

13 February 2019

## Supermax Corp (SUCB MK)

### Value Has Emerged, Upgrade To BUY

Consumer Non-cyclical | Rubber Products

**Buy** (from Neutral)

Target Price (Return)	MYR1.85 (+16%)
Price:	MYR1.60
Market Cap:	USD534m
Avg Daily Turnover (MYR/USD)	11.6m/2.9m

- **Upgrade to BUY with unchanged DCF-derived TP of MYR1.85, 16% upside plus 2% FY19F yield.** Our TP implies 2019 forward P/E of 16.5x, in line with the stock's average forward P/E over the past five years. Supermax's 1HFY19 (Jun) core NP of MYR68m (+28% YoY) was in line, reaching 56% of our and 52% of Street FY19 estimates.
- **Core NP surged 28% YoY due to higher sales volume.** Excluding the one-off MYR6.5m insurance claim for consequential loss due to fire at its plant in 1QFY19, 1HFY19 core NP grew 28% YoY to MYR68m. This was helped by a 16% increase in revenue during 1HFY19, and lower effective tax rate of 30.2% (from 33.5% in 1HFY18). The lower effective tax rate was due to lower tax rates in foreign jurisdictions, and higher capital allowances claimed amid ongoing capacity expansion.
- **Earnings jumped 30% QoQ as Block G plant resumed operations with higher efficiency.** Supermax completed the Rebuilding & Replacement Programme for Block G plant in Kamunting Raya, Taiping in 4Q18. As this 1.02bn glove capacity plant has been idle for a year (due to upgrade), the recent completion has helped to boost 2QFY19 revenue by 5% to MYR385m.
- **Plans to expand capacity by 20% over the next two years.** This will be achieved mainly from the construction of Plant 12 in Klang (started in Jul 2018) with installed capacity of 4.4bn pieces pa. Expected completion date for Plant 12 is 3Q19 for Block A, and 1Q20 for Block B. Besides this, Supermax plans to replace old production facilities with more efficient lines.
- **Contact lens division launched its Aveo brand in Malaysia in Oct 2018.** We believe that losses at the contact lens division are likely to have narrowed in view of higher sales achieved, with breakeven expected in FY20.
- **Forecasts and risks.** No change to our earnings forecasts. Downside risks include industry overcapacity, currency, volatile raw material prices, and longer-than-expected gestation period for the contact lens division.
- **Upgrade to BUY.** Interim dividend of MYR0.015 was announced (ex-date: 18 Mar). We are upgrading the stock to BUY as we believe value has emerged after the 8% YTD share price pullback (against FBM KLCI's 0.1% decline) despite robust 2019 core NP growth estimated at 17% (against FBMKLCI's 3%). The company's net gearing has also declined to 25% in 2QFY19 (FY18: 28%).

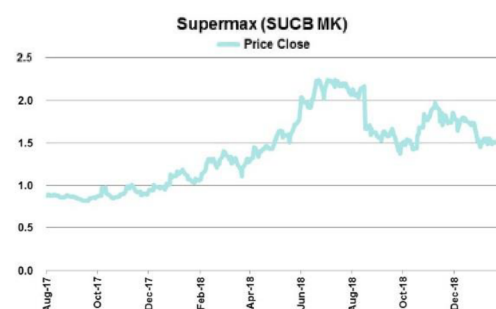
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.0)	3.2	(10.1)	(24.3)	47.5
Relative	(7.9)	3.0	(9.6)	(17.8)	55.3
52-wk Price low/high (MYR)				1.08 - 2.305	



Source: Bloomberg

Forecasts and Valuation	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (MYRm)	1,127	1,304	1,410	1,630	1,874
Recurring net profit (MYRm)	67	107	120	144	161
Recurring net profit growth	(33.3)	58.7	12.6	20.1	11.5
Recurring P/E (x)	32.4	20.4	18.1	15.1	13.5
P/BV (x)	2.0	2.1	2.1	2.1	2.1
P/CF (x)	18.0	12.3	14.0	8.2	7.5
Dividend Yield (%)	0.6	1.7	1.9	2.3	2.6
EV/EBITDA (x)	15.4	11.3	10.5	8.9	7.9
ROE (%)	6.3	10.5	11.4	13.7	15.2
Net debt to equity (%)	27.6	28.7	17.9	15.4	12.1
Interest coverage (x)	10.8	12.6	12.5	15.7	18.6

Source: Company data, RHB

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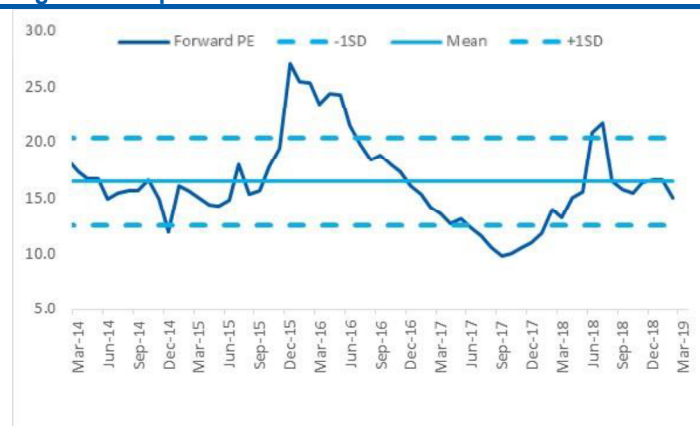
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Figure 1: Results snapshot

