

Supermax Corp

SUCB MK / SUPM.KL

3Q12 RESULTS NOTE

➤ **Market Cap**
US\$449.0m
RM1,367m

➤ **Avg Daily Turnover**
US\$0.76m
RM2.34m

➤ **Free Float**
59.4%
340.1 m shares

Current **RM2.01**
Target ➤ **RM2.64**
Previous Target **RM2.64**
Up/downside **31.3%**

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

CIMB Analyst

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	2.4	-3.1	1.6
Absolute	-2	-6.1	13.2

Major shareholders

	% held
Thai Kim Sim, Stanley	20.7
Tan Bee Geok, Cheryl	14.8
Koperasi Permodalan Felda	5.2

In steady hands

At 71% of our estimate and 75% of consensus, 9M12 was in line with our forecast but above consensus. A stronger 4Q is likely due to stable inputs and higher volumes. While incomes from associates fell 36% yoy due to FX and competition, earnings from associates could improve.

A 2.0sen net DPS was also in line. We tweak EPS for utilisation. Supermax will hold a 3Q analyst briefing tomorrow. The stock remains an Outperform and would be catalysed by stable costs and rising output. Our target is still based on 10.6x P/E or 25% below Top Glove's two-year average of 14.15x.

Stable growth ➤

9M12 fell by 3.3% to RM726m due to lower selling prices and competitive pressures. While demand from the EU and US slowed during the period, Supermax has an oversold position of two months for natural rubber and four months for nitrile. We believe the higher oversold position for nitrile attests to the strong demand for synthetic gloves. Total costs fell by 4.5% to RM603m, in line with the decline in inputs. As a result, EBITDA rose by 2.9% to RM124m on the back of a 1%-pt expansion in the EBITDA margin. The earnings contribution from associates fell by

36% to RM20m due to fierce competition from new entrants in the associates' markets (Brazil, Canada, Belgium) and a depreciation of the local currency vs. the ringgit and US\$. Core net profit rose by 4.4% to RM90m.

More automation ➤

In an effort to pre-empt higher labour, material and energy costs, Supermax is embarking on a programme to further automate its glove-manufacturing process. It intends to focus on the stacking and packing functions of the supply chain. While this may cause minor disruptions to production in the short run, it is expected to improve manufacturing productivity and efficiency over the long term.

Guidance maintained ➤

Management continues to guide for a 20% yoy net profit growth for FY12, in line with our expectation.

Results Comparison	3Q FY12	3Q FY11	yoy % chg	2QFY12	qoq % chg	3QFY12 cum	3QFY11 cum	yoy % chg	Prev. FY12F	Comments (cum yoy comparison)
Revenue	245.5	271.4	(9.5)	232.1	5.8	726.1	750.7	(3.3)	1,378.0	Decreased due to lower ASP and competition
Operating costs	(206.1)	(225.0)	(8.4)	(193.0)	6.8	(602.5)	(630.6)	(4.5)	(1,229.7)	Lower due to decline in nitrile and natural rubber
EBITDA	39.4	46.4	(15.0)	39.1	0.9	123.6	120.1	2.9	148.3	Higher due to cost efficiency
EBITDA margin (%)	16.1	17.1	(6.1)	16.8	(4.7)	17.0	16.0	6.4	10.8	Expansion due to decline in cost
Depn & amort.	(6.3)	(16.5)	(62.1)	(5.8)	8.0	(17.8)	(22.3)	(19.9)	(53.3)	PPE of RM438m as at 30 Sep 2012
EBIT	33.2	29.9	11.1	28.6	15.9	86.2	71.4	20.6	95.0	Costs fell more than revenue
Interest expense	(2.7)	(4.8)	(43.9)	(2.7)	0.3	(7.9)	(10.2)	(22.6)	(17.8)	Total borrowings of RM303m as at 30 Sep 2012
Interest & invt inc	-	-	nm	-	nm	-	-	nm	17.8	Cash balance of RM130m as at 30 Sep 2012
Associates' contrib	3.3	9.0	(62.8)	7.3	(54.5)	19.6	30.5	(35.6)	45.4	Distribution of gloves in Brazil, Canada and Belgium
Exceptionals	-	-	nm	-	nm	-	(4.0)	(100.0)	-	Bond write off in FY11
Pretax profit	33.8	34.1	(0.7)	33.3	1.6	97.8	87.6	11.6	140.7	9M accounted for 70% of full year estimate
Tax	(2.2)	(3.2)	(29.9)	(3.3)	(32.0)	(8.2)	(5.8)	42.6	(14.0)	Lower than the statutory rate of 25% due to the availability of allowances and incentives
Tax rate (%)	6.6	9.4	(29.4)	9.9	(33.1)	8.4	6.6	27.7	10.0	
Minority interests	-	(0.0)	(100.0)	(0.1)	(100.0)	0.0	(0.0)	200.0	-	None expected
Net profit	31.6	30.9	2.3	30.0	5.5	89.6	81.9	9.5	126.7	9M accounted for 71% of full year estimate
Core net profit	31.6	30.9	2.3	30.0	5.5	89.6	85.9	4.4	126.7	9M accounted for 71% of full year estimate
EPS (sen)	5.2	5.0	2.3	4.9	5.5	14.6	13.4	9.5	20.7	Based on 612.1m total shares outstanding
Core EPS (sen)	5.2	5.0	2.3	4.9	5.5	14.6	14.0	4.4	20.7	Excluding exceptional items

