

Supermax (SUCB MK)

Consumer Non-cyclical - Rubber Products

Market Cap: USD521m

Buy (Maintained)

Target Price: MYR4.50

Price: MYR3.39

Ready, Set And Go

Macro	◆◆◆
Risks	◆◆
Growth	◆◆
Value	◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	21.8m/5.04m				
Cons. Upside (%)	-20.6				
Upside (%)	32.7				
52-wk Price low/high (MYR)	1.90 - 3.45				
Free float (%)	53				
Share outstanding (m)	671				
Shareholders (%)					
Dato' Seri Stanley Thai	20.4				
Datin Seri Cheryl Tan	15.1				
Employee Provident Fund	5.3				
Share Performance (%)					
	YTD	1m	3m	6m	12m
Absolute	4.6	9.7	62.2	62.2	82.3
Relative	8.3	10.6	67.4	67.9	89.4

Shariah compliant
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We came away from Supermax's briefing feeling more confident about the company's prospects – in particular, it would be accelerating its glove and contact lens capacity expansion, which would supercharge earnings growth in the next five years. Maintain BUY with an upgraded MYR4.50 TP (from MYR3.84, 33% upside).

- ◆ **Plants 10 & 11 update.** We are pleased to note that eight out of the 20 lines in both plants are operational. Management has said it aims to commission the remaining 12 by end FY16 (Jun), which would add a total of 6bn nitrile gloves capacity. Subsequently, the product mix would improve to 55%/45% nitrile/latex (FY15: 39%/61%) respectively.
- ◆ **Glove City next.** On the back of robust global glove demand where local manufacturers have gained larger market share, management unveiled the revamped Glove City project at Bukit Kapar where it intends to add 31.7bn gloves capacity by FY20 (1QFY16: 20bn). The project would entail four factories, where each new factory is to be built upon the completion of a previous facility to ease oversupply fears. Management is confident that it can avoid similar delays that plagued Plants 10 & 11, as it has secured all infrastructure approvals related to the project.
- ◆ **Future vision.** Supermax also shed light on the progress of its contact lens venture Supervision Optimax SB. Current production capacity is at 3.5m pieces of lenses pa, with a target of reaching 40m pieces pa by 2QFY17. Management also expressed confidence in breaking into this market, leveraging on self-developed patents and more efficient process designs, with an aim for this division to contribute to group topline and bottomline by end FY17.
- ◆ **Maintain BUY.** We remain excited on Supermax's prospects. We believe Glove City's expansion plans would supercharge earnings growth over the next five years. Consequently, we upgrade our FY16-18 earnings by 7-13% respectively. Maintain BUY with an updated MYR4.50 TP (8% CoE, 2% TG), with an implied 20.1x 2016F P/E. Supermax remains the most attractive proposition in the rubber glove sector, from both P/E and PEG metrics (Figure 2), where we opine that the stock would narrow the 37% valuation discount to the sector average. The key downside risk would be the de-rating of the sector driven by liquidity, should investors switch out of non-cyclical stocks on signs of abating market uncertainty. Supermax is our sector Top Pick.

Forecasts and Valuations	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover (MYRm)	1,026	1,092	1,185	1,406	1,557
Reported net profit (MYRm)	108	117	140	162	190
Recurring net profit (MYRm)	108	117	140	162	190
Recurring net profit growth (%)	na	9.0	19.2	16.0	17.3
Recurring EPS (MYR)	0.16	0.17	0.21	0.24	0.28
DPS (MYR)	0.05	0.06	0.06	0.07	0.08
Recurring P/E (x)	21.4	19.6	16.5	14.2	12.1
P/B (x)	2.50	2.33	2.15	1.94	1.75
P/CF (x)	16.9	15.3	15.1	11.0	8.5
Dividend Yield (%)	1.5	1.6	1.8	2.1	2.5
EV/EBITDA (x)	15.0	13.6	11.9	9.6	7.8
Return on average equity (%)	0.0	12.4	13.9	14.4	15.2
Net debt to equity (%)	20.4	20.6	15.6	10.6	2.4
Our vs consensus EPS (adjusted) (%)		75.7	3.6	19.9	25.6

