

## Supermax Corporation Berhad

SUPM.KL SUCB MK

EQUITY: HEALTH CARE & PHARMACEUTICALS

### FY19 results: Below our expectations

#### Capacity growth outlook remains strong

##### 4QFY19 results: Escalated raw material costs hurt margins

Supermax's FY19 core profit of MYR127.3mn (+59% y-y) fell below expectations, forming 90%/97% of our/Bloomberg consensus estimates. We attribute this to higher-than-expected raw material costs in 4QFY19 following the rally in natural rubber price (+23% q-q) as there is a typical 1-2 months' time lag in ASP revision under its costs pass-through mechanism. By the same token, 4QFY19 numbers are generally weaker on both y-y and q-q basis, despite higher revenue of MYR376mn (+4/14% q-q/y-y), which was driven by higher capacity from commissioning of new lines at its rebuilt plants.

##### Production capacity to see aggressive growth in the next five years

In addition to replacement and rebuilding initiatives at its older plants, Supermax's capacity growth will come from its new Plant 12 (full completion due by March 2020) as well as proposed plants 13, 14 and 15 (total capacity of 13.3bn pcs p.a. with progressive completion due starting from September 2021). Ultimately, these plants should increase production capacity by 60% to 44bn pcs p.a. come 2024. Also, we expect Supermax's contact lens division to turn around financially by end-2019. It recently bought a 100% stake in Clayton Dynamics, a trading house in Japan, for MYR3.9mn. This could help to expedite its domestic market penetration. The group remains hopeful of securing the required licences to start selling its lens in China by 2020.

##### Maintain Buy: Raise TP to MYR2.11 (42% implied upside)

We cut FY20F/21F EPS 8-9% as we turn more conservative on opex. Given Supermax's unique focus on promoting its in-house glove and contact lens brands, we believe it may have to increase its A&P activities to enhance brand awareness given market competition. Rolling forward our valuation to 2020F (from 2019F) and based on an unchanged 18x P/E (the stock trades at 13x), our TP rises to MYR2.11 (from MYR2.00). Key risks to our TP include fluctuations in the USD/MYR rate and raw material price hikes.

Year-end 30 Jun	FY19		FY20F		FY21F		FY22F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	1,489	1,786	1,741	2,044	2,043		2,334	
Reported net profit (mn)	124	161	147	176	161		175	
Normalised net profit (mn)	127	161	147	176	161		175	
FD normalised EPS	9.71c	11.85c	11.24c	12.92c	12.25c		13.36c	
FD norm. EPS growth (%)	65.2	14.6	15.8	9.0	9.0		9.1	
FD normalised P/E (x)	15.3	N/A	13.3	N/A	12.2	N/A	11.1	
EV/EBITDA (x)	11.6	N/A	8.3	N/A	7.6	N/A	7.0	
Price/book (x)	1.7	N/A	1.6	N/A	1.5	N/A	1.4	
Dividend yield (%)	1.0	N/A	3.8	N/A	4.1	N/A	4.5	
ROE (%)	11.6	14.4	12.7	14.6	13.0		13.3	
Net debt/equity (%)	19.5	39.0	28.5	35.5	29.8		27.5	

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

### Global Markets Research

3 September 2019

Rating Remains	<b>Buy</b>
Target Price Increased from 2.00	MYR 2.11
Closing price 30 August 2019	MYR 1.49
Potential upside	+41.6%

#### Anchor themes

Supermax is the cheapest glove stock under our coverage. We see room for a valuation re-rating with its manufacturing operations now running at full pace, as the previous water supply shortage has now been resolved.

#### Nomura vs consensus

Our TP and FY19-21 earnings estimates are in line with consensus.

