30 May 2018

Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Still on the right path

Supermax (SUCB) continued to report a very solid set of numbers. 9MFY18 PATAMI of RM97.2m (+57% yoy) is within our expectation but surprised consensus on the upside, constituting 75% and 79% of our respective 2018E forecasts. Similar to its peers, margin was negatively impacted by higher costs in 3QFY18, but these have been subsequently passed on. We are maintaining our BUY call with a higher TP of RM3.90 based on a 19x CY19E PER. SUCB also announced a second interim DPS of 3sen, for 9MFY18 of 6sen (3Q17: 2.5sen; 9M17: 5sen).

Some time lag in cost pass-through

The lower EBITDA margin at 17.5% in 3Q (20.5% in 2Q) led to a 7% qoq decline in PATAMI for 3QFY18. Similar to its peers, the margin for the quarter was negatively impacted by both the strengthening of the Ringgit and the higher natural-gas tariff. Nevertheless, management has indicated that they have managed to pass on the higher cost in subsequent months. We believe that Supermax will continue to benefit from the robust demand from the conversion of vinyl glove users to latex or nitrile.

Rebuilding continues

Apart from the investment into its new contact-lens manufacturing business, management is still investing in the core rubber glove operations. The net incremental capacity growth might not be significant in 2018, as SUCB is in the process of tearing down its older, inefficient lines and replacing them with more-efficient ones. Nevertheless, there is still earnings growth, due to the cost savings from the newer lines. The total capacity growth will increase by 17% post the completion of the rebuilding exercise in 2019.

Higher TP of RM3.90, maintain BUY

Given that the results are in line with our expectations, we are keeping our EPS forecasts unchanged; however, we are raising our TP to RM3.90 (from RM3.50) based on a 19x PER (up from 18x) now on CY19E EPS (from CY18E), still at a discount to the long-term industry average of 20x. We believe a stronger earnings growth in 4QFY18 would serve as a re-rating catalyst for the stock.

Earnings & Valuation Summary

FYE 31 June	2016*	2017	2018E	2019E	2020E
Revenue (RMm)	1,092.2	1,126.6	1,333.7	1,357.2	1,468.7
EBITDA (RMm)	196.8	148.5	216.5	224.4	250.9
Pretax profit (RMm)	162.8	110.4	174.8	182.7	209.1
PATAMI (RMm)	103.1	70.2	130.1	136.0	155.8
EPS (sen)	15.5	10.5	19.5	20.4	23.3
PER (x)	20.9	30.7	16.6	15.9	13.8
Core net profit (RMm)	103.1	70.2	130.1	136.0	155.8
Core EPS (sen)	15.5	10.5	19.5	20.4	23.3
Core EPS growth (%)	(18.7)	(31.9)	85.4	4.5	14.6
Core PER (x)	20.9	30.7	16.6	15.9	13.8
Net DPS (sen)	6.1	4.4	9.0	9.5	10.0
Dividend Yield (%)	1.9	1.4	2.8	3.0	3.1
EV/EBITDA (x)	11.6	16.5	11.5	11.0	9.8
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.0	1.0

 # Rebased to June-end for comparison purpose
Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Supermax

SUCB MK
Sector: Rubber Products

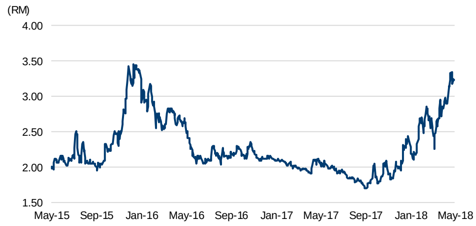
RM 3.23 @ 28 May 2018

BUY (maintain)

Upside: 21%

Price Target: RM 3.90

Previous Target: RM 3.50



Price Performance

	1M	3M	12M
Absolute	14.1%	23.3%	55.3%
Rel to KLCI	19.8%	28.9%	55.0%

Stock Data

Issued shares (m)	655.7
Mkt cap (RMm)/(US$m)	2137.4/532
Avg daily vol - 6mth (m)	4.3
52-wk range (RM)	1.69-3.38
Est free float	57.6%
BV per share (RM)	1.64
P/BV (x)	1.97
Net cash/ (debt) (RMm)	(249.30)
ROE (2018E)	11.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sim	21.2%
Tan Bee Geok	15.7%

Source: Affin Hwang, Bloomberg

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Risks to our call

Downside risks: i) Stronger RM/US$; ii) Higher-than-expected production costs.

Fig 1: Results Comparison

FYE June (RM m)	3Q FY17	2Q FY18	3Q FY18	QoQ % chg	YoY % chg	9M FY17	9M FY18	YoY % chg	Comments
Revenue	**308.2**	**335.9**	**327.1**	(2.6)	6.1	**814.0**	**975.0**	19.8	Strengthening of RM caused the decline qoq
Op costs	(276.9)	(267.1)	(269.7)	1.0	(2.6)	(712.7)	(794.7)	11.5	
EBITDA	**31.3**	**68.8**	**57.4**	(16.7)	83.1	**101.3**	**180.3**	78.1	
EBITDA margin (%)	*10.2*	*20.5*	*17.5*	*-3.0ppt*	*+7.4ppt*	*12.4*	*18.5*	*+6.1ppt*	Margin contracted qoq, due to higher costs
Depn and amort	(11.2)	(8.4)	(10.0)	19.3	(11.4)	(28.7)	(30.4)	5.8	
EBIT	20.1	60.5	47.4	(21.7)	136.0	72.6	150.0	106.7	
EBIT margin (%)	*6.5*	*18.0*	*14.5*	*-3.5ppt*	*+8.0ppt*	*8.9*	*15.4*	*+6.5ppt*	Flow through from EBITDA
Int expense	(3.0)	(3.3)	(3.3)	(0.2)	11.3	(7.4)	(10.0)	35.4	
JV & Associates	3.8	0.5	1.4	196.1	(63.6)	9.2	3.7	(59.3)	
Pretax profit	**20.9**	**57.6**	**45.5**	(21.1)	117.5	**74.4**	**143.7**	93.3	
Tax	(1.6)	(20.3)	(11.4)	(44.1)	608.0	(13.1)	(44.3)	236.7	
Tax rate (%)	*7.7*	*35.3*	*25.0*	*-10.3ppt*	*+17.3ppt*	*25.2*	*30.9*	*+5.7ppt*	Effective tax rate is lower qoq, mainly due to timing issues
MI	0.5	(1.4)	(0.7)	(48.8)	(253.8)	0.6	(2.3)	(461.7)	
Net profit	**19.8**	**35.9**	**33.4**	(7.0)	69.0	**61.9**	**97.2**	57.1	
EPS (sen)	3.0	5.4	5.0	(7.0)	69.0	9.3	14.6	57.1	
Core net profit	**19.8**	**35.9**	**33.4**	(7.0)	69.0	**61.9**	**97.2**	57.1	Within our expectation but above consensus

Source: Affin Hwang, Company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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