Source: Company data, RHB

Figure 1: Supermax's DCF valuation

FYE Jun (MYR m)	FY17F	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	Terminal
Net income	162.3	190.4	229.8	267.3	293.0	310.9	291.6	289.3	289.2	288.1	
+ 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	38.1	44.5	52.9	61.9	70.8	79.5	82.9	85.6	88.0	90.3	
- Δ in net working capital	(9.9)	(26.1)	(29.2)	(40.3)	(64.8)	(66.1)	(23.0)	(5.0)	(22.3)	(25.0)	
- capital expenditure	(136.7)	(140.0)	(191.1)	(202.5)	(202.5)	(195.9)	(79.0)	(56.2)	(50.0)	(50.0)	
+ long term debt	(13.8)	(13.8)	(0.8)	(13.8)	(13.8)	(13.8)	(13.8)	(13.8)	(13.8)	(13.8)	
+ others	9.7	4.5	9.3	9.4	8.7	7.9	(5.2)	(14.4)	(13.8)	(13.9)	
Free cash flow to equity (FCFE)	49.8	59.5	71.0	81.9	91.5	122.5	253.5	285.5	277.2	275.7	4,449.6
Discount factor	0.961	0.887	0.819	0.756	0.698	0.644	0.595	0.549	0.507	0.468	0.468
PV of FCFE	47.8	52.8	58.1	61.9	63.9	78.9	150.8	156.8	140.5	129.0	2,082.5

Risk-free	4.3%
Beta	0.6
Equity risk premium	6.7%
Cost of equity	8.3%
Terminal growth	2.0%
Number of shares	671.30
TP (MYR)	4.50
Current price (MYR)	3.39
Upside/downside	32.7%

Source: RHB

Figure 2: Peer group valuation

	Price	Mkt cap (MYRm)	1-yr fwd P/E	3-yr fwd EPS CAGR (%)	PEG ratio
Hartalega	5.90	9,681.3	28.2	29.7	1.0
Kossan	9.00	5,755.2	24.4	17.2	1.4
Riverstone	2.40	2,705.8	20.4	20.9	1.0
Supermax	3.39	2,275.6	14.1	23.5	0.6
Top Glove	13.90	8,680.4	20.5	19.9	1.0
Average			22.4	22.5	1.0

Source: RHB

Figure 3: Sensitivity analysis

MYR/Share

COE		Terminal growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
7.3%		4.84	5.14	5.51	5.95	6.49
7.8%		4.42	4.67	4.96	5.31	5.73
8.3%		4.05	4.26	4.50	4.79	5.12
8.8%		3.74	3.91	4.11	4.35	4.62
9.3%		3.46	3.61	3.78	3.97	4.20

Source: RHB

Figure 4: USD sensitivity analysis

USD/MYR		Earnings (MYR mil)	
FY17	FY18	FY17	FY18
4.10	4.00	159.09	186.62
4.20	4.10	160.71	188.53
4.30	4.20	162.33	190.45
4.40	4.30	163.96	192.36
4.50	4.40	165.58	194.28

Source: RHB

Figure 5: Update on Plants 10 & 11

Date	Update
31-Dec-15	8 double-former lines running
28-Feb-06	4 double-former lines to run by
30-Apr-16	4 double-former lines to run by
31-May-16	4 double-former lines to run by
Total capacity: 6bn gloves p.a (all nitrile)	

Source: Company data

Figure 6: Supermax's Bukit Kapar project

Expansion	Capacity (pa)	Timeline
Factory 1	8bn	Commission from 1QFY18 onwards
Factory 2	7.9bn	Commissioned by 2QFY20
Factory 3	7.9bn	Commissioned by 2QFY20
Factory 4	7.9bn	Commissioned by 2QFY20
Total	31.7bn	