FYE June (MYRm)	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	6MFY18	6MFY19	YoY (%)	Comments
<b>Revenue</b>	<b>335.9</b>	<b>367.1</b>	<b>385.1</b>	<b>4.9</b>	<b>14.6</b>	<b>647.9</b>	<b>752.2</b>	<b>16.1</b>	Increased capacity output
<b>EBITDA</b>	<b>69.3</b>	<b>67.7</b>	<b>70.2</b>	<b>3.7</b>	<b>1.3</b>	<b>125.3</b>	<b>137.9</b>	<b>10.0</b>	
<i>EBITDA Margin (%)</i>	<i>20.6</i>	<i>18.4</i>	<i>18.2</i>			<i>19.3</i>	<i>18.3</i>		Higher competition
Depreciation	(8.4)	(10.4)	(11.3)	8.3	34.8	(20.4)	(21.6)	6.1	
<b>EBIT</b>	<b>61.0</b>	<b>57.3</b>	<b>59.0</b>	<b>2.9</b>	<b>(3.3)</b>	<b>104.9</b>	<b>116.3</b>	<b>10.8</b>	
<i>EBIT Margin (%)</i>	<i>18.1</i>	<i>15.6</i>	<i>15.3</i>			<i>16.2</i>	<i>15.5</i>		
Interest expense	(3.3)	(4.6)	(4.7)	0.8	40.0	(6.6)	(9.3)	39.5	
<b>Pretax profit</b>	<b>57.6</b>	<b>52.7</b>	<b>54.3</b>	<b>3.1</b>	<b>(5.8)</b>	<b>98.3</b>	<b>107.0</b>	<b>8.9</b>	
<i>Pretax Margin (%)</i>	<i>17.2</i>	<i>14.4</i>	<i>14.1</i>			<i>15.2</i>	<i>14.2</i>		
Tax	(20.3)	(16.7)	(15.6)	(6.6)	(23.3)	(32.9)	(32.3)	(1.8)	
<i>Effective tax rate (%)</i>	<i>35.3</i>	<i>31.7</i>	<i>28.7</i>			<i>33.5</i>	<i>30.2</i>		
Minority Interest	1.4	0.0	0.6	nm	nm	1.6	0.6	n.m	
<b>Net Profit</b>	<b>35.9</b>	<b>35.9</b>	<b>38.1</b>	<b>6.1</b>	<b>6.2</b>	<b>52.8</b>	<b>74.1</b>	<b>40.2</b>	Within expectations
<i>Net Margin (%)</i>	<i>10.7</i>	<i>9.8</i>	<i>9.9</i>			<i>8.2</i>	<i>9.8</i>		
<b>Core Net Profit</b>	<b>35.9</b>	<b>29.4</b>	<b>38.1</b>	<b>29.5</b>	<b>6.2</b>	<b>52.8</b>	<b>67.6</b>	<b>27.9</b>	Excludes MYR6.5m insurance claim
<i>Core Net Margin (%)</i>	<i>10.7</i>	<i>8.0</i>	<i>9.9</i>			<i>8.2</i>	<i>9.0</i>		

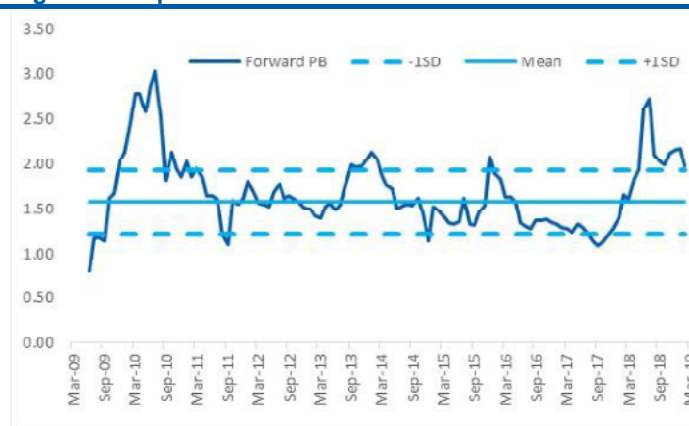
Source: Company data, RHB

Figure 2: Supermax's forward P/E chart



Source: Bloomberg, RHB

Figure 3: Supermax's forward P/BV chart



Source: Bloomberg, RHB

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Figure 4: DCF valuation

FYE 30 Jun (MYR m)	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal
Net income	120.1	144.3	160.9	169.2	173.9	189.0	207.7	211.5	229.4	250.3	
+ share issuance proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ D&A	72.1	80.2	90.6	98.1	103.5	109.5	117.1	119.7	126.0	135.0	
- Δ in net working capital	22.7	44.3	49.4	63.8	70.1	82.8	96.9	101.1	109.8	122.4	
- capital expenditure	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	
+ long term debt	49.3	17.7	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)	
+ others	4.3	8.9	9.9	(0.6)	(9.2)	(7.2)	(7.4)	(10.8)	(9.9)	(10.8)	
<b>Free cash flow to equity (FCFE)</b>	<b>118.5</b>	<b>145.3</b>	<b>153.5</b>	<b>173.2</b>	<b>181.0</b>	<b>216.7</b>	<b>257.0</b>	<b>264.2</b>	<b>297.9</b>	<b>339.7</b>	<b>4,001.8</b>
Discount factor	0.899	0.809	0.727	0.654	0.588	0.529	0.476	0.428	0.385	0.346	0.346
PV of FCFE	106.5	117.5	111.7	113.3	106.5	114.6	122.2	113.0	114.6	117.5	1,384.2
Risk-free	4.0%										
Beta	1.2										
Equity Risk Premium	6.0%										
CoE	11.2%										
Terminal growth	2.0%										
Number of shares	1,360.31										
<b>Fair Value (MYR)</b>	<b>1.85</b>										
Current Price (MYR)	1.60										
Upside/Downside	16%										

Source: RHB

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