

10 September 2019

# Supermax Corporation

## Improving Visibility

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Following a long hiatus, SUPERMX's briefing for analysts was well attended by 50 analysts/fund managers. We are positive on SUPERMX's improving earnings visibility due to its punctual commencement of new expansion. The key takeaways from the briefing are: (i) explanation for weak 4Q19 results, (ii) expectation of a demand surge in the US market, and (iii) potential distribution of treasury shares. TP is raised from RM1.70 to RM1.75 based on 17.5x CY20E EPS. Reiterate OP.

**Weak 4Q19 explained.** Supermax recently announced a weak set of 4Q19 results. Recall, 4Q19 PATAMI fell 57% to RM15m due to a mismatch between material input cost and ASP, whereby PBT margin was down to 4% compared to the normalised 12%. During the briefing, we gathered that a one-off cost of which we guesstimate to be RM10m dragged down overall 4Q19 bottom-line. For illustrative purposes, if we add back RM10m, normalised 4Q19 PATAMI would be RM25m (-28% QoQ) bringing FY19A normalised core PATAMI to RM127m (+18% YoY).

**Expect US demand to surge from trade-war effect.** Due to the impact of trade war whereby effective Sept 1, a 15% tariff will be imposed on Chinese-made medical and vinyl gloves, the group expect to see an uptick in demand for gloves of which the positive impact is expected to be felt from the Dec-ending quarter period. Theoretically, the tariff hike is expected to increase the price for Chinese-made gloves, which could compel a switch of US gloves demand to Malaysia glove players whereby US accounts for 30% of group sales.

**Sturdy new plants, margins to improve.** We expect gradual margins expansion from the fully-completed plant 12 due to better efficiency from new lines. Upon full commissioning of plant 12 in FY21, management guided an EBITDA margin of 20% compared to our conservative forecast of 16%. The capacity-enhancing plans are as follows:- (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. Upon full commercial production in stages from 2Q 2019 to end 4Q 2020, installed capacity will rise 30% to 27.4b pieces by end 2020. Beyond 2020, the expansions are as such; (i) new and replacement lines (5b pieces; target completion end 2020 to end 2021, and (ii) building three plants with an estimated capacity of 13.2b pieces over 3Q 2021 to 1Q 2024. Total estimated capex is RM1.2b over the next five years. In the near term, for illustrative purposes, based on a net profit margin of 9%, ASP of USD22/1,000 pieces, a utilization rate of 75% and 4.4b pieces (upon full commissioning of Plant 12), this would generate a total net profit of RM27m or 20% of our FY21E net profit.

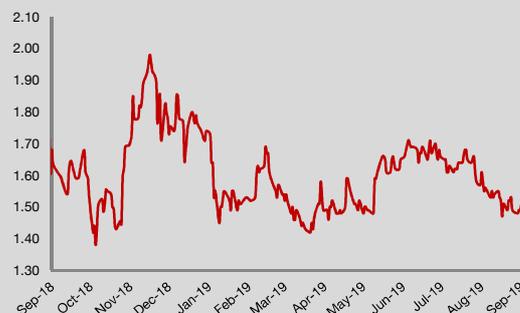
**Potential distribution of treasury shares?** For illustrative purposes, in the absence of an interim dividend, it could be distributing treasury shares, currently at 54m shares. This translates into 6.2 sen per share or net yield of 4.1% at current market price.

**Reiterate OUTPERFORM.** We change our valuation base from FY20E to CY20E. Correspondingly, TP is raised from RM1.70 to RM1.75 based on an unchanged 17.5x CY20E EPS of 10 sen (+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. **Key risks** to our call are longer-than-expected commercial operations of new plants.

## OUTPERFORM ↔

Price : **RM1.51**  
Target Price : **RM1.75** ↑

### Share Price Performance



KLCI	1,604.47
YTD KLCI chg	-5.1%
YTD stock price chg	-13.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,972.5
Shares Outstanding	1,306.3
52-week range (H)	2.05
52-week range (L)	1.30
3-mth avg daily vol:	3,611,323
Free Float	60%
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
<b>Core N.Profit (CNP)</b>	<b>127.6</b>	<b>132.5</b>	<b>140.8</b>
Consensus (NP)	-	137.5	150.1
Earnings Revision	-	-	-
EPS (sen)	9.3	9.7	10.3
EPS growth (%)	18.7	4.3	6.2
NDPS (sen)	4.2	4.4	4.7
BVPS (RM)	0.82	0.88	0.93
PER (X)	16.6	15.5	14.6
PBV (X)	1.8	1.7	1.6
Net Gearing (%)	19.5	29.1	28.7
Dividend Yield (%)	2.8	2.9	3.1

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## Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1126.9	1304.5	1489.3	1531.6	1623.7
EBITDA	160.1	221.9	236.0	246.6	263.4
Depre. & Amort	-41.2	-40.8	-43.6	-55.6	-60.2
Operating Profit	118.7	175.6	186.9	191.0	203.2
PBT	107.9	167.2	172.8	174.5	185.3
Taxation	-37.6	-56.2	-49.0	-41.9	-44.5
MI	-3.1	-4.0	-0.1	-0.1	-0.1
Net Profit	67.2	107.0	123.8	132.5	140.8