Source: Company data

Figure 7: Supermax's revenue assumptions

FYE Jun (MYRm)	FY17F	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
<i>Capacity</i>										
Existing capacity	23,600	23,600	31,600	36,867	42,133	47,400	55,300	55,300	56,300	57,300
New capacity	0	8,000	5,267	5,267	5,267	7,900	0	1,000	1,000	1,000
YE capacity (m pcs)	23,600	31,600	36,867	42,133	47,400	55,300	55,300	56,300	57,300	58,300
Effective annual capacity (m pcs)	23,600	26,933	33,136	39,719	46,303	52,667	55,300	55,842	56,842	57,842
<i>Production</i>										
Utilisation (%)	82.0	81.0	80.8	80.5	80.3	80.0	79.8	79.5	79.3	79.0
Total production (m pcs)	19,352	21,816	26,757	31,974	37,158	42,133	44,102	44,394	45,047	45,695
<i>Production split (%)</i>										
Nitrile	54.5	66.0	70.9	74.5	77.4	80.6	80.9	81.3	81.6	81.9
Latex	45.5	34.0	29.1	25.5	22.6	19.4	19.1	18.7	18.4	18.1
<i>Production split (m pcs)</i>										
Nitrile	10,548	14,404	18,965	23,827	28,742	33,954	35,692	36,076	36,752	37,422
Latex	8,804	7,412	7,792	8,147	8,416	8,180	8,410	8,318	8,295	8,273
USD/MYR	4.30	4.20	4.06	3.93	3.81	3.69	3.57	3.45	3.34	3.24
Latex price (USD/kg)	1.19	1.24	1.29	1.34	1.39	1.45	1.51	1.57	1.63	1.70
Nitrile price (USD/kg)	1.02	1.04	1.06	1.08	1.10	1.12	1.14	1.16	1.19	1.21
<i>Revenue (MYRm)</i>										
Nitrile	815.6	1,075.6	1,376.1	1,679.8	1,968.6	2,259.1	2,318.3	2,310.4	2,320.1	2,328.4
Latex	590.5	481.0	492.4	501.4	504.4	477.5	480.6	470.0	463.5	457.1
Total revenue	1,406.1	1,556.6	1,868.6	2,181.2	2,473.0	2,736.6	2,798.9	2,780.4	2,783.7	2,785.5

Source: RHB

Figure 8: Supermax's cost assumptions

FYE Jun (MYRm)	FY17F	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
<i>Total cost</i>										
COGS	(1,099.9)	(1,205.3)	(1,445.2)	(1,689.3)	(1,929.3)	(2,153.8)	(2,239.0)	(2,225.5)	(2,229.3)	(2,233.3)
Distribution expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	(112.5)	(124.5)	(149.5)	(174.5)	(197.8)	(218.9)	(223.9)	(222.4)	(222.7)	(222.8)
<i>COGS summary</i>										
Direct material	65.1%	65.8%	65.4%	65.0%	64.5%	64.0%	63.5%	62.7%	62.0%	61.3%
Latex	22.0%	16.9%	14.7%	13.1%	11.8%	10.2%	10.2%	10.1%	10.0%	10.0%
Nitrile	27.0%	32.9%	35.1%	36.7%	37.9%	39.3%	39.2%	39.0%	38.7%	38.4%
Chemical	9.9%	9.7%	9.5%	9.3%	9.0%	8.8%	8.6%	8.3%	8.1%	7.9%
Packaging	6.3%	6.2%	6.1%	5.9%	5.8%	5.6%	5.5%	5.3%	5.2%	5.0%
Labour	9.9%	10.3%	10.6%	11.0%	11.4%	11.8%	12.2%	12.8%	13.4%	14.0%
Utilities	17.1%	15.6%	15.8%	15.9%	16.0%	16.1%	16.2%	16.3%	16.3%	16.3%
Gas	13.2%	11.6%	11.7%	11.8%	11.9%	12.0%	12.0%	12.1%	12.1%	12.1%
Electricity	3.9%	4.0%	4.1%	4.1%	4.1%	4.1%	4.2%	4.2%	4.2%	4.2%
Depreciation & amortisation	3.5%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.8%	3.9%	4.0%
Overhead/others	4.5%	4.5%	4.5%	4.5%	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%

