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Market Access

Supermax Corporation Bhd

“Poor Beginning for FY15”

Results Review

- Actual vs. expectations.** Supermax Corporation Bhd (Supermax) 1Q15 net profit of RM25 million (-6% y-o-y) came in below with ours and street estimates, accounting 20% of ours and consensus full year net profit forecast. Lower-than-expected earnings performance in 1Q15 was pulled down by lower sales on lower average selling prices (ASPs) dragged by lower material costs, regardless of lower taxation charge for the current quarter of RM3.4 million compared to RM5.8 million in 1Q14.
- Dividend.** There was no dividend declared during the quarter.
- Top line.** Supermax posted disappointing 1Q15 revenue of RM223 million (-14% y-o-y, -4% q-o-q) due to lower number gloves sold in the current quarter hammered by the fierce competition in the nitrile segment coupled with the drop in average selling price (ASPs), dragged down by lower material costs. 1Q15 EBIT margin dropped to 12% compared to preceding year of 14%, however it was flat against 4Q14.
- Bottom line.** PBT contracted to RM28 million (-13% y-o-y) despite higher contribution from associates to RM4 million from RM2 million in the preceding year and lower finance cost in the current quarter. However, PBT margin dropped by 1pps to 13% from 14% in the preceding year.
- Rubber Price Remains Weak.** The average rubber latex price has fallen by 18% RM3.77 in 1Q15 per kg from RM4.81 1Q14 but rise by 4% from RM3.77 in 4Q14. The latex price has dropped significantly due to excessive supply of rubber in the market coupled with the weakening of crude oil prices and the slower-

Tuesday, May 26, 2015

BUY (TP: RM 2.28)

Current Price (RM)	RM1.94
New Target Price (RM)	RM2.28
Previous Target Price (RM)	RM 2.30
Previous Recomm.	BUY
Upside to the Target Price	17%
Dividend Yield (FY15)	3.1%

Stock Code	
Bloomberg	SUCB MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Rubber
Shariah Compliance	Yes
Issued Shares	677.1mn
Market Cap	1,313.5mn
YTD Chg In Share Price	15.48%
Beta (x)	1.05
52-week Hi/Lo (RM)	2.53   2.53
6M Average Volume (shares)	1.212mn
Estimated Free Float	50%

Major Shareholders	
Kim Sim Thai	20.54%
Bee Geok Tan	15.20%
EPF	4.98%

moving tyre industry, which is the largest rubber consumer. In addition, the nitrile price dropped to USD0.92 (RM3.61) per kg in 1Q15 from 4Q14 USD1.09 (RM3.50) per kg. Average selling price (ASP) of latex has dropped 6% y-o-y from RM97 to RM91, whereas nitrile ASP dropped by 8% y-o-y from USD29 to USD 27. Nevertheless, we estimate that the rubber glove industry would expect better earnings, taking advantage of the softening raw material prices and capacity expansion plans from all rubber players. Nonetheless, NR price will not strengthen anytime soon and nitrile price would remain weak due to China's economic deceleration and the oversupply of natural rubber.

- **Change to forecast.** We have done some house-keeping exercise and came-out with new FY15 and FY16 earnings forecast of RM125 million and RM140 million respectively. We made adjustments to our earnings due to the lower average selling price in view of the reduction in raw material prices of nitrile and also natural latex along with stiff competitions. Nevertheless, we still optimistic on FY15 and FY17 earnings which are expected to grow by 23% and 12%, boosted by i) the expansion of production line and ii) positive earnings from stronger USD. Note that, Supermax has changed its financial year end to 30 June 2016.
- **Valuation.** We value Supermax at **RM2.28** pegged at 3-years average PER of 12x over FY15 EPS of 19 sen and the stock is a **BUY**. Re-rating catalyst may come from i) the strong USD which will be a positive sentiment to the glove makers and ii) the robust demand of nitrile gloves in the Eurozone and U.S..

Table 1: Peers Comparison

	Year End	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Top Glove	Aug	5.50	34	36	16	15	2.3	2.5	13.8	2.9	5.61	Hold
Supermax	June	1.94	19	21	11	10	1.4	1.9	10.8	2.5	2.28	Buy
Kossan	Dec	6.38	30	35	20	18	4.8	4.1	19.0	1.3	6.12	Hold
Hartalega	Mar	8.07	35	41	24	20	5.2	5.8	20.0	1.6	7.40	Hold
Average			29	33	18	16	3.4	3.5				

