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9MFY12 Results Review

Supermax Corp

Growth Still Positive

Supermax's 9MFY12 earnings were largely in line with our and street estimates, but could have been better if not for the weaker showing from its associate companies. Despite a weaker average selling price due to the drop in raw material prices, it still managed to squeeze out higher margins from cost savings. The company's expansion plan is progressing well and the operating environment remains positive. Thus, we remain positive on Supermax's future outlook. Maintain BUY, with an unchanged FV of RM2.70.

BUY ↻

Fair Value **RM2.70**
Previous **RM2.70**
Price **RM2.01**

RUBBER GLOVES

Supermax's principal activities are in the manufacture of medical rubber gloves.

Stock Statistics

Bloomberg Ticker	SUCB MK
Share Capital (m)	680.2
Market Cap	1,367.1
52 week H L Price	2.38 1.63
3mth Avg Vol (000)	1,246.3
YTD Returns	5.0
Beta (x)	1.46

Shariah Compliant YES

Major Shareholders (%)

Dato' Seri Stanley Thai	20.4
Datin Seri Cheryl Tan	15.1
EPF	7.9

Share Performance (%)

Month	Absolute	Relative
1m	-0.5	2.6
3m	-5.1	-3.1
6m	18.3	12.1
12m	16.0	1.4

6-month Share Price Performance



Largely in line with expectations. Supermax's net profit of RM89.6m for 9MFY12 was largely in line with our and consensus estimates, at 70.2% and 69.0% of the respective FY12 forecasts. The results could have been better if not for the lower contribution from its associate companies (-54.5% q-o-q), which saw a sharp depreciation of their respective local currencies against the MYR and USD, as well as the intense competition from new players. Nevertheless, thanks to the steady easing of raw material prices and the stabilizing USD/MYR exchange rate, the company recorded a net profit growth of 5.3% q-o-q and 2.3% y-o-y.

Expansion plans to boost future earnings. We believe Supermax's earnings will continue to be healthy for the coming quarters with its aggressive expansion plan, which feature the following: (i) five of the seven surgical glove production lines have been commissioned since May 2012 while the remaining will be commissioned in stages, (ii) the fast-tracking of its nitrile glove production lines, which is expected to increase total capacity to 12bn pieces p.a. (vs the current 5.2bn pieces p.a.) by the fourth quarter of 2013, (iii) Phase 1 expansion of its National Distribution Headquarters in US incorporating the construction of the East Building is progressing well and the facility is expected to be operational by May or June 2013. The company has also fast-tracked its automation programme to reduce its dependence on foreign labor, which may lead to some output loss but which we deem a necessary step for future gain.

Outlook still positive. We continue to remain positive on Supermax's future outlook, as the group is operating against a backdrop of a favorable operating environment for glove makers in which: (i) players are benefitting from the steady easing in the prices of raw materials, (ii) the MYR remains competitive, (iii) the global demand for rubber gloves is still resilient, and (iv) the potential increment in gas and labor costs may only minimally affect glove makers.

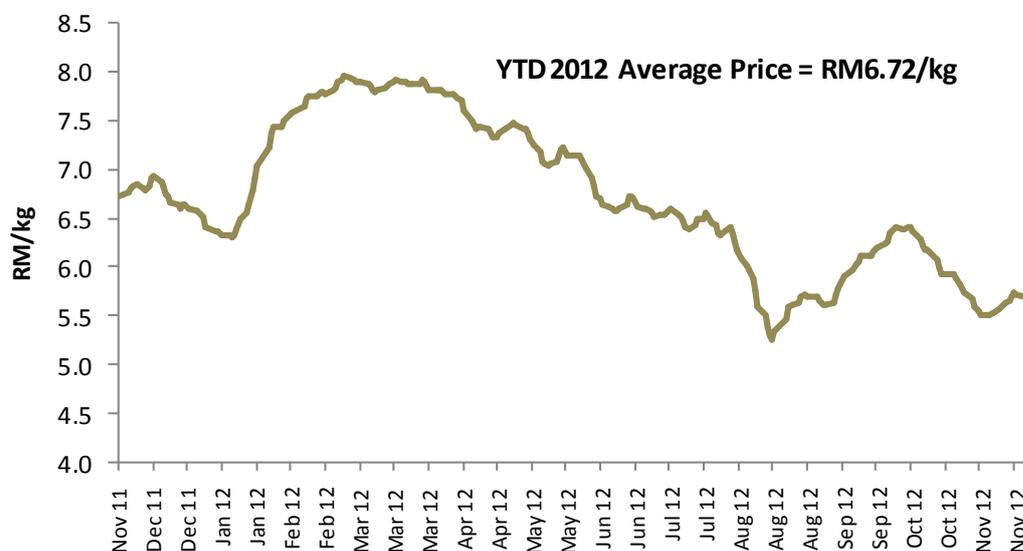
FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	803.6	977.3	1,021.4	1,135.5	1,286.1
Net Profit	126.6	158.9	104.2	127.6	137.8
% chg y-o-y	169.3%	25.6%	-34.5%	22.5%	8.0%
Consensus	-	-	-	129.8	148.0
EPS	24.2	24.0	15.7	19.2	20.8
DPS	11.0	7.5	4.8	5.8	6.2
Dividend yield (%)	5.5%	3.7%	2.4%	2.9%	3.1%
ROE (%)	26.0%	25.4%	14.3%	15.7%	15.2%
ROA (%)	13.4%	15.8%	9.2%	10.2%	10.1%
PER (x)	8.3	8.4	12.8	10.4	9.7
BV/share	0.82	1.02	1.13	1.26	1.40
P/BV (x)	2.45	1.98	1.78	1.59	1.43
EV/EBITDA (x)	9.5	9.0	9.0	7.3	6.2

