Results Review | Supermax | Equity

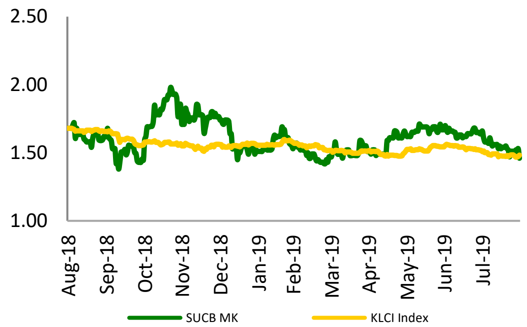
Supermax (SUCB MK) — Inline — BUY

Share Price	**RM1.49**
Target Price	**RM1.80** **+20.8%**

Earnings growth achieved through efficient production

- **Overview.** 4QFY19 PATMI increased 58.9% yoy to RM15.1m on the back of low base in 4QFY18, higher gloves sales and lower effective tax rate. On qoq basis, PATMI declined 56.5% due to sharp rise in NR latex prices (+23%) and greater competition in certain markets.
- **Key highlights.** Replacement and rebuilding programme of Supermax older plants, as well as construction of latest plant 12 allowed it to capitalize on continued global glove demand. Additionally, revenue was supported by current weak ringgit. In respect of contact lens business, Supermax acquisition of Clayton Dynamics Co. Ltd provides the group with strategic access to Japan's cosmetic lens market, which is one of the world's largest.
- **Against estimates: Inline.** FY19 net profit grew 16% yoy. The result was in-line with our estimates at 96% but trailed consensus at 94%.
- **Outlook.** Supermax's long term outlook in our view, is positive on expected strong global demand supported by capacity expansion c.25% to 27bn pcs pa by FY20 (refer table 2) and current weak ringgit. The group also has greater flexibility and stability with its balanced product mix (NBR: 52%, NR: 48%). Its cost remains manageable with profit margin expected to be stable at c.8-9% level underpinned by lower NBR raw material prices, ongoing cost efficiency efforts and automation, based on our estimates.
- **Our call.** Our earnings forecast remains unchanged. BUY call with TP of RM1.80 based on unchanged 17x PER pegged on FY20 EPS.

Price Chart (RM)



Share Performance (%)	**1m**	**3m**	**12m**
Absolute	(12.0)	(9.9)	(11.7)
vs FBM KLCI	(8.9)	(9.2)	(1.5)

Stock Data	
Mkt Cap (RM)	1,907.2
Free float (%)	60.7
Issued shares (m)	1,306.3
52w H/L (RM)	2.05/ 1.30
3m avg daily volume (m)	3,521,783

Major Shareholders (%)	
Thai Kim Sim	21.3
Tan Bee Geok	15.8
DimensionalFund	2.3

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Table 1: Quarterly figures

Supermax Bhd	Quarterly			Change (%)		Cumulative			BIMB	
FYE 31 June (RM m)	4Q18	3Q19	4Q19	QoQ	YoY	FY18	FY19	%	2019F	12M/F
Revenue	**329.5**	**361.2**	**376.0**	**4.1%**	**14.1%**	**1304.5**	**1489.3**	**14.2%**	**1,472.5**	**101.1%**
EBITDA	30.3	62.6	32.1	-48.8%	5.8%	210.6	224.1	6.4%	253.5	88.4%
EBIT	19.9	52.2	20.4	-60.9%	2.7%	169.9	180.4	6.2%	208.7	86.4%
Pretax profit	18.2	49.4	16.2	-67.2%	-10.8%	161.9	172.6	6.6%	190.0	90.9%
Taxation	(7.5)	(14.5)	(2.2)	-84.8%	-70.7%	(51.8)	(49.0)	-5.4%	(57.4)	85.3%
Minority Interest	-1.2	-0.3	1.1	-404.9%	+>100%	-3.5	0.1	-102.8%	-4.1	-2.4%
PATMI	**9.5**	**34.6**	**15.1**	**-56.5%**	**58.9%**	**106.7**	**123.8**	**16.0%**	**128.5**	**96.3%**
EPS (sen)	0.7	2.7	1.2	-56.5%	58.9%	8.2	9.5	16.0%	9.8	96.3%
Net gearing (x)	0.3	0.2	0.2			0.3	0.2		0.3	
EBITDA margin (%)	9.2%	17.3%	8.5%			16.1%	15.0%		17.2%	
EBIT margin (%)	6.0%	14.5%	5.4%			13.0%	12.1%		14.2%	
PBT margin (%)	5.5%	13.7%	4.3%			12.4%	11.6%		12.9%	
Core PATMI margin (%)	2.9%	9.6%	4.0%			8.2%	8.3%		8.7%	
Effective tax rate (%)	41.3%	29.2%	13.5%			32.0%	28.4%		30.2%	

