

23 April 2018

Supermax

Rebuilding For Growth

Supermax's share price has outperformed by 41% YTD relative to the market. Its plans to replace and rebuild production capacity by 16% to 27.2bn pieces by Dec 2019 should improve efficiency and profitability. We have raised our FY18-20 NP forecasts by 3-13% and our DCF-based TP to MYR3.55 (from MYR2.70, 22% upside). Currently trading at 15x FY19F PE, the stock is trading at a 35% discount to sector average P/E. We believe the discount gap should narrow, given strong YoY earnings growth ahead and management issues addressed. Maintain BUY.

Return to growth. We met with management last Friday. Supermax is back on track in driving earnings growth. Its key focus would be to replace and expand its production lines to further improve efficiencies and profitability. The company is expected to expand installed production capacity by 16% to 27.2bn pieces by Dec 2019. Over the mid to longer term, we believe its planned expansion at Glove City in Bukit Kapar, Selangor, should be revived, as the necessary infrastructure (gas and water supply) are now available. To grow, Supermax is also focusing its sales efforts in key Asian markets.

Contact lens business a longer-term catalyst. We visited Supermax's contact lens factory and noted that the production lines where highly automated. The company currently has four contact lens production lines with total capacity of 70m pieces pa. As contact lenses are classified as a controlled medical device, securing licences are key for growing new markets. Supermax currently exports its contact lenses to 65 countries and expects to enter the Japan market in 1QFY19 (Jun). Management expects at least another two years of gestation period before any earnings turnaround.

Earnings forecasts raised. We now expect Supermax to grow its production capacity by 7.5% and 12.5% pa in FY19F-20F. Incorporating our new capacity assumptions and adjusting for input costs and forex, we have raised our FY18-20 earnings forecasts by 3-13%. Given that the contact lens business is currently still in investment mode, we have not included numbers in our forecasts. We now expect the company to generate a 2-year NP CAGR of 13% as glove demand remains resilient. Meanwhile, we expect the company's balance sheet to remain healthy, with net gearing ranging 12-17% for FY18F-20F despite MYR415m capex over the same period.

Maintain BUY. Rolling our earnings forecasts forward, we raise our DCF-based TP by 31% to MYR3.55 (previously MYR2.70). At our TP, we have valued the stock at 19x forward P/E. Currently trading at 15x FY19F P/E, the stock is trading at a 35% discount to sector average P/E. We believe the discount gap should narrow given Supermax's strong YoY earnings growth momentum going forward and as investors' concerns of leadership at the company have been addressed.

Key downside risks include a spike in raw material prices, a stronger MYR, and extended losses from its new venture into contact lens sales and manufacturing.

Forecasts and Valuations	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total turnover (MYRm)	1,096	1,127	1,298	1,430	1,606
Reported net profit (MYRm)	101	70	121	136	153
Recurring net profit (MYRm)	101	70	121	136	153
Recurring net profit growth (%)	(37.4)	(30.4)	71.9	12.7	12.5
Recurring EPS (MYR)	0.15	0.10	0.18	0.20	0.23
DPS (MYR)	0.04	0.03	0.05	0.05	0.06
Recurring P/E (x)	19.7	28.3	16.5	14.6	13.0
P/B (x)	1.85	1.84	1.73	1.59	1.46
P/CF (x)	7.0	9.1	9.1	12.9	7.9
Dividend Yield (%)	1.5	1.1	1.8	1.7	2.1
EV/EBITDA (x)	10.6	11.5	9.3	8.5	7.4
Return on average equity (%)	9.5	6.5	10.8	11.3	11.7
Net debt to equity (%)	22.1	17.0	13.9	16.9	12.1
Our vs consensus EPS (adjusted) (%)			16.0	18.3	19.7

Source: Company data, RHB

Consumer Non-cyclical | Rubber Products

Buy (Maintained)

Target Price:	MYR3.55
Price:	MYR2.92
Market Cap:	USD491m
Bloomberg Ticker:	SUCB MK

Share Data

Avg Daily Turnover (MYR/USD)	11.5m/2.95m
52-wk Price low/high (MYR)	1.70 - 2.95
Free Float (%)	55
Shares outstanding (m)	665
Estimated Return	22%

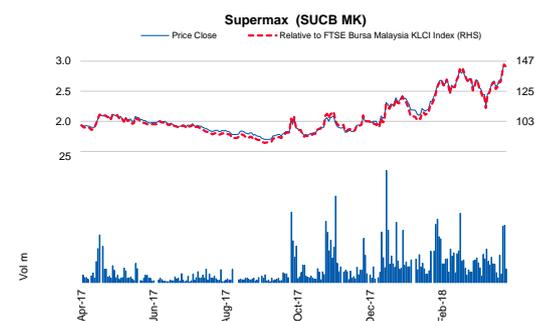
Shareholders (%)

Dato' Seri Stanley Thai	20.7
Datin Seri Cheryl Tan	15.3
Employees Provident Fund	5.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	46.0	9.8	25.3	49.7	49.0
Relative	40.9	8.1	22.1	41.2	40.6

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-04-23.

