

Malaysia

ADD (no change)

Consensus ratings*: Buy 7 Hold 1 Sell 1

Current price:	RM1.48
Target price:	RM2.24 ▲
Previous target:	RM2.23
Up/downside:	51.5%
CGS-CIMB / Consensus:	21.3%
Reuters:	SUPM.KL
Bloomberg:	SUCB MK
Market cap:	US\$466.0m
	RM1,941m
Average daily turnover:	US\$1.69m
	RM6.92m
Current shares o/s:	1,360m
Free float:	62.5%

*Source: Bloomberg

Key changes in this note

- FY19-21F EPS raised by 0.3-1.9% to account for higher associate gains and lower interest rates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.6	-8.1	-6
Relative (%)	-0.7	-2.8	7.6

Major shareholders

	% held
Dato' Seri Thai Kim Sim, Stanley	20.7
Datin Seri Tan Bee Geok, Cheryl	15.3
Amanah Saham Nasional	1.5

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Supermax Corp

Pricing pressure well-mitigated

- We deem 9MFY6/19 core net profit of RM102.2m in-line at 79.5% of our and 76.8% of consensus FY19 estimates as 4Q is a seasonally weaker quarter.
- The 5.2% yoy growth in 9MFY19 net profit was due to: i) better glove sales volume from increased production and ii) higher economies of scale.
- Maintain Add, with a higher TP of RM2.24 (18.3x CY20F P/E).

9MFY6/19: Within expectations

9MFY6/19 revenue rose 14.2% yoy, thanks to higher glove sales volume (+10.4% yoy). Despite better efficiencies from higher production, 9MFY19 EBIT margin declined 1.0% pt yoy from higher raw material prices and stiffer pricing competition. 9MFY19 core net profit grew 5.2% yoy to RM102.2m after stripping out one-off gains of RM6.5m (fire insurance claims in 1QFY19). We deem the results within expectations at 79.5% of our and 76.8% of consensus FY19 estimates as 4Q is a seasonally weaker quarter.

Weaker qoq results from a shorter working period

On a qoq basis, 3QFY19 revenue declined 6.2% while net profit weakened 9.2%. We attribute the weaker qoq results in 3QFY19 to: i) lower production from fewer working days in the quarter (festivities) and ii) stiffer pricing competition, especially for the nitrile gloves segment. This was also reflected in a 0.7% pt qoq decline in 3QFY19 EBIT margins. In addition, the group incurred a higher tax rate in the quarter (+0.5% pt qoq).

Plans to grow glove production capacity by 35% by end-2020F

By end-2020F, SUCB aims to expand its glove production capacity by 35% to 29.4bn pieces p.a. through ongoing revamp works at two existing plants, Block F (Kamunting, Perak – 2bn) and Lot 38 (Sungai Buloh, Selangor – 2.5bn). Also, SUCB is building one new glove plant (4.4bn pieces p.a.), Plant 12 (Meru, Klang), to be commissioned in two phases, Phase 1 (2.2bn) in 3QCY19 and Phase 2 (2.2bn) in 1QCY20.

Pricing pressure unlikely to persist in the long run

SUCB revealed that its profit margin for the glove segment has not been significantly impacted so far by stiffer competition experienced in the industry since end-2018 due to rising capacities. However, we expect this concern to ease due to potentially higher glove demand from the US in view of a potential hike in tariffs on glove imports from China and favourable external tailwinds (weaker ringgit vs. US\$).

Maintain Add, with a higher TP of RM2.24

We raise our FY19-21F EPS by 0.3-1.9% on housekeeping matters. Our Add call remains, with a higher TP of RM2.24 based on 18.3x CY20F P/E, in-line with its 5-year historical mean. At 12.1x CY20 P/E, we believe that SUCB is undervalued (trading at a 51% discount to glove sector's average CY20 P/E of 24.8x) given an improved earnings outlook and strong 3-year EPS CAGR of 23.9%. Downside risk: stronger-than-expected pricing competition and sharp strengthening of ringgit vs. US\$.

