

Outthink. Outperform.

Delivery lead time extended to 4 months

Supermax's (SUCB) 1HFY20 performance was within our expectations but fell short of consensus, as 1HFY20 PATAMI of RM54.9m (-21.1% yoy) only constituted 45% and 42% of our and the street's forecasts respectively. The lower 1HFY20 earnings were due to labour issues impacting its productivity since 1QFY20, which is being resolved. We believe that the qoq earnings improvement is a good indicator that the situation has improved, and new capacity has started coming on stream gradually. We raise our EPS forecasts by 1.4-2.9% for FY20-21E, and our TP to RM2.00. Maintain our BUY call.

Labour shortage eases, expansion to continue

As the labour shortage situation improves, SUCB was able to commission 5 (from 3 in 1Q) of the 8 lines in the new Plant #12A, with the remaining lines to be commissioned by end of the quarter. The completion of Plant #12A will add around 2.2bn pcs (+10%) to its current capacity of around 22bn pcs. Plant #12B, which is slated to be fully completed by end of 2020, would increase its capacity by another 2.2bn pcs. Earnings growth will likely grow in tandem with the new expansion, in our view. SUCB is currently engaging with its agent to secure enough workers for its expansion.

Stronger demand ahead

Management has guided that they are putting the upgrading works on Lot 38 on hold, due to the recent surge in demand for gloves as Covid-19 worsens. As such, we are also revising higher our EPS forecast, to factor in the additional capacity available for 3QFY20. We believe that the demand for Malaysian gloves has started to improve since October 2019, as buying patterns from the US have normalised since tariffs were imposed on China-produced gloves. The higher demand from Covid-19 also gives SUCB more flexibility in determining their selling prices, which is likely to lead to better margins. SUCB guided that the lead time has already stretched to 4 months.

Reiterate BUY with a higher TP at RM2.00

Despite only increasing our EPS forecasts by 1.4-2.9% for FY20-21, to factor in stronger demand from Covid-19, we are raising our TP to RM2.00 based on a higher target PE multiple of 21x on CY20E EPS (+1SD from mean – from RM1.70 on 18x). We believe that SUCB's valuation would likely re-rate, SUCB is also a beneficiary of a weaker Ringgit, and its earnings are not dependent on domestic consumption; as such we reiterate our BUY call.

Earnings & Valuation Summary

FYE 31 June	2018	2019	2020E	2021E	2022E
Revenue (RMm)	1,304.5	1,489.3	1,641.8	1,706.9	2,003.1
EBITDA (RMm)	210.6	230.6	217.3	233.2	245.5
Pretax profit (RMm)	161.9	172.6	177.3	193.4	205.9
Net profit (RMm)	106.7	123.8	126.7	138.2	148.8
EPS (sen)	7.8	9.1	9.3	10.2	10.9
PER (x)	21.0	18.1	17.7	16.2	15.1
Core net profit (RMm)	106.7	123.8	126.7	138.2	148.8
Core EPS (sen)	7.8	9.1	9.3	10.2	10.9
Core EPS growth (%)	58.7	16.0	2.4	9.1	7.6
Core PER (x)	21.0	18.1	17.7	16.2	15.1
Net DPS (sen)	3.9	4.5	4.2	4.6	4.9
Dividend Yield (%)	2.3	2.7	2.6	2.8	3.0
EV/EBITDA (x)	12.0	10.7	12.5	11.6	11.3
Chg in EPS (%)			2.9	1.4	0
Affin/Consensus (x)			1.0	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecast

Results Note

Supermax

SUCB MK
Sector: Rubber Product

RM1.65 @ 25 February 2020

BUY (maintain)

Upside: 21%

Price Target: RM2.00

Previous Target: RM1.70



Price Performance

	1M	3M	12M
Absolute	2.5%	18.0%	6.7%
Rel to KLCI	7.4%	25.1%	22.6%

Stock Data

Issued shares (m)	1,320.2
Mkt cap	2178.3/514.5
Avg daily vol - 6mth (m)	9.3
52-wk range (RM)	1.29-1.93
Est free float	59.2%
BV per share (RM)	0.86
P/BV (x)	1.91
Net cash/ (debt) (RMm)	(231.94)
ROE (2020E)	10.6%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sin	21.4%
Tan Bee Geok	15.8%

Source: Affin Hwang, Bloomberg

Ng Chi Hoong
(603) 2146 7470
chihoong.ng@affinhwang.com

Outthink. Outperform.

Risks to our call

Key downside risks to our positive view on Supermax include: i) sudden movements in the US\$ against the RM, ii) sharp changes in raw-material prices, and iii) greater-than-expected pricing competition among glove players.

Fig 1: Results Comparison

FYE 30 June (RMm)	2Q FY19	1Q FY20	2Q FY20	Qoq % chg	Yoy % chg	6M FY19	6M FY20	Yoy % chg	Comments
Revenue	385.1	369.9	385.5	4.2	0.1	752.2	755.4	0.4	The increase in qoq revenue in 2QFY20 is due to higher sales volume
Op costs	(315.3)	(321.6)	(325.9)	1.4	3.4	(622.7)	(647.5)	4.0	
EBITDA	69.8	48.4	59.6	23.2	(14.6)	129.4	107.9	(16.6)	
EBITDA margin (%)	18.1	13.1	15.5	+2.4ppt	-2.7ppt	17.2	14.3	-2.9ppt	Margin improvement in 2Q is due to higher demand and productivity
Depn and amort	(11.3)	(12.5)	(12.8)	2.4	14.1	(21.6)	(25.4)	17.3	Higher depreciation yoy due to the new lines
EBIT	58.5	35.8	46.7	30.4	(20.1)	107.8	82.6	(23.4)	
EBIT margin (%)	15.2	9.7	12.1	+2.4ppt	-3.1ppt	14.3	10.9	-3.4ppt	
Int expense	(4.7)	(4.2)	(4.6)	10.4	(0.7)	(9.3)	(8.8)	(5.0)	
JV & Associates	0.5	0.8	(0.3)	(134.2)	(158.6)	2.0	0.5	(73.0)	
EI	-	-	-	n.m	n.m	6.5	-	(100.0)	
Pretax profit	54.3	32.4	41.8	28.9	(23.0)	107.0	74.3	(30.6)	
Tax	(15.6)	(7.5)	(11.8)	57.8	(24.3)	(32.3)	(19.3)	(40.3)	
Tax rate (%)	28.7	23.1	28.2	+5.2ppt	(0.5ppt)	32.0	28.4	(3.6ppt)	
MI	(0.6)	(0.2)	0.1	(167.1)	(124.4)	(0.6)	(0.1)	(88.6)	
Net profit	38.1	24.7	30.2	21.9	(20.9)	74.1	54.9	(25.9)	
EPS (sen)	2.9	1.8	2.2	21.9	(20.9)	5.4	4.0	(25.9)	
Core net profit	38.1	24.7	30.2	21.9	(20.9)	69.6	54.9	(21.1)	Within our, but below consensus expectations.

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com