#### Research analysts

##### Malaysia Health Care & Pharmaceuticals

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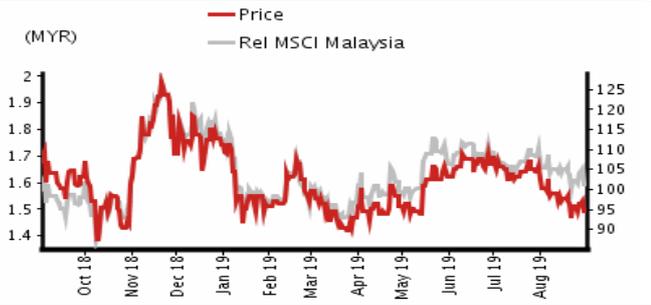
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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

# Key data on Supermax Corporation Berhad

## Relative performance chart



Source: Thomson Reuters, Nomura research

## Notes:

## Performance

(%)	1M	3M	12M		
Absolute (MYR)	-9.1	-9.1	-11.3	M cap (USDmn)	482.2
Absolute (USD)	-10.9	-9.4	-13.3	Free float (%)	60.2
Rel to MSCI Malaysia	-6.3	-6.7	1.0	3-mth ADT (USDmn)	1.4

## Income statement (MYRmn)

Year-end 30 Jun	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,304	1,489	1,741	2,043	2,334
Cost of goods sold	-907	-1,062	-1,253	-1,495	-1,730
Gross profit	397	427	488	548	604
SG&A	-256	-238	-266	-303	-337
Employee share expense	0	0	0	0	0
Operating profit	141	189	222	245	267
EBITDA	183	189	277	308	336
Depreciation	-42	0	-55	-63	-69
Amortisation	0	0	0	0	0
EBIT	141	189	222	245	267
Net interest expense	-14	-20	-21	-25	-26
Associates & JCEs	6	5	8	9	9
Other income	2	2	2	2	2
Earnings before tax	135	176	211	231	252
Income tax	-52	-49	-63	-71	-77
Net profit after tax	83	127	147	161	175
Minority interests	-3	0	0	0	0
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	80	127	147	161	175
Extraordinary items	27	-4	0	0	0
Reported NPAT	107	124	147	161	175
Dividends	-52	-20	-74	-80	-88
Transfer to reserves	54	104	74	80	88

## Valuations and ratios

Reported P/E (x)	19.0	15.8	13.3	12.2	11.1
Normalised P/E (x)	25.4	15.3	13.3	12.2	11.1
FD normalised P/E (x)	25.4	15.3	13.3	12.2	11.1
Dividend yield (%)	2.6	1.0	3.8	4.1	4.5
Price/cashflow (x)	12.4	8.6	19.2	11.4	10.1
Price/book (x)	2.0	1.7	1.6	1.5	1.4
EV/EBITDA (x)	12.3	11.6	8.3	7.6	7.0
EV/EBIT (x)	15.8	11.6	10.3	9.5	8.7
Gross margin (%)	30.5	28.7	28.0	26.8	25.9
EBITDA margin (%)	14.0	12.7	15.9	15.1	14.4
EBIT margin (%)	10.8	12.7	12.7	12.0	11.5
Net margin (%)	8.2	8.3	8.5	7.9	7.5
Effective tax rate (%)	38.3	27.8	30.0	30.5	30.5
Dividend payout (%)	49.2	15.9	50.0	50.0	50.0
ROE (%)	10.3	11.6	12.7	13.0	13.3
ROA (pretax %)	9.2	12.1	12.9	12.8	13.1

## Growth (%)

Revenue	15.8	14.2	16.9	17.4	14.3
EBITDA	55.2	3.1	46.7	11.4	9.0
Normalised EPS	2.8	65.2	15.8	9.0	9.1
Normalised FDEPS	2.8	65.2	15.8	9.0	9.1

