

26 February 2020

Supermax Corporation

2nd Consecutive Quarterly Improvement

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1HFY20 core net profit of RM55m (-19% YoY) came in at 42% each of our and consensus full-year forecasts. We consider the results to be within expectation as we expect subsequent quarters to be ramped up by new capacity with nascent signs of strong volume growth rebound. With the past lacklustre demand far behind us, we see ramped-up restocking activities as the current outbreak of the Wuhan virus reinforced higher hygiene standard. TP is RM2.00 based on unchanged 20x CY20E EPS. Reiterate OP.

Key results' highlights. QoQ, 2QFY20 revenue rose 4% largely due to higher volume sales from new lines commissioned in Plant 12. 2QFY20 PBT rose 29% as PBT margin rose 2ppt to 11% from 9% in 1QFY20 due to better economies of scale and improved efficiencies from the new plant. This brings 2QFY20 core net profit to RM30m (+22% QoQ) which was negated by a higher effective tax rate of 28% compared to 23% in 1QFY20. No dividend was declared in this quarter as expected.

YoY, 1HFY20 core net profit fell 19% to RM55m after excluding one-off insurance claims (RM6.5m) in 1HFY19 despite a flat revenue growth (0.8%) due to lower average selling prices and increase in production costs namely natural gas price and a higher raw latex price (+10%) in 1QFY20 which had since tapered off.

Earnings expected to trend higher in subsequent quarters. We are positive on Supermax's growth prospect going forward, underpinned by demand uptick with nascent signs of a strong volume growth rebound. With the past lacklustre demand far behind us, we see ramped-up restocking activities as the current outbreak of the Wuhan virus reinforced higher hygiene standards, spurring the strong sequential 2QFY20 earnings momentum into FY21.

Outlook. Plant 12 consists of Block A and Block B, each consisting of 8 double former lines with 2.2b pieces each (total 4.4b pieces). As of now, block A (5 lines already started commercial production), the remaining 3 lines are expected to be ready by 1Q 2020. For Block B, all 8 lines are expected to be fully commissioned by 2H 2020. Upon full commercial production in stages from 2QCY19 to end-4QCY20, installed capacity will rise 20% to 26.2b pieces per annum. Recall, it had completed the acquisition of a piece of land in Meru, Klang on which it plans to build three plants namely Plant 13,14 and 15 which will contribute another 13.2bn pieces of gloves to the Group's installed capacity over the next 5 years.

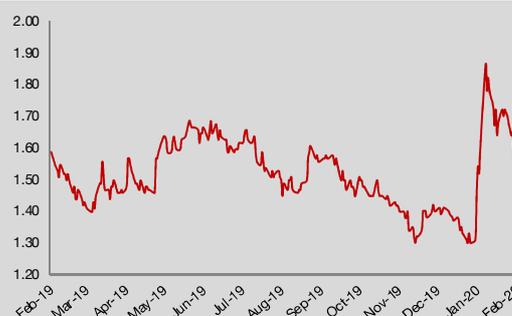
Reiterate OUTPERFORM. TP is RM2.00 based 20x CY20 EPS of 10.0 sen (at +1.5 SD above 5-year historical forward mean). We like Supermax because: (i) the stock is trading at an unjustifiable 40% discount to peers' average compared to a historical discount of 30%, and (ii) it is a prime beneficiary of favourable USD/MYR forex trend since they do not hedge their sales receipts.

Key risks to our call are: later-than-expected start of commercial operations of new plants, lower-than-expected volume sales, and higher-than-expected tax rate.

OUTPERFORM ↔

Price : **RM1.65**
Target Price : **RM2.00** ↔

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg 18.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SUCB MK Equity
Market Cap (RM m) 2,178.3
Shares Outstanding 1,320.2
52-week range (H) 1.93
52-week range (L) 1.29
3-mth avg daily vol: 14,924,030
Free Float 59%
Beta 0.6

Major Shareholders

Dato' Seri Stanley Thai 21.3%
Datin Seri Tan Bee Geok, Cheryl 15.8%
Vanguard Group 2.3%