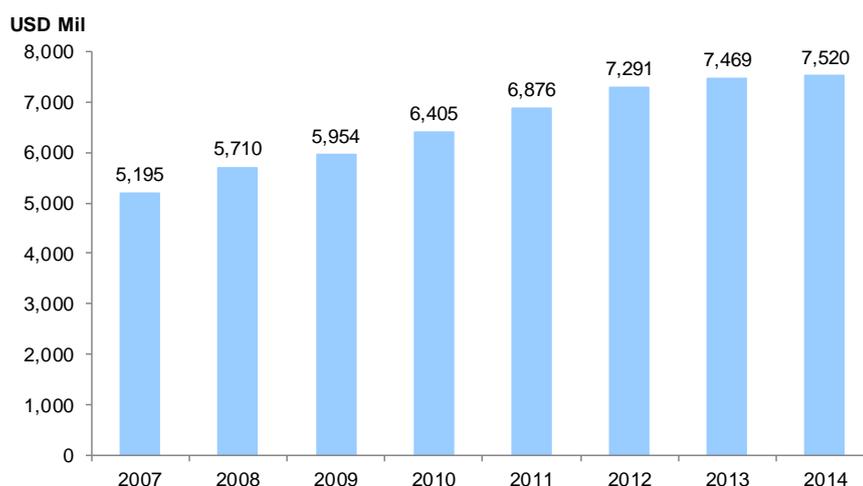
Source: RHB

Vision For The Future

We were impressed by our plant visit to Supervision Optimax SB, Supermax's contact lens operations. In particular, we note management's argument for the business (robust non-cyclical demand), competitive advantages (self-developed patents) as well as highly automated manufacturing processes. Although current operations are concentrated on the contact lens segment, we understand that Supermax has ambitions to add related eye care products to its products stable. We opine that, should the contact lens business succeed, it could be a welcome diversified revenue stream for the company.

Global contact lens sales exceeded USD7.5bn in 2014, according to *The Cooper Companies Financial Reports – Market Data by Contact Lens Institute* report, posting an 8-year CAGR of 8.75% (Figure 9).

Figure 9: Global contact lens sales value



Source: *The Cooper Companies Financial Reports - Market Data by Contact Lens Institute*

Although management did not divulge any financial projections, our search on global manufacturers such as CIBA Vision (a subsidiary of Novartis International AG) and CooperVision Inc (a subsidiary of The Cooper Companies Inc) has indicated that comparable optical solutions have a GPM of around 52-54%. Our earnings project for Supermax does not include potential contributions from Supervision Optimax.

Supermax has also shared that it intends to leverage its global distribution network to help develop its contact lens business. This could potentially open the door on a global distribution network revenue stream as the company monetises its existing network to distribute third-party products.

Financial Exhibits

Profit & Loss (MYRm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover	1,026	1,092	1,185	1,406	1,557
Cost of sales	(824)	(862)	(922)	(1,100)	(1,205)
Gross profit	203	230	263	306	351
Other operating costs	(78)	(87)	(95)	(112)	(125)
Operating profit	124	144	168	194	227
Operating EBITDA	152	169	190	232	271
Depreciation of fixed assets	(27)	(25)	(22)	(38)	(44)
Operating EBIT	124	144	168	194	227
Net income from investments	8	7	8	9	10
Other recurring income	13	11	12	14	15
Interest income	-	2	5	9	10
Interest expense	(8)	(8)	(8)	(11)	(10)
Pre-tax profit	138	156	185	215	252
Taxation	(31)	(39)	(44)	(52)	(60)
Minority interests	1	(0)	(1)	(1)	(1)
Profit after tax & minorities	108	117	140	162	190
Reported net profit	108	117	140	162	190
Recurring net profit	108	117	140	162	190