Financial Summary

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (RMm)	1,127	1,304	1,638	1,897	2,126
Operating EBITDA (RMm)	149.0	211.7	256.8	299.2	336.8
Net Profit (RMm)	67.2	106.7	130.9	155.1	176.5
Core EPS (RM)	0.05	0.08	0.10	0.11	0.13
Core EPS Growth	(36.1%)	58.7%	22.7%	18.5%	13.8%
FD Core P/E (x)	29.96	18.88	15.39	12.98	11.40
DPS (RM)	0.025	0.040	0.043	0.051	0.058
Dividend Yield	1.69%	2.70%	2.92%	3.47%	3.95%
EV/EBITDA (x)	13.91	10.00	8.64	7.59	6.83
P/FCFE (x)	22.42	12.28	84.27	23.54	16.84
Net Gearing	27.5%	28.5%	35.4%	36.7%	35.8%
P/BV (x)	1.89	1.99	1.86	1.72	1.59
ROE	6.3%	10.3%	12.5%	13.8%	14.5%
% Change In Core EPS Estimates			1.86%	0.78%	0.32%
CIMB/consensus EPS (x)			0.88	0.93	1.02

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results Comparison

FYE Jun	3Q		3Q yoy %		3QFY19		3QFY18		yoy %		Prev. Comments
(RM m)	FY19	FY18	chg	chg	Cum	Cum	chg	FY19F			
Revenue	361.2	327.1	10.4	(6.2)	1,113.4	975.0	14.2	1,637.9	Qoq decline from shorter working month due to festivities		
Operating costs	(297.4)	(279.7)	6.3	(6.4)	(914.5)	(825.0)	10.8	(1,437.9)			
EBIT	52.3	47.4	10.3	(6.2)	160.1	150.0	6.7	200.0			
EBIT margin	14.5	14.5	(0.0)	(0.7)	14.4	15.4	(1.0)	12.2	9MFY19 EBIT margins decline from stiffer pricing competition and higher		
Interest expense	(4.5)	(3.3)	36.7	(2.6)	(13.8)	(10.0)	38.6	(17.0)	raw material prices		
Interest & invt inc	-	-	-	-	-	-	-	-			
Associates' contrib	1.7	1.4	21.4	>100	3.6	3.7	(2.2)	4.0	Lower contribution recorded from associate companies		
Exceptionals	-	-	>100	>100	6.5	-	-	-	One-off gain of RM6.5m in 1QFY19 from insurance claim for fire that hit one		
Pretax profit	49.4	45.5	8.7	(9.0)	156.4	143.7	8.8	187.0	of its glove factories in Sungai Buloh, Selangor.		
Tax	(14.5)	(11.4)	27.2	(7.3)	(46.8)	(44.3)	5.6	(55.0)			
Tax rate (%)	29.2	25.0	4.2	0.5	29.9	30.8	(0.9)	29.4	Higher than statutory tax rate from higher tax rates of overseas subsidiaries		
Minority interests	(0.3)	(0.7)	(51.6)	(40.9)	(1.0)	(2.3)	(58.4)	(3.5)			
Net profit	34.6	33.4	3.7	(9.2)	108.7	97.2	11.8	128.5	Within expectations		
Core net profit	34.6	33.4	3.7	(9.2)	102.2	97.2	5.2	128.5	9MFY19 net profit made up 79.5% of CIMB and 76.8% of consensus FY19		
EPS (sen)	2.5	2.5	3.7	(9.2)	8.0	7.1	11.8	9.4	estimates		
Core EPS (sen)	2.5	2.5	3.7	(9.2)	7.5	7.1	5.2	9.4	Based on 1360m total outstanding shares		

SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 2: Malaysian industrial goods and services sector comparison – CIMB Research coverage

Company	Bloomberg Ticker	Recom.	Share price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY19F	CY20F	CAGR (%)	CY19F	CY20F	CY19F	CY20F	CY19F	CY20F	CY19F	CY20F
Hartalega Holdings	HART MK	Hold	4.99	4.80	4,009	35.0	30.2	18.6%	7.0	6.4	21.0%	22.2%	23.3	20.2	1.7%	2.0%
Top Glove Corporation	TOPG MK	Add	4.78	5.08	2,934	25.3	22.6	15.7%	4.5	4.1	18.7%	19.1%	16.6	14.9	1.9%	2.2%
Kossan Rubber Industries	KRI MK	Add	3.69	4.80	1,133	19.8	17.1	13.9%	3.3	3.0	17.2%	18.1%	12.4	11.0	2.3%	2.6%
Supermax Corp	SUCB MK	Add	1.48	2.24	466	14.1	12.1	23.9%	1.8	1.7	13.2%	14.2%	8.0	7.2	3.2%	3.7%
Weighted Average						28.5	24.9	17.2%	5.4	4.9	19.3%	20.1%	18.7	16.5	2.0%	2.2%