Asia	Financial summary	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Malaysia	Recurring EPS (MYR)	0.15	0.10	0.18	0.20	0.23
Consumer Non-cyclical	EPS (MYR)	0.15	0.10	0.18	0.20	0.23
Supermax	DPS (MYR)	0.04	0.03	0.05	0.05	0.06
Bloomberg SUCB MK	BVPS (MYR)	1.58	1.59	1.69	1.84	2.00
Buy	Weighted avg adjusted shares (m)	680	680	680	680	680
Valuation basis	Valuation metrics	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Supermax is valued on a DCF basis (CoE: 8.5%, TG: 2%)	Recurring P/E (x)	19.7	28.3	16.5	14.6	13.0
Key drivers	P/E (x)	19.7	28.3	16.5	14.6	13.0
Increasing glove usage among developing nations, improving technology efficiency that produces more glove per hour as well as reduce per unit production cost	P/B (x)	1.85	1.84	1.73	1.59	1.46
Key risks	FCF Yield (%)	4.9	6.8	7.4	(1.3)	3.9
Heightened competition among glove manufacturers as well as rise of raw material prices	Dividend Yield (%)	1.5	1.1	1.8	1.7	2.1
Company Profile	EV/EBITDA (x)	10.6	11.5	9.3	8.5	7.4
Supermax is primarily involved in the manufacturing and distribution of medical gloves. It is among the top 5 largest gloves producer in the world	EV/EBIT (x)	15.1	17.7	13.4	12.3	10.7
	Income statement (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Total turnover	1,096	1,127	1,298	1,430	1,606
	Gross profit	220	110	247	304	341
	EBITDA	189	169	207	233	260
	Depreciation and amortisation	(56)	(60)	(63)	(72)	(80)
	Operating profit	132	110	143	161	180
	Net interest	(11)	(11)	(8)	(9)	(8)
	Income from associates & JVs	11	0	12	13	13
	Pre-tax profit	133	110	160	179	201
	Taxation	(32)	(37)	(38)	(42)	(47)
	Minority interests	(1)	(3)	(1)	(1)	(1)
	Recurring net profit	101	70	121	136	153
	Cash flow (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Change in working capital	116	76	40	(46)	31
	Cash flow from operations	283	219	217	154	252
	Capex	(187)	(85)	(70)	(180)	(175)
	Cash flow from investing activities	(187)	(85)	(150)	(180)	(175)
	Dividends paid	(63)	(67)	(51)	(34)	(42)
	Cash flow from financing activities	(83)	(88)	(71)	22	(69)
	Cash at beginning of period	116	120	156	160	165
	Net change in cash	14	46	(4)	(4)	7
	Ending balance cash	120	156	160	165	185
	Balance sheet (MYRm)	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Total cash and equivalents	120	156	160	165	185
	Tangible fixed assets	943	968	1,029	1,136	1,231
	Intangible assets	29	29	29	29	29
	Total investments	227	227	227	227	227
	Total other assets	1	1	28	28	28
	Total assets	1,654	1,665	1,778	1,966	2,095
	Short-term debt	225	213	202	240	224
	Total long-term debt	133	126	118	136	126
	Total liabilities	581	588	632	718	736
	Shareholders' equity	1,075	1,078	1,147	1,250	1,361
	Minority interests	(1)	(1)	(1)	(2)	(2)
	Total equity	1,073	1,077	1,146	1,248	1,359
	Net debt	237	183	160	212	165
	Total liabilities & equity	1,654	1,665	1,778	1,966	2,095
	Key metrics	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
	Revenue growth (%)	(29.0)	2.8	15.3	10.2	12.3
	Recurrent EPS growth (%)	(37.4)	(30.4)	71.9	12.7	12.5
	Gross margin (%)	20.1	9.7	19.0	21.2	21.2
	Operating EBITDA margin (%)	17.2	15.0	15.9	16.3	16.2
	Net profit margin (%)	9.2	6.2	9.3	9.5	9.5
	Dividend payout ratio (%)	30.0	30.0	30.0	24.7	27.6
	Capex/sales (%)	17.0	7.5	5.4	12.6	10.9
	Interest cover (x)	10.3	10.0	12.4	13.0	15.6

Source: Company data, RHB

Figure 1: DCF-based TP

FYE 30 Jun (MYR m)	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal
Net income	70.2	120.7	136.0	153.0	153.9	161.0	170.2	184.7	202.9	219.4	237.6	
+ share issuance proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ D&A	59.5	63.5	72.1	80.2	87.4	94.8	100.1	106.0	113.5	116.1	122.2	
- Δ in net working capital	27.5	17.7	(17.6)	(13.4)	100.8	(2.1)	0.6	(16.0)	(16.9)	(14.4)	(14.9)	
- capital expenditure	(84.7)	(150.0)	(180.0)	(175.0)	(175.0)	(175.0)	(175.0)	(175.0)	(155.0)	(135.0)	(115.0)	
+ long term debt	(7.3)	(7.3)	17.7	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	(9.8)	
+ others	1.2	6.9	5.3	7.1	4.3	(0.5)	(7.5)	(6.7)	(6.9)	(8.9)	(9.5)	
Free cash flow to equity (FCFE)	66.5	51.4	33.6	42.2	161.5	68.3	78.6	83.2	127.8	167.4	210.7	3,881.9
Discount factor	1,000	1,000	0.918	0.843	0.774	0.711	0.653	0.599	0.550	0.505	0.464	0.426
PV of FCFE	66.5	51.4	30.8	35.6	125.1	48.5	51.3	49.9	70.4	84.6	97.8	1,654.2
Risk-free	4.0%											
Beta	1.0											
Equity Risk Premium	4.9%											
CoE	8.9%											
Terminal growth	2.0%											
Number of shares	665,00											
Fair Value (MYR)	3.55											
Current Price (MYR)	2.92											
Upside/Downside	21.6%											