Summary Earnings Table

| FY Jun (RM'm) | 2019A | 2020E | 2021E |
|----------------------------|--------------|--------------|--------------|
| Turnover | 1489.3 | 1531.6 | 1623.7 |
| PBT | 172.8 | 174.5 | 185.3 |
| Net Profit | 123.8 | 132.5 | 140.8 |
| Core N.Profit (CNP) | 127.6 | 132.5 | 140.8 |
| Consensus (NP) | - | 131.3 | 149.6 |
| Earnings Revision | - | - | - |
| EPS (sen) | 9.4 | 9.7 | 10.3 |
| EPS growth (%) | 19.2 | 3.8 | 6.2 |
| NDPS (sen) | 4.2 | 4.4 | 4.7 |
| BVPS (RM) | 0.82 | 0.88 | 0.93 |
| PER (X) | 17.6 | 16.9 | 15.9 |
| PBV (X) | 2.0 | 1.9 | 1.8 |
| Net Gearing (%) | 19.5 | 25.7 | 25.4 |
| Dividend Yield (%) | 2.5 | 2.7 | 2.8 |

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Result Highlight

| FY Jun (RM m) | 2Q FY20 | 1Q FY20 | QoQ Chg % | 2Q FY19 | YoY Chg % | 6M FY19 | 6M FY20 | YoY Chg % |
|------------------------|--------------------|--------------------|----------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
| Turnover | 385.5 | 369.9 | 4.2 | 385.1 | 0.1 | 752.2 | 755.4 | 0.4 |
| EBITDA | 59.3 | 49.2 | 20.6 | 70.2 | (15.6) | 137.9 | 108.5 | (21.4) |
| PBT | 41.8 | 32.4 | 28.9 | 54.3 | (23.0) | 107.0 | 74.3 | (30.6) |
| Net Profit (NP) | 30.2 | 24.7 | 21.9 | 38.1 | (20.9) | 74.1 | 54.9 | (25.9) |
| Core net profit (CNP) | 30.2 | 24.7 | 21.9 | 38.1 | (20.9) | 67.6 | 54.9 | (18.8) |
| EPS (sen) | 2.3 | 1.9 | 22.2 | 2.9 | (20.6) | 5.4 | 4.2 | (22.9) |
| EBITDA margin (%) | 15.4 | 13.3 | | | | 18.3 | 14.4 | |
| PBT margin (%) | 10.9 | 8.8 | | | | 14.2 | 9.8 | |
| Effective tax rate (%) | 28.2 | 23.1 | | | | 30.2 | 26.0 | |

Source: Bursa Malaysia, Kenanga Research

*Note that 1Q19 core net profit excluding one-off insurance claims RM6.5m

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Peer Comparison

| Name | Last Price (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net Div Yld (%) | Target Price (RM) | Rating |
|--------------------------|-----------------|-------------------|-------------------|-------------|----------------|------------|----------------------|------------|-------------------------|------------|------------|---------|------------|------------|-----------------|-------------------|--------|
| | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | | | |
| RUBBER GLOVES | | | | | | | | | | | | | | | | | |
| HARTALEGA HOLDINGS BHD | 6.05 | 20445.9 | Y | 03/2020 | 6.7 | 9.7 | 6.5 | 11.9 | 43.8 | 41.1 | 36.7 | 8.9 | 8.1 | 19.6 | 1.2 | 7.00 | OP |
| KOSSAN RUBBER INDUSTRIES | 4.78 | 6113.3 | Y | 12/2019 | 10.8 | 4.8 | 17.3 | 6.9 | 27.2 | 23.2 | 21.7 | 4.3 | 3.8 | 16.4 | 1.3 | 5.90 | OP |
| SUPERMAX CORP BHD | 1.65 | 2178.3 | Y | 06/2020 | 2.8 | 6.0 | 4.1 | 6.3 | 17.6 | 16.9 | 15.9 | 2.0 | 1.9 | 11.1 | 2.4 | 2.00 | OP |
| TOP GLOVE CORP BHD | 5.62 | 14396.3 | Y | 08/2020 | 6.9 | 2.6 | 11.0 | 7.5 | 38.6 | 34.8 | 32.3 | 5.9 | 5.3 | 15.1 | 1.3 | 5.30 | MP |

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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