

## Results Note

# Supermax

SUCB MK  
RM2.23

**ADD (maintain)**

**Target Price: RM2.32 (↔)**



### Price Performance

	1M	3M	12M
Absolute	+8.5%	+13.9%	+11.7%
Rel to KLCI	+16.2%	+9.9%	+9.0%

### Stock Data

Issued shares (m)	679.1
Mkt cap (RMm)	1,555.3
Avg daily vol - 6mth (m)	3.04
52-wk range (RM)	1.79-2.44
Est free float	53.1%
NTA per share (RM)	1.24
P/NTA (x)	1.85
Net cash/ (debt) (RMm) (2Q13)	(117.6)
ROE (FY12E)	13%
Derivatives	Nil

### Key Shareholders

Dato' Seri Stanley Thai	20.4%
Datin Seri Cherly Tan	15.2%

### Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	20.7	23.2	26.3
Curr EPS (sen)	20.7	23.2	26.3
Chg (%)	-10.4	-11.8	-11.4
Prev target price (RM)			2.32
Curr target price (RM)			2.32

Mandy Teh  
(603) 2142 5815  
[ssteh@affininvestmentbank.com.my](mailto:ssteh@affininvestmentbank.com.my)

## Inline: Most attractively priced glove producer

### 1HFY13 core net profit grew 13.9% yoy to RM66m

Supermax's 1HFY13 revenue surged +35.4% yoy to RM650.5m. This was mainly driven by higher volume sales underpinned by the company's expanded production lines. Revenue from Supermax's core manufacturing gloves division had increased by +23.1% yoy, while its trading division had grown by +51.2% yoy. Notwithstanding the strong growth in revenue, Supermax's 1HFY13 EBIT margin was relatively flat, up +0.2%-points yoy to 11.3%, as this was held back by a sharp rise in operating cost (+35% yoy) following the implementation of minimum wage on January 2013. On a whole, Supermax's core earnings rose by +13.9% yoy to RM66m. Results were within both our and street expectation, accounting for 47% and 48% of our full year forecasts respectively.

### 2QFY13 numbers improved on higher sales and lower interest cost

Sequentially, Supermax's 2Q13 revenue grew +3% to RM330m, driven by higher volume sales. EBITDA margin was relatively stable at 11.3%, as Supermax's operating expenses growth has tapered off, growing only by +2.8% qoq. Coupled with a higher contribution from its associated companies and a slightly effective lower tax rate, Supermax posted a +7.8% qoq growth in core earnings to RM34.3m. On a yoy comparison, revenue surged +42.2% owing to higher volume sales, brought by the company's capacity expansion. Coupled with lower (-17.9% yoy) interest expenses, 2Q13 core net profit was up +14.2% yoy.

### Expansion plan is progressing well

We understand that the company's Sg Buloh surgical gloves plant which was partially commissioned in May 2012 is only 71% complete currently. (4 out of 7 production lines have been commissioned) Management indicates that the remaining lines will continue to be commissioned in stages when the additional capacity of sterilization facility is available. Meanwhile, the group is also targeting to commission its Plant 10 and 11 in Meru, Klang (Lot 6058-6059) latest by 1HFY14, where these new plants will be equipped with interchangeable lines for both natural rubber and nitrile gloves. Management highlighted that they have an 'oversold position' of 2 months for its nitrile gloves and 30-45 days for Natural Rubber gloves. As such, the group is currently fast-tracking the construction of its new production lines to bring up its nitrile gloves production capacity to 10.5bn pieces p.a. This will then lead to a significant shift in product mix, from 39% currently to 53% for nitrile.

### Maintain ADD with TP unchanged at RM2.32

Pending a meeting with management next week, we maintain our **ADD** rating and TP of **RM2.32**, pegged at 10x CY14 EPS. We reckon that Supermax's current valuation at only 8.7x FY14 PER is highly attractive and there is scope for re-rating closer to the prevailing industry average of 14x. Key risk to our view is a delay in its manufacturing plant expansions.

### Earnings and valuation summary

FYE Dec	2011	2012	2013E	2014E	2015E
Revenue (RMm)	1,021.4	1,048.4	1,236.3	1,396.5	1,511.4
EBITDA (RMm)	117.3	151.1	199.5	225.2	252.6
Pretax profit (RMm)	115.5	140.2	169.6	188.3	213.9
Net profit (RMm)	107.6	113.4	140.7	158.1	179.3
EPS (sen)	15.8	16.7	20.7	23.2	26.3
PER (x)	12.8	12.1	9.8	8.7	7.7
Core net profit (RMm)	111.6	113.4	140.7	158.1	179.3
Core EPS (sen)	16.4	16.7	20.7	23.2	26.3
Core EPS chg (%)	-29.8	1.6	24.2	12.3	13.1
Core PER (x)	12.3	12.1	9.8	8.7	7.7
DPS (sen)	3.3	5.0	7.0	8.0	10.0
Dividend Yield (%)	1.6	2.5	3.5	4.0	5.0
EV/EBITDA (x)	13.6	9.3	6.7	5.6	3.3
Consensus profit (RMm)			136.8	154.4	169.4
Affin/Consensus (x)			1.0	1.0	1.1

