

15 May 2019 | 3QFY19 Results Review

## Supermax Corporation Berhad

*9MFY19 earnings supported by a higher sales volume*

**Maintain BUY**

**Revised Target Price (TP): RM1.74**  
(Previously RM1.79)

### INVESTMENT HIGHLIGHTS

- **9MFY19 earnings grew by +14.9%yoy to RM108.7m, due to higher sales volume from the newly commissioned lines**
- **Lower quantum of compression in profit margin as compare to most peers**
- **Annual production capacity to increase by 35.0% to 29.4b pieces per annum by the end of 2020**
- **Maintain BUY with a revised TP of RM1.74 per share**

**9MFY19 earnings rose by +14.9%yoy to RM108.7m.** Supermax's 3QFY19 earnings came in at RM34.6m. This brings its cumulative 9MFY19 earnings to RM108.7m (+11.8%yoy) which lagged our but exceed consensus' expectation, accounting for 68.0% and 82.0% of our and consensus' full year FY19 earnings estimates respectively. The group's earnings was supported by the increase in annual production capacity. However, overall earnings was partly dragged particularly in the 3QFY19 partly from the upward revision of gas tariff and minimum wage from January 2019 onwards.

**Earnings were supported higher sales volume.** The 9MFY19 earnings rose by +11.8%yoy to RM1,108.7m. This is as a result of: (i) increased output from Plant 10 and Plant 11 in Klang which was fully commenced in the 2HFY18 (added capacity of 5.6b pieces pa) and; (ii) commissioning of replacement lines at Kamunting Raya plant (capacity of 1.35b pieces pa). The higher sales volume mitigated the impact from the: (i) increase in energy cost; (ii) minimum wage and; (iii) stronger Ringgit during the quarter.


**Commencement of a new plant in 2019.** The first phase of its new 12<sup>th</sup> plant in Meru, Klang is on schedule for completion in the 3QCY19. This plant will be equipped with new high-speed and highly automated production lines. Coupled with the group's ongoing project to replace existing lines at older plants, the expansion plan will boost Supermax's production capacity by +7.6b pieces per annum to 29.4b pieces per annum by the end of CY20. No dividend was declared during the quarter in order to fund this expansion plan.

**Impact to earnings.** We are adjusting our earnings forecasts downwards for FY19F and FY20F to RM126.0m and RM149.4m respectively as we expect a slight compression in profit margin due to current subdued average selling price.

| RETURN STATS                      |               |
|-----------------------------------|---------------|
| Price (14 <sup>th</sup> May 2019) | RM1.48        |
| Target Price                      | RM1.74        |
| Expected Share Price Return       | +17.6%        |
| Expected Dividend Yield           | +2.4%         |
| <b>Expected Total Return</b>      | <b>+20.0%</b> |

| STOCK INFO             |                         |
|------------------------|-------------------------|
| KLCI                   | 1,599.19                |
| Bursa / Bloomberg      | 7106 / SUCB MK          |
| Board / Sector         | Main / Trading Services |
| Syariah Compliant      | YES                     |
| Issued shares (mil)    | 1311.31                 |
| Market cap. (RM'm)     | 1,940.74                |
| Price over NA          | 1.80                    |
| 52-wk price Range      | RM1.30 – RM2.30         |
| Beta (against KLCI)    | 0.95                    |
| 3-mth Avg Daily Vol    | 4.58m                   |
| 3-mth Avg Daily Value  | RM7.02m                 |
| Major Shareholders (%) |                         |
| Kim Sim Thai           | 21.21                   |
| Bee Geok Tan           | 15.70                   |
| Dimensional Fund       | 2.76                    |

**Target Price.** We are revising our target price to **RM1.74** per share (previously RM1.79). Our TP is derived via pegging our FY20F EPS of 10.9sen to a revised target PER of 16x (previously 14x), which is its five-year historical average PER.

**Maintain BUY.** Premised on the strong 9MFY19 financial performance, we expect earnings growth will continue to be sustained going forward. We are positive on the group's effort to: (i) rebuild and replace old production facilities aimed at extracting higher production output from existing locations and; (ii) add new capacity via building new plant. At the end of CY20 and post-completion of all upgrading works and building of new plants, Supermax is expected to have an annual capacity of 29.4b pieces per annum. This translates to an increase on Supermax's production capacity by +35.0% (from CY18 capacity of 21.8b pieces per annum). Consequently, we believe that this will sustain the group's earning trajectory going forward. All in, we are maintaining our recommendation to **BUY** on the stock. 

