



Supermax (SUCB MK)

Inline

BUY

Share Price **RM1.48**
Target Price **RM1.80** +22%

Staying on-track

- Supermax's Core PATMI of RM102.2m (+5.2% yoy) was contributed by greater capacity. Overall, Core PATMI is inline with our/consensus full year forecast at 79%/77% respectively.
- QoQ Core PATMI declined by 9.2% to RM34.6m mainly due to shorter working period, lower ASP and strengthening ringgit vs USD.
- Short-term outlook challenging but long-term prospect remains constructive on continued strong demand as well as increased production and overall cost efficiency.
- Upgrade to BUY with new TP of RM1.80.

9MFY19 earnings boosted by greater capacity

Supermax 9MFY19 PAYMI increased by 5.2% yoy on the back of strong demand and greater capacity output from commissioning of high efficiency production line at the rebuilt Block G, Kemunting Plant. Overall, core PATMI was inline with ours and consensus full year forecast at 79% and 77% respectively.

Lower qoq performance

Core PATMI declined to RM34.6m (-9.2% qoq) on the back of lower sales (-6.2% qoq) largely on account of shorter working days during the quarter under review (i.e. February and CNY break). Additionally, lower ASP resulting from higher competition and strengthening of ringgit during the quarter (ringgit rose to 4.04 versus USD in March), also contributed to the lower earnings. Margin dropped slightly by 0.3ppts to 9.6%.

Long term outlook remains constructive

Supermax's near-term outlook is challenging due to current sluggish global economy and more intense nitrile glove competition which has exerted pressure on ASP. Nevertheless, long term outlook in our view, is positive on expected strong global demand at 8-10% growth p.a. Supermax will be able to ride on this demand on improved production efficiency from its new plants and old lines refurbishment which will increase capacity by c.35% to 29bn pcs p.a. by FY20 (refer table 2). The group also has greater flexibility and stability with its balanced product mix (NBR: 52%, NR: 48%). Cost remains manageable and will not dent margins going forward, based on our estimate, as we expect lower NBR raw material prices will mitigate the higher labour cost. On the other hand, the recent escalation in the US-China trade war could possibly be beneficial for Supermax as US buyers may turn to Malaysian glove producers, in our view.

Upgrade to BUY with new TP of RM1.80

We have derived a new TP of RM1.80 (from RM1.75) based on revised PE of 17x (based on 5-year historical forward mean) vs 18x previously and rolling forward our valuation to FY20 EPS. The revised PE is to compensate for short-term industry oversupply risk and compression in sector multiple. Given upside of 22% based on our TP – coupled with a 16% decline in share price YTD – we upgrade our call to BUY from HOLD.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(2.6)	(7.1)	(3.7)
vs FBM KLCI	(0.7)	(2.9)	8.7

Stock Data

Mkt Cap (RM)	1,940.7
Free float (%)	60.3
Issued shares (m)	1,311.3
52w H/L (RM)	2.31/ 1.30
3m avg daily volume (m)	4,729,103

Major Shareholders (%)

Kim Sim Thai	21.2
Bee Geok Tan	15.7
Dimensional Fund Adv	2.8

FYE June (RM m)	FY17A	FY18A	FY19F	FY20F	FY21F
Turnover	1,126.9	1,304.5	1,472.5	1,613.3	1,769.2
EBITDA	149.0	212.2	253.5	283.7	311.2
EBIT	107.7	170.3	208.7	232.6	255.2
Pretax Profit	107.9	161.9	190.0	207.9	230.5
PATMI	67.2	106.7	128.5	140.6	155.9
Core PATMI	67.2	106.7	128.5	140.6	155.9
Consensus NP			133.1	149.1	166.7
EPS (sen)	5.1	8.1	9.8	10.7	11.9
PER (x)	28.9	18.2	15.1	13.8	12.4
DPS (sen)	3.0	4.0	4.5	5.0	5.5
D. Yield (%)	2.0%	2.7%	3.0%	3.4%	3.7%

Key Ratios (%)

