midf RESEARCH

30 May 2018 | 3QFY18 Results Review

Supermax Corporation Berhad

Contribution from Plant 10 & 11 boosted revenue

***Downgrade to* NEUTRAL**
(Previously BUY)
***Revised* Target Price (TP): RM3.31**
(Previously RM3.09)

INVESTMENT HIGHLIGHTS

- **3QFY18 earnings within expectations**
- **Newly commissioned production lines boosted revenue**
- **FY18-19F earnings forecasts revised up by +5.6% and +7.3%**
- **Downgrade to NEUTRAL with a revised TP of RM3.31 per share**

Within expectations. Supermax's 3QFY18 earnings came in at RM33.4m. This brings its 9MFY18 earnings to RM97.2m which is within our and consensus' expectations, accounting for 79% of our and street's full year earnings estimates respectively. During the quarter, revenue and PATAMI surged by +6.1% and +69.0% year-over-year respectively. Meanwhile, on a quarterly sequential basis, revenue declined marginally by -2.6% while PATAMI declined by -7.0%. An interim dividend of 3.0sen was also declared for the quarter under review which brings the YTD DPS to 6.0sen. This translates to an annualised yield of 2.5% to Monday's closing price.

Newly commissioned production lines boosted revenue. Supermax's revenue saw an increase year-over-year due to: (i) higher average selling prices (ASPs); (ii) higher output rising from revamp work on its older production lines and; (iii) increased output from newly commissioned production lines from Plant 10 and Plant 11 in Klang. In addition, earnings climbed by 69.0%yoy in 3QFY18 due to improved demand which is partly due to higher demand. In addition, from our channel checks, higher demand has been coming from countries such as those in Eastern Europe, which are currently in the midst of upgrading their healthcare quality as a result of increase in healthcare awareness. Due to that, PATAMI margin has also improved to 10.2% from 6.4% in 3QFY17. However, revenue and earnings were lower on a quarter-over-quarter basis due to the lag effect in transferring the +23% increase in natural gas tariff earlier this year to its customers.

FY18-19F earnings forecasts revised up by +5.6% and +7.3%. We are revising our earnings forecasts for FY18-19F up by +5.6% and +7.3% respectively as we revise our utilisation rate assumption higher. Key risks to our earnings would most likely be: (i) sudden surge in raw materials price; (ii) strong appreciation of Ringgit and; (iii) production line breakdowns.

RETURN STATS	
Price (28 May 2018)	RM3.23
Target Price	RM3.31
Expected Share Price Return	+2.5%
Expected Dividend Yield	+1.9%
Expected Total Return	**+4.4%**

STOCK INFO	
KLCI	1,775.84
Bursa / Bloomberg	7106 / SUCB MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	655.65
Market cap. (RM'm)	2,117.76
Price over NA	1.97
52-wk price Range	RM1.69 – RM3.38
Beta (against KLCI)	0.65
3-mth Avg Daily Vol	4.03m
3-mth Avg Daily Value	RM11.1m
Major Shareholders (%)	
Kim Sim Thai	21.21
Bee Geok Tan	15.70
FMR LLC	4.91

Downgrade to NEUTRAL with a revised Target Price (TP) of RM3.31. Post-earnings revision we are downgrading our recommendation on Supermax to **NEUTRAL** (from Buy previously) with a revised TP of **RM3.31** per share (from RM3.09 previously). Our TP is derived via pegging our FY19F EPS of 23.7sen to an unchanged PER19 of 14x, which is its 5-year average PER.

Going forward, we opine that the continued strong demand for rubber gloves will bode well for the company. Additionally, we are positive on the fact that management has finally rolled out the remaining production lines that were stalled due to utility issue as this will add additional capacity to cater to the strong demand for gloves. However, we have downgraded our recommendation as we have factored in all the positives at this juncture.

Table 1: Supermax's quarterly earnings review

FYE June (RM'm)	Quarterly results					Cummulative results		
	3QFY17	**2QFY18**	**3QFY18**	**QoQ (%)**	**YoY (%)**	**9MFY17**	**9MFY18**	**YoY (%)**
Revenue	**308.2**	**335.9**	**327.1**	(2.6)	6.1	**814.0**	**975.0**	19.8
Operating expenses	(288.1)	(275.4)	(279.7)	1.5	(2.9)	(741.4)	(825.0)	11.3
Finance costs	(3.0)	(3.3)	(3.3)	(0.2)	11.3	(7.4)	(10.0)	35.4
Share of profit of associated companies	3.8	0.5	1.4	196.1	(63.6)	9.2	3.7	(59.3)
Profit Before Tax	**20.9**	**57.6**	**45.5**	(21.1)	117.5	**74.4**	**143.7**	93.3
Taxation	(1.6)	(20.3)	(11.4)	(44.1)	>100	(13.1)	(44.3)	236.7
Profit After Tax	**19.3**	**37.3**	**34.1**	(8.6)	76.7	**61.2**	**99.5**	62.5
Minority interest	(0.5)	1.4	0.7	(48.8)	>-100	(0.6)	2.3	>-100
PATAMI	**19.8**	**35.9**	**33.4**	(7.0)	69.0	**61.9**	**97.2**	57.1
Basic EPS (sen)	2.9	5.4	5.1	(6.7)	71.7	9.2	14.7	59.7
Dividend per share (sen)	2.5	3.0	3.0	-	20.0	2.5	6.0	>100
				(+/-) ppts				*(+/-) ppts*
PBT margin(%)	6.8	17.2	13.9	(3.3)	7.1	9.1	14.7	5.6
PAT margin (%)	6.3	11.1	10.4	(0.7)	4.2	7.5	10.2	2.7
PATAMI margin(%)	6.4	10.7	10.2	(0.5)	3.8	7.6	10.0	2.4
Tax rate (%)	7.7	35.3	25.0	(10.3)	17.3	17.7	30.8	13.1