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (RMm)	977	1,021	1,378	1,532	1,603
Operating EBITDA (RMm)	208.8	141.7	148.3	185.0	222.5
Net Profit (RMm)	202.2	84.2	126.7	152.6	176.9
Core EPS (RM)	0.33	0.15	0.21	0.25	0.29
Core EPS Growth	28.1%	(54.8%)	38.7%	20.5%	15.9%
FD Core P/E (x)	6.09	13.47	9.71	8.06	6.95
DPS (RM)	0.042	0.036	0.041	0.050	0.058
Dividend Yield	2.07%	1.80%	2.05%	2.47%	2.90%
EV/EBITDA (x)	5.71	8.63	7.58	5.58	4.02
P/FCFE (x)	14.52	16.19	30.04	10.90	7.31
Net Gearing	19.5%	28.5%	10.0%	1.0%	(9.9%)
P/BV (x)	1.72	1.60	1.35	1.18	1.03
Recurring ROE	31.7%	12.3%	15.1%	15.7%	15.9%
% Change In Core EPS Estimates			0.046%	0.038%	0.033%
CIMB/consensus EPS (x)			1.06	1.13	1.18

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		2-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY12	CY13		CY12	CY13	CY12	CY13	CY12	CY13
Adventa	ADV MK	Trading Buy	1.89	2.10	95	13.9	11.6	26.8%	0.91	0.78	7.1%	7.2%	2.2%	2.6%
Hartalega Holdings	HART MK	Outperform	4.74	5.66	1,140	15.3	13.5	14.5%	4.89	4.08	35.0%	32.9%	2.9%	3.3%
Kossan Rubber Industries	KRI MK	Outperform	3.21	3.69	337	9.8	8.0	15.6%	1.70	1.45	18.7%	19.6%	2.5%	2.6%
Latexx Partners	LTX MK	Underperform	2.11	2.30	155	12.9	9.7	-1.0%	1.48	1.31	11.9%	14.3%	2.1%	2.7%
Supermax Corp	SUCB MK	Outperform	2.01	2.64	449	9.7	8.1	15.5%	1.35	1.18	15.0%	15.7%	2.1%	2.5%
Top Glove Corporation	TOPG MK	Neutral	5.41	5.97	1,100	15.9	14.2	21.6%	2.47	2.23	16.5%	16.5%	3.1%	3.5%
Average						13.6	11.6	11.1%	2.33	2.04	18.5%	18.7%	2.8%	3.2%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	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 2012		
805 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	55.6%	6.1%
Neutral	33.6%	1.9%
Underperform/Sell/Trading Sell	10.9%	4.8%

Recommendation Framework #1 *

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.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

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.

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Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	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: Expected total returns of between -10% and +10% 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.
UNDERPERFORM: Expected negative total returns of 10% or more 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: Expected positive total returns of 10% or more over the next 3 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: Expected negative total returns of 10% or more 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 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 2011.

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