

Supermax Corporation Berhad **TP: RM1.73** (+16.3%)

Lacklustre 4QFY19

Last Traded: RM1.49

BUY

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Review

- Supermax's FY19 net profit of RM123.8mn (+16.0% YoY) came in within our expectations, but below consensus' - accounting for 95.6% and 94.4% of full-year forecast respectively.
- QoQ**, PBT fell by 67.2% to RM16.2mn, despite higher revenue of 4.1% to RM376.0mn. We attribute the weaker performance to: i) higher operating cost, ii) time lag in passing on the increase of natural latex price (+23%), iii) higher expenses from contact lens segment and iv) tougher competition as PBT margin contracted by 9.4p.p to 4.3%.
- YoY**, PBT grew 6.6% to RM172.6mn on the back of 14.2% growth in revenue to RM1.5bn. The satisfactory performance was due to higher sales volumes and lower tax rates.
- No dividend was declared for this quarter compared to a final dividend of 1.0sen per share in 4QFY18. According to management, the group has an internal dividend policy of 45%. Thus, we still expect the group to declare a final dividend of 3.0sen per share.

Impact

- We lower our FY20/FY21 earnings forecast by -1.2%/-1.0% after inputting FY19 numbers. We also introduce our FY22 earnings estimates of RM166.8mn.

Outlook

- We expect the group's 1QFY20 earnings to improve as production lead times remained healthy at circa-60 days. Moreover, natural latex price has dropped to RM4.31/kg (versus 4QFY19 latex average price of RM4.92/kg).
- On expansion plans, Supermax's annual production is expected to increase to 24.0bn pieces by end-2019 and 29.4bn pieces by end-2020 from estimated 21.5bn pieces currently.

Valuation

- Following the earnings adjustment, TP is lowered to RM1.73/share (from RM1.77/share) based on an unchanged PE multiple of 16.0x CY20 EPS. We upgrade Supermax to Buy from Hold as share price have dropped.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	1306.3
Market Cap (RMmn)	1,946.4
52-wk Hi/Lo (RM)	2.05/1.30
12-mth Avg Daily Vol ('000 shrs)	6,509.7
Estimated Free Float (%)	63.0
Beta	0.9
Major Shareholders (%)	
	Dato' Seri Stanley Thai - 37.1

Forecast Revision

	FY20	FY21
Forecast Revision (%)	(1.2)	(1.0)
Net profit (RMmn)	136.1	154.8
Consensus	147.6	166.7
TA's / Consensus (%)	92.2	92.9
Previous rating	Hold (Upgraded)	

Financial Indicators

	FY20	FY21
Net gearing (x)	0.3	0.3
P/CFPS (x)	21.1	10.9
ROAA (%)	7.3	7.6
ROAE (%)	12.2	13.0
NTA/Share (RM)	0.8	0.9
Price/ NTA (x)	1.8	1.6

Scorecard

	% of FY	
vs. TA	95.6	Within
vs. Consensus	94.4	Below

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	(5.7)	(0.9)
3 mth	(8.0)	(2.3)
6 mth	(5.1)	(5.2)
12 mth	(12.6)	(11.4)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

4QFY19 Results Analysis

FYE June (RM mn')	4QFY18	3QFY19	4QFY19	QoQ	YoY	FY18	FY19	YoY
Revenue	329.5	361.2	376.0	4.1	14.1	1,304.5	1,489.3	14.2
Operating expenses	(309.6)	(308.9)	(355.6)	15.1	14.9	(1,134.6)	(1,302.4)	14.8
EBITDA	33.6	64.3	33.7	(47.5)	0.3	217.7	236.0	8.4
Finance costs	(4.0)	(4.5)	(5.9)	30.2	47.1	(14.0)	(19.7)	41.0
Share of profit of associates	2.3	1.7	1.8	4.9	(22.6)	6.0	5.4	(9.9)
PBT	18.2	49.4	16.2	(67.2)	(10.8)	161.9	172.6	6.6
Taxation	(7.5)	(14.5)	(2.2)	(84.8)	(70.7)	(51.8)	(49.0)	(5.4)
PAT(-MI)	9.5	34.6	15.1	(56.5)	59.0	106.7	123.8	16.0
EPS (sen)	0.7	2.6	1.2	(56.4)	59.7	8.1	9.4	16.7
DPS (sen)	1.0	0.0	0.0	nm	(100.0)	4.0	1.5	(62.5)
				PP	PP			PP
EBITDA margin (%)	10.2	17.8	9.0	(8.8)	(1.2)	16.7	15.8	(0.8)
PBT margin (%)	5.5	13.7	4.3	(9.4)	(1.2)	12.4	11.6	(0.8)
Tax rates (%)	41.3	29.2	13.5	(15.7)	(27.7)	32.0	28.4	(3.6)
PAT (-MI) margin (%)	2.9	9.6	4.0	(5.6)	1.1	8.2	8.3	0.1

Earnings Summary

FYE June (RM mn')	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,304.5	1,489.3	1,690.0	1,919.9	2,070.9
Other income	6.0	5.4	5.7	6.0	6.3
Operating expenses	(1,134.6)	(1,302.4)	(1,479.5)	(1,680.4)	(1,810.0)
Finance Cost	(14.0)	(19.7)	(19.0)	(21.2)	(23.8)
PBT	161.9	172.6	197.2	224.3	243.4
Taxation	(51.8)	(49.0)	(61.1)	(69.5)	(75.4)
Net profit (-MI)	106.7	123.8	136.1	154.8	167.9
Adj EPS (sen)	7.9	9.2	10.1	11.5	12.5
EPS Growth (%)	58.7	16.0	10.0	13.7	8.5
PER (x)	18.8	16.2	14.7	12.9	11.9
Dividend (sen)	4.0	4.5	4.6	5.2	5.6
Div Yield (%)	2.7	3.0	3.1	3.5	3.8

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Tuesday, September 03, 2019, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

KaladherGovindan – Head of Research

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