**Table 1: Supermax's quarterly earnings review**

| FYE June (RM'm)                         | Quarterly results |              |              |              | Cumulative results |                |              |              |
|---|-------------------|--------------|--------------|--------------|--------------------|----------------|--------------|--------------|
|   | 3QFY19            | 2QFY19       | 3QFY18       | YoY (%)      | QoQ (%)            | 9MFY19         | 9MFY18       | YoY (%)      |
| <b>Revenue</b>                          | <b>361.2</b>      | <b>385.1</b> | <b>327.1</b> | 10.4         | (6.2)              | <b>1,113.4</b> | <b>975.0</b> | 14.2         |
| Operating expenses                      | (308.9)           | (326.6)      | (279.7)      | 10.5         | (5.4)              | (946.8)        | (825.0)      | 14.8         |
| Finance costs                           | (4.5)             | (4.7)        | (3.3)        | 36.7         | (2.6)              | (13.8)         | (10.0)       | 38.6         |
| Share of profit of associated companies | 1.7               | 0.5          | 1.4          | 21.4         | 254.1              | 3.6            | 3.7          | (2.2)        |
| <b>Profit Before Tax</b>                | <b>49.4</b>       | <b>54.3</b>  | <b>45.5</b>  | 8.7          | (9.0)              | <b>156.4</b>   | <b>143.7</b> | 8.8          |
| Taxation                                | (14.5)            | (15.6)       | (11.4)       | 27.2         | (7.3)              | (46.8)         | (44.3)       | 5.6          |
| <b>Profit After Tax</b>                 | <b>35.0</b>       | <b>38.7</b>  | <b>34.1</b>  | 2.6          | (9.7)              | <b>109.7</b>   | <b>99.5</b>  | 10.2         |
| Minority interest                       | 0.3               | 0.6          | 0.7          | (51.6)       | (40.9)             | 1.0            | 2.3          | (58.4)       |
| <b>PATAMI</b>                           | <b>34.6</b>       | <b>38.1</b>  | <b>33.4</b>  | 3.7          | (9.2)              | <b>108.7</b>   | <b>97.2</b>  | 11.8         |
| Basic EPS (sen)                         | 2.6               | 2.8          | 2.5          | 4.7          | (5.8)              | 8.3            | 7.3          | 12.9         |
| Dividend per share (sen)                | -                 | 1.5          | 3.0          | n.m          | n.m                | 1.5            | 6.0          | (75.0)       |
|   |                   |              |              | ( +/- ) ppts |                    |                |              | ( +/- ) ppts |
| PBT margin(%)                           | 13.7              | 14.1         | 13.9         | (0.2)        | 3.1                | 14.0           | 14.7         | (0.7)        |
| PAT margin (%)                          | 9.7               | 10.1         | 10.4         | (0.7)        | 3.9                | 9.8            | 10.2         | (0.4)        |
| PATAMI margin(%)                        | 9.6               | 9.9          | 10.2         | (0.6)        | 3.3                | 9.8            | 10.0         | (0.2)        |
| Effective Tax rate (%)                  | 29.2              | 28.7         | 25.0         | 4.2          | (1.8)              | 29.9           | 30.8         | (0.9)        |

Source: Company, MIDFR

## INVESTMENT STATISTICS

| FYE June (RM'm)        | FY2017         | FY2018         | FY2019F        | FY2020F        |
|------------------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>         | <b>1,126.9</b> | <b>1,304.5</b> | <b>1,462.0</b> | <b>1,767.9</b> |
| <b>PBT</b>             | <b>107.9</b>   | <b>161.9</b>   | <b>180.0</b>   | <b>213.4</b>   |
| Taxation               | (37.6)         | (51.8)         | (54.0)         | (64.0)         |
| <b>PAT</b>             | <b>67.2</b>    | <b>106.7</b>   | <b>126.0</b>   | <b>149.4</b>   |
| PBT Margin (%)         | 9.6            | 12.4           | 12.3           | 12.1           |
| PAT Margin (%)         | 6.0            | 8.2            | 8.6            | 8.5            |
| EPS (sen)              | 4.9            | 7.8            | 9.3            | 11.0           |
| EPS Growth (%)         | (53.3)         | 58.7           | 18.1           | 18.6           |
| PER (x)                | 29.8           | 18.7           | 15.9           | 13.4           |
| Dividend (sen)         | 2.8            | 4.0            | 3.0            | 3.5            |
| Dividend yield (%)     | 1.9            | 2.7            | 2.0            | 2.4            |
| Effective tax rate (%) | 34.9           | 32.0           | 30.0           | 30.0           |

Source: Company, MIDFR

## DAILY PRICE CHART



Nabil Zainoodin, CFA, CA  
 nabil.zainoodin@midf.com.my  
 03-2772 1663

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

## 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. |