Results Table (RMm)

FYE Dec	3QFY12	2QFY12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	245.5	232.1	5.8%	726.1	750.7	-3.3%	Lower y-o-y mainly due to declining raw material prices
EBIT	33.2	28.6	15.9%	86.2	63.4	35.8%	Margin improved due to cost savings from lower raw material costs
Net interest expense	-2.7	-2.7	-0.3%	-7.9	-10.2	22.6%	
Associates	3.3	7.3	-54.5%	19.6	30.5	-35.6%	Weaker contribution on a q-o-q basis due to depreciation in their respective local currencies against the MYR and USD
PBT	33.8	33.3	1.6%	97.8	83.6	17.0%	
Tax	-2.2	-3.3	-32.0%	-8.2	-5.8	42.6%	
MI	0.0	0.0	n.m.	0.0	0.0	n.m.	
Net Profit	31.6	30.0	5.3%	89.6	77.9	15.0%	Largely in line with our and consensus estimates
EPS (sen)	4.65	4.41		13.17	24.59		
DPS (sen)	2.00	0.00		2.00	3.00		The Board has declared a first interim tax-exempt dividend of 2.0 sen
EBIT margin (%)	13.5	12.3		11.9	8.4		
NTA/share (RM)	1.20	1.15		1.20	1.06		

Maintain BUY, FV unchanged. We think that Supermax may still be able to report healthy earnings growth in the future. That, together with our upbeat outlook for the sector, rationalizes our decision to maintain a BUY recommendation, with the stock's FV unchanged at RM2.70, pegged to 13x FY13 PE.

Figure 1: Natural rubber latex's price movement



Source: Bloomberg, OSK Research

EARNINGS FORECAST

FYE Dec (RMm)	FY09	FY10	FY11	FY12f	FY13f
Turnover	803.6	977.3	1,021.4	1,135.5	1,286.1
EBITDA	162.9	174.7	177.4	207.4	230.5
PBT	151.5	183.8	112.1	149.1	168.5
Net Profit	126.6	158.9	104.2	127.6	137.8
EPS	24.2	24.0	15.7	19.2	20.8
DPS	11.0	7.5	4.8	5.8	6.2
Margin					
EBITDA (%)	20.3	17.9	17.4	18.3	17.9
PBT (%)	18.8	18.8	11.0	13.1	13.1
Net Profit (%)	15.8	16.3	10.2	11.2	10.7
ROE (%)	26.0%	25.4%	14.3%	15.7%	15.2%
ROA (%)	13.4%	15.8%	9.2%	10.2%	10.1%
Balance Sheet					
Fixed Assets	564.1	620.3	664.4	643.9	622.0
Current Assets	381.2	445.1	541.1	660.8	791.3
Total Assets	945.2	1,065.4	1,205.4	1,304.7	1,413.3
Current Liabilities	213.7	219.7	277.7	287.6	299.6
Net Current Assets	167.5	225.3	263.3	373.2	491.8
LT Liabilities	172.7	154.1	158.7	158.7	158.7
Shareholders Funds	558.8	691.5	769.1	858.4	954.9
Net Gearing (%)	31.5%	28.7%	29.4%	16.8%	6.7%

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

OSK RESEARCH SDN. BHD. (206591-V)

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