

Results Note
Supermax Corp Bhd
Aug 30th, 2013
RM2.37
BUY
Period: 2QFY13

Target (RM)	RM2.81
MASA Codes	SUPERMX / 7106
Bloomberg	SUCB MK

Dividend: No dividend was declared for the quarter.

Stock & Market Data

KLCI	1703.78
Listing	Main Market
Sector	Industrial Products
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	680.2m
Market Capitalisation	RM1,612.0m
1-year Performance	22.1%
52-week Hi/Lo	RM1.79 / RM2.44
1M Average Volume	3.4m shares
Estimated Free Float	35%
Major Shareholders: -	
Stanley Thai & family	35.6%
Skagen Kon-Tiki Verdipapirfond	4.5%

Actual versus expectations: 1H results came at 44.6% of our forecast. We deem the results inline with our expectations as we see second half results coming on stronger on account of more capacity coming on line and the higher US Dollar exchange rate.

Key Indicators @ FY14	
PER (x)	9.5
PBV (x)	1.5
Net Debt/Equity (%)	12.1
ROE	16.9

Result highlights: yoy - Revenue for Q2 improved 42.2% on account higher production capacity and better efficiency, while revenue for 1H improved 35.4% for the same reasons. The higher capacity and better efficiency came from new and refurbished lines. Pretax profit improved 19.5% for the quarter and similarly for 1H, the improvement was also by the same quantum. At the profit-to-shareholders level, positive MI helped the quarter's performance improved 18.3% whereas for 1H, the improvement was by 17% only. Overall pretax margins were kept within the normal range (meaning without extreme factors) of between 10 – 11%. Tax rate was lower than the statutory rates due to reinvestment allowances.

Qoq – Revenue improve 3% while pretax profit jumped by 8.4% on account of better contribution from associates. Average selling prices (ASP) of nitrile gloves have decline again for the quarter as a result of intensifying competition. The price reduction was much muted vis-à-vis last quarter's, with ASP of the more popular segment (3.2mil) down between 2.2 – 4%. Earnings per share for quarter came in at 5.13sen, bringing 1H earning per share to 9.85sen for a 15.5% improvement yoy.

FYDec / RM'm	2QFY13	2QFY12	1QFY13	y/y chg	q/q chg	1HFY13	1HFY13	y/y chg
Revenue	330.0	232.1	320.5	42.2%	3.0%	650.5	480.6	35.4%
Operating Expense	(292.6)	(203.5)	(284.7)	43.8%	2.8%	(577.3)	(427.6)	35.0%
Finance cost	(2.2)	(2.6)	(2.2)	-15.4%	0.0%	(4.4)	(5.3)	-17.0%
Pretax Profit b/4 asso	35.2	26.0	33.6	35.4%	4.8%	68.8	47.7	44.2%
Associates	4.6	7.3	3.1	-37.0%	48.4%	7.7	16.3	-52.8%
Pretax profit	39.8	33.3	36.7	19.5%	8.4%	76.5	64.0	19.5%
Tax expense	(4.9)	(3.3)	(4.7)	48.5%	4.3%	(9.6)	(6.0)	60.0%
Net profit	34.9	30.0	32.0	16.3%	9.1%	66.9	58.0	15.3%
MI	0.6	0.0	0.3			0.9	(0.1)	
Profit to s'hldrs	35.5	30.0	32.3	18.3%	9.9%	67.8	58.0	17.0%
EPS (sen)	5.13	4.41	4.72	16.3%	8.7%	9.85	8.53	15.5%
Pretax margin	10.7%	11.2%	10.5%	-0.5%	0.2%	10.6%	9.9%	0.7%
Tax rate	13.9%	12.7%	14.0%	1.2%	-0.1%	14.0%	12.6%	1.4%

* Based on pretax profit before associates

Rubber latex down q-o-q

Latex prices were down from RM6.14 (per kg) last quarter to RM5.72 in this quarter (-7.3%) as demand for the product remained soft, owing to the soft economic conditions in Eurozone, US and also in China. Nitrile butadiene prices has been stable, trading at USD1,250 per mtw and is expected to remain at this level to slightly lower due an expected increase in supply.

Demand remained robust

Despite the slowdown in Eurozone and US, demand for both natural and nitrile rubber gloves remained robust. Regions like Africa and Middle East has also seen a pick up in demand, so as demand from Asia, particularly in China and India. We estimate growth for nitrile glove to be in the mid-teens while natural rubber gloves growth to be about 7-8%.

