



AmResearch

Company report

SUPERMAX

(SUCB MK, SUPM.KL)

27 February 2013

FY12 earnings rise on sustained glove demand

HOLD

(Maintained)

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Rationale for report: Company Result

Price	RM1.80
Fair Value	RM2.20
52-week High/Low	RM2.23/RM1.63

Key Changes

Fair value	UNDER REVIEW
EPS	Unchanged

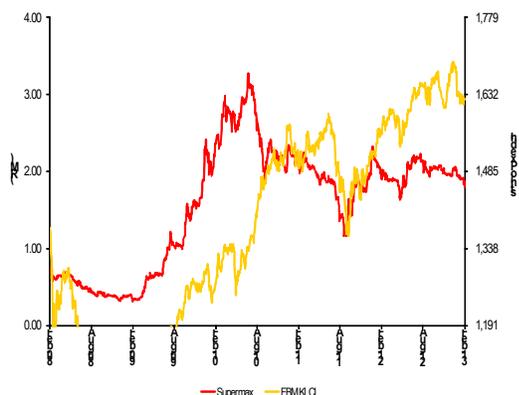
YE to Dec	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	1,048.4	1,314.3	1,498.4	1,502.4
Core net profit (RMmil)	97.5	149.8	168.7	185.9
EPS (Sen)	14.3	22.0	24.8	27.3
EPS growth (%)	n/a	53.6	12.6	10.2
Consensus EPS (Sen)	n/a	n/a	n/a	n/a
DPS (Sen)	5.0	6.8	7.8	8.3
PE (x)	12.6	8.2	7.3	6.6
EV/EBITDA (x)	8.9	6.1	5.1	5.1
Div yield (%)	2.8	3.8	4.3	4.6
ROE (%)	11.9	16.3	16.5	16.1
Net Gearing (%)	15.5	9.3	5.2	n/a

Stock and Financial Data

Shares Outstanding (million)	680.2
Market Cap (RMmil)	1,224.3
Book value (RM/share)	1.29
P/BV (x)	1.4
ROE (%)	11.9
Net Gearing (%)	15.5
Major Shareholders	Kim Sim Thai (20.5%) Bee Geok Tan (15.2%)

Free Float (%)	49.7
Avg Daily Value (RMmil)	1.8

Price performance	3mth	6mth	12mth
Absolute (%)	(11.8)	(16.3)	(6.7)
Relative (%)	(12.8)	(14.8)	(10.9)



Investment Highlights

- We reiterate our HOLD recommendation on Supermax Corp Bhd (Supermax), with an unchanged fair value of RM2.20/share, which is now UNDER REVIEW. Our fair value now represents a 22.2% upside to the current share price, given its recent weakness.
- Supermax registered a net profit of RM122mil (+13% YoY) for FY12 on the back of a 3% revenue growth. This is in-line with both our, and consensus, forecast. Earnings growth would have been greater were it not for the higher-than-usual effective tax rate of 25% in 4QFY12 (FY12:13.3%; FY11: 7.2%), which management attributes to the under-provisioning in previous periods.
- Supermax's turnover rose 31% compared to the previous quarter's RM246mil following additional capacity from its new and refurbished lines. 4QFY12 net profit was up a mere 2% despite PBT's growth of 25%.
- In view of the improved operating environment, Supermax's EBITDA margin expanded 2.8ppts YoY to 14.4% in FY12. Its RM66mil manufacturing and process automation investment coupled with softer raw material prices in FY12 (latex and nitrile prices declined by 14% and 11%, respectively) had contributed to this expansion.
- In addition, Supermax's move up the value chain to higher-end nitrile and surgical gloves will be a boon to margins. At present, it has a nitrile capacity of 5.2bil pcs. However, once capacity from Plants 10 and 11 in Meru as well as from the refurbishment of its older plants come on-stream by end-FY13F, Supermax will have an installed nitrile capacity of 12 bilpcs per annum, which will account for 52% of its product mix.
- Meanwhile, 5 out of the 7 lines earmarked for surgical gloves production in its Sungai Buloh plant have commenced operations in May 2012. Management is confident that the group will be allocated the additional sterilisation capacity by October 2013 and that the additional packaging machineries will arrive very soon.
- While we are mindful of price competition in the nitrile segment setting in 2H13, we are not too concerned as demand growth is sustainable (+10% YoY). As it is, Supermax is in an oversold position with natural rubber gloves having a lead time of 45-60 days, nitrile gloves 4-5 months and surgical gloves 6 months.
- Supermax has declared a final gross DPS of 3 sen for 4QFY12, bringing total FY12 gross DPS to 5 sen (FY11: 4.75 sen). This represents a payout ratio of 28% (official policy of 30%) and a yield of 2.8%. Our FY13F gross DPS forecast of 6.75 sen translates into a yield of 3.8%.

