

30 May 2018

Supermax Corporation

9M18 Results Within Expectations

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9M18 net profit of RM97.2m (+57.1% YoY) came in within expectations at 78% each of our and consensus full-year net profit forecasts. Although we are positive on its plans to rebuild and replace old factories with new high efficient production lines, we are cautious on SUPERMX's production schedule punctuality given past protracted delays. Maintain UNDERPERFORM recommendation. TP is RM2.20 based on unchanged 12x FY19E EPS.

9M18 within expectations. 9M18 net profit of RM97.2m (+57.1% YoY) came in within expectations at 78% each of our and consensus full-year net profit forecasts. An interim DPS of 3.0 sen was declared, which is within our expectation.

Key Result Highlights. QoQ, 3Q18 revenue fell 2.6% to RM327m due to higher volume sales, but this was more than offset by lower ASPs. There was no guidance in terms of actual volume sales and ASPs growth in their results commentary. However, 3Q18 PBT fell steeper by 21% as PBT margin crimped by 3.3ppt to 13.9% from 17.2% in 2Q18 due to higher fuel cost namely natural gas (+22%). Typically, players faced a 1-2 months' time-lag in cost-pass-through arising from the increase in price of natural gas. However, due to a lower effective tax rate of 25% compared to 35.3% in 2Q18, 3Q18 PATAMI fell 7% to RM33.4m.

YoY, 9M18 PATAMI of RM97.2m (+57.1% YoY) was due to stronger revenue (+19.8%) underpinned by higher output achieved from refurbishment work, higher demand and better operational efficiencies. Profitability improved on efforts taken to improve efficiency and productivity, including the refurbishment of the older lines and streamlining of work processes. As a result, 9M18 PBT margin was higher by 5.6ppt to 14.7% from 9.1% in 9M17.

Outlook. Following the completion of plant 10 (2.2b pieces) and 11 (3.4b pieces) in end 2017, the group's installed capacity rose 30% to 23b pieces from 17.8b which is expected to drive growth in FY18 and FY19. In a bid to circumvent constant production delays due to water infrastructure issues, the group is undertaking a strategy focusing on rebuilding and replacement of old factories with new high efficiency production lines with speed up to 38k-40k (compared to 18k per line per hour) pieces of gloves per hour per line. The capacity plans outlined are; (i) decommission of old lines in Block G (Kamunting, Taiping) and replace them with new ones (expected to increase from 1.02b to 1.35b pieces per annum), (ii) convert unused warehouse in Block F (Kamunting, Taiping) (new capacity 2b pieces), (iii) decommissioned old lines at Sungai Buloh plant from 12 to 20 lines (capacity increase 97% to 2.4b pieces), and (iv) to build plant 12 behind the existing factory in Meru Klang, i.e. Plant 10 and 11. The estimated capex of RM300m is expected to be spread over FY18 and FY19 of which we have factored into our earnings model. Upon full commercial production in stages from 3Q 2018 till end 2H 2019, installed capacity will rise 16% to 27.2b pieces per annum.

Reiterate UNDERPERFORM. TP is RM2.20 based on unchanged 12x FY19E EPS (at +0.5 SD above its historical forward average). The group is traded at a steep discount of 30% compared to the sector average due to its weak earnings guidance and it trails behind peers in terms of capacity expansion and innovation.

Key upside risks to our call are faster-than-expected volume sales and lower-than-expected tax rate.

UNDERPERFORM ↔

Price : **RM3.23**
Target Price : **RM2.20** ↔

Share Price Performance



KLCI	1,775.84
YTD KLCI chg	-1.2%
YTD stock price chg	61.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	2,117.8
Shares Outstanding	655.7
52-week range (H)	3.38
52-week range (L)	1.69
3-mth avg daily vol:	4,034,990
Free Float	58%
Beta	0.7

Major Shareholders

Dato' Seri Stanley Thai	21.2%
Datin Seri Tan Bee Geok, Cheryl	15.7%
FMR LLC	4.9%

Summary Earnings Table

FY Jun (RM'm)	2017A	2018E	2019E
Turnover	1126.6	1340.2	1388.0
PBT	110.4	166.9	167.4
Net Profit (NP)	67.2	123.2	123.4
Consensus (NP)	-	123.9	137.1
Earnings Revision	-	-	-
EPS (sen)	10.5	18.1	18.1
EPS growth (%)	(53.4)	72.8	0.2
NDPS (sen)	5.5	6.0	6.0
BVPS (RM)	1.57	1.69	1.81
PER (X)	32.7	17.8	17.8
PBV (X)	2.1	1.9	1.8
Net Gearing (%)	23.0	31.1	30.9
Dividend Yield (%)	1.7	1.9	1.9

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Result Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Jun (RM 'm)	FY18	FY18	Chg %	FY17	Chg %	FY17	FY18	Chg %
Turnover	327.1	335.9	(2.6)	308.2	6.1	814.0	975.0	19.8
EBITDA	58.7	69.3	(15.3)	35.4	65.9	110.7	184.1	66.3
PBT	45.5	57.6	(21.1)	20.9	117.5	74.4	143.7	93.3
Net Profit (NP)	33.4	35.9	(7.0)	19.8	69.0	61.9	97.2	57.1
EPS (sen)	5.1	5.4	(6.6)	2.9	72.1	9.2	14.7	60.2
EBITDA margin (%)	18.0	20.6		11.5		13.6	18.9	
PBT margin (%)	13.9	17.2		6.8		9.1	14.7	
Effective tax rate (%)	25.0	35.3		7.7		17.7	30.8	

Source: Bursa Malaysia, Kenanga Research

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Peer Comparison

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
HARTALEGA HOLDINGS BHD	6.08	20139.4	45.8	43.2	38.6	1.2	20.7	8.9	439.4	466.8	521.3	6.2	11.7	5.00	Underperform
KOSSAN RUBBER INDUSTRIES	7.32	4680.9	25.5	22.4	21.5	1.6	16.3	3.6	183.9	209.0	218.0	13.6	4.3	6.85	Market Perform
SUPERMAX CORP BHD	3.23	2117.8	32.7	17.8	17.8	1.9	11.1	1.9	67.2	123.2	123.4	72.8	0.2	2.20	Underperform
TOP GLOVE CORP BHD	10.20	13030.2	39.2	29.0	26.8	1.4	19.1	5.5	332.7	448.6	486.3	34.8	8.4	9.40	Market Perform

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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