



Supermax Corporation Berhad

YoY Profit Up Despite Minimum Wage

TP: RM2.60 (+28.7%)

Last traded: RM2.02

BUY

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Review

- Supermax reported 1QFY13 net profit of RM31.8mn, representing 23.0% and 22.7% of ours' and consensus estimates of RM138.5mn and RM140.3mn respectively. EPS improved to 4.72 sen from 4.12 sen a year ago.
- Compared to a year ago, net profit advanced 13.6% YoY on a 29.0% YoY surge in revenue to RM320.4mn. This was on the back of capacity added from new and refurbished lines. Total capacity now stands at approximately 17.8bn gloves/annum. Aiding profit gains was a finance income of RM2.2mn vs. expenses of RM2.6mn in 1Q FY12. Meanwhile, operating expenses rose 29.0% YoY to RM289.1mn, mostly influenced by the implementation of the minimum wage policy in January. Also, share of associate profits decreased by 65.2% YoY to RM3.1mn from a year ago.
- ASPs for latex and nitrile gloves fell in comparison to a year ago. As of 1QFY13, ASPs for powdered latex gloves and powder-free latex gloves were USD23.65-29.95/1000pcs (-7.3% YoY) and USD30.75-33.95/1000pcs (-6.1% YoY). Similarly, ASPs for nitrile gloves fell by 4.0% - 6.0% YoY to USD24.65-33.95/1000pcs. Despite an increase in production output of nitrile gloves, management has maintained manufacturing margins between 11% - 13% to be in line with global market prices. In general, nitrile gloves remains cheaper compared to powder-free latex gloves.
- Natural rubber latex prices continued its decline, decreasing by 17.4% YoY to RM6.14/kg. Similarly, synthetic latex [nitrile] was lower by 18.3% YoY at USD1,290/mtw. Management expects rubber prices to remain soft amid continued concerns in the Eurozone and US. Meanwhile, nitrile prices are expected to trade between USD1,100-1,300/mtw in the short to medium term. To recap, savings in material costs are passed on to consumers in the form of lower ASPs - partly explaining the decline in ASPs.
- Sequentially, PBT dipped by 13.1% QoQ from RM42.3mn. This was due to higher operating expenses (+2.6% QoQ) amid declining revenues (-0.5% QoQ). The decline in revenue was attributed to a fall in ASPs as competition intensified. Also, in tandem with the wintering period, material cost increased as the price of natural rubber latex and synthetic latex strengthened by 4.3% QoQ and 1.3% QoQ respectively. Despite the large decline in PBT, PAT only decreased by 1.0% QoQ due to lower taxation of RM4.7mn vs. RM10.5mn in the 4QFY12.

Impact

- Fine tuning our estimates, we tweak our FY13/14/15 net profit forecast to RM135.7/RM158.3/RM161.0mn from RM138.5/151.6/157.7mn previously.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	679.2
Market Cap (RMmn)	1371.9
Par Value	0.50
52-wk Hi/Lo (RM)	2.25/1.79
12-mth Avg Daily Vol ('000 shrs)	1958.7
Estimated Free Float (%)	53.1
Beta	1.4
Major Shareholders (%)	
	Dato' Seri Stanley Thai - 35.6

Forecast Revision

	FY13	FY14
Forecast Revision (%)	(2.0)	4.4
Net profit (RMm)	135.7	158.3
Consensus	140.3	160.4
TA's / Consensus (%)	96.7	98.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY13	FY14
Net gearing (x)	0.1	0.0
CFPS (RM)	0.3	0.2
P/CFPS (x)	6.8	8.8
ROAA (%)	10.5	11.3
ROAE (%)	15.4	16.1
NTA/Share (RM)	1.3	1.5
Price/ NTA (x)	1.5	1.4

Scorecard

	% of FY	
vs TA	23.0%	Within
vs Consensus	22.7%	Within

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	1.5%	3.3%
3 mth	10.4%	8.4%
6 mth	3.1%	10.2%
12 mth	10.7%	12.3%

(12-Mth) Share Price relative to the FBM KLCI



Outlook

- Demand for both natural rubber and nitrile gloves are expected to be strong. Management has pinpointed growth in regions such as the Middle East, Africa and Asia particularly China and India. Although undesirable, short term demand may be boosted by potential pandemics such as the H7N9 and MERS virus.
- Additional capacity of nitrile gloves will stem from factory #10 and #11 which is expected to be completed by the end of the year. Works are also being done on certain plants to replace old lines with more efficient lines for the production of nitrile gloves. Together, this is expected to increase nitrile capacity by 6.9bn gloves, doubling Supermax's current nitrile capacity of 5.4bn pieces/annum. Future expansion plans will likely be derived from the continuation of the Glove City project once the relevant infrastructures are available.

Valuation

- We maintain TP at RM2.60 based on FY14 EPS of 23.3 sen and a 20% discount to the industry's targeted PE multiple of 14x. This represents a total potential upside of around 32.0%. **BUY** maintained.

Table 1: Earnings Summary

FYE Dec	2011	2012	2013F	2014F	2015F
Turnover	1021.4	997.4	1136.3	1310.3	1310.3
Pretax profit	112.1	137.3	156.6	182.7	185.8
Net profit	104.2	121.7	135.7	158.3	161.0
EPS (sen)	30.6	17.9	20.0	23.3	23.7
EPS growth (%)	(34.5)	(41.6)	11.5	16.6	1.7
PER (x)	6.7	11.4	10.2	8.8	8.6
Dividend (sen)	6.5	5.0	6.0	7.0	7.1
Dividend yield (%)	3.2	2.5	2.9	3.4	3.5

Table 2: 1QFY13 Results Analysis (RMmn)

FYE Dec	1QFY12	4QFY12	1QFY13	QoQ	YoY
Revenue	248.5	322.3	320.5	(0.5)	29.0
Operating Expenses	(224.2)	(281.7)	(289.1)	2.6	29.0
Finance costs	(2.6)	(2.0)	2.2	(209.3)	(184.3)
Share of associates profits	8.9	3.8	3.1	(17.4)	(65.2)
PBT	30.7	42.3	36.8	(13.1)	19.7
Taxation	(2.7)	(10.5)	(4.7)	(55.5)	74.4
PAT	28.0	32.1	31.8	(1.0)	13.6
PBT margin (%)	12.4	13.1	11.5		

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