

27 August 2014

Supermax Corporation

New Plants Booster in 2H14

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- Period**
 - 2Q14/1H14
- Actual vs. Expectations**
 - The 1H14 net profit of RM53.4m (-21.4% yoy) came in below expectations at 38-39% of our full-year forecast and the consensus forecasts. The negative variance from our forecast was due to lower-than-expected sales volume.
- Dividends**
 - No dividend was declared in this quarter.
- Key Result Highlights**
 - **QoQ**, 2Q14 revenue rose by 2.5% to RM238m due to higher gloves volume sales (+8.8%) and a lower average selling price as production lines gradually re-commenced operations, which was earlier halted due to a fire as the lines were restored in stages towards end-2Q14. However, some capacity was temporarily lost due to the resumption of scheduled automation programme leading to shutdown of some production lines. The loss in output due to continuation of the automation process will be more than compensated by new output from the Meru plant scheduled for commissioning by 4Q14 onwards. Looking ahead, we are not overly concerned about earnings growth going forward because: (i) 50% of the production lines impacted by the fire are now up and running since mid-Jan 2014 while the remaining production lines were re-commissioned in various stages in 2Q14 and (ii) potential insurance claims from the damages and loss of revenue could be reflected in subsequent quarters.
 - **YoY**, 1H14 revenue fell by 27%; hit by both lower sales volume of nitrile gloves due to a fire incident at its Alor Gajah, Malacca plant leading to a loss in production output. This brings 1H14 PATAMI to RM53.4m (-21%).
- Outlook**
 - Growth going forward is expected to be driven by two new plants, namely Lot 6059 and Lot 6058. We understand that the building structures for Plant #10 and Plant #11 i.e Lot 6059 and 6058 in Meru, Klang are up and the first batch of lines were commissioned in August 2014. Lot 6059 and 6058 will have 24 and 16 production lines producing 3.2b and 2.2b pieces of nitrile gloves p.a., respectively, bringing the total nitrile production capacity from 6.9b (including the 1.4bn in Lot 6070) to 12.3b pieces p.a. or 52% of the total installed capacity.
- Change to Forecasts**
 - We are downgrading our FY14E net profit by 9% due to loss in output arising from the resumption of the automation programme leading to shutdown of some production lines. We are keeping our FY15 numbers, underpinned by growth from new plant.
- Rating & Valuation**
 - Maintain Outperform and TP of RM3.23 based on unchanged 14x FY15 EPS. We continue to like SUPERMX for its 35% valuation discount to peers and impending commercial operation of its plant in Meru to be a re-rating catalyst. **Reiterate OUTPERFORM.**
- Risks to Our Call**
 - Slower-than-expected commissioning of new plants.

OUTPERFORM ↔

Price: RM2.24
Target Price: RM3.23 ↔

Share Price Performance



KLCI	1,861.82
YTD KLCI chg	-0.3%
YTD stock price chg	-19.1%

Stock Information

Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,516.8
Issued shares	677.2
52-week range (H)	3.08
52-week range (L)	2.06
3-mth avg daily vol:	1,908,140
Free Float	59%
Beta	0.5

Major Shareholders

KIM SIM THAI	20.5%
BEE GEOK TAN	15.2%
EMPLOYEES PROVIDENT	8.4%

Summary Earnings Table

FYE Dec (RM'm)	2013A	2014E	2015E
Turnover	1127.3	1148.7	1400.0
EBIT	148.8	151.5	187.3
PBT	155.1	154.2	190.0
Net Profit (NP)	128.8	128.0	157.8
Consensus (NP)	-	135.3	158.3
Earnings Revision	N.A.	-9%	-
EPS (sen)	18.9	18.8	23.2
EPS growth (%)	5.6	(0.4)	23.2
NDPS (sen)	5.5	5.6	7.0
BVPS (RM)	1.32	1.45	1.61
PER (X)	13.4	11.9	9.7
PBV (X)	1.7	1.5	1.4
Net Gearing (%)	17.2	15.1	19.2
Dividend Yield (%)	2.2	2.5	3.1

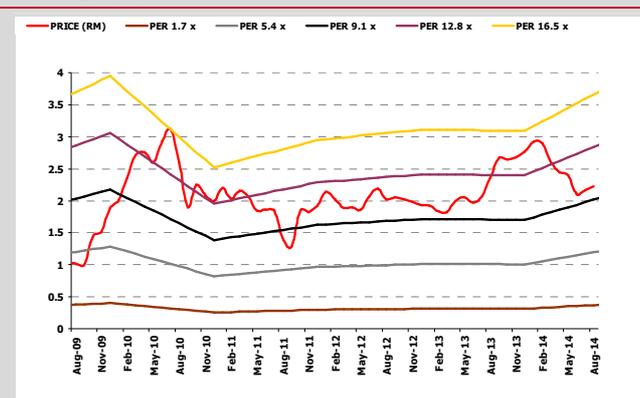
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Result Highlight

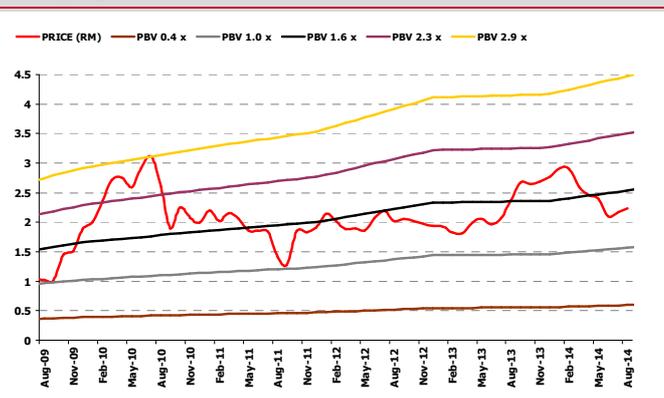
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Dec (RM'm)	FY14	FY14	Chg (%)	FY13	Chg (%)	FY13	FY14	Chg (%)
Turnover	238.1	232.3	2.5	330.0	(27.8)	650.5	470.4	(27.7)
EBITDA	39.4	38.7	1.8	48.5	(18.7)	93.9	78.1	(16.8)
EBIT	32.8	32.9	(0.3)	37.4	(12.3)	73.3	65.7	(10.3)
PBT	32.3	32.1	0.4	39.8	(19.0)	76.6	64.4	(15.9)
Net Profit (NP)	26.8	26.6	0.6	35.5	(24.6)	67.9	53.4	(21.4)
EPS (sen)	3.9	3.9	0.5	5.1	(23.4)	9.9	7.8	(20.4)
EBITDA margin (%)	16.5	16.7		14.7		14.4	16.6	
EBIT margin (%)	13.8	14.2		11.3		11.3	14.0	
PBT margin (%)	13.5	13.8		12.1		11.8	13.7	
Effective tax rate (%)	16.6	18.1		12.4		12.5	17.3	

Source: Company, Kenanga Research, Bursa Malaysia

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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