



PP16795/03/2013(031743)

# Supermax Corporation

**Buy** ◀ ▶

**Below** Recovery Slower Than Expected

Price: **RM1.79**

Target Price: **(17.9% Upside) RM2.11**

### Stock Data

Bloomberg Ticker	SUCB MK	Altman Z-score	3.8
Market Cap	1,217.5	YTD price chg	-6.5%
Issued shares	680.2	YTD KLCI chg	1.6%
52-week range (H)	2.38	Beta	1.3
52-week range (L)	1.13	<b>Major Shareholders</b>	
3-mth avg daily volume	1,382,39	Dato Seri Stanley Thai	20.4%
Free Float	55.5%	Datin Seri Cheryl Tan	15.1%
Shariah Compliant	Y	EPF	9.0%
Financial Derivatives	n.a.		

Share Performance (%)	1mth	3mth	12mth
Absolute	(5.3)	(11.4)	(3.3)
vs. KLCI	(5.2)	(10.5)	(5.2)

### Financial Highlights

FYE 31 Dec	2009	2010	2011	2012E	2013E
Turnover	803.6	977.3	1,021.4	1,172.5	1,312.2
EBIT	131.9	155.8	94.3	112.5	126.9
Pretax profit	151.5	183.9	112.0	132.5	143.2
<b>Core Net Profit</b>	<b>126.6</b>	<b>159.0</b>	<b>108.1</b>	<b>119.3</b>	<b>129.1</b>

EBIT margin	16.4%	15.9%	9.2%	9.6%	9.7%
Pretax margin	18.8%	18.8%	11.0%	11.3%	10.9%
Effective tax rate	16.4%	13.5%	7.2%	10.0%	10.0%
ROE	26.0%	25.4%	14.8%	14.6%	14.0%
ROA	13.4%	15.8%	9.2%	9.6%	9.5%
Net Gearing (x)	0.32	0.29	0.28	0.19	0.10
Core EPS (sen)	18.6	23.4	15.9	17.5	19.0
PER (x)	9.6	7.7	11.3	10.2	9.4
DPS (sen)	0.7	0.9	2.4	3.0	3.0
Div. Yield (%)	0.4%	0.5%	1.3%	1.7%	1.7%
NTA/share (RM)	0.78	0.97	1.09	1.24	1.40

### Growth ratios

Turnover	-1.0%	21.6%	4.5%	14.8%	11.9%
EBIT	87.9%	18.1%	-39.5%	19.3%	12.8%
Pretax profit	191.3%	21.4%	-39.1%	18.2%	8.1%
Core Net profit	98.9%	25.6%	-32.0%	10.5%	8.1%
Core EPS growth	98.9%	25.6%	-32.0%	10.5%	8.1%

### Share Price Chart



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Supermax' 1QFY12 net earnings of RM28m came in 15% below our expectation and 10% lower than consensus. YoY revenue is 3% higher while net profit improved by 14.7%; nonetheless, earnings recovery is slower than expected despite lower latex price in the current quarter. We believe the main reason can be attributed to the softer selling price as a result of stiffer competition. QoQ earnings is 6.4% higher due to improved contribution from associate in the current quarter. Latex price has shown recovery and stability in the past few months and we expect earnings to improve in the next quarter. Nonetheless, reflecting the heightened competition, we have reduced our FY12 and FY13 net earnings estimates by 15% and 13% respectively thus the target price reduced to RM2.11. The stock still offers potential upside by over 17% and we are maintaining our BUY recommendation on Supermax.

**Better YoY margins.** YoY EBIT margin has improved from 7.6% to 9.8% due to lower latex price. Nonetheless, QoQ margin is slightly lower due to softer selling price resulted from stronger competition and change in product mix.

**Stabilised latex price.** In the past 3 months, latex price has been trending below RM8/kg without much fluctuation. We believe if this level can be sustained for longer period, earnings shall improve further in coming quarter.

**Moving into higher margin products.** Supermax's surgical glove capacity expansion at the Sg Buloh plant is progressing with the commissioning of 2 out of the 7 lines planned in April 2012. The remaining lines will be commissioned in stages. According to management, contribution from new surgical gloves will begin in 2QFY12.

**New plants to cater for more variety of products.** Supermax will proceed to build plants 10<sup>th</sup> and 11<sup>th</sup> over the next 2 years in Meru, Klang as planned. These new plants will have lines that are inter-switchable between natural rubber and Nitrile rubber glove production.

**Reducing our forecast.** We reduced our FY12 and FY13 net earnings forecast by 15% and 13% respectively to RM119.3m and RM129.1m respectively by factoring lower selling prices due to stiffer competition. Financial leverage is manageable with net gearing of 0.3x supported by strong interest coverage of 9.4x.

**Valuation & Recommendation.** Following our earnings revision we have reduced our target price to RM2.11 based on its 5-year average PE band of 12x over FY12 core EPS of 17.5sen. Nonetheless, the stock still offers potential upside of more than 17% and we reiterate our BUY recommendation on Supermax.