TABLE 1: EARNINGS SUMMARY

<u>YE 31 Dec (RM mil)</u>	<u>3Q12</u>	<u>4Q12</u>	<u>QoQ (%)</u>	<u>FY11</u>	<u>FY12</u>	<u>YoY (%)</u>
Revenue	245.5	322.3	31.3	1021.4	1048.4	2.6
EBITDA	39.2	46.6	18.9	118.5	151.0	27.5
Depreciation	(6.1)	(6.1)		(24.1)	(24.3)	
EBIT	33.2	40.6		94.4	126.7	
Interest income	0.0	0.0		0.0	0.0	
Interest expense	(2.7)	(2.0)		(13.1)	(9.9)	
Pre-Exceptionals Profit	30.5	38.6		81.3	116.8	
Exceptional	0.0	0.0		(4.0)	0.0	
Pre-Associates Profit	30.5	38.6		77.3	116.8	
Share of Profits of Associate:	3.3	3.8		34.8	23.4	
Profit Before Tax	33.8	42.3	25.1	112.1	140.2	25.0
Taxation	(2.2)	(10.5)		(8.1)	(18.7)	
Minority Interest	0.0	0.3		0.1	0.3	
Net Profit	31.6	32.1	1.6	104.2	121.8	16.9
Core net profit	31.6	32.1	1.6	108.2	121.8	12.6
Core EPS (sen)	4.6	4.7		15.9	17.9	
Gross DPS (sen)	2.0	3.0		4.8	2.0	
EBITDA margin (%)	16.0	14.5		11.6	14.4	
Pretax margin (%)	13.8	13.1		11.0	13.4	
Effective tax rate (%)	6.6	24.8		7.2	13.3	
Net profit margin %	12.9	10.0		10.2	11.6	