Source: Bloomberg, M&A Securities

Table 2: Earnings Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	997	1,048	1,008	1,235	1,376
EBIT	171	139	130	161	179
PBT	137	148	129	179	193
Net profit	121	119	101	125	140
EPS (sen)	18	18	15	19	21
Pre-tax margin	14%	14%	13%	14%	14%
Net profit margin	12%	11%	10%	10%	10%
PER (x)	11	13	11	12	12
P/BV (x)	1.6	1.9	1.6	1.4	1.5

Source: Company, M&A Securities

## Results Review - Supermax Corporation Bhd

Table 3: Results Highlight

YE: June (RM million)	1Q15	1Q14	4Q14	QoQ	YoY	3M15	3M14	YoY
Revenue	223	232	259	-14%	-4%	223	232	223
EBIT	27	33	32	-16%	-18%	27	33	27
PBT	28	32	33	-13%	-12%	28	32	28
Taxation	-3	-6	-12	-72%	-41%	-3	-6	-3
Net Profit	25	27	20	24%	-6%	25	27	25
EPS (sen)	4	4	3	24%	-6%	4	4	4
EBIT margin	12%	14%	12%			12%	14%	12%
PBT margin	13%	14%	13%			13%	14%	13%
Net profit margin	11%	11%	8%			11%	11%	11%
Effective tax rate	-12%	-18%	-38%			-12%	-18%	-12%

Source: Company, M&amp;A Securities

Table 4: Segmental

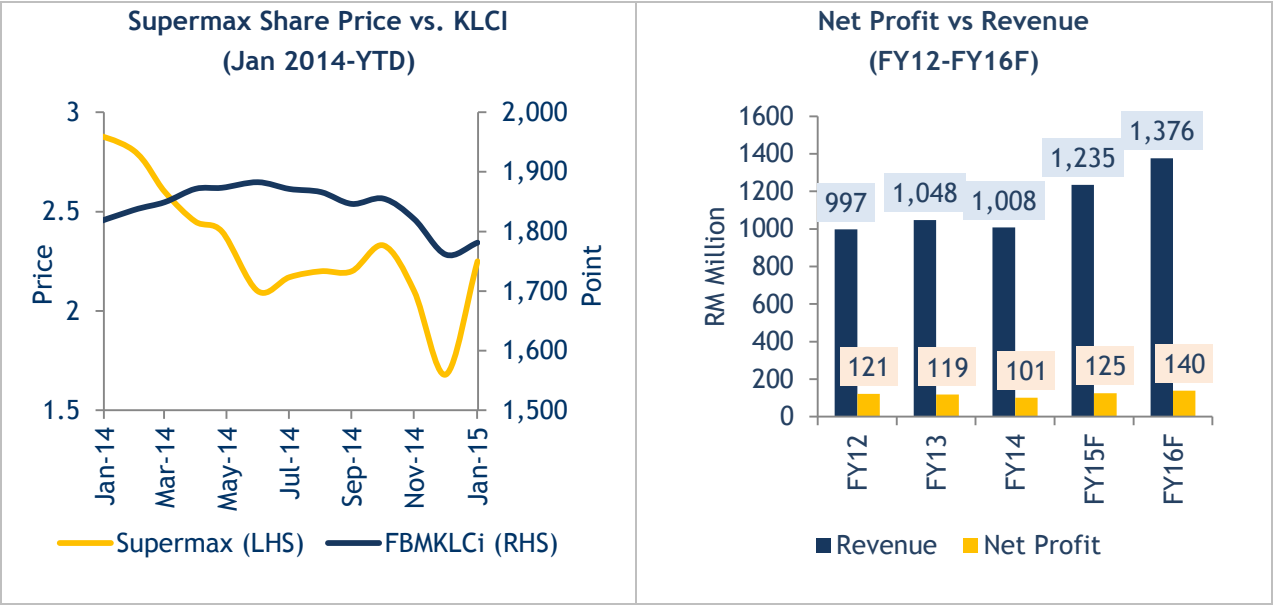
	3M15	3M14	YoY
<u>Revenue</u>			
Manufacturing	176	230	-23%
Trading	161	224	-28%
<u>PAT</u>			
Manufacturing	11	30	-64%
Trading	3	2	77%

Source: Bloomberg, M&amp;A Securities

Table 5: Natural Rubber and Nitrile Price Movement

	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
<u>Natural Rubber</u>						
USD	1.64	1.46	1.44	1.33	1.13	1.10
RM	5.26	4.81	4.65	4.25	3.77	3.93
MYR/USD	3.21	3.29	3.23	3.19	3.28	3.68
<u>Nitrile</u>						
USD	1.14	1.11	1.05	1.12	1.09	0.92
RM	3.65	3.64	3.40	3.56	3.50	3.28
MYR/USD	3.21	3.29	3.23	3.19	3.28	3.68

Source: Company, M&amp;A Securities



## M&A Securities

### STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

### SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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