

15 May 2019

# Supermax Corporation

## 9M19 Above Our Expectation

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**9M19 core net profit of RM102.2m (+5.1% YoY) came in above our expectation at 86%, but in line with the consensus at 77%, of full-year forecasts. The positive variance from our forecast is due to higher-than-expected volume sales. Due to the better-than-expected results, we upgrade our FY19E/FY20E net profit by 7%/10%. TP is raised from RM1.30 to RM1.50 based on 15.5x FY20E EPS. Upgrade from UNDERPERFORM to MARKET PERFORM.**

**9M19 core net profit of RM102.2m (+5.1% YoY) came in above our expectation at 86%, but in line with the consensus at 77%, of full-year forecasts. The positive variance from our forecast is due to higher-than-expected volume sales. A 2nd interim dividend of 1.5 sen was declared this quarter bringing 9M19 DPS to 3.0 sen which is within our expectation.**

**Key results' highlights.** QoQ, 3Q19 revenue fell 6% which we believe was due to intense competition leading to lower ASPs and volume sales. There was no guidance in terms of actual volume sales and ASPs growth in the results commentary. Correspondingly, 3Q19 PBT fell 9% which we believe was due to margins being crimped (PBT margin fell 0.4ppt from 14.1% in 3Q19 compared to 13.7% in 2Q19) arising from inability to fully pass cost through, as a result of competitive pressure. This led to 3Q19 core net profit of RM34.6m (-9% QoQ) dragged down by a marginally higher effective tax rate of 29.2% compared to 28.7% in 2Q19.

**YoY, 9M19 core net profit excluding one-off insurance claims (RM6.5m) came in at RM102.2m (+5.1% YoY) due to stronger revenue (+14.2%) underpinned by the new replacement lines in its Perak plant. Profitability improved on efforts taken to improve efficiency and productivity, including the refurbishment of the older lines and streamlining of work processes.**

**Outlook.** The frantic pace of capacity expansion has resulted in a mild excess supply situation for rubber gloves leading to ASPs compression and flattish or lower profits over the past two quarters. However, we take comfort that this could be nothing more than just a temporary rough patch. However, with the rubber gloves players becoming aware of the intense competition since four months ago; over the last few months, they have implemented any of these measures; (i) slowed new capacity expansion, (ii) more measures to maintain margins, including automation and other cost reduction initiatives, and (iii) intensifying sales efforts to penetrate emerging economies. As such, theoretically, the ASPs pressure problem in the sector should fully sort itself out within another quarter.

**Upgrade FY19E/FY20E net profit by 7%/10%** to take into account the higher-than-expected volume sales.

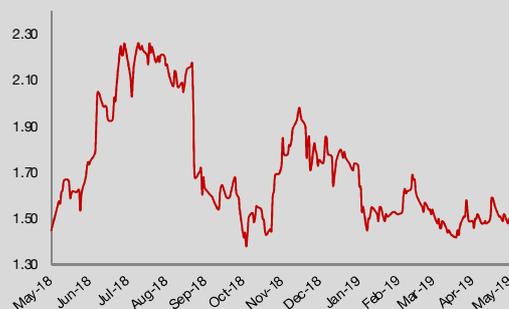
**Upgrade from UNDERPERFORM to MARKET PERFORM.** Following the earnings upgrade and roll-forward valuation from FY19E to FY20E, TP is raised from RM1.30 to RM1.50 based on 15.5x FY20E revised EPS (at +0.5 SD above its historical forward average). The group is trading at a steep discount of 40% compared to the sector's average due to its weak earnings guidance and it trailing behind peers in terms of capacity expansion and innovation.

**Key upside risks** to our call are higher-than-expected volume sales and lower-than-expected tax rate.

## MARKET PERFORM ↑

**Price :** **RM1.48**  
**Target Price :** **RM1.50** ↑

### Share Price Performance



KLCI	1,599.19
YTD KLCI chg	-5.4%
YTD stock price chg	-14.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,940.7
Shares Outstanding	1,311.3
52-week range (H)	2.31
52-week range (L)	1.30
3-mth avg daily vol:	4,729,103
Free Float	60%
Beta	1.0

### Major Shareholders

Dato' Seri Stanley Thai	21.2%
Datin Seri Tan Bee Geok, Cheryl	15.7%
Dimensional Fund Adv	2.8%

### Summary Earnings Table

FY Jun (RM'm)	2018A	2019E	2020E
Turnover	1304.5	1459.8	1531.6
PBT	167.2	173.5	180.5
<b>Core N.Profit (CNP)</b>	<b>107.0</b>	<b>127.4</b>	<b>132.5</b>
Consensus (NP)	-	133.1	149.1
Earnings Revision	-	+7%	+10%
EPS (sen)	7.9	9.4	9.7
EPS growth (%)	(24.9)	19.1	4.0
NDPS (sen)	4.0	4.3	4.4
BVPS (RM)	0.77	0.82	0.88
PER (X)	18.8	15.8	15.2
PBV (X)	1.9	1.8	1.7
Net Gearing (%)	26.1	29.9	30.2
Dividend Yield (%)	2.7	2.9	3.0

Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Jun (RM 'm)	FY19	FY19	Chg %	FY18	Chg %	FY18	FY19	Chg %
Turnover	361.2	385.1	(6.2)	327.1	10.4	975.0	1,113.4	14.2
EBITDA	64.3	70.2	(8.4)	58.7	9.5	184.1	202.2	9.9
PBT	49.4	54.3	(9.0)	45.5	8.7	143.7	156.4	8.8
Net Profit (NP)	34.6	38.1	(9.2)	33.4	3.7	97.2	108.7	11.9
Core net profit (CNP)	34.6	38.1	(9.2)	33.4	3.7	97.2	102.2*	5.1
EPS (sen)	2.6	2.8	(5.9)	2.5	7.6	7.3	8.3	12.9
EBITDA margin (%)	17.8	18.2		18.0		18.9	18.2	
PBT margin (%)	13.7	14.1		13.9		14.7	14.0	
Effective tax rate (%)	29.2	28.7		25.0		30.8	29.9	

Source: Bursa Malaysia, Kenanga Research

\*Note that 9M19 core net profit (excluding one-off insurance claims RM6.5m in 1Q19)

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Peer Comparison																	
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>RUBBER GLOVES</b>																	
HARTALEGA HOLDINGS BHD	4.99	16694.3	Y	03/2020	3.7	6.2	11.6	6.7	36.1	32.3	30.3	7.3	6.6	20.3	1.4	5.85	OP
KOSSAN RUBBER INDUSTRIES	3.69	4719.3	Y	12/2019	8.4	4.4	23.7	6.0	23.5	19.0	17.9	3.6	3.2	16.7	1.6	4.95	OP
SUPERMAX CORP BHD	1.48	1940.7	Y	06/2019	11.9	4.9	19.1	4.0	18.8	15.8	15.2	1.9	1.8	11.4	2.9	1.50	MP
TOP GLOVE CORP BHD	4.78	12219.8	Y	08/2019	4.5	4.6	7.2	8.8	28.1	26.2	24.0	5.1	4.6	17.6	1.8	5.10	OP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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