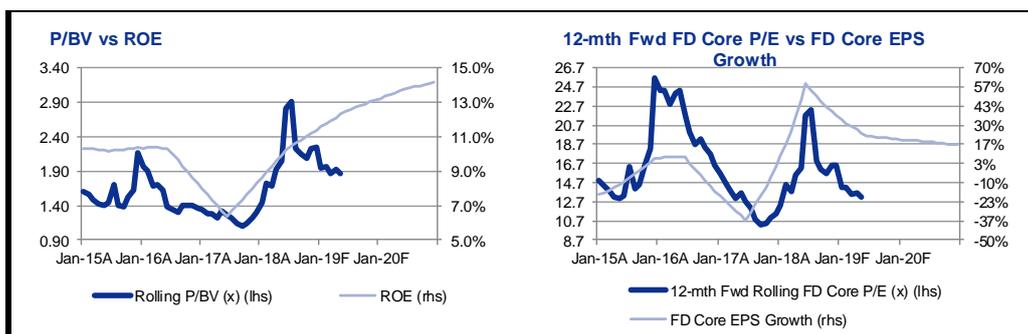
SOURCES: CIMB, BLOOMBERG

Figure 3: Earnings revision

RM m	2018	2019F			2020F			2021F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	1,304	1,638	1,638	0%	1,897	1,897	0%	2,126	2,126	0%
EBITDA	212	257	257	0%	299	299	0%	337	337	0%
Core pretax profit	162	189	198	4%	226	234	4%	265	265	3%
Core net profit	107	128	131	2%	154	155	1%	177	177	0%

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Net Revenues	1,127	1,304	1,638	1,897	2,126
Gross Profit	364	439	506	581	652
Operating EBITDA	149	212	257	299	337
Depreciation And Amortisation	(41)	(42)	(53)	(58)	(62)
Operating EBIT	108	170	204	242	275
Financial Income/(Expense)	(11)	(14)	(12)	(14)	(15)
Pretax Income/(Loss) from Assoc.	11	6	6	6	6
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	108	162	198	234	265
Exceptional Items	0	0	0	0	0
Pre-tax Profit	108	162	198	234	265
Taxation	(38)	(52)	(63)	(75)	(85)
Exceptional Income - post-tax					
Profit After Tax	70	110	134	159	181
Minority Interests	(3)	(3)	(3)	(4)	(4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	67	107	131	155	177
Recurring Net Profit	67	107	131	155	177
Fully Diluted Recurring Net Profit	67	107	131	155	177

Cash Flow

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
EBITDA	149.0	211.7	256.8	299.2	336.8
Cash Flow from Inv. & Assoc.					
Change In Working Capital	9.1	56.8	(77.0)	(46.1)	(39.6)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	21.3	(13.2)	19.6	21.0	22.4
Net Interest (Paid)/Received	(11.1)	(14.0)	(12.2)	(13.6)	(15.1)
Tax Paid	(47.6)	(64.1)	(63.2)	(74.9)	(85.0)
Cashflow From Operations	120.8	177.2	123.9	185.5	219.6
Capex	(111.3)	(58.9)	(150.0)	(150.0)	(150.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(111.3)	(58.9)	(150.0)	(150.0)	(150.0)
Debt Raised/(repaid)	80.3	45.7	50.0	50.0	50.0
Proceeds From Issue Of Shares					
Shares Repurchased	(77.8)	0.0	0.0	0.0	0.0
Dividends Paid	(26.9)	(75.7)	(58.9)	(69.8)	(79.4)
Preferred Dividends					
Other Financing Cashflow	(11.1)	(14.0)	(12.2)	(13.6)	(15.1)
Cash Flow From Financing	(35.4)	(44.0)	(21.1)	(33.4)	(44.5)
Total Cash Generated	(25.9)	74.3	(47.2)	2.1	25.1
Free Cashflow To Equity	89.8	164.0	23.9	85.5	119.6
Free Cashflow To Firm	20.5	132.3	(13.9)	49.2	84.6

