Continue to deliver

Supermax (SUCB) continued to report a relatively good set of results, as 1HYF19 core-PATAMI of RM69.6m (+9.1%) tracked within consensus and our expectation, delivering around 52% and 54% of our respective forecast. The 21% qoq profit growth was due to contribution from the newly commissioned replacement lines from its Perak plant. We believe that SUCB is still currently on track to deliver a stronger set of earnings in line with our expectations. Reiterate BUY with an unchanged TP of RM2.30.

Growth continues with capacity expansion

Both growth in sales volume and the weaker RM was the main contributor to the 4.9% qoq growth in revenue for 2QFY19. We believe earnings for 2HFY19 will remain robust, as Supermax will reap the full benefits of the newly refurbished lines. As the new lines are also more efficient, apart from revenue growth, we believe the margin improvement is sustainable. The improvement in EBITDA margin (+1.9ppt qoq) based on reported numbers are not substantial, negated by A&P cost related to contact lens operation.

Contact Lens is yet to become profitable

We believe that the contract lens business is yet to become profitable, and it will take SUCB at least 2-3 years before it can achieve break-even. The losses mainly arise from the spending of A&P, which is needed to break into new markets. However, management has previously guided that they will not overspend on A&P to prevent the dilution of gains from the glove operation. Currently, they have allocated c. RM15m/year for A&P for the contact lens business.

Reiterate BUY with an unchanged TP of RM2.30

We make no changes to our earnings forecast, and reiterate our BUY call with TP of RM2.30 based on 21x CY19E PER. We believe the continued improvement will help to gain investor confidence in management execution capability. SUCB continues to be our preferred pick in the sector and country.

Risks to our call

Downside risks: i) Sharp spike in the volatility in RM/US$; ii) Higher-than-expected production costs.

Earnings & Valuation Summary

FYE 30 June	2017	2018	2019E	2020E	2021E
Revenue (RMm)	1,126.9	1,304.5	1,357.2	1,468.7	1,469.6
EBITDA (RMm)	146.5	216.4	221.7	247.9	268.5
Pretax profit (RMm)	107.9	167.2	180.9	207.1	227.8
Net profit (RMm)	67.2	107.0	134.7	154.3	169.9
EPS (sen)	5.1	8.2	10.3	11.8	13.0
PER (x)	31.2	19.6	15.6	13.6	12.4
Core net profit (RMm)	67.2	107.0	134.7	154.3	169.9
Core EPS (sen)	5.1	8.2	10.3	11.8	13.0
Core EPS growth (%)	(34.8)	59.2	25.8	14.6	10.0
Core PER (x)	31.2	19.6	15.6	13.6	12.4
Net DPS (sen)	2.8	11.0	4.8	5.0	5.5
Dividend Yield (%)	1.7	6.9	3.0	3.1	3.5
EV/EBITDA (x)	16.3	11.0	11.3	10.0	9.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Supermax

SUCB MK
Sector: Rubber Product

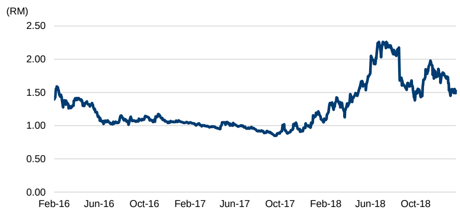
RM1.60 @ 12 February 2019

BUY (maintain)

Upside: 43%

Price Target: RM2.30

Previous Target: RM2.30



Price Performance

	1M	3M	12M
Absolute	3.2%	-10.1%	47.5%
Rel to KLCI	3.0%	-9.6%	59.9%

Stock Data

Issued shares (m)	1,311.3
Mkt cap (RMm)/(US$m)	2098.1/514.7
Avg daily vol - 6mth (m)	9.2
52-wk range (RM)	1.08-2.31
Est free float	60.2%
BV per share (RM)	0.80
P/BV (x)	2.00
Net cash/ (debt) (RMm)	(281.64)
ROE (2019E)	11.9%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sin	21.2%
Tan Bee Geok	15.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 30 June (RMm)	2Q FY18	1Q FY19	2Q FY19	Qoq % chg	Yoy % chg	1HFY18	1HFY19	Yoy % chg	Comments
Revenue	**335.9**	**367.1**	**385.1**	4.9	14.6	647.9	752.2	16.1	1HFY19 growth is driven by the increase in sales volume and weaker RM
Op costs	(267.1)	(305.7)	(315.3)	2.6	18.1	(524.9)	(622.7)	18.6	
EBITDA	**68.8**	**61.3**	**69.8**	16.9	1.3	123.0	129.4	5.2	
EBITDA margin (%)	*20.5*	*16.3*	*18.1*	+1.9ppt	(2.4ppt)	*19.0*	*17.2*	(1.8ppt)	Margin improvement in 2QFY19 is due to contribution from the new lines
Depn and amort	(8.4)	(10.4)	(11.3)	8.3	34.8	(20.4)	(21.6)	6.1	
EBIT	60.5	49.3	58.5	18.7	(3.3)	102.6	107.8	5.1	
EBIT margin (%)	*18.0*	*13.4*	*15.2*	+1.8ppt	(2.8ppt)	*15.8*	*14.3*	(1.5ppt)	
Int expense	(3.3)	(4.6)	(4.7)	0.8	40.0	(6.6)	(9.3)	39.5	
JV & Associates	0.5	1.5	0.5	(68.4)	1.5	2.3	2.0	(16.0)	
EI	-	6.5	-	NA	NA	-	6.5	NA	
Pretax profit	**57.6**	**52.7**	**54.3**	3.1	(5.8)	**98.3**	**107.0**	8.9	
Tax	(20.3)	(16.7)	(15.6)	(6.6)	(23.3)	(32.9)	(32.3)	(1.8)	
Tax rate (%)	*35.3*	*31.7*	*28.7*	(3.0ppt)	(6.6ppt)	*34.9*	*33.6*	(1.3ppt)	
MI	(1.4)	(0.0)	(0.6)	2,066.7	(58.1)	(1.6)	(0.6)	(61.5)	
Net profit	**35.9**	**35.9**	**38.1**	6.1	6.2	**63.8**	**74.1**	16.1	
EPS (sen)	2.7	5.5	2.9	6.1	6.2	4.9	5.6	16.1	
Core net profit	**35.9**	**31.5**	**38.1**	21.1	6.2	**63.8**	**69.6**	9.1	Within our and consensus expectations.

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

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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