

03 September 2019

Supermax Corporation

40% Discount To Peers Unjustified

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FY19 core net profit of RM117m (+10% YoY) came in below expectations at 93%/89% of our/consensus full-year forecasts. However, we keep our FY20E earnings forecast unchanged driven by new capacity and easing of input raw material cost. Expecting its valuation gap to peers' average to narrow from the current 40% discount to the 30% historical level, we upgrade Supermax from MP to OP. TP is maintained at RM1.70 based on 17.5x FY20E EPS.

FY19 core net profit of RM117m (+10% YoY) came in at 93%/89% of ours/consensus full-year forecasts. We consider the results to be within our expectation. No dividend was declared in this quarter. We expect a final dividend somewhere in Oct-Nov 2019.

Key results' highlights. QoQ, 4Q19 revenue rose 4% largely due to higher volume sales. There was no guidance in terms of actual volume sales and ASPs growth in the results commentary. However, 4Q19 PBT fell 67% attributed to a sharp upward movement in the natural rubber latex price (+15% QoQ). This led to a mismatch between input material cost and ASP, which negatively impacted bottom line. This led to 4Q19 core net profit of RM15m (-57% QoQ) cushioned by a lower effective tax rate of 14% partly due to a tax refund compared to 29% in 3Q19.

YoY, FY19 core net profit excluding one-off insurance claims (RM6.5m) came in at RM117m (+10% YoY) due to stronger revenue (+14%) 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.

Earnings expect to be higher in subsequent quarters. We understand that subsequent quarters' earnings are expected to gradually improve, driven by cost pass-through via hikes in ASPs, favourable USD/MYR forex, normalised margins, sustained demand growth for rubber gloves and efficiencies derived from internal production processes. Due to the lag effect in passing cost through, as a result of a sharp surge in raw material (latex), Supermax had since conservatively raised ASPs by between 2-5%, which should contain high operating costs and put brakes on further margin compression subsequently. Recall, while pricing adjustments were made accordingly, there was a time lag of two months before the cost increase could be shared out with customers.

Outlook. The capacity plans are as follow:- (i) decommissioning old lines at Sungai Buloh plant from 12 to 20 lines (capacity increasing 97% to 2.4b pieces), and (ii) to build Plant 12 (4.4b pieces) behind the existing factory in Meru Klang, i.e. Plant 10 and Plant 11. Upon full commercial production in stages from 2Q 2019 to end 4Q 2020, installed capacity will rise 30% to 26.2b pieces per annum.

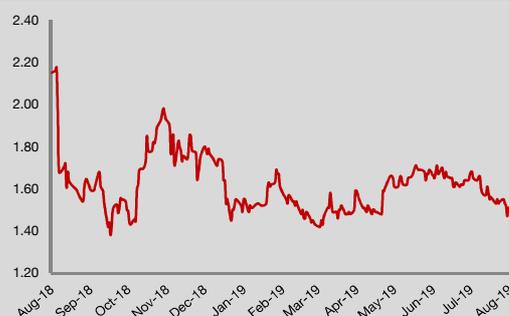
Upgrade from MARKET PERFORM to OUTPERFORM. TP is RM1.70 based on an unchanged 17.5x FY20E EPS (+1.0SD above 5-year historical forward average). We like Supermax because: (i) the stock is trading at an unjustifiable 40% discount to peers' average compared to a historical discount of 30%, and (ii) it is a prime beneficiary of a favourable USD/MYR forex since they do not hedge their sales receipts. Upgrade from MARKET PERFORM to OUTPERFORM.

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

OUTPERFORM

Price : RM1.49
Target Price : RM1.70 

Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	-14.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,946.4
Shares Outstanding	1,306.3
52-week range (H)	2.05
52-week range (L)	1.30
3-mth avg daily vol:	3,521,783
Free Float	61%
Beta	0.9

Major Shareholders

Dato' Seri Stanley Thai	21.3%
Datin Seri Tan Bee Geok, Cheryl	15.8%
Dimensional Fund Adv	2.3%

Summary Earnings Table

FY Jun (RM'm)	2019A	2020E	2021E
Turnover	1489.3	1531.6	1623.7
PBT	172.8	174.5	185.3
Net Profit	123.8	132.5	140.8
Core N.Profit (CNP)	117.0	132.5	140.8
Consensus (NP)	-	147.6	166.7
Earnings Revision	-	-	New
EPS (sen)	8.6	9.7	10.3
EPS growth (%)	9.3	13.3	6.2
NDPS (sen)	4.2	4.4	4.7
BVPS (RM)	0.82	0.88	0.93
PER (X)	16.4	15.3	14.4
PBV (X)	1.8	1.7	1.6
Net Gearing (%)	19.5	25.7	25.4
Dividend Yield (%)	2.8	2.9	3.1

Result Highlight								
FY Jun (RM 'm)	4Q FY19	3Q FY19	QoQ Chg %	4Q FY18	YoY Chg %	12M FY18	12M FY19	YoY Chg %
Turnover	376.0	361.2	4.1	329.5	14.1	1,304.6	1,489.3	14.2
EBITDA	33.7	64.3	(47.5)	33.6	0.3	217.7	236.0	8.4
PBT	16.2	49.4	(67.2)	18.2	(10.8)	161.9	172.6	6.6
Net Profit (NP)	15.1	34.6	(56.5)	9.5	59.0	107.0	123.8	15.6
Core net profit (CNP)	15.1	34.6	(56.5)	9.5	59.0	107.0	117.3	9.6
EPS (sen)	1.1	2.5	(56.5)	0.7	59.0	7.9	9.1	15.6
EBITDA margin (%)	9.0	17.8		10.2		16.7	15.8	
PBT margin (%)	4.3	13.7		5.5		12.4	11.6	
Effective tax rate (%)	13.5	29.2		41.3		32.0	28.4	

Source: Bursa Malaysia, Kenanga Research
 *Note that FY19 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.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	5.13	17227.8	Y	03/2021	3.7	6.2	11.6	6.7	37.1	33.2	31.1	7.5	6.8	20.3	1.4	5.85	OP
KOSSAN RUBBER INDUSTRIES	4.22	5397.1	Y	12/2019	8.4	4.4	23.7	6.0	26.9	21.7	20.5	4.1	3.6	16.7	1.4	5.25	OP
SUPERMAX CORP BHD	1.49	1946.4	Y	06/2020	2.8	6.0	13.2	6.3	16.4	15.3	14.4	1.8	1.7	11.1	2.7	1.70	OP
TOP GLOVE CORP BHD	4.75	12159.1	Y	08/2019	4.5	4.6	-9.0	14.4	27.9	30.7	26.8	5.1	4.7	15.3	1.8	4.50	MP

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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