ROE	6.4	10.3	12.3	12.6	13.0
EBIT margin	9.6	13.1	14.2	14.4	14.4
Pretax margin	9.6	12.4	12.9	12.9	13.0
Net margin	6.0	8.2	8.7	8.7	8.8

Source: Bloomberg, BIMB Securities

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Quarterly figures

Supermax FYE 31 June (RMm)	Quarterly			Change (%)		Cumulative		YTD (%)	BIMB	9M/F
	3QFY18	2QFY19	3QFY19	QoQ	YoY	9MFY18	9MFY19			
Revenue	327.1	385.1	361.2	-6.2%	10.4%	975.0	1113.4	14.2%	1,472.5	75.6%
EBITDA	57.4	70.2	62.6	-10.9%	9.1%	180.3	192.0	6.5%	253.5	75.8%
EBIT	47.4	59.0	52.2	-11.5%	10.1%	150.0	160.0	6.7%	208.7	76.6%
Pretax profit	45.5	54.3	49.4	-9.0%	8.7%	143.7	156.4	8.8%	190.0	82.3%
Taxation	(11.4)	(15.6)	(14.5)	-7.3%	27.2%	(44.3)	(46.8)	5.6%	(57.4)	81.5%
Minority Interest	-0.7	-0.6	-0.3	-40.9%	-51.6%	-2.3	-1.0	-58.4%	-4.1	23.3%
PATMI	33.4	38.1	34.6	-9.2%	3.7%	97.2	108.7	11.8%	128.5	84.6%
Core PATMI	33.4	38.1	34.6	-9.2%	3.7%	97.2	102.2	5.2%	128.5	79.5%
EPS (sen)	2.5	2.9	2.6	-9.2%	3.7%	7.4	7.8	5.2%	9.8	79.5%
EBITDA margin (%)	17.5%	18.2%	17.3%			18.5%	17.2%		17.2%	
EBIT margin (%)	14.5%	15.3%	14.5%			15.4%	14.4%		14.2%	
PBT margin (%)	13.9%	14.1%	13.7%			14.7%	14.0%		12.9%	
Net profit margin (%)	10.2%	9.9%	9.6%			10.0%	9.8%		8.7%	
Effective tax rate (%)	25.0%	28.7%	29.2%			30.8%	29.9%		30.2%	

Source: BIMB Securities, Company

Table 2: Supermax expansion plans summary

	Installed Annual Capacity As of 31.12.2015 (Million pcs/lines)	New Expansion (Million pcs/ Lines)	Installed Annual Capacity As of 31.12.2017 (Million pcs/ Lines)	New Expansion (Million pcs/ Lines)	Installed Annual Capacity As of 31.12.2018 (Million pcs/ Lines)	New Expansion (Million pcs/ Lines)	Installed Annual Capacity As of 31.12.2020 (Million pcs/ Lines)
SUPERMAX GROUP	17,762 (157)		23,394 (197)		23,394 (197)		29,395 (232)
Plant #10 (6058)		+2,212 (16)					
Plant # 11(6059)		+3,420 (24)					
Capacity lost from							
• Replacement of old lines				-1,020 (10)		-1,230 (12)	
• Decommissioning of Lahat Plant				-1,973 (25)			
Added capacity from							
Replacement lines at 2 old plants				+1,350 (12)		+2,420 (20)	
New additional lines from Block F & Plant #12 (6061)						+6,454 (50)	
Total	17,762 (157)	+5,632(40)	23,394 (197)	-1,643 (23)	21,751 (174)	+7,644 (58)	29,395 (232)

Source: Company, BIMB Securities

Table 3: Supermax timelines & capex amount

Project	Capex Amount	Target Completion Date
GLOVE MANUFACTURING		
Upgrading, Rebuilding & Replacing Old Lines		
- Lot 38, Sg Buloh	RM70m	2HCY20
New capacity expansion		
- Kemunting Raya, Taiping, Block F (new plant)	RM75m	2HCY20
- Plant #12 (Lot 6061)		
• Block A (including all infrastructure works)	RM130m	3QCY19
• Block B (production machineries only)	RM65m	1QCY20
Total	RM340m	

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

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

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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