

Results Note

Supermax

SUCB MK
RM1.79

ADD (maintain)

Price Target: RM2.20 (↑)



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|--------|-------|
| Absolute | -5.3% | -11.4% | -4.8% |
| Rel to KLCI | -4.5% | -10.5% | -5.2% |

Stock Data

| | |
|-------------------------------|-------------|
| Issued shares (m) | 680.2 |
| Mkt cap (RMm) | 1,217.5 |
| Avg daily vol - 6mth (m) | 2.6 |
| 52-wk range (RM) | 1.13 – 2.38 |
| Est free float | 64.0% |
| NTA per share (RM) | 1.13 |
| P/NTA (x) | 1.58 |
| Net cash/ (debt) (RMm) (1Q12) | (216.0) |
| ROE (FY12E) | 14.3% |
| Derivatives | Nil |

Key Shareholders

| | |
|-------------------------|-------|
| Dato' Seri Stanley Thai | 20.4% |
| Datin Seri Cheryl Tan | 15.1% |

Earnings & Valuation Revisions

| | 12E | 13E | 14E |
|------------------------|------|------|------|
| Prev EPS (sen) | 18.9 | 20.8 | 23.9 |
| Curr EPS (sen) | 18.9 | 20.8 | 23.9 |
| Chg (%) | - | - | - |
| Prev target price (RM) | | 2.10 | |
| Curr target price (RM) | | 2.20 | |

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Aided by recovery in associate contribution

Broadly within expectations

Supermax reported 1QFY12 revenue of RM248.5m, up +3% yoy on the back of stronger rubber gloves volume sales, the impact of which had been negated by a fall in ASPs. The sharp -26% yoy decline in average latex price had led to lower ASPs (c. -20% yoy), which in a way prompted customers to increase orders and replenish inventories. The lower latex price helped lift EBIT margin by +2.2%-points yoy to 9.8% in 1QFY12. Consequently, despite a higher effective tax rate of 8.7% (1QFY11: 4.7%), 1QFY12 net profit grew by +14.7% yoy to RM28m, accounting for 22% and 21% of our and consensus full year estimates. We deem the results to be broadly within expectations. No dividend was declared for the quarter.

Higher volume sales offset by lower ASPs for thinner gloves

Sequentially, gloves volume sales grew by +2.5%. However, this was largely offset by a switch in customer preference to thinner, lighter and, ultimately, lower-priced gloves (2.5mil nitrile gloves are priced c. 12-22% lower than the 4mil or 5mil nitrile gloves). As a result, 1QFY12 revenue declined by -10% qoq. EBIT margin slipped by -0.3%-points qoq, mainly due to the +2.9% qoq increase in average latex price. However, stronger contribution from associates (+>100% qoq) helped narrow the sequential net profit decline to -0.7% qoq. Recall that in 4QFY11, management chose to clear out the higher priced stocks in its overseas subsidiaries and associates, thus realizing lower profit margins. Conversely, Supermax's overseas subsidiaries and associates benefited in 1QFY12 from lower priced inventories carried over from 4QFY11.

Maintain ADD with a higher target price of RM2.20

We maintain our FY12-14 net profit forecasts, as we anticipate a stronger set of earnings in the coming quarters from: 1) falling latex price (down -10.3% from its peak of RM7.96/kg in Feb 2012), and; 2) initial contribution from the surgical glove division, as 2 of the 7 production lines in the Lot 42 factory were commissioned last month. Notwithstanding that, challenges remain in the form of: 1) the implementation of minimum wage, which could impact bottomline by up to -10%, and; 2) intensifying nitrile glove price competition. Supermax plans on doubling its nitrile glove production capacity to 10.5bn pieces/annum by end-2013, which would raise the proportion of nitrile gloves produced to 52%. Taking into account the weak market sentiment, we revise our PE target down a notch from 12x to 11x. After rolling forward our valuation horizon to CY13, our target price is raised to RM2.20 (previously, RM2.10). Maintain ADD.