## Quarterly figures

FY 31 Dec (RMm)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	QoQ	YoYChg	1QFY11	1QFY12	YTD Chg
Revenue	241.4	237.9	271.4	270.6	248.5	-8.2%	3.0%	241.4	248.5	3.0%
EBIT	18.4	19.1	29.9	27.0	24.4	-9.7%	32.1%	18.4	24.4	32.1%
<b>Pretax profit</b>	<b>25.6</b>	<b>23.9</b>	<b>34.1</b>	<b>28.5</b>	<b>30.7</b>	<b>7.8%</b>	<b>19.9%</b>	<b>25.6</b>	<b>30.7</b>	<b>19.9%</b>
Taxation	(1.2)	(1.4)	(3.2)	(2.3)	(2.7)	15.3%	121.5%	(1.2)	(2.7)	121.5%
Minority Interest	0.0	(0.0)	0.0	0.1	(0.0)	-133.3%	n.a.	0.0	(0.0)	n.a.
<b>Net Profit</b>	<b>24.4</b>	<b>22.6</b>	<b>30.9</b>	<b>26.3</b>	<b>28.0</b>	<b>6.4%</b>	<b>14.7%</b>	<b>24.4</b>	<b>28.0</b>	<b>14.7%</b>
<b>Core Net Profit</b>	<b>24.4</b>	<b>26.6</b>	<b>30.9</b>	<b>26.3</b>	<b>28.0</b>	<b>6.4%</b>	<b>14.7%</b>	<b>24.4</b>	<b>28.0</b>	<b>14.7%</b>
EPS (sen)	3.6	3.9	4.5	3.9	4.1	6.4%	14.7%	3.6	4.1	14.7%
Net gearing (x)	0.4	0.3	0.3	0.3	0.3	-4.6%	-23.6%	0.4	0.3	-23.6%
EBIT margin (%)	7.6%	8.0%	11.0%	10.0%	9.8%	-1.6%	28.3%	7.6%	9.8%	28.3%
PBT margin (%)	10.6%	10.1%	12.6%	10.5%	12.4%	17.4%	16.4%	10.6%	12.4%	16.4%
Net profit margin (%)	10.1%	9.5%	11.4%	9.7%	11.3%	15.9%	11.4%	10.1%	11.3%	11.4%
Effective tax rate (%)	-4.7%	-5.7%	-9.4%	-8.2%	-8.7%	7.0%	84.8%	-4.7%	-8.7%	84.8%

Source: BIMB Securities

## Income Statement

FY 31 Dec (RMm)	2009	2010	2011	2012E	2013E
Revenue	803.6	977.3	1,021.4	1,172.5	1,312.2
EBITDA	163.8	181.8	118.4	150.2	166.6
<b>Pretax profit</b>	<b>151.5</b>	<b>183.9</b>	<b>112.0</b>	<b>132.5</b>	<b>143.2</b>
Tax	(24.9)	(24.9)	(8.1)	(13.2)	(14.3)
MI	0.0	(0.0)	0.1	0.1	0.2
<b>Net profit</b>	<b>126.6</b>	<b>159.0</b>	<b>104.1</b>	<b>119.3</b>	<b>129.1</b>
<b>Core Net Profit</b>	<b>126.6</b>	<b>159.0</b>	<b>108.1</b>	<b>119.3</b>	<b>129.1</b>
EPS growth (%)	98.9%	25.6%	-32.0%	10.5%	8.1%
DPS (sen)	0.7	0.9	2.4	3.0	3.0
NTA/ share (RM)	0.8	1.0	1.1	1.2	1.4
Net gearing (x)	0.3	0.3	0.3	0.2	0.1
PER (x)	9.6	7.7	11.3	10.2	9.4
Div. yield (%)	0.4%	0.5%	1.3%	1.7%	1.7%
P/ NTA (x)	2.3	1.8	1.6	1.4	1.3
EV/ EBITDA (x)	8.6	7.9	11.6	8.8	7.6
ROE (%)	26.0%	25.4%	14.8%	14.6%	14.0%

Source: BIMB Securities

## Balance Sheet

FYE 31 Dec (RMm)	2009	2010	2011	2012E	2013E
Non Current Assets	564.1	620.3	662.6	654.9	655.2
Current Assets	381.2	445.1	522.8	638.9	757.1
<b>Total Assets</b>	<b>945.2</b>	<b>1,065.4</b>	<b>1,185.3</b>	<b>1,293.8</b>	<b>1,412.3</b>
Current Liabilities	213.7	219.7	244.9	254.3	264.2
Non Current Liabilities	172.7	154.1	169.9	169.9	169.9
Shareholders' Fund	558.8	691.5	770.6	869.5	978.1
Minority Interests	0.0	0.1	(0.1)	0.0	0.0
<b>Equity &amp; Liabilities</b>	<b>945.2</b>	<b>1,065.4</b>	<b>1,185.3</b>	<b>1,293.8</b>	<b>1,412.3</b>

Source: BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>NEUTRAL</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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