

Supermax Corporation Bhd

Automation paving path to better earnings

RESULT UPDATE

NOT RATED

Current Price : RM 1.98

Consensus Price : RM 2.45

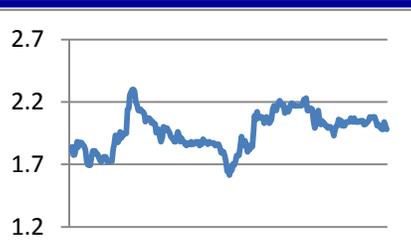
Key Statistics

Bloomberg Ticker	SUCB MK
Masa Ticker/Stock Code	SUPERMX/7106
Shares Issued (m)	680
Market Capitalisation (RM'm)	1,346
52 Week Hi/Lo Price (RM)	2.37/1.63
Avg Trading Volume (3-mth)	1,558,201
Est Free Float (m)	341
YTD Returns (%)	13.2
Beta (x)	1.4

Major Shareholders (%)

Stanly Thai and Family	35%
EPF	8%

1-Year Share Price Performance



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Briefing Take Aways

- ◆ **Lower top line, stronger bottom line** Revenue fell 9.5% YoY from RM271m to RM245m due to production downtime during automation upgrades. On the flip side, PAT rose 2.3% YoY from RM30.9m to RM31.6m as a result of lower feedstock prices. As at 12th Nov, latex prices had fallen to RM5.48/kg from RM8.63/kg in 3Q2011.
- ◆ **Completing automation** Supermax will complete automation of the entire group by 2013, realising total savings of 40-50% of existing labor costs. The company expects to save between RM20m to RM25m. The company also expects surgical gloves capacity to grow next year owing to expansion in the sterilization industry.
- ◆ **Dividend policy revised** The company increased its dividend policy set in terms of dividend payout ratio from 20 % to 30% of its PAT starting from 2013. Supermax's board has declared an interim tax exempt dividend of 4%. The ex-date falls on 18/12/2012 and payment will be made on 18/1/2013.
- ◆ **Industry Developments**
Demand and consumption of thinner NR latex and synthetic gloves is growing, particularly in developing countries and emerging economics. Together with substitution of latex gloves by synthetic gloves, we expect to see more M&A next year as smaller players are unlikely to stay competitive.

Demand for nitrile gloves continues to be strong, driven by lower product pricing. A company survey found that all glove manufacturers have expanded their capacity in nitrile gloves production and none in latex gloves. The consequence is that rising competition will eventually reduce profit margins for nitrile gloves.

In the pipe line is a Supermax plan to increase annual capacity to 12b gloves from 5.2b currently and switch its product mix, with the proportion of nitrile gloves rising from 35% to 52%. Despite the looming price war, Supermax is confident of achieving 15%-20% annual profit growth by raising production and improving its distribution network. Yesterday, Supermax announced 9M2012 PAT grew 15% YoY.

Table 1 :Result Comparison

FYE 31st Dec (RM m)	3Q2012	3Q2011	YoY chg (%)	2Q2012	QoQ chg (%)	9M2012	9M2011	YTD chg (%)
Revenue	245.5	271.4	(9.5)	232.1	5.8	726.1	750.7	(3.3)
Associate	3.3	8.9	(62.9)	7.3	(54.8)	19.6	30.4	(35.5)
Profit before tax	31.6	30.9	2.3	33.2	(4.8)	97.8	87.6	11.6
Tax Expenses	(2.2)	(3.1)	(29.0)	(3.2)	(31.3)	(8.2)	(5.8)	42.6
PAT	31.6	30.9	2.3	30.0	5.3	89.6	77.8	15.2
PBT margin	12.9	11.4	13.1	14.3	(10.0)	13.5	11.7	15.4
PAT margin	12.9	11.4	13.1	12.9	(0.4)	12.3	10.4	19.1
EPS (sen)	4.6	4.5	2.3	4.4	5.3	13.2	11.4	15.2

Source: Company

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
NEUTRAL	Total return is expected to be between above -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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