

11 November 2013

Buy

Price
RM2.51

Target price
RM3.00 (from RM2.60)

Market data

Bloomberg code	SUCB MK
No. of shares (m)	679.2
Market cap (RMm)	1,704.7
52-week high/low (RM)	2.80 / 1.80
Avg daily turnover (RMm)	5.1
KLCI (pts)	1,804.48

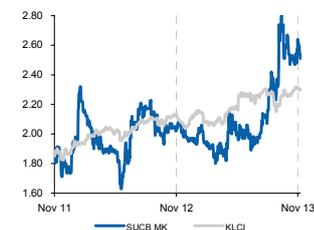
Source: Bloomberg

Valuation

Target price (RM)	3.00
Methodology	Gordon growth
Key assumptions	ROE = 15.2%
	COE = 10.5%
	g = 5.5%
Implied FY14PE (x)	13.2
Implied FY14 PB (x)	1.9
Implied FY14 Yield (%)	2.3

Source: KAF

	1M	3M	12M
Absolute (%)	2	9	21
Rel market (%)	0	8	10



Source: Bloomberg

Analyst

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Supermax

Planning for future expansion

We view Supermax's land acquisition as a long-term positive for future capacity expansion given the delay in its Glove City project. The stock is the cheapest proxy to the gloves sector at 11.1x FY14F PE and 1.6x PB, relative to the sector average of 13.3x PE and 2.1x PB. We expect nitrile capacity to increase from 39% of product mix to 53% by end-2013, which should underpin earnings growth. Buy.

Financial Highlights

FYE Dec (RMm)	FY11	FY12	FY13F	FY14F	FY15F
Revenue	1,021.4	997.4	1,105.6	1,211.4	1,338.4
Pretax profit	112.1	137.6	159.7	181.6	194.4
Normalised net profit	108.1	121.7	135.7	154.3	165.2
Normalised EPS (sen)	15.9	17.9	20.0	22.7	24.3
EPS growth (%)	(32.0)	12.6	11.5	13.7	7.1
Gross DPS (sen)	3.3	5.0	6.0	6.8	7.3
PE (x)	16.4	14.0	12.6	11.1	10.3
ROE (%)	14.2	15.2	15.3	15.6	14.9
Dividend yield (%)	1.3	2.0	2.4	2.7	2.9
PB (x)	2.2	2.0	1.8	1.6	1.5

Source: Company, KAF

Acquiring 100 acres of land in Serendah

Supermax announced on Friday that its subsidiary, Maxwell Glove, entered into a sales and purchase agreement with Dragonline Resources to acquire 100 acres of freehold, vacant industrial land in Serendah, Selangor for RM78.4m. The rationale is to build an integrated glove manufacturing complex whereby 60% of the land will be for nitrile gloves capacity expansion and the balance 40% will be offered to supporting industry players such as manufacturers of porcelain glove formers. Management believes this would be a win-win situation in terms of logistics cost savings. Funding is via internal funds and bank borrowings.

Our take

We view this as a long term positive, as management indicated that its remaining 36 acres of land for its Glove City project in Kapar (Klang) has been delayed due to a shortage of gas supply. Hence, we believe that this new parcel would enable the group to proceed with future expansions likely utilizing biomass as alternative fuel. The land price is RM18psf, which we think is fair relative to current asking prices at around RM15-26psf. At this juncture, there is no guidance in terms of expected production capacity and arrangements with the supporting industry players. Assuming the purchase is fully funded by debt, net gearing would go up to about 22% (from 13% as at 2Q13), which is still reasonable, in our view.

Cheapest stock for gloves exposure

Despite rising 31% ytd, Supermax has lagged peers with higher nitrile exposure, such as Kossan (KRI MK, RM3.25, Buy) which has risen 91% and Hartalega (HART MK, RM7.35, Not rated) at 54%. We revise our FY14F earnings up by 3% mainly to impute higher sales volumes from new nitrile capacity of 5.4bn pieces coming on-stream end-2013 and higher efficiency, offset slightly by lower ASPs as we assume increased competition and lower associates' contributions. We have imputed similar assumptions for FY15F but the net effect is no change to our forecast. Upon rolling forward our valuations to FY14F, and assuming a slightly higher sustainable ROE of 15.2% (from 15.1%), our target price is revised to RM3.00.

