



Supermax (SUCB MK)

Inline

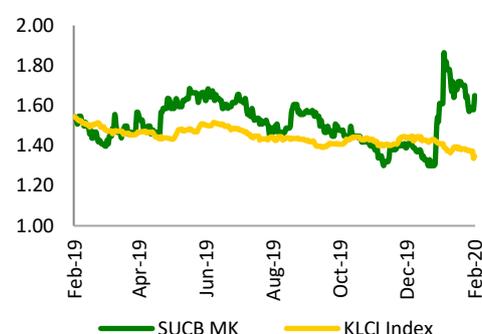
BUY

Share Price **RM1.65**
Target Price **RM1.95 +18.2%**

Tail end of soft earnings with promising quarters ahead

- Overview.** 2QFY20 PATMI increased by 22% qoq to RM30.2m on the back of increase in sales volume supported by new additional capacity (Block A - plant 12) during the quarter. However, PATMI decreased by 21% yoy mainly due to lower ASP and higher overall operation costs. There was a sharp +14% yoy rise in NR latex prices as well as higher labour costs.
- Key highlights.** Supermax's 1HFY20 core PATMI dropped 18.7% yoy as margin fell to 7.3% (-1.7ppts). This was mainly due to lower ASP as well as higher operation costs especially natural gas, latex raw material prices and labour costs, which have a time lag in passed-on cost. We expect higher ASP in the coming quarters to compensate for the increased costs.
- Against estimates: Inline.** 1HFY20 PATMI made up 40% and 42% of our and consensus estimate respectively. The result can be considered inline as we anticipate higher earnings in subsequent quarters aided by surge in demand due to Covid-19 outbreak as well as better margin supported by manufacturing efficiency and cost control efforts.
- Outlook.** Following the recent Covid-19 epidemic, Supermax said it has experienced stronger demand beginning January and we expect the impact could be observed in its 2HFY20 results. The group has strong exposure in the Asian market as compared to its peers with China sales c.6% of its total sales (chart 1). Long-term outlook remains resilient on higher global demand supported by capacity expansion of c.18% to 27bn pcs pa by end 2020 (table 2). The group also has greater flexibility with its balanced product mix (NBR: 60%, NR: 40%).
- Our call.** Maintain BUY with new TP of RM1.95 (from RM1.80) based on higher PER of 18x (1SD above 5-yrs historical forward mean) from 17x pegged on FY20 EPS. We remain optimistic that the stock could trade above +1SD in anticipation of demand ramp-up and higher earnings growth in subsequent quarters. Additionally, we also note that Supermax valuation rose up to +2SD during H1N1 (chart 3).

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	2.5	18.0	7.8
vs FBM KLCI	7.4	25.1	22.6

Stock Data

Mkt Cap (RM)	2,165.1
Free float (%)	60.5
Issued shares (m)	1,320.0
52w H/L (RM)	1.93/ 1.29
3m avg daily volume (m)	14,924,030

Major Shareholders (%)

Thai Kim Sim	21.4
Tan Bee Geok	15.8
DimensionalFund	2.3

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Table 1: Quarterly figures

Supermax Bhd FYE 31 June (RM m)	Quarterly			Change (%)		Cumulative			BIMB	
	2Q19	1Q20	2Q20	QoQ	YoY	1HFY19	1HFY20	%	2020F	6M/F
Revenue	385.1	369.9	385.5	4.2%	0.1%	752.2	755.4	0.4%	1,613.3	47.0%
EBIT	59.0	35.8	46.7	30.4%	-20.7%	107.8	82.6	-23.4%	232.5	36.0%
Pretax profit	54.3	32.4	41.8	28.9%	-23.0%	107.0	74.3	-30.6%	207.9	36.0%
Taxation	(15.6)	(7.5)	(11.8)	57.8%	-24.3%	(32.3)	(19.3)	-40.3%	(62.8)	31.0%
Minority Interest	-0.6	-0.2	0.1	-167.1%	-124.4%	-0.6	-0.1	-88.6%	-4.5	1.6%
PATMI	38.1	24.7	30.2	21.9%	-20.9%	74.1	54.9	-25.9%	140.6	40.0%
Core PATMI	38.1	24.7	30.2	21.9%	-20.9%	67.6	54.9	-18.7%	140.6	40.0%
Core EPS (sen)	2.9	1.9	2.3	21.9%	-20.9%	5.2	4.2	-18.7%	10.8	40.0%
Net gearing (x)	0.2	0.2	0.2			0.2	0.2		0.3	
				chg (ppts)				chg (ppts)		
EBIT margin (%)	15.3%	9.7%	12.1%	+2.4	-3.2	14.3%	10.9%	-3.4	14.4%	
PBT margin (%)	14.1%	8.8%	10.9%	+2.1	-3.3	14.2%	9.8%	-4.4	12.9%	
Core profit margin (%)	9.9%	6.7%	7.8%	+1.1	-2.1	9.0%	7.3%	-1.7	8.7%	
Effective tax rate (%)	28.7%	23.1%	28.2%	+5.2	-0.5	30.2%	26.0%	-4.2	30.2%	

