

Malaysia

ADD (no change)

Consensus ratings*: Buy 5 Hold 2 Sell 1

Current price:	RM1.60
Target price:	RM2.23
Previous target:	RM2.23
Up/downside:	39.4%
CGS-CIMB / Consensus:	10.9%
Reuters:	SUPM.KL
Bloomberg:	SUCB MK
Market cap:	US\$515.1m
	RM2,098m
Average daily turnover:	US\$2.49m
	RM10.51m
Current shares o/s:	1,360m
Free float:	62.5%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.2	-10.1	47.5
Relative (%)	3	-9.6	55.3

Major shareholders

	% held
Dato' Seri Thai Kim Sim, Stanley	20.7
Datin Seri Tan Bee Geok, Cheryl	15.3
Amanah Saham Nasional	1.5

Analyst(s)


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Supermax Corp

Regaining its Super-iority

- 2QFY6/19 core net profit rose 23% qoq, bringing 1HFY19 core net profit to RM69.7m (+9.3% yoy), deemed in line at 54% of our FY19 estimate.
- SUCB will continue to drive its earnings growth through capacity growth in its glove manufacturing unit. Contact lens unit to remain loss-making in FY19F.
- Maintain Add, with unchanged TP of RM2.23 (18.3x CY20F P/E).

2QFY19 core net profit surged 23% qoq

2QFY6/19 revenue rose 4.9% qoq, on the back of higher glove sales, as the group added new capacity (1.4bn pieces) upon completion of upgrade works at its Block G plant in Oct 2018. 2QFY19 EBITDA margin rose 0.1% pt qoq to 18.1%, thanks to increased operating efficiencies and stronger US\$/RM. 2QFY19 core net profit rose a stronger quantum of 23% qoq to RM38.1m, aided by lower tax rate of 28.7% (-3.0% pts qoq).

1HFY19 results met expectations; rose 9.3% yoy

1HFY19 revenue rose 16.1% yoy; core net profit grew 9.3% yoy to RM69.7m. The stronger performance was mainly due to: i) higher sales volume with more new capacity being commissioned, and ii) better economies of scale. 1HFY19 core net profit accounted for 54% of our and 53% of Bloomberg consensus full-year estimates, deemed within expectations as 4Q is seasonally the weakest quarter for the group. A dividend of 1.5sen/share was declared for 2QFY19, within expectations.

Glove production to grow 25.6% by end-2019F

SUCB targets to grow its total glove production capacity by 25.6% to 28.1bn pieces by end-2019. After upgrading works at one of its existing plants, Block G (Kamunting, Perak – 1.4bn p.a.) was completed in Oct 2018, SUCB started upgrading works on a new plant (lot 6061) in Klang, Selangor. This 4.4bn p.a. plant will be commissioned in two stages, with Stage A (2.2bn p.a.) to be completed by 3QCY19 (1QFY20) and Stage B (2.2bn p.a.) to be ready by 1QCY20 (3QFY20).

Contact lens segment to remain loss-making in next two years

Over the next two years, we expect SUCB's contact lens division to remain loss-making, with a small net loss of ~RM1m-5m p.a., despite being profitable on the gross profit level. We expect the segment's advertisement and promotional costs to remain high in the near term, given the group's plans to grow its contact lens sales more aggressively, especially in key markets such as China and Southeast Asia. It also aims to grow sales of its own brand, Aveo, to 40% of its total contact lens sales (from <5% in FY18).

Maintain Add

We keep our FY19-21 estimates, Add call, and RM2.23 TP based on 18.3x CY20F P/E (1 s.d. of its 3-year mean). In our view, SUCB's risk-reward profile remains appealing. Its current valuation of 14.9x CY19F P/E is below its 5-year mean (15.2x) and 41% discount to the sector's weighted average (26.2x). Stronger earnings from its glove division and lower-than-expected losses from its contact lens unit are potential re-rating catalysts.

Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (RMm)	1,127	1,304	1,638	1,897	2,126
Operating EBITDA (RMm)	148.5	216.4	256.8	299.2	336.8
Net Profit (RMm)	70.2	107.0	128.5	153.9	176.0
Core EPS (RM)	0.05	0.08	0.09	0.11	0.13
Core EPS Growth	(33.2%)	52.4%	20.0%	19.8%	14.4%
FD Core P/E (x)	31.00	20.34	16.94	14.15	12.37
DPS (RM)	0.025	0.040	0.042	0.051	0.058
Dividend Yield	1.56%	2.50%	2.66%	3.18%	3.64%
EV/EBITDA (x)	16.83	12.02	10.44	9.21	8.32
P/FCFE (x)	31.07	32.41	41.78	30.23	20.15
Net Gearing	49.5%	56.0%	58.9%	60.2%	59.1%
P/BV (x)	1.99	1.90	1.79	1.67	1.56
ROE	6.5%	9.5%	10.9%	12.2%	13.0%
CIMB/consensus EPS (x)			0.97	1.04	1.06

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Downside risks to our view

Downside risks to our view are: i) loss of key management personnel, ii) stiffer pricing competition in the glove segment, and iii) stronger-than-expected A&P expenses in the contact lens segment.

Figure 1: Results comparison

FYE Jun	2Q	2Q	yoy %	qoq %	2QFY19	2QFY18	yoy %	Prev.	Comments
(RM m)	FY19	FY18	chg	chg	Cum	Cum	chg	FY19F	
Revenue	385.1	335.9	14.6	4.9	752.2	647.9	16.1	1,637.9	Mainly from higher sales volume and increased production capacity
Operating costs	(315.3)	(267.1)	18.1	2.6	(622.7)	(524.9)	18.6	(1,434.1)	
EBITDA	69.8	68.8	1.3	16.9	129.4	123.0	5.2	217.7	
EBITDA margin (%)	18.1	20.5	(2.4)	1.9	17.2	19.0	(1.8)	14.5	Higher operating efficiencies more than offset increase in nitrile butadiene costs
Depn & amort.	(11.3)	(8.4)	34.8	8.3	(21.6)	(20.4)	6.1	(49.8)	
EBIT	58.5	60.5	(3.3)	9.2	107.8	102.6	5.1	203.9	
EBIT margin	15.2	18.0	(2.8)	1.8	14.3	15.8	(1.5)	12.4	
Interest expense	(4.7)	(3.3)	40.0	0.8	(9.3)	(6.6)	39.5	(20.7)	
Interest & invt inc	-	-	-	-	-	-	-	-	
Associates' contrib	0.5	0.5	1.5	(68.4)	2.0	2.3	(16.0)	7.0	
Exceptionals	-	-	-	-	6.5	-	-	-	One-off gain of RM6.5m (pre-tax) in 1QFY19 from insurance claim for fire that hit one of its glove factories in Sungai Buloh, Selangor.
Pretax profit	54.3	57.6	(5.8)	3.1	107.0	98.3	8.9	190.2	
Tax	(15.6)	(20.3)	(23.3)	(6.6)	(32.3)	(32.9)	(1.8)	(57.1)	
Tax rate (%)	28.7	35.3	(6.6)	(3.0)	30.2	33.5	(3.3)	30.0	Higher than statutory tax rate due to higher tax rates of overseas subsidiaries
Minority interests	(0.6)	(1.4)	(58.1)	>100	(0.6)	(1.6)	(61.5)	(4.0)	
Net profit	38.1	35.9	6.2	6.1	74.1	63.8	16.1	129.2	
Core net profit	38.1	35.9	6.2	23.0	69.7	63.8	9.3	129.2	Within expectations
EPS (sen)	5.6	5.3	6.2	6.1	10.9	9.4	16.1	19.0	
Core EPS (sen)	5.6	5.3	6.2	23.0	10.3	9.4	9.3	19.0	Based on 680.1m total outstanding shares