Source: Company, MIDFR

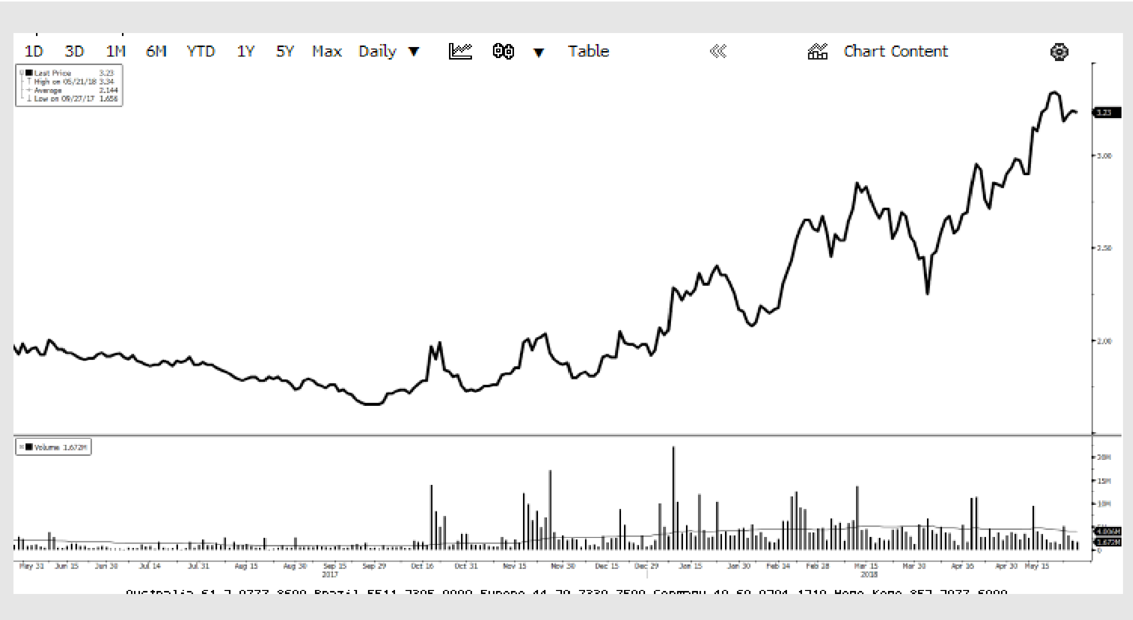
INVESTMENT STATISTICS

FYE June (RM'm)	FY2014*	FY2016 (18M)	FY2017	FY2018F	FY2019F
Revenue	**1,004.4**	**1,544.7**	**1,126.6**	**1,502.2**	**1,718.5**
Cost of goods sold	(812.5)	(1,326.6)	(1,016.8)	(1,328.7)	(1,503.5)
Gross profit	**191.8**	**218.1**	**109.7**	**173.5**	**215.1**
Finance costs	(8.2)	(13.6)	(11.0)	(12.3)	(11.8)
Profit before tax	**128.3**	**220.6**	**110.4**	**171.1**	**211.7**
Income tax expense	(33.1)	(67.1)	(37.1)	(41.1)	(50.8)
Net Profit (RM'm)	**95.2**	**153.5**	**73.3**	**130.1**	**160.9**
PBT Margin (%)	12.8	14.3	9.8	11.4	12.3
Net Profit Margin (%)	9.5	9.9	6.5	8.7	9.4
EPS (sen)	14.1	25.8	10.5	19.1	23.7
EPS Growth (%)	(20.1)	83.0	(59.3)	82.1	23.7
PER (x)	22.9	14.3	31.3	16.9	13.7
Dividend (sen)	5.0	8.0	5.5	6.0	6.0
Dividend yield (%)	2.3	3.6	2.5	1.9	1.9
Tax rate (%)	25.8	30.4	33.6	24.0	24.0

Source: Company, Forecasts by MIDFR

**FYE December*

DAILY PRICE CHART



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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 *rise* 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 *fall* 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.