

# Supermax Corporation Berhad

**TP: RM4.75 (+46.5%)**
**EX: RM2.37**
*Last Traded: RM3.24*
*Share Price Undervalued*
**BUY**

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## Review

- Supermax's reported IQFY19 net profit of RM35.9mn (+28.8% YoY). Excluding gains of RM6.5mn from an insurance claim for consequential loss arising from a fire (Malacca plant towards end-2013), core net profit of RM29.4mn (+5.5% YoY) came in within ours and consensus estimates at 22.7% and 22.5% respectively.
- YoY**, PBT grew 29.6% to RM124.7mn, on the back of 17.6% growth in revenue to RM367.1mn. We attribute the strong performance to: i) higher sales volumes and ii) increased production efficiency after the refurbishment of older rubber glove plants. PBT margin expanded by 1.3pp YoY to 14.4%.
- QoQ**, core profit surged 199% to RM29.4mn mainly due to some one-off cost incurred in the preceding quarter and higher effective tax rate of 51.0% recorded in 4Q18 compared against that of 31.7% in 1Q19.

## Impact

- We make no changes to our earnings estimates.

## Outlook

- On capacity expansion front, constructions works had started in July 2018 for Plant 12 (4.4bn gloves) in Meru, Klang. Coupled with continuous refurbishment of older plants, the group's total capacity is expected to increase to 29.4bn in 2020 from 23.4bn gloves currently.
- On the contacts lens division, the group recently launched its flagship product, Aveo Hello brand locally. Based on our checks, Aveo's daily disposable contact lenses are priced similarly with other contact lenses in the market, in the hope to gain further market share. We reiterate our view that the contact lens division will only be profitable in 2 years' time.

## Valuation

- TP maintained at RM4.75/share based on an unchanged PE multiple of 24.0x CY19 EPS. Maintain Buy.

## Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	655.7
Market Cap (RMmn)	2,124.3
52-wk Hi/Lo (RM)	4.61/1.77
12-mth Avg Daily Vol ('000 shrs)	4,389.3
Estimated Free Float (%)	57.6
Beta	0.7

## Major Shareholders (%)

Dato' Seri Stanley Thai - 36.9

## Forecast Revision

	FY19	FY20
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	129.6	136.0
Consensus	130.4	145.0
TA's / Consensus (%)	99.3	93.8
Previous rating	Buy (Maintained)	

## Financial Indicators

	FY19	FY20
Net gearing (x)	0.2	0.3
P/CFPS (x)	11.5	16.3
ROAA (%)	7.4	7.3
ROAE (%)	12.3	12.1
NTA/Share (RM)	1.6	1.7
Price/ NTA (x)	2.0	1.9

## Scorecard

	% of FY	
vs. TA	22.7	Within
vs. Consensus	22.5	Within

## Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	0.3	(5.1)
3 mth	(25.7)	(4.0)
6 mth	10.6	(7.8)
12 mth	83.1	(2.0)

## (12-Mth) Share Pricerelative to the FBMKLCI



Source: Bloomberg

**IQFY19 Results Analysis**

FYE June (RM mn')	IQFY18	4QFY18	IQFY19	QoQ	YoY
Revenue	312.0	329.5	367.1	11.4	17.6
Operating expenses	(269.9)	(303.8)	(311.3)	2.5	15.3
EBITDA	56.0	37.8	67.7	78.8	20.8
Finance costs	(3.3)	(4.0)	(4.6)	15.1	39.0
Share of profit of associates	1.9	1.8	1.5	(17.0)	(20.4)
PBT	40.7	23.4	52.7	124.7	29.6
Taxation	(12.6)	(12.0)	(16.7)	39.7	33.0
PAT(-MI)	27.9	9.8	35.9	265.2	28.8
Core PAT (-MI)	27.9	9.8	29.4	199.0	5.5
EPS (sen)	4.2	1.5	5.5	267.8	30.8
DPS (sen)	0.0	2.0	0.0	n.a	n.a
				<b>PP</b>	<b>PP</b>
EBITDA margin (%)	18.0	11.5	18.4	7.0	0.5
PBT margin (%)	13.0	7.1	14.4	7.2	1.3
Tax rates (%)	30.9	51.0	31.7	(19.3)	0.8
PAT (-MI) margin (%)	8.9	3.0	9.8	6.8	0.9
Core PAT (-MI) margin (%)	8.9	3.0	8.0	5.0	(0.9)

**Earnings Summary**

FYE June (RM mn')	FY17	FY18	FY19F	FY20F	FY21F
Revenue	1,126.9	1,304.5	1,435.3	1,490.8	1,666.6
Other income	53.0	8.1	6.3	6.6	6.9
Operating expenses	(1,060.9)	(1,136.7)	(1,227.2)	(1,272.3)	(1,416.5)
Finance Cost	(11.1)	(14.0)	(18.2)	(19.0)	(21.2)
PBT	107.9	161.9	196.3	206.1	235.8
Taxation	(37.6)	(51.8)	(66.7)	(70.1)	(80.2)
Net profit (-MI)	67.2	106.7	129.6	136.0	155.7
EPS (sen)	10.0	15.9	19.3	20.3	23.2
EPS Growth (%)	(53.3)	58.7	21.5	5.0	14.4
PER (x)	32.4	20.4	16.8	16.0	14.0
Dividend (sen)	5.5	8.0	8.1	8.1	9.3
Div Yield (%)	1.7	2.5	2.5	2.5	2.9

**Stock Recommendation Guideline**

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, November 02, 2018, the analyst, Tan Kam Meng, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**KaladherGovindan – Head of Research**

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