

9MFY18 (June) results announced on 27 May were above expectations

30 May 2018

Consumer Non-cyclical | Rubber Products

Supermax

Buy (Maintained)

Target Price: MYR3.55

Price: MYR3.23

Market Cap: USD532m

Bloomberg Ticker: SUCB MK

Resilient Growth Despite Higher Gas Tariff

Maintain BUY with a DCF-based TP of MYR3.55, 10% upside. Its 9MFY18 NP of MYR97m, +57% YoY, was at 80% and 79% of ours and consensus estimates, slightly beating expectations. The strong earnings growth was driven by a resilient demand, higher production capacity and improved operational efficiency. On a QoQ basis, NP was 7% lower, due to stronger MYR and the impact of a 23% gas tariff hike. We expect Supermax to continue to deliver a strong earnings growth driven by a 16% capacity expansion by Dec 2019. We raise our FY18F NP forecast by 3% to account for a higher utilisation rate. Over the mid to longer term, its expansion at Glove City in Bukit Kapar, Selangor should be revived as the necessary infrastructure (gas & water supply) is now available. The stock trades at 16x FY19F P/E, a 27% discount to P/E sector average.

Contact lens business a longer term catalyst. The company currently has four contact lens production lines with a total capacity of 70m pieces pa. As contact lens are classified as controlled medical device, securing licenses is key in entering new markets. Supermax exports its contact lens to 65 countries and is expected to enter Japan in 1QFY19. Management expects at least two more years of gestation period, before any earnings turnaround.

Maintain BUY. We raise FY18F NP by 3% to account for a higher utilisation rate and Supermax's ability to pass through the cost impact from a higher gas tariff. At 50:50 natural rubber and nitrile glove production mix, we expect the company to offset the higher nitrile raw material prices with lower latex prices. We maintain a DCF-based TP at MYR3.55 which implies 19x forward P/E. The stock trades now at 16x FY19F P/E, a 27% discount to P/E sector average and we believe this discount should narrow given Supermax' strong YoY earnings growth momentum. Also the investors' concerns of leadership at the company have been addressed. Key downside risks include a spike in raw material prices, stronger MYR and extended losses from its new venture into contact lens sales and manufacturing.

Figure 1: Supermax 9MFY18 (June) results snapshot

FYE June (MYRm)	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)	Comments
Revenue	308.2	335.9	327.1	(2.6)	6.1	814.0	975.0	19.8	Higher, driven by strong demand and higher output. Lower, QoQ due to a 23% impact of higher gas tariffs.
EBITDA	35.4	69.3	58.7	(15.3)	65.9	110.7	184.1	66.3	
<i>EBITDA Margin (%)</i>	11.5	20.6	18.0			13.6	18.9		Margins expanded on improved operational efficiency YoY
Depreciation	(11.5)	(8.4)	(10.0)	19.3	(13.5)	(29.0)	(30.4)	4.8	
EBIT	23.9	61.0	48.8	(20.0)	104.3	81.7	153.7	88.1	
<i>EBIT Margin (%)</i>	7.7	18.1	14.9			10.0	15.8		
Interest expense	(3.0)	(3.3)	(3.3)	(0.2)	11.3	(7.4)	(10.0)	35.4	
Pretax profit	20.9	57.6	45.5	(21.1)	117.5	74.4	143.7	93.3	
<i>Pretax Margin (%)</i>	6.8	17.2	13.9			9.1	14.7		
Tax	(1.6)	(20.3)	(11.4)	(44.1)	608.0	(13.1)	(44.3)	236.7	
<i>Effective tax (%)</i>	(7.7)	(35.3)	(25.0)			(17.7)	(30.8)		Higher effective tax due to a higher tax rate in foreign jurisdictions.
Minority Interest	0.5	(1.4)	(0.7)	nm	nm	0.6	(2.3)	n.m	
Net Profit	19.8	35.9	33.4	(7.0)	69.0	61.9	97.2	57.1	Above expectations.
<i>Net Margin (%)</i>	6.4	10.7	10.2			7.6	10.0		

Source: Company data, RHB

Forecasts and Valuations	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total turnover (MYRm)	1,096	1,127	1,325	1,430	1,606
Reported net profit (MYRm)	101	70	126	136	153
Recurring net profit (MYRm)	101	70	126	136	153
Recurring net profit growth (%)	(37.4)	(30.4)	79.8	7.8	12.5
Recurring EPS (MYR)	0.15	0.10	0.19	0.20	0.23
DPS (MYR)	0.04	0.03	0.06	0.05	0.06
Recurring P/E (x)	21.8	31.3	17.4	16.1	14.4
P/B (x)	2.04	2.04	1.91	1.76	1.61
P/CF (x)	7.8	10.0	9.8	14.4	8.7
Dividend Yield (%)	1.4	1.0	1.7	1.6	1.9
EV/EBITDA (x)	11.7	12.7	10.0	9.4	8.2
Return on average equity (%)	9.5	6.5	11.3	11.3	11.7
Net debt to equity (%)	22.1	17.0	13.6	16.9	12.1
Our vs consensus EPS (adjusted) (%)			21.3	18.4	19.7

Source: Company data, RHB

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