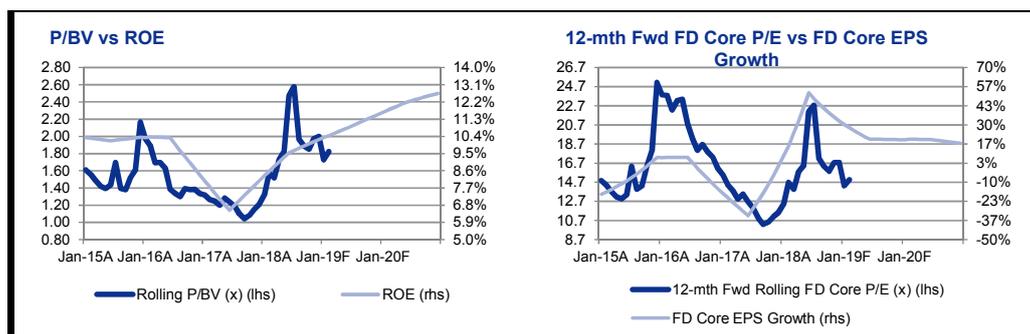
SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 2: Sector comparison

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY18	CY19		CY18	CY19	CY18	CY19	CY18	CY19	CY18	CY19
Hartalega Holdings	HART MK	Hold	5.45	5.40	4,460	38.1	33.0	18.6%	8.4	7.6	23.4%	24.4%	26.1	23.0	1.5%	1.8%
Kossan Rubber Industries	KRI MK	Add	3.76	5.16	1,181	22.9	19.3	18.0%	3.8	3.5	17.7%	19.0%	13.4	11.8	2.2%	2.6%
Supermax Corp	SUCB MK	Add	1.60	2.23	515	18.5	15.4	23.7%	1.8	1.7	10.2%	11.6%	11.2	9.8	2.6%	2.9%
Weighted Average						30.7	26.2	20.6%	5.6	5.0	21.3%	23.1%	18.2	15.7	2.6%	3.1%
Simple Average						26.1	22.1	21.1%	4.2	3.8	18.2%	19.9%	15.1	13.1	2.6%	3.2%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Net Revenues	1,127	1,304	1,638	1,897	2,126
Gross Profit	326	415	506	581	652
Operating EBITDA	149	216	257	299	337
Depreciation And Amortisation	(39)	(41)	(53)	(58)	(62)
Operating EBIT	110	176	204	242	275
Financial Income/(Expense)	(11)	(14)	(21)	(22)	(24)
Pretax Income/(Loss) from Assoc.	12	6	6	6	6
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	110	167	189	226	257
Exceptional Items	0	0	0	0	0
Pre-tax Profit	110	167	189	226	257
Taxation	(37)	(56)	(57)	(68)	(77)
Exceptional Income - post-tax					
Profit After Tax	73	111	132	158	180
Minority Interests	(3)	(4)	(4)	(4)	(4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	70	107	128	154	176
Recurring Net Profit	70	107	128	154	176
Fully Diluted Recurring Net Profit	70	107	128	154	176

Cash Flow

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
EBITDA	148.5	216.4	256.8	299.2	336.8
Cash Flow from Inv. & Assoc.					
Change In Working Capital	26.6	(64.3)	(55.3)	(66.9)	(59.0)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	30.8	35.3	28.1	29.5	30.9
Net Interest (Paid)/Received	(11.0)	(14.0)	(20.7)	(22.1)	(23.5)
Tax Paid	(25.0)	(56.2)	(56.8)	(67.7)	(77.1)
Cashflow From Operations	170.0	117.2	152.1	172.0	208.0
Capex	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)
Debt Raised/(repaid)	50.0	100.0	50.0	50.0	50.0
Proceeds From Issue Of Shares					
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(24.8)	(54.4)	(57.8)	(69.2)	(79.2)
Preferred Dividends					
Other Financing Cashflow	(15.1)	(14.0)	(20.7)	(22.1)	(23.5)
Cash Flow From Financing	10.1	31.6	(28.5)	(41.3)	(52.7)
Total Cash Generated	30.1	(1.2)	(26.4)	(19.4)	5.3
Free Cashflow To Equity	70.0	67.2	52.1	72.0	108.0
Free Cashflow To Firm	31.0	(18.9)	22.8	44.1	81.5