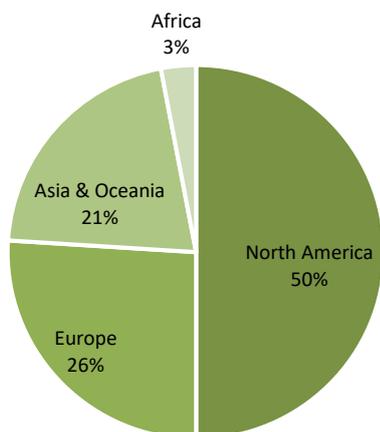
Source: BIMB Securities, Company

Table 2: Supermax expansion plans summary (2018-2024)

	Installed Annual Capacity as of 31.12.2017 (Mil pcs/lines)	New Expansion (Mil pcs/ Lines)	Installed Annual Capacity as of 31.12.2018 (Mil pcs/ Lines)	New Expansion (Mil pcs/ Lines)	Installed Annual Capacity as of 31.12.2020 (Mil pcs/ Lines)	New Expansion (Mil pcs/ Lines)	Installed Annual Capacity as of 31.12.2024 (Mil pcs/ Lines)
SUPERMAX GROUP	23,394 (197)		21,751 (174)		27,365 (214)		44,058 (334)
Capacity lost from:							
- removal of old lines		-1,020 (10)		-1,230 (12)		-1,927 (18)	
- decommissioning of Lahat plant		-1,973 (25)					
Added capacity from:							
- new replacement lines				+2,420 (20)			
- new additional lines from Plant #12 (6061)		+1,350 (12)		+4,424 (32)			
- new additional lines from Plant #13, #14, #15 (6072 & 6073)						+13,272 (96)	
- new additional lines from Block F						+2,030 (18)	
- New replacement lines at Blocks D&E						+3,318 (24)	
Total	23,394 (197)	-1,643 (23)	21,751 (174)	+5,614 (40)	27,365 (214)	+16,693 (120)	44,058 (334)

Source: Company, BIMB Securities

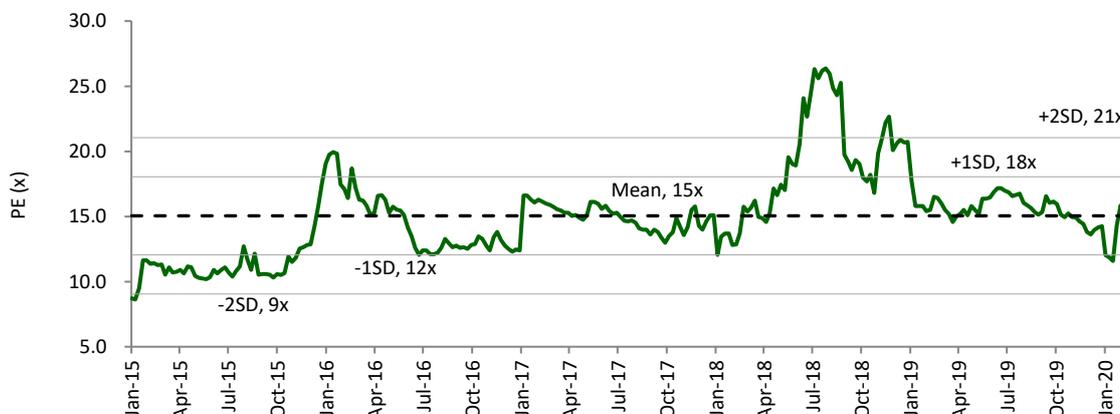
Chart 1: Supermax sales breakdown by region



**China = c.6-7%

Source: BIMB Securities, Company, Bloomberg

Chart 2: Supermax 5-years historical forward PE (12-mth rolling)