## Balance Sheet

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	878.3	864.9	972.1	1178.9	1268.7
Int. Assets	237.2	-	-	-	-
Other FA	28.7	28.7	28.7	28.7	28.7
Inventories	7.2	244.7	203.6	203.6	203.6
Receivables	189.7	189.8	183.1	188.3	199.7
Other CA	238.3	215.0	197.0	202.6	214.7
Cash	54.6	48.9	77.4	77.4	77.4
Total Assets	156.1	145.0	173.8	94.5	97.9
Payables	201.2	124.7	144.0	148.1	157.0
ST Borrowings	343.5	345.6	349.9	399.9	419.9
Ot. ST Liability	25.9	76.4	133.4	144.5	154.8
LT Borrowings	107.0	74.1	42.0	42.0	42.0
Ot. LT Liability	42.1	52.3	39.6	39.6	39.6
Minorities Int.	3.0	10.5	7.8	7.9	8.0
Net Assets	1067.2	1053.3	1119.2	1192.1	1269.5
Share Capital	340.1	340.1	340.1	340.1	340.1
Reserves	727.1	713.2	779.1	852.0	929.4
Equity	1067.2	1053.3	1119.2	1192.1	1269.5

## Cashflow Statement

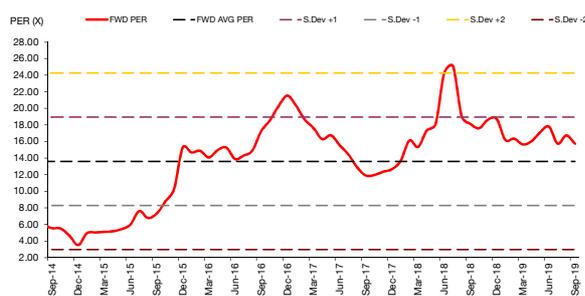
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	120.8	163.7	228.2	192.6	196.7
Investing CF	(110.2)	(18.8)	(115.7)	(150.0)	(150.0)
Financing CF	20.1	(143.3)	(104.5)	(121.9)	(43.3)
Change In Cash	30.6	1.6	8.0	(79.3)	3.4
Free CF	20.8	13.7	78.2	42.6	46.7

## Financial Data & Ratios

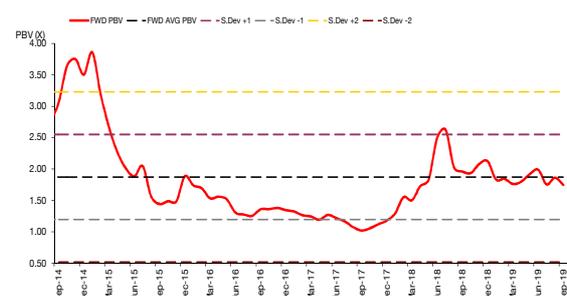
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
<b>Growth</b>					
Turnover	-27.3%	15.8%	14.2%	2.8%	6.0%
EBITDA	-43.3%	38.6%	6.3%	4.5%	6.8%
Operating Profit	-46.6%	47.9%	6.4%	2.2%	6.4%
PBT	-47.9%	54.9%	3.4%	1.0%	6.2%
Net Profit /(loss)	-53.3%	59.3%	15.6%	7.1%	6.2%
<b>Profitability</b>					
EBITDA Margin	14.2%	17.0%	15.8%	16.1%	16.2%
Operating Margin	10.5%	13.5%	12.6%	12.5%	12.5%
PBT Margin	9.6%	12.8%	11.6%	11.4%	11.4%
Core Net Margin	6.0%	8.2%	8.3%	8.7%	8.7%
Eff. Tax Rate	34.9%	0.0%	24.0%	24.0%	24.0%
ROA	3.8%	6.2%	6.7%	6.7%	6.7%
ROE	6.3%	10.2%	11.1%	11.1%	11.1%
<b>DuPont Analysis</b>					
Net Margin (%)	6.0%	8.2%	8.3%	8.7%	8.7%
Assets T/O (x)	1.6	1.3	1.2	1.3	1.3
Lev. Factor (x)	1.7	1.6	1.6	1.7	1.7
ROE (%)	6.3%	10.2%	11.1%	11.1%	11.1%
<b>Leverage</b>					
Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.4	0.4	0.4	0.4	0.4
<b>Valuations</b>					
EPS (sen)	4.9	7.9	9.1	9.7	10.3
NDPS (sen)	1.5	4.0	4.2	4.4	4.7
BVPS (RM)	0.8	0.8	0.8	0.9	0.9
PER (x)	30.6	19.2	16.6	15.5	14.6
Net Div. Yield(%)	1.0	2.6	2.8	2.9	3.1
PBV (x)	1.9	2.0	1.8	1.7	1.6

Source: Kenanga Research

## Fwd PER Band



## Fwd PBV Band



Source: Kenanga Research, Bloomberg

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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	5.16	17337.6	Y	03/2020	3.7	6.2	11.6	6.7	37.3	33.4	31.3	7.6	6.8	20.3	1.4	5.85	OP
KOSSAN RUBBER INDUSTRIES	4.26	5448.3	Y	12/2019	8.4	4.4	23.7	6.0	27.1	21.9	20.7	4.1	3.7	16.7	1.4	5.25	OP
SUPERMAX CORP BHD	1.51	1972.5	Y	06/2020	2.8	6.0	4.1	6.3	16.6	15.5	14.6	1.8	1.7	11.1	2.6	1.75	OP
TOP GLOVE CORP BHD	4.71	12056.7	Y	08/2019	4.5	4.6	-9.0	14.4	27.7	30.4	26.6	5.0	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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