

A strong start to the year

Supermax (SUCB) reported a strong set of results. 9MFY19 core-PATAMI of RM104.3m (+7.3% yoy) is tracking within our and consensus estimates, delivering around 77% and 78% of respective forecasts. Although the performance for 3QFY19 was impacted by shorter working days and the negative effects from the volatility of the RM, we remain optimistic about SUCB's outlook. We are keeping our BUY call and TP unchanged at RM2.30.

Continuing with its expansion

We believe that current demand is still robust and is sufficient to support SUCB's new capacity as SUCB's ASPs are already on the rise and sales lead times are lengthening once again, which is a good indicator of healthy demand. We are expecting a stronger FY20E, as the incremental capacity growth in FY19E is limited due to the on-going rebuilding exercise, whereby SUCB has torn down its older production lines and replaced them with more efficient lines. We expect future margin improvement with the better efficiency gained from the newer lines. Earnings were relatively weaker in 4QFY18 mainly due to forex losses.

Expanding its market

SUCB has yet to provide segmental numbers for its contact lens operation, which we believe has yet to turn profitable as it is still spending on A&P to penetrate new markets. Apart from obtaining the required licenses from the US and Japan, SUCB is also now expanding into China, as the company has started to secure the necessary licences. We believe that the revenue contribution is still minimal as their products are only currently sold in both the US and Malaysia. However, we believe that the losses from this division are not overly dilutive to the group's core earnings.

Reiterate BUY with an unchanged TP of RM2.30

We make no changes to our earnings forecasts and reiterate our BUY call with a TP of RM2.30 based on 21x CY19E PER. We believe the continued improvement will help to build investor confidence in management's execution capability. SUCB continues to be our preferred pick in the sector and country.

Risks to our call

Downside risks: i) Sharp spike in the volatility in RM/US\$; ii) Higher-than-expected production costs.

Earnings & Valuation Summary

FYE 30 June	2017	2018	2019E	2020E	2021E
Revenue (RMm)	1,126.9	1,304.5	1,357.2	1,468.7	1,469.6
EBITDA (RMm)	146.5	216.4	221.7	247.9	268.5
Pretax profit (RMm)	107.9	167.2	180.9	207.1	227.8
Net profit (RMm)	67.2	107.0	134.7	154.3	169.9
EPS (sen)	5.1	8.2	10.3	11.8	13.0
PER (x)	27.3	17.2	13.6	11.9	10.8
Core net profit (RMm)	67.2	107.0	134.7	154.3	169.9
Core EPS (sen)	5.1	8.2	10.3	11.8	13.0
Core EPS growth (%)	(34.8)	59.2	25.8	14.6	10.0
Core PER (x)	27.3	17.2	13.6	11.9	10.8
Net DPS (sen)	2.8	11.0	4.8	5.0	5.5
Dividend Yield (%)	2.0	7.9	3.4	3.6	4.0
EV/EBITDA (x)	14.5	9.8	10.1	9.0	8.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Outthink. Outperform.

Results Note

Supermax

SUCB MK
Sector: Rubber Product

RM1.40 @ 14 May 2019

BUY (maintain)

Upside: 55%

Price Target: RM2.30

Previous Target: RM2.30



Price Performance

	1M	3M	12M
Absolute	-2.6%	-8.1%	-6.0%
Rel to KLCI	-0.7%	-2.9%	8.7%

Stock Data

Issued shares (m)	584.7
Mkt cap	327.4/80.5
Avg daily vol - 6mth (m)	11.6
52-wk range (RM)	0.41-1.75
Est free float	75.7%
BV per share (RM)	1.47
P/BV (x)	0.38
Net cash/ (debt) (RMm)	(279)
ROE (2019E)	11.9%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sin	21.2%
Tan Bee Geok	15.7%

Source: Affin Hwang, Bloomberg

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

Outthink. Outperform.

Fig 1: Results Comparison

FYE 30 June (RMm)	3Q FY18	2Q FY19	3Q FY19	Qoq % chg	Yoy % chg	9M FY18	9M FY19	Yoy % chg	Comments
Revenue	327.1	385.1	361.2	(6.2)	10.4	975.0	1,113.4	14.2	The decline QoQ in 3QFY19 was due to lower ASP
Op costs	(269.7)	(315.3)	(298.6)	(5.3)	10.7	(794.7)	(921.3)	15.9	
EBITDA	57.4	69.8	62.6	(10.2)	9.2	180.3	192.1	6.5	
<i>EBITDA margin (%)</i>	<i>17.5</i>	<i>18.1</i>	<i>17.3</i>	<i>(0.8ppt)</i>	<i>(0.2ppt)</i>	<i>18.5</i>	<i>17.3</i>	<i>(1.2ppt)</i>	Margin decline qoq in 3QFY19 due to the impact of strengthening ringgit
Depn and amort	(10.0)	(11.3)	(10.4)	(7.9)	4.0	(30.4)	(32.0)	5.4	
EBIT	47.4	58.5	52.3	(10.6)	10.3	150.0	160.1	6.7	Higher depreciation yoy due to the new lines
<i>EBIT margin (%)</i>	<i>14.5</i>	<i>15.2</i>	<i>14.5</i>	<i>(0.7ppt)</i>	<i>(0.0ppt)</i>	<i>15.4</i>	<i>14.4</i>	<i>(1.0ppt)</i>	
Int expense	(3.3)	(4.7)	(4.5)	(2.6)	36.7	(10.0)	(13.8)	38.6	
JV & Associates	1.4	0.5	1.7	254.1	21.4	3.7	3.6	(2.2)	
EI	-	-	-	NA	NA	-	6.5	NA	
Pretax profit	45.5	54.3	49.4	(9.0)	8.7	143.7	156.4	8.8	
Tax	(11.4)	(15.6)	(14.5)	(7.3)	27.2	(44.3)	(46.8)	5.6	
<i>Tax rate (%)</i>	<i>25.0</i>	<i>28.7</i>	<i>29.2</i>	<i>+0.5ppt</i>	<i>+4.2ppt</i>	<i>30.9</i>	<i>31.7</i>	<i>+0.8ppt</i>	
MI	(0.7)	(0.6)	(0.3)	(40.9)	(51.6)	(2.3)	(1.0)	(58.4)	
Net profit	33.4	38.1	34.6	(9.2)	3.7	97.2	108.7	11.8	
EPS (sen)	2.5	2.9	2.6	(9.2)	3.7	7.4	8.3	11.8	
Core net profit	33.4	38.1	34.6	(9.2)	3.7	97.2	104.3	7.3	Within our and 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