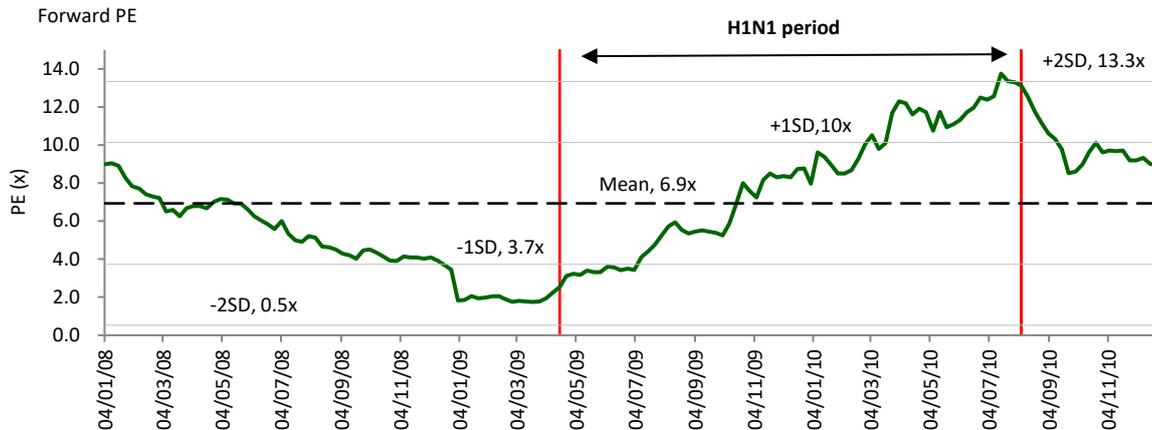


Fair value at +1 SD = RM1.95

Fair value at +2 SD = RM2.30

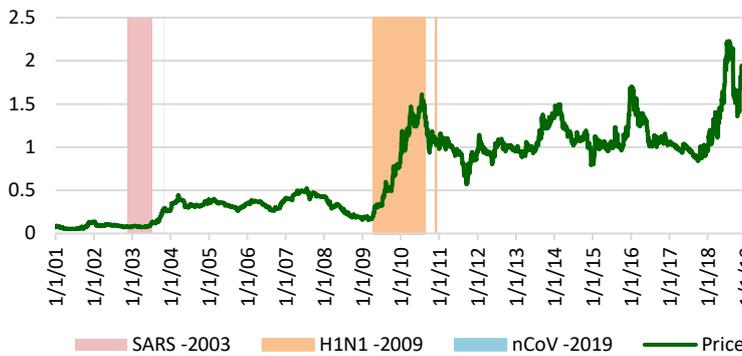
Source: BIMB Securities, Company, Bloomberg

Chart 3: Supermax Forward PE during H1N1



Source: BIMB Securities, Company, Bloomberg

Chart 4: Supermax price performance



	SARS	H1N1	Covid-19
Outbreak period	Nov 2002- July 2003	Apr 2009 - Aug 2010	Dec 2019- current
During outbreak period	43.9%	586.0%	14.4%
3 months after outbreak contained	140.7%	-28.1%	NA

Source: BIMB Securities, WHO, Bloomberg

Table 3: Earnings forecast

FYE June (RMm)	FY17	FY18	FY19	FY20F	FY21F
Turnover	1,126.9	1,304.5	1,538.2	1,613.3	1,769.2
EBITDA	149.0	211.7	225.2	283.7	311.2
EBIT	107.7	169.9	180.1	232.5	255.0
Pretax Profit	107.9	161.9	172.4	207.9	230.4
PATMI	67.2	106.7	123.1	140.6	155.9
Core PATMI	67.2	106.7	116.6	140.6	155.9
Consensus NP				131.3	149.6
Core EPS (sen)	5.1	8.2	8.9	10.8	13.0
PER (x)	32.1	20.2	17.5	15.3	12.7
DPS (sen)	3.0	4.0	4.0	5.0	6.0
D. Yield (%)	1.8%	2.4%	2.4%	3.0%	3.6%
Key Ratios (%)					
ROE	6.4%	10.3%	10.9%	12.1%	12.6%
EBITDA margin	13.2%	16.2%	14.6%	17.6%	17.6%
EBIT margin	9.6%	13.0%	11.7%	14.4%	14.4%
Pretax margin	9.6%	12.4%	11.2%	12.9%	13.0%
Core PATMI margin	6.0%	8.2%	7.6%	8.7%	8.8%

Source: Bloomberg, BIMB Securities

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BIMB Securities uses the following rating system:

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BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

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