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Cash And Equivalents	96	95	69	49	55
Total Debtors	269	334	380	440	493
Inventories	154	197	251	291	327
Total Other Current Assets	79	127	174	175	176
Total Current Assets	599	752	874	956	1,051
Fixed Assets	1,062	1,104	1,152	1,242	1,327
Total Investments	217	217	217	217	217
Intangible Assets	29	29	29	29	29
Total Other Non-Current Assets	2	2	2	2	2
Total Non-current Assets	1,309	1,351	1,399	1,489	1,574
Short-term Debt	215	265	265	265	265
Current Portion of Long-Term Debt					
Total Creditors	143	186	231	265	294
Other Current Liabilities					
Total Current Liabilities	358	451	496	530	559
Total Long-term Debt	423	473	523	573	623
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	423	473	523	573	623
Total Provisions	33	33	33	33	33
Total Liabilities	814	957	1,052	1,136	1,215
Shareholders' Equity	1,095	1,147	1,218	1,303	1,399
Minority Interests	(1)	(1)	3	7	11
Total Equity	1,094	1,146	1,221	1,310	1,410

Key Ratios

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue Growth	9.5%	15.8%	25.6%	15.8%	12.1%
Operating EBITDA Growth	(21.2%)	45.7%	18.7%	16.5%	12.6%
Operating EBITDA Margin	13.2%	16.6%	15.7%	15.8%	15.8%
Net Cash Per Share (RM)	(0.40)	(0.47)	(0.53)	(0.58)	(0.61)
BVPS (RM)	0.80	0.84	0.90	0.96	1.03
Gross Interest Cover	10.01	12.56	9.85	10.93	11.68
Effective Tax Rate	33.6%	33.6%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	19.6%	33.3%	31.2%	31.3%	31.3%
Accounts Receivables Days	78.42	72.75	72.13	75.03	75.98
Inventory Days	76.40	72.09	72.20	75.43	76.52
Accounts Payables Days	37.77	37.55	39.11	40.85	41.44
ROIC (%)	8.7%	12.1%	12.7%	13.8%	14.3%
ROCE (%)	6.5%	9.5%	10.3%	11.4%	12.2%
Return On Average Assets	6.6%	9.0%	9.6%	10.5%	11.1%

Key Drivers

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
ASP (% chg, main prod./serv.)	5.6%	0.0%	13.7%	16.9%	9.9%
Unit sales grth (% , main prod./serv.)	48.8%	2.8%	-8.2%	88.4%	90.8%
Util. rate (% , main prod./serv.)	80.0%	79.0%	79.0%	81.0%	83.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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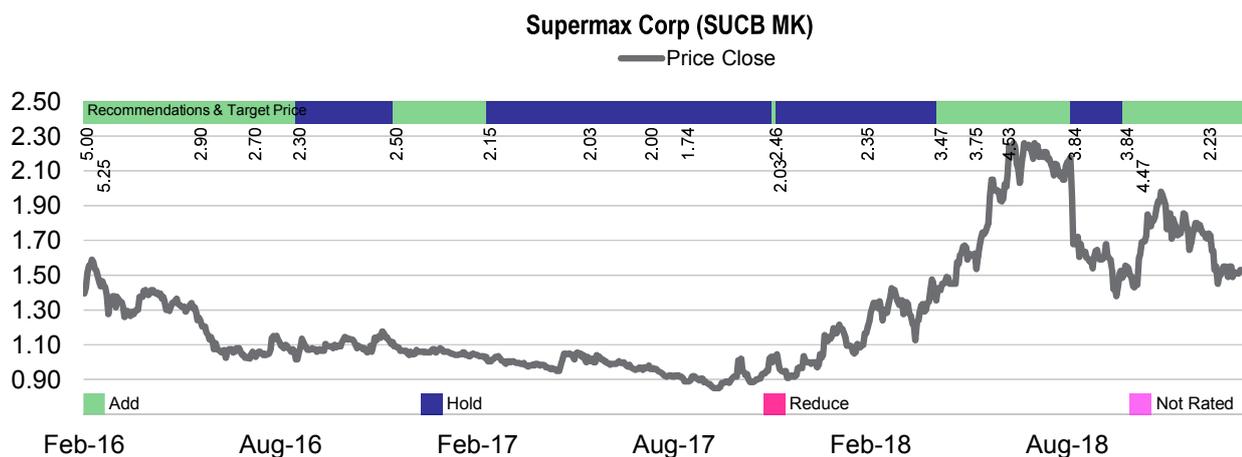
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2018		
758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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- Companies certified by CAC

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Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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