

Healthcare  
 Health Care Equipment  
 Equity – Malaysia

# Supermax (SUCB MK)

## Overweight

Target price (MYR)	3.26
Share price (MYR)	2.23
Potential return (%)	46.4

Note: Potential return equals the percentage difference between the current share price and the target price

Performance	1M	3M	12M
Absolute (%)	2.8	-4.7	-3.5
Relative <sup>A</sup> (%)	3.6	-4.3	-10.8

Index<sup>A</sup> KLSE COMPOSITE INDEX

RIC SUPM.KL  
 Bloomberg SUCB MK

Market cap (USDm)	480
Market cap (MYRm)	1,517
Enterprise value (MYRm)	1,430
Free float (%)	100

Note: (V) = volatile (please see disclosure appendix)

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OW: Expecting a better 2H14

- ▶ **2Q14 results missed HSBC and consensus estimates; lower net income due to output disruption and upgrading program**
- ▶ **Supermax's nitrile glove capacity expected to increase by 56% in FY14; well positioned to capture robust global demand for nitrile gloves**
- ▶ **We maintain our Overweight rating with an unchanged target price of MYR3.26; attractive valuations**

**2Q14 results were seasonally weaker:** 2Q14 revenue came in at MYR238m (-28% y-o-y, 2.5% q-o-q) mainly due to production loss from the fire in its Alor Gajah plant in 4Q13 and declining ASP as a result of lower raw material prices. Upgrading works to Supermax's other existing plants for automation and disruption to one of its plants due to water rationing in April also contributed to lower output for the quarter. Operating margins for 2Q14 declined marginally q-o-q but improved by 250 bps y-o-y to 13.8% due to improved productivity from its continuous automation efforts. 2Q14 net income at MYR27m fell 25% y-o-y and increased 0.6% q-o-q as production progressively increased after the fire. Although we expected 1H14 to be seasonally weaker, the results were slightly below our expectations as 1H14 net income only formed 40% of our full year estimates (39% of the Street's estimates).

**We expect a better outlook for 2H14** given that production levels should return to more normalised levels from 3Q14 onwards. The commissioning of Plant #10 and #11 in 2H will result in a 15% growth in total effective capacity for FY14 at c20bn pieces. We believe Supermax will be well-positioned to capture growing nitrile demand as its effective nitrile glove capacity is expected to grow by 56%, to c11bn pieces in FY14. Its product mix will be 53:47 in FY14 (nitrile:latex) versus 39:61 in FY13. Growing health and hygiene awareness from the Ebola health crisis may also stimulate demand for gloves (Refer to 4 August 2014 note on [Malaysia Glove Manufacturers](#)). While competition is expected to remain intense, the glove maker is stepping up its automation efforts to improve production efficiency to offset increase in production costs and to improve profitability.

**Maintain OW with DCF-based TP unchanged at MYR3.26:** The stock currently trades at 11.5x 2014e PE, a 45% discount to its peers. Valuation looks attractive and we maintain our OW rating on positive catalysts from incremental capacity in the next 12 months. We are 3% below consensus for FY14 net income estimates. **Key downside risks** include delays in expansion plans, weak pricing power from intense competition and slowdown in R&D efforts.

## Financials & valuation

### Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
<b>Profit &amp; loss summary (MYRm)</b>				
Revenue	1,048	1,236	1,507	1,668
EBITDA	156	183	223	247
Depreciation & amortisation	-27	-32	-41	-49
Operating profit/EBIT	129	150	182	198
Net interest	-8	-13	-17	-22
PBT	148	163	196	211
HSBC PBT	148	163	196	211
Taxation	-29	-32	-39	-42
Net profit	120	132	158	171
HSBC net profit	120	132	158	171

### Cash flow summary (MYRm)

Cash flow from operations	134	93	123	169
Capex	-102	-69	-197	-178
Cash flow from investment	-102	-69	-197	-178
Dividends	-34	-40	-48	-51
Change in net debt	0	3	107	47

### Balance sheet summary (MYRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	527	564	719	848
Current assets	597	676	759	813
Cash & others	167	173	166	167
Total assets	1,370	1,486	1,723	1,907
Operating liabilities	125	141	169	185
Gross debt	323	332	431	480
Net debt	156	159	265	313
Shareholders funds	899	990	1,100	1,219
Invested capital	832	926	1,143	1,309

### Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
<b>Y-o-y % change</b>				
Revenue	5.1	17.9	22.0	10.7
EBITDA	12.3	17.6	22.0	10.7
Operating profit	12.8	16.8	20.7	9.0
PBT	7.9	10.1	20.2	7.8
HSBC EPS	-1.6	10.1	20.2	7.8

### Ratios (%)

Revenue/IC (x)	1.3	1.4	1.5	1.4
ROIC	12.9	13.8	14.1	13.0
ROE	13.8	14.0	15.2	14.7
ROA	9.5	9.9	10.7	10.3
EBITDA margin	14.8	14.8	14.8	14.8
Operating profit margin	12.3	12.2	12.1	11.9
EBITDA/net interest (x)	20.4	13.8	12.9	11.4
Net debt/equity	17.3	16.0	24.2	25.7
Net debt/EBITDA (x)	1.0	0.9	1.2	1.3
CF from operations/net debt	86.1	58.6	46.2	53.9

### Per share data (MYR)

EPS reported (fully diluted)	0.18	0.19	0.23	0.25
HSBC EPS (fully diluted)	0.18	0.19	0.23	0.25
DPS	0.05	0.06	0.07	0.08
Book value	1.32	1.46	1.62	1.79

### Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	1.4	1.2	1.0	0.9
EV/EBITDA	9.2	7.8	6.9	6.4
EV/IC	1.7	1.5	1.3	1.2
PE*	12.7	11.5	9.6	8.9
P/Book value	1.7	1.5	1.4	1.2
Dividend yield (%)	2.2	2.6	3.1	3.4

Note: \* = Based on HSBC EPS (fully diluted)



Note: price at close of 25 Aug 2014

## Valuation and risks

Our DCF based target price of MYR3.26 assumes a WACC of 7% with HSBC's market cost of equity for Malaysia at 7.5%, Kossan's assumed cost of debt at 7% and a 2% terminal growth rate. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Malaysia stocks of 7.5%. Our target price implies a potential return of 46%, above the Neutral band; therefore, we reiterate our Overweight rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

### Supermax: 2Q14

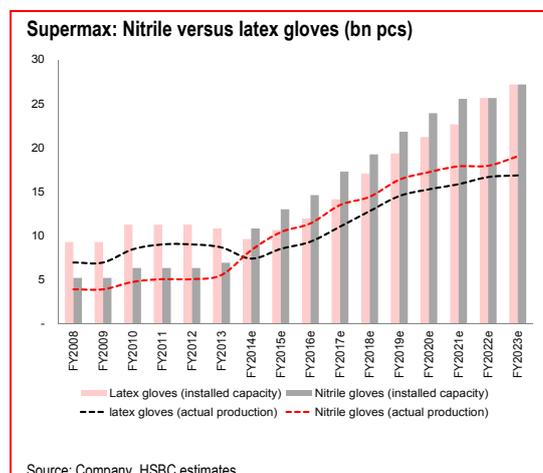
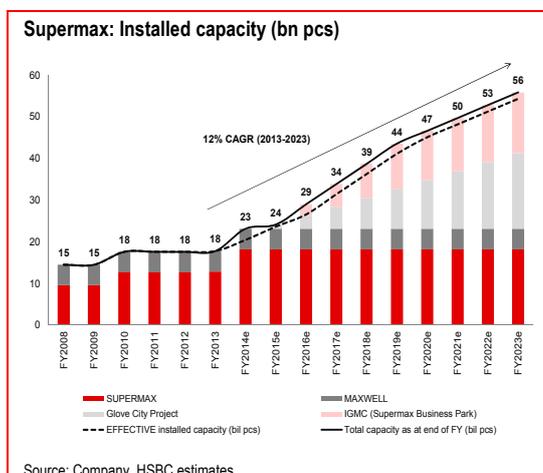
	2Q13	1Q14	2Q14	y-o-y	q-o-q	1H13	1H14	y-o-y	HSBC - % of HSBC FY14e	% of HSBC est	Cons - FY14e	% of cons est
Revenue	330	232	238	-28%	2.5%	651	470	-28%	1,236	38%	1,278	37%
Operating expenses	(293)	(199)	(205)	-30%	3%	(577)	(405)	-30%				
Finance costs	(2)	(2)	(2)	10%	5%	(4)	(5)	8%				
Others	5	2	2	-59%	19%	8	3	-55%				
Profit before tax	40	32	32	-19%	0.4%	77	64	-16%	163	39%	163	40%
Taxation	(5)	(6)	(5)	8%	-9%	(10)	(11)	16%				
Profit after tax	35	26	27	-23%	2%	67	53	-21%				
Minority interest	(1)	0	(0)	-74%	-155%	(1)	0	-114%				
Net income	35	27	27	-25%	0.6%	67	53	-21%	132	40%	135	39%

Source: Company, HSBC estimates

### HSBC versus consensus

Net income (MYR m)	Consensus	HSBC	% difference
2014e	135	132	-3%
2015e	158	158	0%
2016e	181	171	-5%
Ratings spread	BUY 7	HOLD 5	SELL 1
Target Price (RM)	2.78	3.26	17%

Source: Bloomberg, HSBC estimates



# Disclosure appendix

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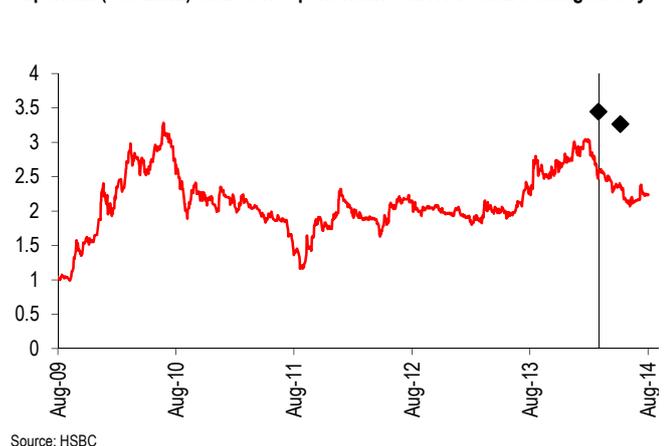
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## Share price and rating changes for long-term investment opportunities

Supermax (SUPM.KL) Share Price performance MYR Vs HSBC rating history



Recommendation & price target history

From	To	Date
N/A	Overweight	26 March 2014
Target Price	Value	Date
Price 1	3.44	26 March 2014
Price 2	3.26	01 June 2014

Source: HSBC

## HSBC & Analyst disclosures

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SUPERMAX	SUPM.KL	2.24	26-Aug-2014	6, 7

Source: HSBC

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