Source: Company data, Nomura estimates

## Cashflow statement (MYRmn)

Year-end 30 Jun	FY18	FY19	FY20F	FY21F	FY22F
EBITDA	183	189	277	308	336
Change in working capital	20	55	-93	-44	-42
Other operating cashflow	-40	-15	-82	-93	-101
Cashflow from operations	163	228	102	172	193
Capital expenditure	-59	-116	-150	-130	-100
Free cashflow	104	113	-48	42	93
Reduction in investments	0	0	0	0	0
Net acquisitions	0	0	0	0	0
Dec in other LT assets	0	0	0	0	0
Inc in other LT liabilities	0	0	0	0	0
Adjustments	4	0	0	0	0
CF after investing acts	109	113	-48	42	93
Cash dividends	-76	-33	-74	-80	-88
Equity issue	0	0	0	0	0
Debt issue	-14	-44	55	41	0
Convertible debt issue	0	0	0	0	0
Others	-29	-7	0	0	0
CF from financial acts	-119	-84	-19	-39	-88
Net cashflow	-11	29	-67	2	5
Beginning cash	156	145	174	107	109
Ending cash	145	174	107	109	114
Ending net debt	291	218	340	379	374

## Balance sheet (MYRmn)

As at 30 Jun	FY18	FY19	FY20F	FY21F	FY22F
Cash & equivalents	145	174	107	109	114
Marketable securities	0	0	0	0	0
Accounts receivable	188	150	251	295	337
Inventories	188	183	223	246	284
Other current assets	51	125	125	125	125
Total current assets	572	631	705	774	860
LT investments	197	202	210	219	228
Fixed assets	895	972	1,067	1,134	1,165
Goodwill	29	29	29	29	29
Other intangible assets	0	0	0	0	0
Other LT assets	6	1	1	1	1
Total assets	1,700	1,836	2,013	2,157	2,283
Short-term debt	374	350	384	419	419
Accounts payable	185	175	223	246	284
Other current liabilities	6	102	102	102	102
Total current liabilities	566	627	709	767	806
Long-term debt	62	42	63	69	69
Convertible debt	0	0	0	0	0
Other LT liabilities	49	40	40	40	40
Total liabilities	677	709	812	876	914
Minority interest	10	8	8	8	8
Preferred stock	0	0	0	0	0
Common stock	340	340	340	340	340
Retained earnings	673	836	909	990	1,077
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	-57	-57	-57	-57
Total shareholders' equity	1,013	1,119	1,193	1,273	1,361
Total equity & liabilities	1,700	1,836	2,013	2,157	2,283

## Liquidity (x)

Current ratio	1.01	1.01	0.99	1.01	1.07
Interest cover	10.1	9.6	10.5	10.0	10.2

## Leverage

Net debt/EBITDA (x)	1.59	1.16	1.23	1.23	1.11
Net debt/equity (%)	28.7	19.5	28.5	29.8	27.5

## Per share

Reported EPS (MYR)	7.84c	9.43c	11.24c	12.25c	13.36c
Norm EPS (MYR)	5.88c	9.71c	11.24c	12.25c	13.36c
FD norm EPS (MYR)	5.88c	9.71c	11.24c	12.25c	13.36c
BVPS (MYR)	0.74	0.85	0.91	0.97	1.04
DPS (MYR)	0.04	0.02	0.06	0.06	0.07

## Activity (days)

Days receivable	59.6	41.4	42.1	48.7	49.3
Days inventory	76.0	63.7	59.3	57.2	55.9
Days payable	77.8	61.9	58.1	57.2	55.9
Cash cycle	57.8	43.2	43.3	48.7	49.3