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Important disclosures can be found in the Disclosure Appendix

Additional information

Table 1 : Earnings revision

RMm	From			To			% Change		
	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F
Turnover	1,107	1,236	1,389	1,106	1,211	1,338	0%	-2%	-4%
EBITDA	176	195	217	176	204	221	0%	4%	2%
EBIT	149	166	184	149	174	186	0%	5%	1%
Pretax profit	160	176	194	160	182	194	0%	3%	0%
Net profit	136	150	165	136	154	165	0%	3%	0%

Source: KAF

Table 2 : Target price revision

	From	To
Sustainable ROE (%)	15.1%	15.2%
Cost of equity (%)	10.5%	10.5%
Long term growth rate (%)	5.5%	5.5%
Fair P/B	1.92	1.94
Target price	2.60	3.00

Source: KAF

Income statement

FYE Dec (RMm)	2011	2012	2013F	2014F	2015F
Turnover	1,021.4	997.4	1,105.6	1,211.4	1,338.4
Operating costs	(903.5)	(850.0)	(929.7)	(1,007.5)	(1,117.7)
EBITDA	117.9	147.3	175.9	203.8	220.7
Depreciation & amortisation	(24.1)	(24.4)	(27.0)	(29.9)	(35.0)
EBIT	93.8	123.0	149.0	174.0	185.7
Net interest income	(12.5)	(8.7)	(8.0)	(8.3)	(8.8)
Associated companies	34.8	23.4	18.7	15.9	17.5
Pretax profit	112.1	137.6	159.7	181.6	194.4
Taxation	(8.1)	(15.9)	(24.0)	(27.2)	(29.2)
Net profit	104.1	121.7	135.7	154.3	165.2
Normalized net profit	108.1	121.7	135.7	154.3	165.2

Source: Company, KAF

Balance sheet

FYE Dec (RMm)	2011	2012	2013F	2014F	2015F
Non-current assets					
Property, plant and equipment	407.3	451.9	501.0	587.2	645.0
Associated companies	228.4	209.9	228.6	244.5	262.0
Other investment	-	-	-	-	-
Goodwill on consolidation	28.7	28.7	28.7	28.7	28.7
Deferred tax assets	-	-	-	-	-
Total non-current assets	664.4	690.5	758.3	860.4	935.7
Current assets					
Inventories	223.1	233.8	259.2	283.9	313.7
Trade receivables	104.5	100.8	111.8	122.5	135.3
Amount owing by associated companies	90.2	101.1	80.9	68.7	75.6
Other receivables and prepaid expenses	18.7	5.1	5.6	6.2	6.8
Cash and cash equivalents	104.5	122.9	164.9	178.7	201.7
Tax recoverable	-	-	-	-	-
Total current assets	541.1	563.6	622.3	660.0	733.1
Total assets	1,205.4	1,254.1	1,380.6	1,520.3	1,668.8
Current liabilities					
Trade payables	60.0	76.9	85.3	93.4	103.2
Other payables and accrued expenses	27.3	41.0	45.4	49.8	55.0
Amount owing to associated companies	-	-	-	-	-
HP payables	-	-	-	-	-
Borrowings	190.5	162.9	162.9	162.9	162.9
Tax liabilities	-	4.3	4.3	4.3	4.3
Dividend payable	-	-	-	-	-
Total current liabilities	277.7	285.1	297.9	310.4	325.4
Financed by:					
Share capital	170.0	340.1	340.1	340.1	340.1
Reserves	599.1	494.0	595.7	709.3	828.2
Shareholders' funds	769.0	833.8	935.5	1,049.1	1,168.0
Non current liabilities					
Other payables	-	-	-	-	-
HP payables - non-current portion	-	-	-	-	-
Borrowings - non-current portion	140.5	115.2	115.2	115.2	115.2
Deferred tax liabilities	18.2	20.0	32.0	45.6	60.2
Total non current liabilities	158.7	135.2	147.2	160.8	175.3
Total liabilities & shareholders' funds	1,205.4	1,254.1	1,380.6	1,520.3	1,668.8

Source: Company, KAF

Cash flow statement

FYE Dec (RMm)	2011	2012	2013F	2014F	2015F
Cashflow from operations (CFO)					
Pretax profit	112.1	137.6	159.7	181.6	194.4
Non-cash items	5.7	16.9	16.3	22.3	26.3
Interest received	0.0	-	2.4	3.1	3.8
Tax paid	(13.4)	(3.1)	(12.0)	(13.6)	(14.6)
Net change in working capital	(48.1)	12.2	(3.8)	(11.4)	(35.1)
CFO	56.4	163.6	162.5	181.9	174.7
Cashflow from investing (CFI)					
Purchase of plant and equipment (CAPEX)	(38.1)	(69.2)	(76.1)	(116.1)	(92.9)
Proceeds from disposal of PPE	-	-	-	-	-
Investment in associated companies	-	-	-	-	-
CFI	(38.1)	(69.2)	(76.1)	(116.1)	(92.9)
Cashflow from financing (CFF)					
Interest paid	(12.5)	(8.7)	(10.4)	(11.4)	(12.5)
Dividends paid	(27.2)	(11.9)	(34.0)	(40.7)	(46.3)
Net proceeds from issuance of shares	-	-	-	-	-
Changes in borrowings	27.5	(53.2)	-	-	-
Share buyback	-	(2.0)	-	-	-
CFF	(12.3)	(75.9)	(44.4)	(52.1)	(58.8)
Net change in cash and cash equivalents	6.0	18.5	42.1	13.8	23.1
Cash and cash equivalents b/f	97.4	104.5	122.9	164.9	178.7
Cash and cash equivalents c/f	104.5	122.9	164.9	178.7	201.7

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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