

02 November 2018 | 1QFY19 Results Review

## Supermax Corporation Berhad

*A strong start to FY19*

### INVESTMENT HIGHLIGHTS

- **Strong 1QFY19 earnings recovery in absence of one-off expenses incurred in the previous quarter**
- **The one-off expenses were in relation to the initial stage business expenses incurred for its contact lens segment**
- **Continuous effort to increase its production capacity will support future earnings growth**
- **Upgrade to BUY with an unchanged TP of RM3.58 per share**

**Met expectations.** Supermax's 1QFY19 earnings came in at RM35.9m. This met our and consensus' expectation, accounting for 22.3% and 27.5% of our and consensus' full year FY19 earnings estimates respectively. Looking at sequential quarterly growth, revenue rose by +11.4%qoq while PATAMI rose even stronger by +265.2%qoq.

**Earnings recovered in the 1QFY19.** The sequential increase in 1QFY19 revenue is as a result of: (i) increased output from the newly commissioned production lines i.e. Plant 10 and Plant 11 in Klang and; (ii) a stronger USD against Ringgit. Meanwhile, the strong recovery in earnings during the quarter is attributed to the: (i) decreased in production costs from better economies of scale and; (ii) absence of the one-off costs recorded in the preceding quarter for its contact lens business segment. We expect considerable expenses were incurred in procuring the necessary certifications, approvals, and marketing to bring its contact lens brand into the market.

**Continuous expansion in production capacity.** In 2017, Supermax has embarked on an initiative to improve its operating efficiency across all its existing plants. In addition, the construction works to build its 12<sup>th</sup> plant in Meru, Klang has commenced in June 2018. This plant is expected to be completed by 3QFY19. We expect that the continuous effort to expand its production capacity will support future earnings growth.

**Impact to earnings.** We are maintaining our earnings forecasts for FY19 and FY20 as we expect the rebuilding and replacement of old production facilities as well as the commencement of two additional plants in FY19 will contribute to stronger earnings. Key risks to our earnings estimates would be: (i) sudden surge in raw materials price; (ii) strong appreciation of Ringgit and; (iii) production line breakdowns.

**Upgrade to BUY**  
*(Previously NEUTRAL)*  
**Unchanged Target Price (TP): RM3.58**  
*(Ex-Bonus issue RM1.79)*

RETURN STATS	
Price (1 <sup>st</sup> November 2018)	RM3.24
Target Price	RM3.58
Expected Share Price Return	+10.4%
Expected Dividend Yield	+3.7%
<b>Expected Total Return</b>	<b>+14.1%</b>

STOCK INFO	
KLCI	1,706.92
Bursa / Bloomberg	7106 / SUCB MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	655.65
Market cap. (RM'm)	2,124.32
Price over NA	1.96
52-wk price Range	RM1.77 – RM4.61
Beta (against KLCI)	0.65
3-mth Avg Daily Vol	5.32m
3-mth Avg Daily Value	RM17.89m
Major Shareholders (%)	
Kim Sim Thai	21.21
Bee Geok Tan	15.70
FMR LLC	4.14

**Target Price.** We maintain our target price to **RM3.58** per share. Our TP is derived via pegging our FY20F EPS of 25.6sen to an unchanged PER19 of 14x, which is its three-year average PER.

**Upgrade to BUY.** The group's expenses has normalised subsequent to the one-off spending to initiate its contact lenses business. Moving forward, we opine that the group's earnings will continue to grow, premised on: (i) rebuilding and replacement of old production facilities aimed at extracting higher production output from existing locations and; (ii) effort in adding new capacity via building of new plants. Post the completion of plant expansion, Supermax's production capacity is expected to grow by 6.0b pieces. Post-completion of all the upgrading works and building of new plants, Supermax is expected to have an annual capacity of 29.3b pieces as at end of CY20. On another note, Supermax's share price has retraced by -21.0% following its dismal 4QFY18 quarterly announcement. We view that this would present an opportunity for investors to further increase exposure in the stock. All in, we are upgrading our recommendation to **BUY** (previously NEUTRAL). 

## INVESTMENT STATISTICS

FYE June (RM'm)	FY2016 (18M)	FY2017	FY2018	FY2019F	FY2020F
<b>Revenue</b>	<b>1,544.7</b>	<b>1,126.6</b>	<b>1,304.5</b>	<b>1,718.5</b>	<b>2,423.2</b>
<b>Profit before tax</b>	<b>220.6</b>	<b>110.4</b>	<b>167.2</b>	<b>211.7</b>	<b>228.8</b>
Income tax expense	(67.1)	(37.1)	(56.2)	(50.8)	(54.9)
<b>Net Profit (RM'm)</b>	<b>153.5</b>	<b>73.3</b>	<b>111.0</b>	<b>160.9</b>	<b>173.9</b>
PBT Margin (%)	14.3	9.8	12.8	12.3	9.4
Net Profit Margin (%)	9.9	6.5	8.5	9.4	7.2
EPS (sen)	25.8	10.5	15.7	23.7	25.6
EPS Growth (%)	83.0	(59.3)	49.9	50.3	8.1
PER (x)	17.4	38.0	20.6	16.6	15.3
Dividend (sen)	8.0	6.0	8.0	11.0	12.0
Dividend yield (%)	2.5	1.9	2.5	3.4	3.7
Tax rate (%)	30.4	33.6	33.6	24.0	24.0

Source: Company, Forecasts by MIDFR

\*FYE December

## DAILY PRICE CHART



## SUPERMAX CORPORATION BHD: 1QFY19 RESULTS SUMMARY

FYE June (RM'm)	Quarterly results				
	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>312.0</b>	<b>329.5</b>	<b>367.1</b>	11.4	17.6
Operating expenses	(269.9)	(303.8)	(311.3)	2.5	15.3
Finance costs	(3.3)	(4.0)	(4.6)	15.1	39.0
Share of profit of associated companies	1.9	1.8	1.5	(17.0)	(20.4)
<b>Profit Before Tax</b>	<b>40.7</b>	<b>23.4</b>	<b>52.7</b>	124.7	29.6
Taxation	(12.6)	(12.0)	(16.7)	39.7	33.0
<b>Profit After Tax</b>	<b>28.1</b>	<b>11.5</b>	<b>36.0</b>	213.1	28.0
Minority interest	0.2	1.6	0.0	(98.4)	(86.0)
<b>PATAMI</b>	<b>27.9</b>	<b>9.8</b>	<b>35.9</b>	265.2	28.8
Basic EPS (sen)	4.2	1.5	5.3	254.7	26.0
Dividend per share (sen)	-	-	-	nm	nm
					(+/-) ppts
PBT margin (%)	13.0	7.1	14.4	7.2	1.3
PAT margin (%)	9.0	3.5	9.8	6.3	0.8
PATAMI margin (%)	8.9	3.0	9.8	6.8	0.9
Tax rate (%)	30.9	51.0	31.7	(19.3)	0.8

Source: Company, MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.