Source: Company data, Nomura estimates

Fig. 1: SUCB: 4QFY19 results highlights

FYE June (MYR mn)	4QFY18	3QFY19	4QFY19	q-q (%)	y-y (%)	FY18	FY19	y-y (%)
Revenue	329.5	361.2	376.0	4.1	14.1	1,304.5	1,489.3	14.2
EBITDA	37.1	57.5	30.6	-46.8	-17.6	183.9	233.2	26.8
EBITDA Margin (%)	11.3	15.9	8.1			14.1	15.7	
Depreciation & amortization	-10.4	-10.4	-11.6	12.2	11.8	-40.8	-43.6	7.0
El/Others	-6.8	5.1	0.7	Nm	Nm	26.7	-3.5	Nm
EBIT	26.7	47.1	19.0	-59.8	-29.1	143.2	189.6	32.4
EBIT Margin (%)	8.1	13.0	5.0			11.0	12.7	
Interest expense	-4.0	-4.5	-5.9	30.2	47.1	-14.0	-19.7	41.0
Interest income	0.0	0.1	0.7	Nm	Nm	0.0	0.9	Nm
Associates	2.3	1.7	1.8	4.9	-22.6	6.0	5.4	-9.9
Pretax profit	18.2	49.4	16.2	-67.2	-10.8	161.9	172.6	6.6
Pretax Margin (%)	5.5	13.7	4.3			12.4	11.6	
Tax	-7.5	-14.5	-2.2	-84.8	-70.7	-51.8	-49.0	-5.4
Effective tax rate (%)	41.3	29.2	13.5			32.0	28.4	
Minority Interest	-1.2	-0.3	1.1	Nm	Nm	-3.5	0.1	Nm
Net Profit	9.5	34.6	15.1	-56.5	59.0	106.7	123.8	16.0
Core Profit	16.3	29.5	14.4	-51.3	-11.9	79.9	127.3	59.2
Net Margin (%)	4.9	8.2	3.8			6.1	8.5	

Source: Company data, Nomura research

Fig. 2: SUCB MK: Peer comps

Stock	Name	Last price (local)	TP	Nomura Rating	Mkt cap (mn)	Local Currency	USD mkt cap (mn)	P/E (x)		P/B (x)		EV/EBITDA (x)		Div yield %		ROE (%)	
								FY1F	FY2F	FY1F	FY2F	FY1F	FY2F	FY1F	FY2F	FY1F	FY2F
<b>Local Peers</b>																	
HART MK	HARTEGA HOLDINGS BHD	5.13	5.85	Buy	17,228	MYR	4,093	34.2	30.2	6.9	6.3	23.4	21.2	1.8	1.9	22.0	22.0
TOPG MK	TOP GLOVE CORP BHD	4.75	5.25	Neutral	12,159	MYR	2,889	29.7	22.6	4.7	4.2	20.1	16.4	1.7	2.3	16.9	19.7
KRI MK	KOSSAN RUBBER INDUSTRIES	4.22	4.92	Buy	5,397	MYR	1,282	22.2	20.1	3.7	3.3	14.5	12.7	1.8	2.0	17.2	17.8
RSTON SP	RIVERSTONE HOLDINGS LTD	0.97	1.00	Neutral	715	SGD	515	16.3	15.4	2.8	2.5	10.5	9.7	2.4	2.6	17.6	16.8
SUCB MK	SUPERMAX CORP BHD	1.49	2.11	Buy	1,946	MYR	462	13.9	13.1	1.7	1.6	8.7	8.1	3.6	3.8	12.5	12.4
CG MK	COMFORT GLOVE BHD	0.80	-	NR	463	MYR	110	13.3	11.4	1.4	1.3	8.5	7.4	2.5	2.5	11.4	11.3
Average								21.3	18.5	3.5	3.2	14.0	12.3	2.4	2.6	16.6	17.0
<b>Regional Peers</b>																	
1066 HK	SHANDONG WEIGAO GP MEDICAL-H	8.09	-	NR	36,586	HKD	4,664	18.6	16.0	2.1	1.9	13.7	12.0	1.6	1.8	11.6	12.3
601118 CH	CHINA HAINAN RUBBER INDUST-A	4.57	-	NR	19,557	CNY	2,736	57.1	50.8	1.9	1.9	55.3	51.3	0.4	0.4	3.7	3.7
EPG TB	EASTERN POLYMER GROUP PCL	7.50	-	NR	21,000	THB	687	19.2	16.9	2.1	1.8	13.1	11.9	3.1	3.3	10.5	11.0
STA TB	SRI TRANG AGRO-INDUSTRY PCL	10.80	-	NR	16,589	THB	542	24.9	13.6	0.6	0.6	9.6	8.1	2.7	3.9	3.1	5.0
Average								30.0	24.3	1.7	1.5	22.9	20.8	2.0	2.4	7.2	8.0

