Supermax Corporation

12MFY12 within expectations

MARKET PERFORM ↔

Price: **RM1.80**

Target Price: **RM2.20** ↔

Period
- 4Q12/12MFY12

Actual vs. Expectations
- The 12M12 net profit of RM120m came in within expectations, accounting for 98% and 95% of ours and the consensus full-year net profit forecasts.

Dividends
- A final tax-exempt DPS of 6% or 3 sen was proposed, bringing the total tax-exempt FY12 DPS to 5 sen.

Key Results Highlights
- **QoQ,** the revenue rose 31% to RM322m, which we believe was due mainly to sales volume growth on the back of a declining raw material price as well as new capacity from its new and existing refurbished lines. In tandem with top line growth, the PBT grew 25% despite the slight PBR margin contraction of 13.1% compared to 13.8% in 3QFY12. However, the net profit only rose 1.5% due to a higher tax provisioning as a result of under-provisions in the past few quarters.
- **For the full year,** the 12MFY12 revenue rose marginally by 2% to RM1.0b on the back of stronger rubber gloves volume sales, which negated the impact of a fall in the ASPs. The sharp -25% YoY decline in the average latex price has correspondingly led to lower ASPs, which were passed on as cost savings to customers. The lower latex price helped lift the EBITDA margin by +2%ppt YoY to 16.6% in 12MFY12. Consequently, despite a higher effective tax rate of 13.3% (FY11: 7.2%), the 12MFY12 net profit grew by +16.7% YoY to RM120m, accounting for 98% and 95% of ours and the consensus full-year net profit forecasts.

Outlook
- Two new plants are expected to start production by end-4Q2013 and will boost the production of nitrile gloves by 6.8b pieces of gloves or 76% increase to 12.0b gloves p.a.
- The targeted product mix will be 52% nitrile and 48% natural rubber.
- Raw material costs are expected to remain stable, if not declining further, for the rest of the year. However, the latex price may be supported during the winter period (between Feb and May) for rubber trees. While we believe that the declining trend in the raw material prices could improve glove makers' margins, this benefit will eventually be passed down to purchasers via lower average selling prices (ASPs).
- In order to mitigate the effect of the minimum wage, Supermax has moved into automation, which is in line with the other industry players. This will eventually lead to better operation efficiency and hence profit margins.

Change to Forecasts
- No change to our estimates.

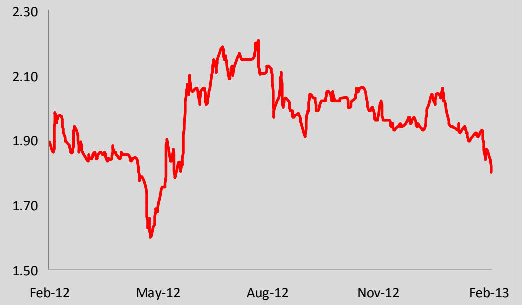
Rating

Maintain MARKET PERFORM rating and our earnings estimates pending Supermax's results briefing.

Valuation
- Our TP of RM2.20 remains unchanged. This TP represents a 10.3x PER to our FY13F EPS of 4.3 sen. The targeted PER is at a +1SD level above the 2-year forward PER average.

Risks
- Higher latex prices and a stronger ringgit.

Share Price Performance



KLCI	1,624.18
YTD KLCI chg	-3.8%
YTD stock price chg	-6.7%

Stock Information

Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,222.5
Issued shares	679.2
52-week range (H)	2.25
52-week range (L)	1.63
3-mth avg daily vol:	905,544
Free Float	56%
Beta	1.4

Major Shareholders

KIM SIM THAI	20.5%
BEE GEOK TAN	15.2%
EPF	8.3%

Summary Earnings Table

FY Dec (RM'm)	2012	2013E	2014E
Turnover	1048.2	1347.8	1388.0
EBIT	126.7	201.1	206.0
PBT	140.2	162.5	167.4
Net Profit (NP)	121.8	144.5	148.8
Consensus (NP)		142.7	161.8
Earnings Revision	-	0%	0%
EPS (sen)	17.9	21.2	21.9
EPS growth (%)	17.0	18.7	3.0
NDPS (sen)	5.0	5.3	5.5
BVPS (RM)	1.29	1.45	1.61
PER (X)	10.1	8.5	8.2
PBV (X)	1.4	1.2	1.1
Net Gearing (%)	18.3	16.6	8.3
Dividend Yield (%)	2.8	3.0	3.0

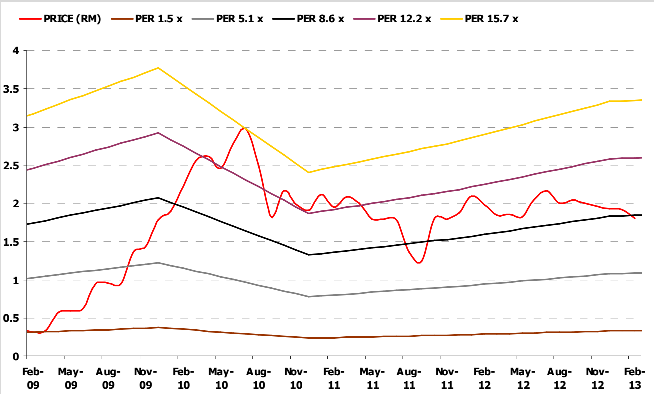
The Research Team
research@kenanga.com.my
+603 2713 2292

Result Highlight

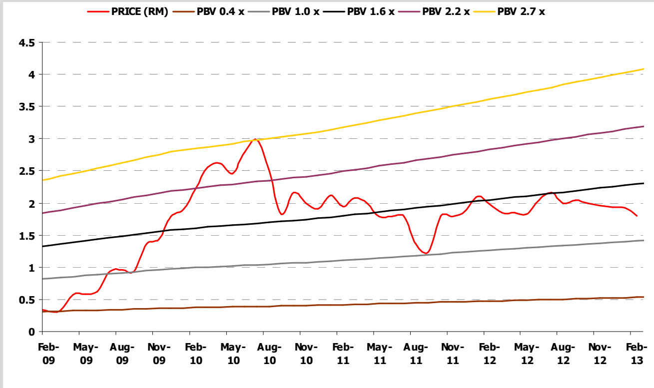
FY Dec (RM 'm)	4Q FY12	3Q FY12	QoQ Chg	4Q FY11	YoY Chg	12M FY11	12M FY12	YoY Chg
Turnover	322.3	245.5	31.3	276.2	16.7	1,021.4	1,048.4	2.6
EBITDA	50.7	42.8	18.5	34.1	48.8	148.7	174.3	17.2
EBIT	40.5	33.2	22.1	27.8	45.8	89.8	126.7	41.1
PBT	42.3	33.8	25.2	29.3	44.4	112.1	140.2	25.0
Net Profit (NP)	32.1	31.6	1.5	28.2	10.6	104.1	121.5	16.7
EPS (sen)	4.7	4.7	1.5	4.1	13.4	15.3	17.9	16.7
EBITDA margin (%)	15.7	17.4		12.3		14.6	16.6	
EBIT margin (%)	12.6	13.5		10.1		8.8	12.1	
PBT margin (%)	13.1	13.8		10.6		11.0	13.4	
Effective tax rate (%)	24.8	6.6		4.3		7.2	13.3	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research

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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%
UNDERWEIGHT : 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com

Chan Ken Yew
Head of Research