Source: Bursa Malaysia

CHART 1 : PB BAND CHART

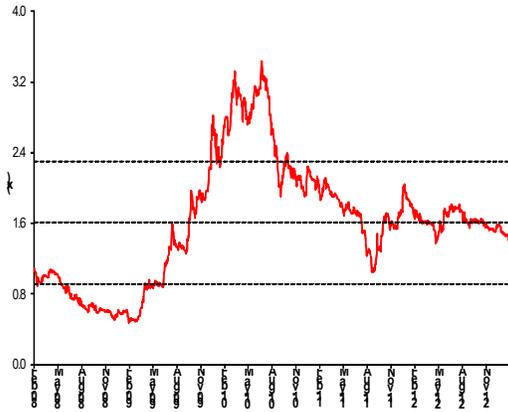


CHART 2 : PE BAND CHART

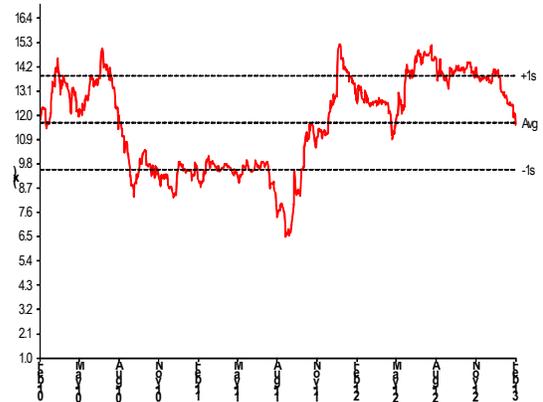


TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue	1,021.4	1,048.4	1,314.3	1,498.4	1,502.4
EBITDA	117.9	126.7	176.1	202.2	184.7
Depreciation	(24.1)	(24.3)	(34.3)	(38.4)	0.0
Operating income (EBIT)	93.8	102.4	141.9	164	184.7
Other income & associates	34.8	23.4	34.8	34.8	34.8
Net interest	(12.5)	(9.9)	(12.9)	(9.8)	(9.1)
Exceptional items	(4.0)	0.0	0.0	0.0	0.0
Pretax profit	112.1	115.9	163.8	188.8	210.5
Taxation	(8.1)	(18.7)	(14.7)	(20.8)	(25.3)
Minorities/pref dividends	0.1	0.3	0.7	0.7	0.7
Net profit	104.2	97.5	149.8	168.7	185.9
Core net profit	108.2	97.5	149.8	168.7	185.9
Balance Sheet (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Fixed assets	402.2	450.5	501.6	551.9	599.6
Intangible assets	28.7	28.7	28.7	28.7	29.7
Other long-term assets	233.5	254.2	254.2	254.2	254.2
Total non-current assets	664.4	733.4	784.5	834.8	883.5
Cash & equivalent	104.5	122.3	127.6	106.5	160.4
Stock	223.1	233.6	233.9	266.4	270.0
Trade debtors	104.5	165.5	151.2	172.4	172.4
Other current assets	109.0	6.2	6.2	6.2	6.2
Total current assets	541.1	527.7	519.0	551.5	609.1
Trade creditors	60.0	48.7	71.1	81.0	82.1
Short-term borrowings	190.5	142.1	132.6	99.9	85.7
Other current liabilities	27.3	41.0	27.8	42.3	43.2
Total current liabilities	277.7	231.8	231.5	223.2	211.0
Long-term borrowings	140.5	141.2	94.4	66.2	50.5
Other long-term liabilities	18.2	12.4	12.4	12.4	12.4
Total long-term liabilities	158.7	153.6	106.8	78.6	62.9
Shareholders' funds	769.1	876.1	965.5	1,084.9	1,218.1
Minority interests	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)
BV/share (RM)	1.13	1.29	1.42	1.60	1.79
Cash Flow (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	112.1	115.9	163.8	188.8	210.5
Depreciation	24.1	24.3	34.3	38.4	43.4
Net change in working capital	(48.0)	10.4	(8.3)	(63.5)	(4.8)
Others	(31.7)	17.2	(25.2)	(34.3)	(40.6)
Cash flow from operations	56.4	167.8	164.5	129.3	208.5
Capital expenditure	(38.1)	(68.1)	(95.8)	(88.5)	(90.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(38.1)	(68.1)	(95.8)	(88.5)	(90.0)
Debt raised/(repaid)	27.5	(69.1)	0.0	0.0	0.0
Equity raised/(repaid)	4.0	3.0	4.0	5.0	6.0
Dividends paid	(27.2)	0.0	(47.6)	(49.3)	(52.7)
Others	(16.5)	(14.9)	(18.9)	(16.8)	(17.1)
Cash flow from financing	(12.3)	(81.0)	(62.5)	(61.2)	(63.8)
Net cash flow	6.0	18.6	6.2	(20.3)	54.7
Net cash/(debt) b/f	(21.4)	87.7	6.2	(20.3)	54.7
Net cash/(debt) c/f	(226.4)	(160.9)	(99.4)	(59.6)	24.2
Key Ratios (YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	4.5	2.6	25.4	14.0	0.3
EBITDA growth (%)	n/a	7.5	39.0	14.8	n/a
Pretax margins (%)	11.0	11.1	12.5	12.6	14.0
Net profit margins (%)	10.2	9.3	11.4	11.3	12.4
Interest cover (x)	7.5	10.3	11.0	16.7	20.4
Effective tax rate (%)	7.2	16.1	9.0	11.0	12.0
Net dividend payout (%)	21.2	34.9	30.7	31.2	30.2
Debtors turnover (days)	39	47	44	39	42
Stock turnover (days)	64	80	65	61	65
Creditors turnover (days)	18	19	17	19	20

Source: Company, AmResearch estimates

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