Source: RHB

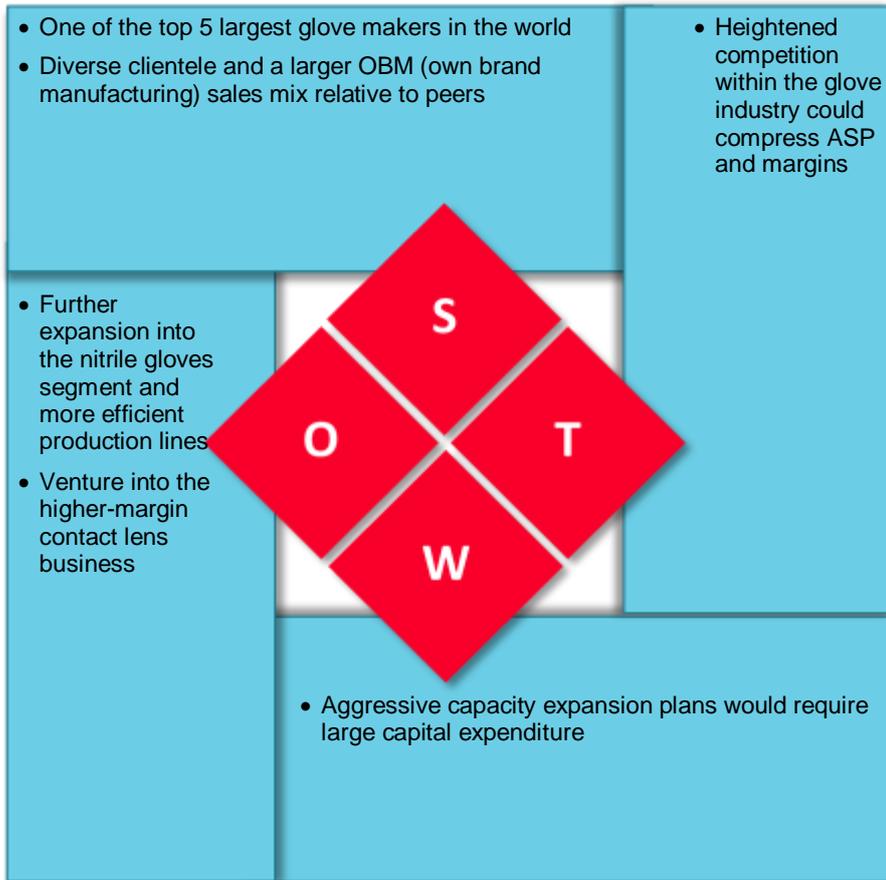
Figure 2: Sector valuations

	Bberg Ticker	Market cap (USD m)	Rating	Price (local ccy)	Target price (local ccy)	PE FY18	PE FY19	P/B FY18	Net gearing FY18	Div yield FY18	ROE FY18	FY19F YoY NP Grth	
Malaysia													
	Hartalega	HART MK	5,353	Buy	6.30	7.25	53.4	41.4	10.9	5.5%	1.2%	24.7%	18.3%
	Top Glove Corp	TOPG MK	3,276	Buy	10.00	12.10	34.5	25.8	5.1	54.7%	1.8%	20.1%	30.2%
	Kossan Rubber	KRI MK	1,170	Neutral	7.13	7.95	24.8	18.9	3.1	-6.8%	1.6%	18.5%	31.3%
	Supermax	SUCB MK	491	Buy	2.92	3.55	22.4	15.5	1.7	13.9%	1.8%	10.8%	12.7%
	Comfort Gloves	CG MK	117	Neutral	0.81	0.68	16.6	11.9	1.8	-7.3%	0.0%	15.9%	-31.0%
	Sector Average					30.3	22.7	4.5	12.0%	1.3%	18.0%	12.3%	

Note: Data as at 20 Apr 2018

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-02-15	Buy	2.70	2.33
2017-11-22	Buy	2.35	2.06
2017-08-30	Buy	2.06	1.78
2017-05-31	Neutral	2.00	2.06
2017-02-27	Neutral	2.24	2.01
2016-11-30	Neutral	2.13	2.18
2016-08-30	Neutral	2.30	2.03
2016-05-30	Neutral	2.59	2.48
2016-05-03	Buy	2.90	2.59
2016-03-22	Buy	3.88	2.52

Source: RHB, Bloomberg

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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Not Rated: Stock is not within regular research coverage

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