

## Supermax Corp

SUCB MK / SUPM.KL

### FLASH NOTE

Market Cap  
**US\$536.2m**  
RM1,705m

Avg Daily Turnover  
**US\$2.33m**  
RM7.57m

Free Float  
**59.4%**  
612.1 m shares

Current  
Target   
Prev. Target  
Up/Downside

**RM2.51**  
**RM3.76**  
**RM3.02**  
**49.9%**

SHORT TERM (3 MTH)

TRADING BUY

TRADING SELL

LONG TERM

**OUTPERFORM**

NEUTRAL

UNDERPERFORM

### CIMB Analyst(s)



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### Share price info

Share price perf. (%)	1M	3M	12M
Relative	0.1	7.7	10.7
Absolute	1.6	9.1	20.7

Major shareholders	% held
Dato' Seri Thai Kim Sim, Stanley	20.7
Datin Seri Tan Bee Geok, Cheryl	14.8
Koperasi Permodalan Felda	5.2

## Proposed land acquisition

Supermax proposed to acquire land for a manufacturing plant at a price of RM78.4m cash, which will be funded by debt and internal funds. The acquisition comes at an opportune time and alleviates the investor concerns over the company's capacity constraints.

Supermax remains an Outperform, with the catalysts of strong demand and widening margins. Our FY13-15 net profit forecasts are unchanged but target price is increased by 25% as we roll over our valuation to CY15 and apply a higher 13.5x P/E from 13x, still at 30% discount to Hartalega's P/E that we recently raised to 19x from 18.7x (in line with the increase in our KLCI target P/E to 15.9x from 15.6x in Sep).

### What Happened

Supermax announced that its wholly-owned subsidiary Maxwell Glove Manufacturing Bhd entered into a sale and purchase agreement with Dragonline Resources Sdn Bhd to acquire a parcel of freehold industrial land measuring 40.5ha in Daerah Ulu Selangor for a cash consideration of RM78.4m. The proposed acquisition will be funded via internally generated funds and bank borrowings, with the exact mix to be determined later. The proposed acquisition will facilitate Supermax's plan to build an integrated glove manufacturing complex. The plan will utilise about 60% of the land's buildable area for the immediate

expansion of nitrile glove manufacturing capacity to meet growing global demand. The remaining 40% of the land will be sold or leased to supporting industries.

### What We Think

We were surprised by the proposed acquisition as two of Supermax's new manufacturing plants are still under construction. However, we view the acquisition positively as Supermax's new nitrile plants are expected to run at high utilisation rates. Without further expansion, the group is likely to face capacity constraints. The idea of selling or leasing part of the acquired land to supporting industries will reduce the delivery time and logistics costs for both Supermax and the other parties. Funding is not an issue as Supermax has low net gearing of 0.13x and a high interest coverage ratio of 17x.

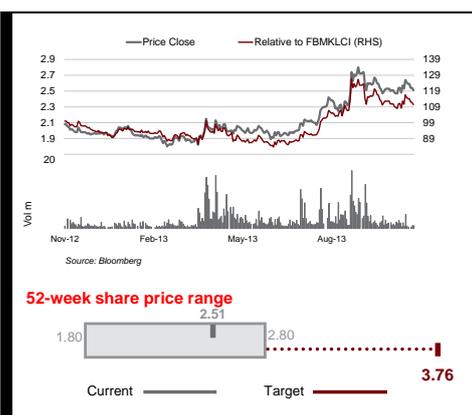
### What You Should Do

Accumulate. Supermax is trading at an attractive 9.5x CY14 P/E versus the 15x sector average. We believe that Supermax is on track to achieving our FY13-15 net profit forecasts.

### Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (RMm)	1,021	997	1,340	1,400	1,449
Operating EBITDA (RMm)	113.9	147.0	158.6	190.4	206.3
Net Profit (RMm)	104.1	121.4	137.0	161.3	172.4
Core EPS (RM)	0.18	0.20	0.22	0.26	0.28
Core EPS Growth	(32.2%)	12.7%	12.8%	17.7%	6.9%
FD Core P/E (x)	14.26	12.65	11.22	9.53	8.91
DPS (RM)	0.036	0.041	0.050	0.058	0.058
Dividend Yield	1.44%	1.64%	1.98%	2.32%	2.32%
EV/EBITDA (x)	13.19	10.08	9.36	7.57	6.71
P/FCFE (x)	45.98	39.23	54.21	19.25	15.68
Net Gearing	25.2%	18.6%	16.8%	10.7%	4.7%
P/BV (x)	2.00	1.84	1.63	1.43	1.27
ROE	14.7%	15.1%	15.4%	16.0%	15.1%
% Change In Core EPS Estimates			(0.042%)	(0.036%)	(0.035%)
CIMB/consensus EPS (x)			1.09	1.13	1.11