**Fig 1: Quarterly results comparison**

FYE Dec (RMm)	2QFY12	1QFY13	2QFY13	QoQ % chg	YoY % chg	Comment
Revenue	232.1	320.5	330.0	3.0	42.2	Yoy revenue grew commendably attributed to higher volume sales with new capacity installed
Operating cost	(203.5)	(284.7)	(292.6)	2.8	43.8	Sharp rise in operating cost due to higher labor cost
<b>EBIT</b>	<b>28.6</b>	<b>35.8</b>	<b>37.4</b>	<b>4.4</b>	<b>30.7</b>	
<i>EBIT margin (%)</i>	<i>12.3</i>	<i>11.2</i>	<i>11.3</i>	<i>0.2</i>	<i>(1.0)</i>	Caused by higher labour costs and stiffer-than-expected price competition
Int expense	(2.67)	(2.18)	(2.19)	0.3	(17.9)	Lower interest charges as Supermax has pared down their debts. As of June 2013, total secured borrowings was at RM8.47m
Int and other inc	0.0	0.0	0.0	0.0	0.0	
Associates	7.3	3.1	4.6	47.5	(37.6)	
EI	0.0	0.0	0.0	nm	nm	
<b>Pretax profit</b>	<b>33.3</b>	<b>36.8</b>	<b>39.8</b>	<b>8.3</b>	<b>19.5</b>	
Tax	(3.3)	(4.7)	(4.9)	5.5	(49.8)	
<i>Tax rate (%)</i>	<i>9.9</i>	<i>12.7</i>	<i>12.4</i>	<i>(0.3)</i>	<i>2.5</i>	
MI	(0.0)	(0.3)	(0.6)	0.0	0.0	
<b>Net profit</b>	<b>30.0</b>	<b>31.8</b>	<b>34.3</b>	<b>7.8</b>	<b>14.2</b>	Accounts for 22% of our and 23% consensus full year estimates
EPS (sen)	4.4	4.7	5.0	7.8	14.2	
<b>Core net profit</b>	<b>30.0</b>	<b>31.8</b>	<b>34.3</b>	<b>7.8</b>	<b>14.2</b>	Accounts for 22% of our and 23% consensus full year estimates

Source: Company, Affin

**Fig 2: Cumulative results comparison**

FYE Dec (RMm)	1HFY12	1HFY13	YTD % chg	Comment
Revenue	480.6	650.5	35.4	Revenue grew commendably due to lower higher volume sales from new capacity installed
Operating cost	(427.6)	(577.3)	35.0	Mainly due to higher labour costs
<b>EBIT</b>	<b>53.0</b>	<b>73.3</b>	<b>38.2</b>	
<i>EBIT margin (%)</i>	<i>11.0</i>	<i>11.3</i>	<i>0.2</i>	
Int expense	(5.3)	(4.4)	(16.8)	Lower interest charges as Supermax has pared down their debts. As of June 2013, total secured borrowings was at RM8.47m
Int and other inc	0.0	0.0	0.0	
Associates	16.3	7.7	(52.7)	
EI	0.0	0.0	nm	
<b>Pretax profit</b>	<b>64.0</b>	<b>76.6</b>	<b>19.6</b>	
Tax	(6.0)	(9.6)	60.9	
<i>Tax rate (%)</i>	<i>9.3</i>	<i>12.5</i>	<i>3.2</i>	
MI	(0.0)	(0.9)	0.0	
<b>Net profit</b>	<b>58.0</b>	<b>66.0</b>	<b>13.9</b>	Within expectation, accounts for 47% and 48% of our and full year consensus estimates
EPS (sen)	8.5	9.7	13.9	
<b>Core net profit</b>	<b>58.0</b>	<b>66.0</b>	<b>13.9</b>	Within expectation, accounts for 47% and 48% of our and full year consensus estimates

Source: Company, Affin

## Equity Rating Structure and Definitions

---

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

---

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such, Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinions presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its affiliates and related companies, their directors, associates, connected parties and/or employees be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities.

Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. Further, Affin Investment Bank, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this research report and may from time to time assume an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entities mentioned in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence, an independent evaluation is essential. In addition, this report is general in nature and it is intended for circulation for Affin Investment Bank and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situations and the particular needs of any specific person who may receive this report. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Simulations or model portfolio are prepared on a hypothetical basis and are for illustrations only.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, transmitted to, photocopied or reproduced in any form - sold or redistributed, directly or indirectly in whole or in part without the prior written express consent of Affin Investment Bank.

This report is printed and published by:  
**Affin Investment Bank Bhd (9999-V)**  
 A Participating Organisation of Bursa Malaysia Securities Bhd  
 Chulan Tower Branch,  
 3rd Floor, Chulan Tower,  
 No 3, Jalan Conlay,  
 50450 Kuala Lumpur.

[www.affininvestmentbank.com.my](http://www.affininvestmentbank.com.my)  
 Email: [research@affininvestmentbank.com.my](mailto:research@affininvestmentbank.com.my)  
 Tel : + 603 2143 8668  
 Fax : + 603 2145 3005