Source: BIMB Securities, Company

Table 2: Supermax expansion plans summary (2018-2024)

	Installed Annual Capacity as of 31.12.2017 (Million pcs/lines)	New Expansion (Million pcs/ Lines)	Installed Annual Capacity as of 31.12.2018 (Million pcs/ Lines)	New Expansion (Million pcs/ Lines)	Installed Annual Capacity as of 31.12.2020 (Million pcs/ Lines)	New Expansion (Million pcs/ Lines)	Installed Annual Capacity as of 31.12.2024 (Million pcs/ Lines)
SUPERMAX GROUP	23,394 (197)		21,751 (174)		27,365 (214)		44,058 (334)
Capacity lost from:							
- removal of old lines		-1,020 (10)		-1,230 (12)		-1,927 (18)	
- decommissioning of Lahat plant		-1,973 (25)					
Added capacity from:							
- new replacement lines							
- new additional lines from Plant #12 (6061)		+1,350 (12)		+2,420 (20)			
- new additional lines from Plant #13, #14, #15 (6072 & 6073)				+4,424 (32)		+13,272 (96)	
- new additional lines from Block F						+2,030 (18)	
- New replacement lines at Blocks D&E						+3.318 (24)	
Total	**23,394 (197)**	**-1,643 (23)**	**21,751 (174)**	**+5,614 (40)**	**27,365 (214)**	**+16,693 (120)**	**44,058 (334)**

Source: Company, BIMB Securities

Table 3: Supermax timelines & capex amount

Project	Capex (RM million)	Target Completion Date
Upgrading, Rebuilding & Replacing Old Lines		
- Lot 38, Sg Buloh	70.0	2HCY20
- Kamunting Raya, Taiping, Block F	75.0	1HCY21
- Block D & E	180.0	2HCY21
New capacity expansion		
- Plant #12 (Lot 6061)		
• Block A (including all infrastructure works)	130.0	3QCY19
• Block B (production machineries only)	65.0	1QCY20
- Acquisition cost for property at Lots 6072 & 6073	65.0	
- Less Rental Income (Estimated monthly rental of RM250k x 12)	(3.0)	
- Plant #13 (Lots 6072 & 6073)	180.0	3QCY21
- Plant #14 (Lots 6072 & 6073)	185.0	4QCY22
- Plant #15 (Lots 6072 & 6073)	185.0	1QCY24
Total	**RM1,132m**	

Source: Company, BIMB Securities

Table 4: Earnings forecast

FYE June (RMm)	FY17	FY18	*FY19E	FY20F	FY21F
Turnover	1,126.9	1,304.5	1,489.3	1,613.3	1,769.2
EBITDA	149.0	211.7	224.1	283.7	311.2
EBIT	107.7	169.9	180.4	232.6	255.2
Pretax Profit	107.9	161.9	172.6	207.9	230.5
PATMI	**67.2**	**106.7**	**123.8**	**140.6**	**155.9**
Consensus NP				147.6	166.7
EPS (sen)	5.1	8.2	9.5	10.8	11.9
PER (x)	29.0	18.2	15.7	13.8	12.5
DPS (sen)	3.0	4.0	4.0	5.0	5.5
D. Yield (%)	2.0%	2.7%	2.7%	3.4%	3.7%
Key Ratios (%)					
ROE	6.4%	10.3%	11.0%	12.6%	13.0%
EBITDA margin	13.2%	16.2%	15.0%	17.6%	17.6%
Pretax margin	9.6%	12.4%	11.6%	12.9%	13.0%
PATMI margin	6.0%	8.2%	8.3%	8.7%	8.8%

Source: Bloomberg, BIMB Securities
**Full year unaudited*

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Printed and published by

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