Still positive but lowering expectation

Supermax's (SUCB) reported a FY19 core PATAMI of RM119.3m (+12% yoy) that fell short of both the consensus and our forecast, delivering only 90% and 88% of the respective forecasts. The miss was due to weak 4QFY19 results, in which core PATAMI contracted by 56% qoq to RM15.1m. The margin compression during 4QFY19 was due to a sharp spike in raw material costs. As such, we lowered our EPS forecasts for FY20-21 by 10% and cut our 12-month TP to RM1.90, but maintain our BUY call.

Growth strategy remains unchanged

Despite the hiccups in 4QFY19, management commented that it is continuing with the capacity expansion, as Plant #12 is in the midst of completion and expected to start contributing by year-end. The recently acquired land in Meru, Klang would be used to build 3 plants (#13, #14, #15) which management hopes will grow SUCB's capacity by 60% to 44bn/pcs over the next 5 years. However, we have taken a more conservative approach, as we are forecasting a net incremental capacity at a 7-9% CAGR for the next 3 years. We believe some of the new lines will be used to replace older and less efficient production lines.

Similar problem across the industry

Management mentioned that the margin contraction during the quarter was due to the increase in raw material costs, as latex prices were up by 23% qoq in 4QFY19. We believe that some of the main challenges limiting the glove makers' ability to raise their selling price are the value perception of latex gloves and nitrile gloves, overcapacity in the latex glove space and the time lag in price setting. We believe that other glove makers with high exposure in the latex glove segment are facing similar problems. We expect the ASP of latex glove to be revised up gradually in the coming months to compensate for the higher cost.

Maintain BUY with a lower TP of RM1.90

We lower our FY20E-21E EPS by 10% to factor in lower margins, and cut our TP to RM1.90 based on a lower PER target of 18x (previous: 21x) as we now see milder growth, on the CY20E EPS (rolled forward from FY20E). Nonetheless, we keep our BUY rating on the 28% upside potential and 12% yoy earnings growth for FY2020E. Downside risks: i) sharp spike in the volatility of the RM/US$; and ii) higher-than-expected production costs.

Earnings & Valuation Summary

FYE 30 June	2018	2019	2020E	2021E	2022E
Revenue (RMm)	1,304.5	1,489.3	1,618.3	1,706.0	2,030.4
EBITDA (RMm)	210.6	230.6	234.4	253.8	272.9
Pretax profit (RMm)	161.9	172.6	194.5	213.9	233.3
Net profit (RMm)	106.7	123.8	139.0	153.0	168.5
EPS (sen)	7.8	9.1	10.2	11.2	12.4
PER (x)	19.0	16.4	14.6	13.2	12.0
Core net profit (RMm)	106.7	123.8	139.0	153.0	168.5
Core EPS (sen)	7.8	9.1	10.2	11.2	12.4
Core EPS growth (%)	58.7	16.0	12.3	10.1	10.1
Core PER (x)	19.0	16.4	14.6	13.2	12.0
Net DPS (sen)	3.9	4.5	4.6	5.1	5.6
Dividend Yield (%)	2.6	3.0	3.1	3.4	3.7
EV/EBITDA (x)	11.0	9.7	10.6	9.8	9.3
Chg in EPS (%)			-10	-10	New
Affin/Consensus (x)			0.9	0.9	-

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Supermax

SUCB MK
Sector: Rubber Product

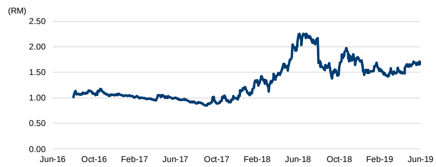
RM1.49 @ 30 Aug 2019

BUY (maintain)

Upside: 28%

Price Target: RM1.90

Previous Target: RM2.30



Price Performance

	1M	3M	12M
Absolute	-9.1%	-9.1%	-11.3%
Rel to KLCI	-7.4%	-7.8%	0.1%

Stock Data

Issued shares (m)	1,306.3
Mkt cap	1946.4/462.2
Avg daily vol - 6mth (m)	4.3
52-wk range (RM)	1.3-2.05
Est free float	60.0%
BV per share (RM)	0.83
P/BV (x)	1.79
Net cash/(debt) (RMm)	(263.36)
ROE (2020E)	11.5%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sin	21.3%
Tan Bee Geok	15.8%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 30 June (RMm)	4Q FY18	3Q FY19	4Q FY19	Qoq % chg	Yoy % chg	12M FY18	12M FY19	Yoy % chg	Comments
Revenue	329.5	361.2	376.0	4.1	14.1	1,304.5	1,489.3	14.2	The qoq increase in 4Q19 was partly due to the strengthening of the USD against the MYR
Op costs	(299.2)	(298.6)	(344.0)	15.2	15.0	(1,134.6)	(1,265.3)	11.5	The significant increase in cost in 4Q19 was due to the sharp appreciation in latex cost
EBITDA	30.3	62.6	32.0	(49.0)	5.6	210.6	224.1	6.4	
EBITDA margin (%)	*9.2*	*17.3*	*8.5*	*(8.8ppt)*	*(0.7ppt)*	*16.1*	*15.0*	*(1.1ppt)*	
Depn and amort	(10.4)	(10.4)	(11.6)	12.2	11.8	(40.8)	(43.6)	7.0	
EBIT	19.9	52.3	20.4	(61.1)	2.3	169.9	180.4	6.2	
EBIT margin (%)	*6.0*	*14.5*	*5.4*	*(9.1ppt)*	*(0.6ppt)*	*13.0*	*12.1*	*(0.9ppt)*	
Int expense	(4.0)	(4.5)	(5.9)	30.2	47.1	(14.0)	(19.7)	41.0	
JV & Associates	2.3	1.7	1.8	4.9	(22.6)	6.0	5.4	(9.9)	
EI	-	-	-	n.m	n.m	-	6.5	n.m	
Pretax profit	**18.2**	**49.4**	**16.2**	(67.2)	(10.8)	**161.9**	**172.6**	6.6	
Tax	(7.5)	(14.5)	(2.2)	(84.8)	(70.7)	(51.8)	(49.0)	(5.4)	
Tax rate (%)	*41.3*	*29.2*	*13.5*	*(15.7ppt)*	*(27.7ppt)*	*33.5*	*30.2*	*(3.3ppt)*	Normalisation of tax rate in 4QFY19 has helped offset some of the decline in PBT
MI	(1.2)	(0.3)	1.1	(404.9)	(189.2)	(3.5)	0.1	(102.8)	
Net profit	**9.5**	**34.6**	**15.1**	(56.5)	59.0	**106.7**	**123.8**	16.0	
EPS (sen)	0.7	2.6	1.1	(56.5)	59.0	8.1	9.4	16.0	
Core net profit	**9.5**	**34.6**	**15.1**	(56.5)	59.0	**106.7**	**119.3**	11.9	Below our and consensus estimates

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Outthink. Outperform.

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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