Source: Company data, RHB

Cash flow (MYRm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Operating profit	124	144	168	194	227
Depreciation & amortisation	27	25	22	38	44
Change in working capital	21	23	4	28	58
Other operating cash flow	(15)	(7)	-	-	-
Operating cash flow	158	184	194	260	330
Interest received	-	(2)	(5)	(9)	(10)
Interest paid	8	8	8	11	10
Tax paid	(29)	(39)	(44)	(52)	(60)
Cash flow from operations	136	151	152	210	270
Capex	(139)	(127)	(76)	(137)	(140)
Other investing cash flow	(0)	(0)	-	-	-
Cash flow from investing activities	(139)	(127)	(76)	(137)	(140)
Dividends paid	(34)	(44)	(54)	(50)	(60)
Increase in debt	35	30	32	(24)	(24)
Other financing cash flow	(2)	(3)	(1)	(1)	(1)
Cash flow from financing activities	(1)	(16)	(23)	(75)	(85)
Cash at beginning of period	145	155	132	233	250
Total cash generated	(4)	7	53	(1)	45
Forex effects	9	5	7	18	20
Implied cash at end of period	150	162	222	249	316

Source: Company data, RHB

Financial Exhibits

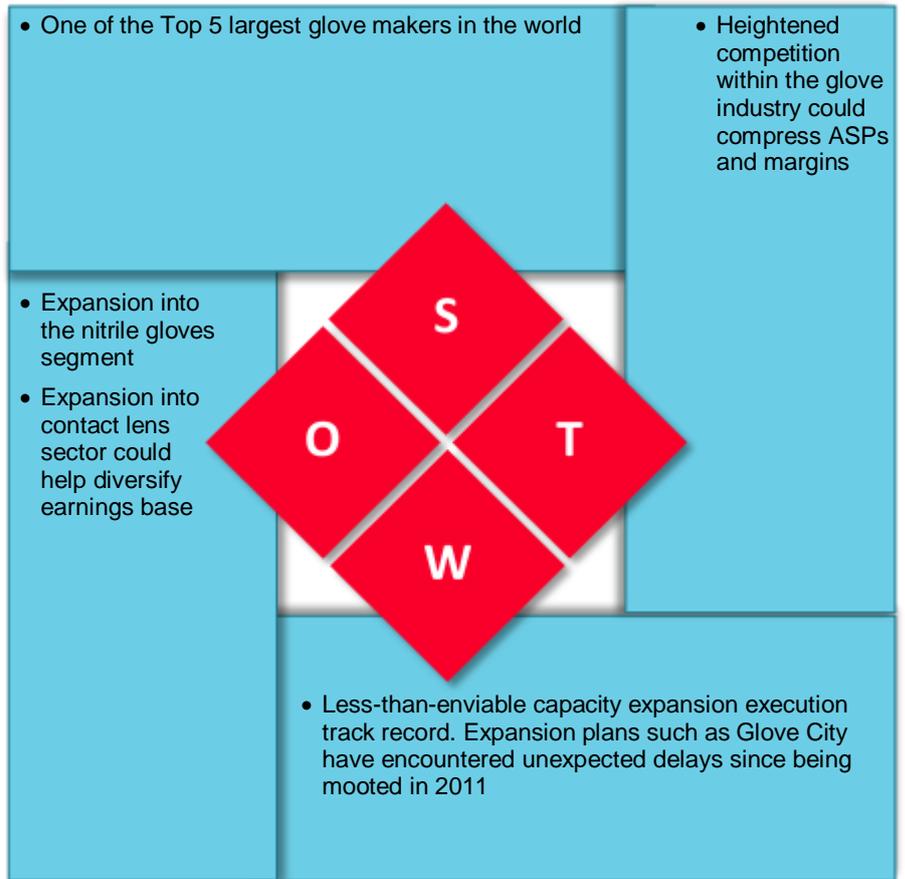
Balance Sheet (MYRm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total cash and equivalents	150	165	233	250	320
Inventories	172	164	189	196	198
Accounts receivable	155	181	180	223	213
Other current assets	98	89	89	89	89
Total current assets	576	599	690	759	820
Total investments	213	211	211	211	211
Tangible fixed assets	592	690	744	842	938
Intangible assets	29	29	29	29	29
Total other assets	11	16	17	21	22
Total non-current assets	845	946	1,000	1,103	1,200
Total assets	1,421	1,545	1,690	1,861	2,020
Short-term debt	201	203	196	186	175
Accounts payable	89	128	146	212	256
Other current liabilities	41	19	27	30	31
Total current liabilities	330	350	369	427	463
Total long-term debt	136	165	204	190	176
Other liabilities	33	44	46	60	66
Total non-current liabilities	170	209	250	250	242
Total liabilities	500	559	618	677	705
Share capital	340	340	340	340	340
Retained earnings reserve	641	714	800	913	1,044
Other reserves	(59)	(67)	(67)	(67)	(67)
Shareholders' equity	922	988	1,073	1,186	1,317
Minority interests	(1)	(1)	(1)	(2)	(2)
Other equity	0	(0)	0	0	0
Total equity	921	986	1,072	1,184	1,315
Total liabilities & equity	1,421	1,545	1,690	1,861	2,020