Source: Bloomberg, Nomura estimates. Bloomberg consensus for the Not Rated (NR) stocks. Prices as of 30 August 2019

Fig. 3: TP sensitivity to USD/MYR rate

		Average USD/MYR for FY20F/21F				
		4.07/4.02	4.17/4.12	4.27/4.22	4.37/4.32	4.47/4.42
Target P/E	13.0	1.23	1.38	1.53	1.67	1.81
	15.5	1.47	1.64	1.82	1.99	2.16
	18.0	1.71	1.91	2.11	2.31	2.51
	20.5	1.94	2.17	2.41	2.63	2.86
	23.0	2.18	2.44	2.70	2.95	3.21

Source: Nomura estimates

Fig. 4: TP sensitivity to NBR (nitrile based rubber) prices

		NBR price growth for FY20F and FY21F				
		-5%	0%	5%	10%	15%
Target P/E	13.0	1.75	1.64	1.53	1.42	1.31
	15.5	2.09	1.95	1.82	1.69	1.56
	18.0	2.42	2.27	2.11	1.96	1.81
	20.5	2.76	2.58	2.41	2.23	2.06
	23.0	3.09	2.90	2.70	2.51	2.31

Source: Nomura estimates

**Fig. 5: TP sensitivity to natural gas prices**

		Natural gas price growth for FY20F and FY21F				
		0%	5%	10%	15%	20%
Target P/E	13.0	1.63	1.58	1.53	1.48	1.42
	15.5	1.94	1.88	1.82	1.76	1.70
	18.0	2.26	2.19	2.11	2.04	1.97
	20.5	2.57	2.49	2.41	2.33	2.25
	23.0	2.88	2.79	2.70	2.61	2.52

Source: Nomura estimates

**Fig. 6: TP sensitivity to NR (natural rubber) prices**

		NR price growth for FY20F and FY21F				
		-5%	0%	5%	10%	15%
Target P/E	13.0	1.71	1.62	1.53	1.44	1.34
	15.5	2.04	1.93	1.82	1.71	1.60
	18.0	2.37	2.24	2.11	1.99	1.86
	20.5	2.70	2.55	2.41	2.26	2.12
	23.0	3.03	2.86	2.70	2.54	2.38

Source: Nomura estimates

Our TP of MYR2.11 is derived by ascribing a target 2020F P/E of 18x. This valuation is in line with the 18-35x 2019F P/E multiple range that we peg for the glove manufacturers under our coverage and is further supported by its five-year historical P/E mean of 12.2x, with our target multiple implying +2 standard deviation from its mean, which we deem justified following the turnaround in operations with water supply to its plants having normalised.

Key downside risks to our TP are fluctuations in the USD/MYR rate and raw material prices and as well as further escalation in competition from its peers.