SOURCE: CIMB, COMPANY REPORTS



### **Proposed land acquisition for manufacturing plant ▶**

Supermax announced that its wholly-owned subsidiary Maxwell Glove Manufacturing Berhad entered into a sale and purchase agreement with Dragonline Resources Sdn Bhd to acquire a parcel of freehold industrial land measuring 40.5ha (100 acre) in Daerah Ulu Selangor for a total cash consideration RM78.4m. The proposed acquisition will be funded via internally-generated funds and bank borrowings, with the exact mix to be determined later. The purpose of the proposed acquisition is to facilitate Supermax's plan to build an integrated glove manufacturing complex.

The company will only be utilising about 60% of the land's buildable area for the immediate expansion of its nitrile medical, dental examination and nitrile surgical glove manufacturing capacity. The remaining 40% of the land will be sold or leased to the glove sector's supporting industries such as chemical and packaging suppliers, engineering and automation companies, logistics service providers and porcelain/ceramic former manufacturers. The proposed acquisition is expected to be completed in three months.

### **Proposed land acquisition just in time ▶**

The proposed acquisition to build a new manufacturing plant comes at an opportune time, given the strong global demand for nitrile gloves. Supermax's two new nitrile manufacturing plants in Klang, which will boost its nitrile manufacturing capacity to 12.3bn/annum (53% of total capacity) from 6.9bn/annum (39% of total capacity), are slated to commence operations in 1Q14. We understand that the take-up rate is high. Without future expansion, the company is likely to face capacity constraints.

Supermax still has a 36 acre parcel of land in Glove City on which it plans to build six large plants with a combined annual production capacity of 24bn pieces of gloves. However, the plan was put on hold as the company waits for the gas shortage issue to be resolved.

### **Plant on new land could produce 60-70% more gloves than Glove City ▶**

Supermax has not determined the production capacity to be installed on the new land. However, based on the land size and total manufacturing capacity to be installed in Glove City, we estimate that 60% of the newly-acquired land earmarked for Supermax's expansion could accommodate production capacity of ~40bn pieces of gloves per annum. This is 60-70% larger than the planned production capacity of Glove City.

### **Sharing the plot of land with supporting industries is win-win situation ▶**

Supermax's idea of selling or leasing 40% of the land to supporting industries is a win-win situation for both parties. The supporting industries will have a ready customer at close proximity and make substantial logistics cost savings, while Supermax will benefit from greater efficiency in terms of timely delivery and shorter delivery lead time.

### **Funding is not an issue ▶**

At end-Jun 2013, Supermax had total borrowings of RM264m and cash of RM147m. This translates into a low net gearing ratio of 0.13x. Furthermore, its interest coverage ratio is high at 17x. Thus, funding is not an issue.

**Figure 1: Sector Comparison**

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY13	CY14		CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Hartalega Holdings	HART MK	Neutral	7.35	6.70	1718.0	20.8	18.6	11.1%	5.4	4.1	30.4%	25.3%	13.7	12.1	2.1%	2.4%
Kossan Rubber Industries	KRI MK	Outperform	3.25	3.97	653.7	15.1	12.2	20.0%	2.9	2.5	21.4%	22.1%	8.9	7.5	1.9%	2.3%
Supermax Corp	SUCB MK	Outperform	2.51	3.76	536.2	11.2	9.5	11.3%	1.6	1.4	15.7%	16.0%	9.2	7.6	2.0%	2.3%
Top Glove Corporation	TOPG MK	Neutral	5.75	6.46	1122.2	18.2	16.6	5.0%	2.6	2.4	15.3%	15.0%	11.1	10.3	2.8%	3.0%
<b>Malaysia average</b>						<b>17.2</b>	<b>15.0</b>	<b>10.9%</b>	<b>3.1</b>	<b>2.7</b>	<b>20.0%</b>	<b>19.1%</b>	<b>11.2</b>	<b>9.8</b>	<b>2.3%</b>	<b>2.6%</b>

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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<b>Description:</b>		Excellent	Very Good	Good	N/A

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**Spitzer Chart for stock being researched ( 2 year data )**



Distribution of stock ratings and investment banking clients for quarter ended on 31 October 2013		
1252 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	49.8%	6.8%
Neutral	34.0%	5.7%
Underperform/Sell/Trading Sell	16.2%	4.6%

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**Stock**

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

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**Sector**

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** 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.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

**Recommendation Framework #2 \*\***

**Stock**

**OUTPERFORM:** Expected positive total returns of 10% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -10% and +10% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 10% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 10% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 10% or more over the next 3 months.

**Sector**

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*\*\* This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.**

**AAV** – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.