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Cash And Equivalents	156	145	98	100	125
Total Debtors	270	203	280	326	366
Inventories	190	188	251	291	327
Total Other Current Assets	22	36	174	175	176
Total Current Assets	639	572	803	893	994
Fixed Assets	879	896	858	948	1,033
Total Investments	237	197	197	197	197
Intangible Assets	29	29	29	29	29
Total Other Non-Current Assets	2	2	2	2	2
Total Non-current Assets	1,147	1,123	1,085	1,175	1,261
Short-term Debt	344	374	374	374	374
Current Portion of Long-Term Debt					
Total Creditors	227	192	255	296	331
Other Current Liabilities					
Total Current Liabilities	571	566	630	670	705
Total Long-term Debt	107	62	112	162	212
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	107	62	112	162	212
Total Provisions	42	49	49	49	49
Total Liabilities	720	677	791	881	966
Shareholders' Equity	1,067	1,013	1,085	1,170	1,267
Minority Interests	3	10	14	18	22
Total Equity	1,070	1,023	1,098	1,187	1,289

Key Ratios

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue Growth	9.5%	15.8%	25.6%	15.8%	12.1%
Operating EBITDA Growth	(20.9%)	42.1%	21.3%	16.5%	12.6%
Operating EBITDA Margin	13.2%	16.2%	15.7%	15.8%	15.8%
Net Cash Per Share (RM)	(0.22)	(0.21)	(0.29)	(0.32)	(0.34)
BVPS (RM)	0.78	0.74	0.80	0.86	0.93
Gross Interest Cover	9.74	12.15	16.65	17.70	18.24
Effective Tax Rate	34.9%	32.0%	32.0%	32.0%	32.0%
Net Dividend Payout Ratio	19.2%	34.3%	30.3%	30.3%	30.4%
Accounts Receivables Days	70.66	59.64	50.15	54.56	55.26
Inventory Days	88.69	79.63	70.73	75.43	76.52
Accounts Payables Days	82.11	81.54	70.04	74.90	75.98
ROIC (%)	8.5%	14.6%	17.5%	18.0%	18.6%
ROCE (%)	6.8%	11.1%	13.0%	14.2%	14.9%
Return On Average Assets	6.7%	10.1%	11.7%	12.5%	13.0%

Key Drivers

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
ASP (% chg, main prod./serv.)	5.6%	0.0%	13.7%	16.9%	9.9%
Unit sales grth (% , main prod./serv.)	48.8%	2.8%	-8.2%	88.4%	90.8%
Util. rate (% , main prod./serv.)	80.0%	79.0%	79.0%	81.0%	83.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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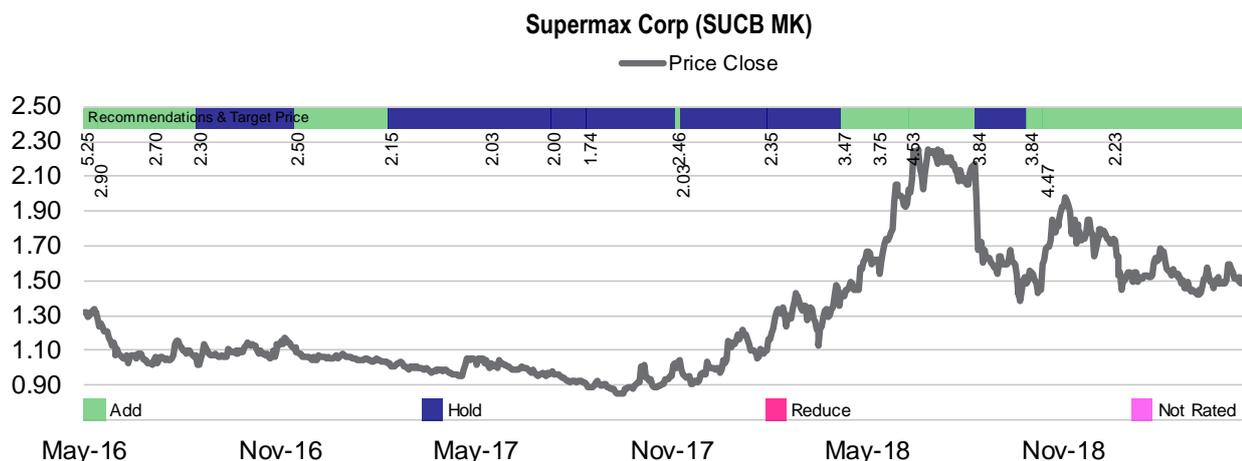
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771 companies under coverage for quarter ended on 08 April 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.8%	4.0%
Hold	27.0%	2.1%
Reduce	15.2%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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