# Appendix A-1

## Analyst Certification

I, Heng Siong Kong, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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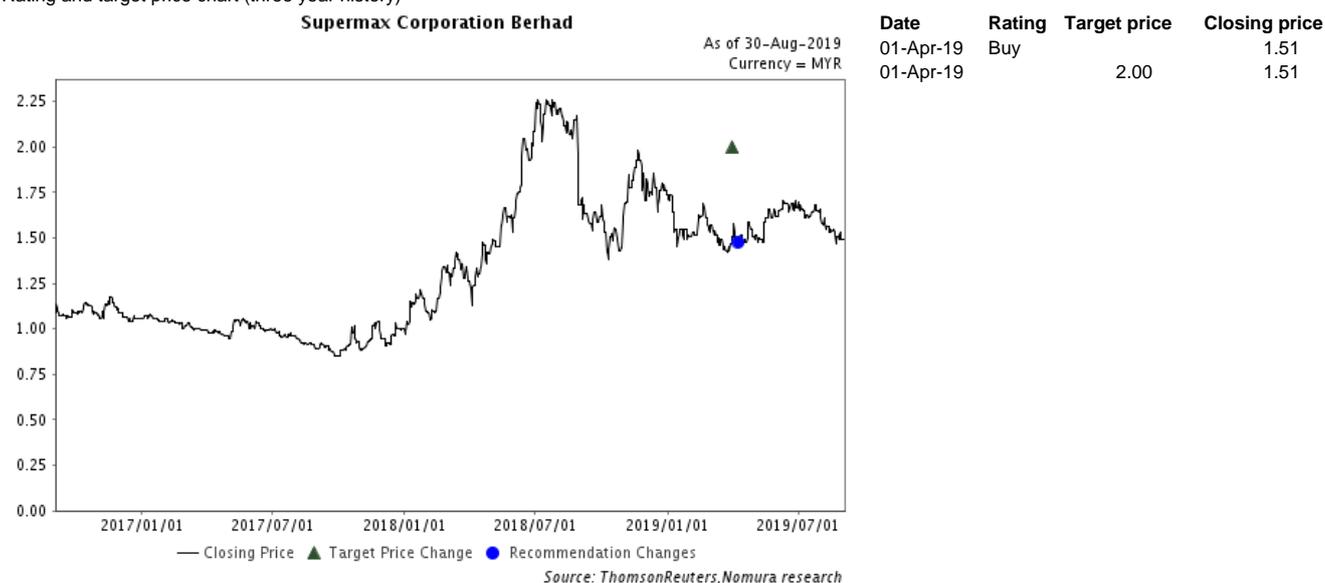
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Hartalega Holdings Berhad	HART MK	MYR 5.13	30-Aug-2019	Buy	N/A	
Kossan Rubber Industries Bhd	KRI MK	MYR 4.22	30-Aug-2019	Buy	N/A	
Supermax Corporation Berhad	SUCB MK	MYR 1.49	30-Aug-2019	Buy	N/A	

### Supermax Corporation Berhad (SUCB MK)

**MYR 1.49 (30-Aug-2019)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

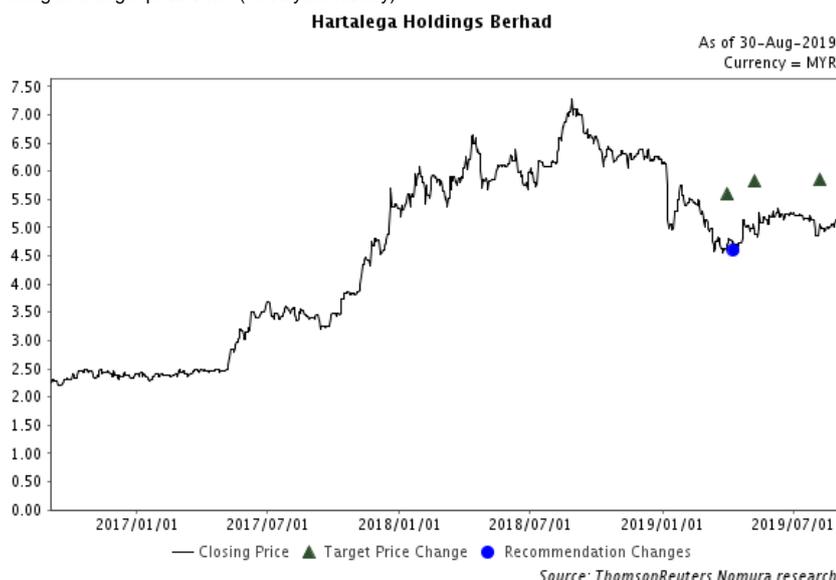
**Valuation Methodology** Our TP of MYR2.11 is derived from ascribing a target 2020F P/E of 18x. This valuation is in line with the 18-35x 2019F P/E multiple range that we peg for the glove manufacturers under our coverage and is further supported by its 5-year historical P/E mean of 12.2x, with our target multiple implying +2 standard deviation from its mean, which we deem justified following the turnaround in operations with water supply to its plants having normalised. The benchmark index for the stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Risks to our view include: 1) an unexpected surge in latex prices, whereby cost inflation pass-on would likely see a lag; 2) delays in its expansion plans which will stunt volume growth, resulting in flattish earnings growth; and 3) strengthening MYR against the USD.