The US Dollar has been appreciating in the last month, which is a boon to exporters like Supremax.

Expansion plans on track

Sungei Buloh – 5 of the 7 line planned have already been commissioned since May '12. The remaining 2 lines will be commissioned once sterilisation capacity is secured.

Meru, Klang – Plants #10 and #11 have been fast tracked for completion by end 2013. On completion, and plus the refurbished lines, nitrile capacity would increase to 12.3bn pcs p.a. from 5.4bn pcs p.a. Production mix would then be 53% for nitrile while 47% for natural rubber gloves (total installed capacity will be 21.6bn pcs p.a.)

The automation process, particularly the last track – attacking and packing – has been going on smoothly which when completely by year-end would see Supermax reducing dependence on foreign labour and improve productivity and efficiency.



Valuation & Recommendation

Just like we upgraded the PER rating for Kossan to using a range of 12 – 14x PER, we now use the same rating for Supermax. **On the average FY13 & FY14 EPS of 23.45sen, our valuation of Supermax is RM2.81 to RM3.28** i.e. we recommend to BUY Supremax up till the price of RM2.81 and to sell the stock should it go above RM3.28.

We reiterate our **BUY** recommendation.

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Table 2. Profit & Loss forecast

FY Dec / RM'm	DecFY14(f)	DecFY13(f)	DecFY12(a)	DecFY11(a)	DecFY10(a)
Revenue	1514.1	1376.4	1021.4	977.3	803.6
EBITDA	202.6	182.5	170.3	148.6	223.7
EBIT	172.6	155.5	146.0	124.6	197.7
Associates	18.0	16.0	23.4	34.8	0.0
Pretax profit/(loss)	190.6	171.5	137.3	112.1	183.8
Net Profit/(loss)	168.0	151.0	121.7	104.2	158.9
EPS (sen)	24.7	22.2	17.9	30.6	48.0
PER (x)	9.6	10.7	11.4	6.7	4.3
Dividend (sen)	7.0	6.5	5.0	4.8	5.0
Dividend yield (%)	3.0	2.7	3.2	1.8	2.0
Net asset/share (RM)	1.62	1.45	1.29	1.14	1.00
Price/book (x)	1.5	1.6	1.6	1.8	2.0
EBITDA margin (%)	13.4	13.3	16.7	15.2	27.8
EBIT margin (%)	11.4	11.3	14.3	12.7	24.6
Net profit margin (%)	11.1	11.0	11.9	10.7	19.8
Tax rate (%)	14.0	14.0	14.0	10.5	17.6

Table 3. Balance sheet

Balance Sheet (RM'm)	DecFY14(f)	DecFY13(f)	DecFY12(a)	DecFY11(a)	DecFY10(a)
Current assets					
Cash	195.2	150.0	122.9	104.5	97.4
Stocks	280.0	250.0	233.8	233.1	133.1
Debtors / Receivables	270.0	250.0	206.9	203.4	214.6
Others	0.0	0.0	0.0	0.0	0.0
Total Current assets	745.2	650.0	563.6	541.0	445.1
Current Liabilities					
Short term loans	170.0	170.0	162.9	190.5	153.8
Creditors / Payables	150.0	130.0	118.0	87.3	61.6
Tax	6.0	5.0	4.2	0.0	4.3
Total Current liabilities	326.0	305.0	285.1	277.8	219.7
Net Current Assets	419.2	345.0	278.5	263.2	225.4
Long term assets					
Land & building & machinery	552.0	510.0	174.0	407.3	393.1
Investments	210.0	210.0	277.9	228.4	198.5
Intangibles	28.7	28.7	209.8	28.7	28.7
Total Long term assets	790.7	748.7	28.7	664.4	620.3
Total assets	1209.9	1093.7	969.0	927.8	845.6
Shareholders funds					
Paid up capital	340.1	340.1	340.1	170.0	170.0
Earnings reserves	716.1	599.9	494.0	599.0	521.4
Total shareholder funds	1056.1	940.0	834.0	769.0	691.4
Minority Interest	-0.3	-0.3	-0.3	-0.1	0.1
Long term liabilities	154.0	154.0	135.2	158.7	154.1
Total equity & liabilities	1209.9	1093.7	969.0	927.8	845.6

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