Back on track

Supermax (SUCB) reported a relatively good set of results, as 1QFY19 core-PATAMI of RM31.5m (+13% yoy) is within both consensus and our expectation, delivering around 24% and 23% of our respective forecast. The strong headline PATAMI of RM35.9m (+28.8% yoy) was mainly due to a one-off gain of RM6.5m arising from an insurance claim. As we believe that SUCB is still currently on track to deliver based on our expectation, we are maintaining our BUY call and TP of RM4.60.

YoY growth due to new capacity

Although the strong yoy EBITDA growth of 10.2% was due to commissioning of new capacity in 2QFY18, we believe that SUCB would still be able to achieve yoy profit growth in 2QFY19E as there was incremental capacity growth of around 3-5% or 1.35bn gloves from the rebuilt plant in Perak, which was only fully operational by end-September 2018. We believe that the new plant will not only generate revenue growth, but also some margin expansion as the new plant is more efficient than the previous ones. Overall capacity target remains unchanged at 29bn/pcs in mid-2020 from the current 24bn/pcs.

Positive progress on its contact lens division

SUCB has shipped the first batch of contact lenses to Japan in August, and also launch its brand, Aveo locally in Malaysia. While management has not disclosed the financials for the contact lens division, we believe the segment is still operating at a loss due to the advertising and marketing expenses incurred to expand into new markets. We are expecting the new business division to only break-even by FY2022, but the losses are still manageable and would not significantly dilute the profit growth of the glove business.

Reiterate BUY with an unchanged TP of RM 4.60

We believe the latest reported numbers by SUCB would help ease investor concern on management execution capability after the relatively weak 4QFY18 set of results. We reiterate our BUY call on the stock with a TP of RM4.60 based on 21x CY19E EPS.

Earnings & Valuation Summary

FYE 30 Jun	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)	10.2	16.3	20.5	23.5	25.9
PER (x)	31.6	19.9	15.8	13.8	12.5
Core net profit (RMm)	67.2	107.0	134.7	154.3	169.9
Core EPS (sen)	10.2	16.3	20.5	23.5	25.9
Core EPS growth (%)	(34.8)	59.2	25.8	14.6	10.0
Core PER (x)	31.6	19.9	15.8	13.8	12.5
Net DPS (sen)	5.6	11.0	9.6	10.1	11.1
Dividend Yield (%)	1.7	3.4	3.0	3.1	3.4
EV/EBITDA (x)	16.5	11.1	11.4	10.2	9.2
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomber

Results Note

Supermax

SUCB MK
Sector: Rubber Products

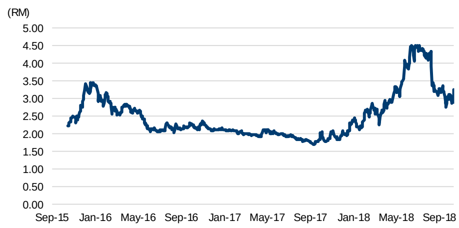
RM 3.24 @ 24 October 2018

BUY (maintain)

Upside: 42%

Price Target: RM 4.60

Previous Target: RM 4.60



Price Performance

	1M	3M	12M
Absolute	-3.6%	-26.5%	82.0%
Rel to KLCI	1.3%	-23.0%	86.0%

Stock Data

Issued shares (m)	655.7
Mkt cap (RMm)/(US$m)	2124.3/508.4
Avg daily vol - 6mth (m)	4.4
52-wk range (RM)	1.77-4.61
Est free float	57.6%
BV per share (RM)	1.61
P/BV (x)	2.02
Net cash/ (debt) (RMm)	(274.75)
ROE (2019E)	4.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sin	21.2%
Tan Bee Geok	15.7%

Source: Affin Hwang, Bloomberg

Ng Chi Hoong
(603) 2146 7470
chihoong.ng@affinhwang.com

Risks to our call

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

Fig 1: Results Comparison

FYE June (RM m)	1Q FY18	4Q FY18	1Q FY19	QoQ % chg	YoY % chg	Comments
Revenue	**312.0**	**329.5**	**367.1**	11.4	17.6	Stronger sales driven by higher volume and favorable currency movement
Op costs	(257.9)	(293.4)	(305.7)	4.2	19.2	Higher cost due to the increase in nitrile cost
EBITDA	**54.1**	**36.0**	**61.3**	65.6	10.2	
EBITDA margin (%)	*17.4*	*10.9*	*16.3*	+5.3ppt	(1.1ppt)	Margin contracted yoy, due to higher costs
Depn and amort	(12.1)	(10.4)	(10.4)	(0.0)	(13.8)	
EBIT	**42.1**	**25.7**	49.3	92.2	17.1	
EBIT margin (%)	*13.5*	*7.8*	*13.4*	+5.6ppt	(0.1ppt)	Flow through from EBITDA
Int expense	(3.3)	(4.0)	(4.6)	15.1	39.0	
JV & Associates	1.9	1.8	1.5	(17.0)	(20.4)	
EI			6.5			
Pretax profit	**40.7**	**23.4**	**52.7**	124.7	29.6	
Tax	(12.6)	(12.0)	(16.7)	39.7	33.0	
Tax rate (%)	*30.9*	*51.0*	*31.7*	(19.3ppt)	+0.8ppt	Effective tax rate is lower qoq, mainly due to timing issues
MI	(0.2)	(1.6)	(0.0)	(98.4)	(86.0)	
Net profit	**27.9**	**9.8**	**35.9**	265.2	28.8	
EPS (sen)	4.3	1.5	5.5	265.2	28.8	
Core net profit	**27.9**	**9.8**	**31.5**	220.1	12.9	Within both ours and 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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com