**Hartalega Holdings Berhad (HART MK)**

**MYR 5.13 (30-Aug-2019)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
07-Aug-19		5.85	5.04
08-May-19		5.82	4.95
01-Apr-19	Buy		4.71
01-Apr-19		5.60	4.71

For explanation of ratings refer to the stock rating keys located after chart(s)

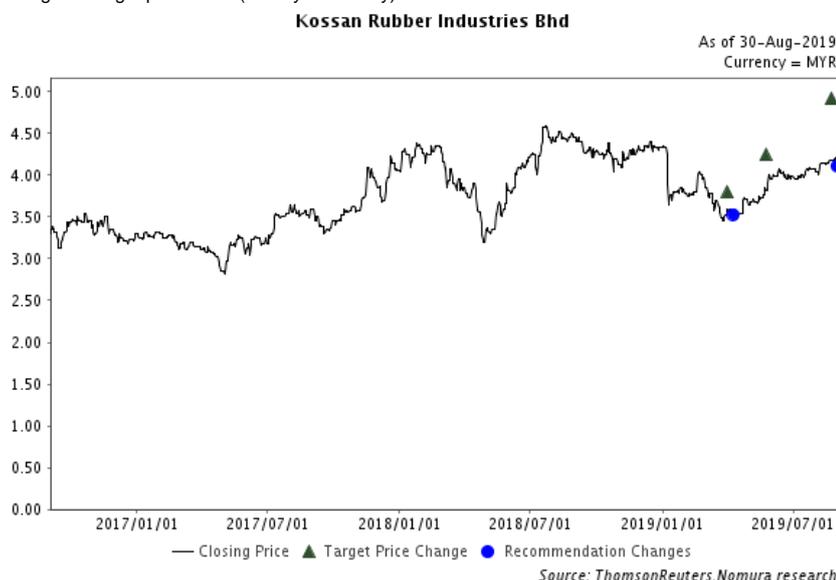
**Valuation Methodology** Our TP of MYR5.85 is derived from ascribing a target CY20F P/E of 35x. The valuation is at the higher end of the 18-35x 2019F P/E multiple range that we peg to the glove manufacturers under our coverage. This, in our view, is supported by its 5-year historical P/E mean of 27.7x, with our target multiple implying +1 standard deviation from its mean. The benchmark index for this stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Risks to our view include: 1) susceptible to fluctuations in USD/MYR and raw material prices; 2) dependence on foreign labour and subject to minimum wage revisions; and 3) high customer concentration.

**Kossan Rubber Industries Bhd (KRI MK)**

**MYR 4.22 (30-Aug-2019)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
23-Aug-19	Buy		4.18
23-Aug-19		4.92	4.18
24-May-19		4.24	3.82
01-Apr-19	Neutral		3.60
01-Apr-19		3.80	3.60

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our TP of MYR4.92 is derived by ascribing a target 2020F P/E of 23x. The valuation is in line with the 16-35x 2019F P/E multiple range that we peg to the glove manufacturers under our coverage. The benchmark index for this stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Upside/downside risks to our view include: 1) sensitivity to: USD/MYR rate; prices of NR, NBR, butadiene and natural gas; and labour cost; 2) relatively sticky ASPs under its technical rubber products division, which could erode margins should prices of natural rubber turn unfavourable.

## Important Disclosures

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As at 30 June 2019.

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