Earnings and valuation summary

| FYE Dec | 2010 | 2011 | 2012E | 2013E | 2014E |
|------------------------|-------|---------|---------|---------|---------|
| Revenue (RMm) | 977.3 | 1,021.4 | 1,211.0 | 1,340.1 | 1,426.0 |
| EBITDA (RMm) | 181.5 | 113.9 | 142.9 | 154.6 | 158.1 |
| Pretax profit (RMm) | 183.8 | 112.1 | 142.8 | 157.5 | 181.0 |
| Net profit (RMm) | 158.9 | 104.2 | 128.6 | 141.7 | 162.9 |
| EPS (sen) | 23.4 | 15.3 | 18.9 | 20.8 | 23.9 |
| PER (x) | 7.7 | 11.7 | 9.5 | 8.6 | 7.5 |
| Core net profit (RMm) | 158.9 | 108.2 | 128.6 | 141.7 | 162.9 |
| Core EPS (sen) | 23.4 | 15.9 | 18.9 | 20.8 | 23.9 |
| Core EPS chg (%) | 25.6 | -31.9 | 18.8 | 10.2 | 15.0 |
| Core PER (x) | 7.7 | 11.3 | 9.5 | 8.6 | 7.5 |
| DPS (sen) | 3.8 | 3.3 | 6.0 | 7.0 | 8.0 |
| Dividend Yield (%) | 2.1 | 1.8 | 3.4 | 3.9 | 4.5 |
| EV/EBITDA (x) | 7.8 | 12.6 | 9.1 | 8.3 | 7.9 |
| Consensus profit (RMm) | | | 131.2 | 144.6 | 163.6 |
| Affin/Consensus (x) | | | 1.0 | 1.0 | 1.0 |

Fig 1: Quarterly results comparison

| FYE Dec (RMm) | 1QFY11 | 4QFY11 | 1QFY12 | QoQ % chg | YoY % chg | Comment |
|------------------------|-------------|-------------|-------------|---------------|--------------|---|
| Revenue | 241.4 | 276.2 | 248.5 | (10.0) | 3.0 | Although volume sales grew +2.5% qoq, revenue was lower due to customers switching over to thinner and lighter gloves. |
| Operating cost | (222.9) | (248.4) | (224.2) | (9.8) | 0.5 | |
| EBIT | 18.4 | 27.8 | 24.4 | (12.3) | 32.1 | |
| <i>EBIT margin (%)</i> | <i>7.6</i> | <i>10.1</i> | <i>9.8</i> | <i>Nm</i> | <i>Nm</i> | Yoy improvement attributed to the -26% yoy decline in average latex price. On a qoq basis, average latex price was higher by +2.9%. |
| Int expense | (3.3) | (2.9) | (2.6) | (9.2) | (22.0) | |
| Int and other inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Associates | 10.5 | 4.4 | 8.9 | 104.2 | (14.9) | |
| EI | 0.0 | 0.0 | 0.0 | nm | nm | |
| Pretax profit | 25.6 | 29.3 | 30.7 | 4.8 | 19.9 | |
| Tax | (1.2) | (1.3) | (2.7) | 113.5 | (121.5) | |
| <i>Tax rate (%)</i> | <i>4.7</i> | <i>4.3</i> | <i>8.7</i> | <i>Nm</i> | <i>Nm</i> | |
| MI | (0.0) | 0.1 | (0.0) | 0.0 | 0.0 | |
| Net profit | 24.4 | 28.2 | 28.0 | (0.7) | 14.7 | |
| EPS (sen) | 7.2 | 8.3 | 8.2 | (0.7) | 14.7 | |
| Core net profit | 24.4 | 28.2 | 28.0 | (0.7) | 14.7 | Accounts for 22% and 21% of our and consensus full year estimates |

Source: Company

Equity Rating Structure and Definitions

| | |
|-------------------------------|---|
| BUY | Total return is expected to exceed +15% over a 12-month period |
| TRADING BUY (TR BUY) | Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks |
| ADD | Total return is expected to be between 0% to +15% over a 12-month period |
| REDUCE | Total return is expected to be between 0% to -15% over a 12-month period |
| TRADING SELL (TR SELL) | Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks |
| SELL | Total return is expected to be below -15% over a 12-month period |
| NOT RATED | Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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