supermax's 4QFY12/12 core net profit of RM31.6m (+12.7% yoy) was within our and consensus expectations with full-year core net profit of RM105.9m (+14.4% yoy) accounting for 95% of our and consensus full-year estimates respectively.
- ◆ **Stronger topline growth driven by higher production volume.** Qoq, revenue rose by 31.3% on the back of stronger production volume arising from seven new surgical lines coming into production during the quarter. This was partly offset by a weaker 4Q US\$ rate of RM3.06/US\$ (3Q13: RM3.12/US\$). 4Q EBIT margin, however, grew by a lower quantum of 22.3% qoq, as the company revised down its ASPs in order to pass on a marginally lower nitrile raw material price. In our view, the reduction in ASPs was partly attributed to the rising price competition taking place within the nitrile gloves segment. Given the higher tax provisioning, 4Q effective tax rate was significantly higher at 24.8% (vs. 6.6% in 3Q) and thus, leading to a flat net profit of RM31.6m qoq.
- ◆ **Final single-tier DPS of 3 sen.** Supermax declared a final interim single-tier DPS of 3 sen (3Q12: 2 sen), bringing total YTD net DPS to 5 sen (FY11: 4.75 sen). This translates to a net payout ratio and net yield of 27% and 3% respectively.
- ◆ **Commissioning of two new plants in 2013.** Construction of two new plants (Lot 6058 and 6059) and upgrading works at an existing plant (Lot 6070) had commenced in 4Q12. Upon full commissioning by 2H, the two new plants along with the new capacity arising from upgrading works would raise the group's nitrile gloves production capacity to 12bn pieces p.a. (from 5.2bn pieces). In our view, the group's aggressive expansion into the nitrile gloves segment was driven by the more-lucrative nitrile gloves margin and a less-volatile nitrile raw material price.
- ◆ **Risks.** 1) Higher-than-expected raw material prices, which may result in margin squeeze; 2) Appreciating RM against the US\$; and 3) Execution risk from capacity expansion.
- ◆ **Forecasts.** We tweaked our FY13 EPS forecast down 0.5% after updating for the full-year results and ESOS shares. We also introduced our 15 numbers.
- ◆ **Investment case.** Following our earnings revision, our fair value is reduced to RM2.68 (from RM2.70), based on an unchanged CY13 PER of 13x. Over the next two years, we expect Supermax to deliver healthy earnings growth of 12-21% driven mainly by the additional capacity coming onstream at its two new plants. We thus maintain our **Buy** call on the stock.

RHBRI	Vs.	Consensus
√	Above In Line Below	√

Issued Capital (m shares)	679.2
Market Cap (RMm)	1,222.6
Daily Trading Vol (m shs)	0.5
52wk Price Range (RM)	1.63-2.25
Major Shareholders:	(%)
Dato' Seri Stanley Thai	20.5
Datin Seri Cheryl Tan	15.2
EPF	8.3

FYE Dec	FY13	FY14	FY15
EPS chg (%)	(0.5)	-	-
Var to Cons (%)	9.5	19.1	13.9

PE Band Chart



Relative Performance To KLCI



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Please read important disclosures at the end of this report.

Table 2: Earnings Review									
FYE Dec (RMm)	4Q11	3Q12	4Q12	QoQ (%)	YoY (%)	FY11	FY12	YoY (%)	Comments
Revenue	271.2	245.5	322.3	31.3	18.8	1,021.4	1,048.4	2.6	Qoq growth on the back of seven new surgical gloves line coming into production while yoy growth was mainly due to new capacity from refurbishment works at an existing factory.
EBIT	25.8	33.2	40.6	22.3	57.3	90.4	126.7	40.2	Qoq growth lower than topline growth as the cut in ASPs was only partially offset by a lower nitrile raw material price.
Int exp	(2.7)	(2.7)	(2.0)	(25.3)	(24.6)	(13.1)	(9.9)	(24.2)	Total debt at end-4QFY12 was RM283.2m (3QFY12: RM303.1m and 4QFY11: RM323.4m).
Associates	4.4	3.3	3.8	12.5	(13.9)	34.8	23.4	(32.9)	Mainly relates to share of associates' gain at the group's distribution arm in Brasil and Europe.
Pre-tax profit	27.5	33.8	42.3	25.1	53.9	112.1	140.2	25.0	Largely filtered down from EBIT level.
Tax	(1.3)	(2.2)	(10.5)	>100	>100	(8.1)	(18.7)	>100	
Minority Interest	(0.1)	0.0	(0.3)	nm	>100	(0.1)	(0.3)	>100	
Net profit	26.2	31.6	31.6	(0.0)	20.7	103.9	121.2	16.6	
Core net profit	26.2	31.6	31.6	(0.0)	20.7	103.9	121.2	16.6	
Margins (%)									
EBIT	9.5	13.5	12.6			8.8	12.1		QoQ margin decline as the downward revision and softer US\$ rate was only partially offset by the lower nitrile prices.
Pre-tax	10.1	13.8	13.1			11.0	13.4		
Effective tax rate	4.6	6.6	24.8			7.2	13.3		Effective tax rate remained lower than the statutory rate mainly due to the availability of tax incentives.
Net profit	9.6	12.9	9.8			10.2	11.6		
Core net profit	9.6	12.9	9.8			10.2	11.6		

Source: Company data, RHBRI

Table 3: Supermax Earnings Forecasts				
FYE Dec (RMm)	FY12a	FY13f	FY14f	FY15f
Turnover	1048.4	1135.7	1376.5	1554.0
Turnover growth (%)	2.6	8.3	21.2	12.9
EBITDA	151.0	200.1	244.5	270.4
EBITDA margin (%)	14.4	17.6	17.8	17.4
Dep. & amort.	(24.3)	(30.6)	(33.7)	(36.9)
EBIT	126.7	169.5	210.7	233.6
EBIT margin (%)	12.1	14.9	15.3	15.0
Net interest expense	(13.1)	(13.1)	(9.0)	(9.0)
Associates	23.4	30.4	39.5	45.4
Exceptionals	0.0	0.0	0.0	0.0
Pretax Profit	140.2	164.4	210.0	233.9
Tax	(18.7)	(24.7)	(37.8)	(46.8)
Minorities	(0.3)	0.1	0.1	0.1
Net Profit	121.2	139.8	172.3	187.2
Core Net Profit	121.2	139.8	172.3	187.2

Source: Company data, RHBRI estimates

Table 4: Forecast Assumptions			
FYE Dec	FY13f	FY14f	FY15f
Average capacity (bn pcs)	22.8	28.1	28.1
Utilisation rate (%)	60.7	71.9	79.4
Change in ASP (%)	4.0	4.0	4.0

Source: RHBRI estimates

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Stock 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

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