Source: Company data, RHB

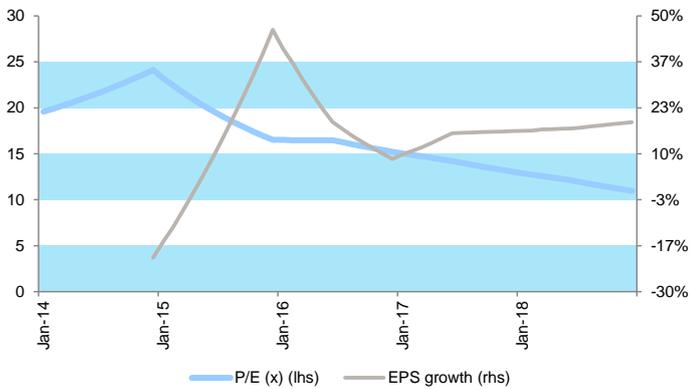
Key Ratios (MYR)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Revenue growth (%)	na	6.4	8.5	18.7	10.7
Operating profit growth (%)	na	15.5	17.1	15.1	17.1
Net profit growth (%)	na	9.0	19.2	16.0	17.3
EPS growth (%)	na	9.0	19.2	16.0	17.3
BVPS growth (%)	na	7.1	8.7	10.5	11.0
Operating margin (%)	12.1	13.2	14.2	13.8	14.6
Net profit margin (%)	10.5	10.8	11.8	11.5	12.2
Return on average assets (%)	0.0	8.0	8.8	9.1	9.8
Return on average equity (%)	0.0	12.4	13.9	14.4	15.2
Net debt to equity (%)	20.4	20.6	15.6	10.6	2.4
DPS	0.05	0.06	0.06	0.07	0.08
Recurrent cash flow per share	0.20	0.22	0.22	0.31	0.40

Source: Company data, RHB

SWOT Analysis

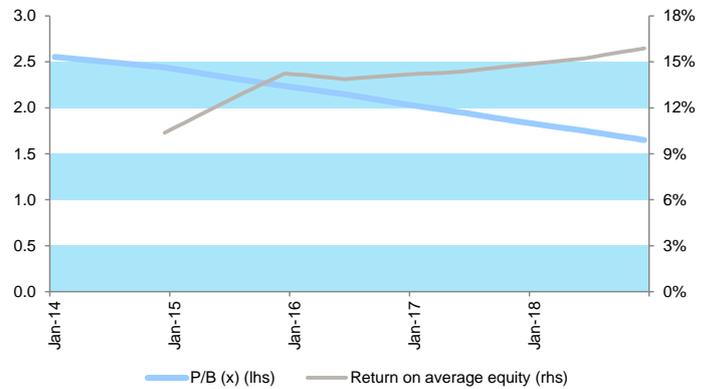


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Supermax is primarily involved in the manufacturing and distribution of medical gloves. It is among the Top 5 largest glove producers in the world.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-01-04	Buy	3.84	3.15
2015-11-27	Buy	3.34	2.50
2015-08-27	Neutral	2.14	2.13
2015-05-26	Neutral	2.11	1.96
2015-03-02	Neutral	2.19	2.05
2015-02-04	Neutral	2.19	2.23
2014-12-31	Buy	1.87	1.68
2014-11-10	Neutral	2.16	2.17
2014-08-27	Neutral	2.31	2.21
2014-05-30	Buy	2.68	2.40

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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