

Supermax Corporation Berhad

SUPM.KL SUCB MK

EQUITY: HEALTH CARE & PHARMACEUTICALS

3QFY19 beats expectations

Replacement production lines and new capacities driving revenue growth

3QFY19 results: Core earnings of MYR29.5mn

Supermax's 9MFY19 core earnings of MYR113mn (+77% y-y) beat expectations, making up 80%/85% of our/Bloomberg consensus full-year estimates. 3QFY19 revenue of MYR361mn increased 10.4% y-y, driven by increased capacity output from the commissioning of new production lines at its rebuilt Block G, Kamunting Plant in July 2018. By the same token, 3QFY19 core earnings jumped 86% y-y to MYR29.5mn. Sequentially, numbers were weaker across the board due to declines in ASP on heightened competition as well as festivity during the quarter which resulted in a shorter working period.

Revamping of facilities and new capacity expansion on track

Construction of its Plant 12 in Meru, Klang is ongoing as per schedule with the first/second block to be completed by 3Q19/1Q20, according to management. These will contribute additional capacity of 4.4bn pieces p.a. Beyond that, the group would continue its replacement and rebuilding initiative as it strives to increase its overall production capacity to 30bn pieces p.a. by end-2020. On the other hand, its contact lens business is developing well, as the group steps up its marketing efforts by launching new platforms serving wholesale to B2C customers. It also recently secured approval to sell its toric lenses (for correction of astigmatism) in the US and Japan whilst at the same time, efforts to secure the necessary license for sale to the Chinese market are underway, according to management.

Maintain Buy at TP of MYR2.00 (35% upside)

We maintain our Buy call on Supermax with an unchanged TP of MYR2.00 (35% upside) based on 18x 2019F P/E. It is currently trading at an appealing 13.4x 2019F P/E. We see room for valuation re-rating now that its glove manufacturing operations have largely normalised. Key risks to our rating are fluctuations in USD/MYR rate and raw material prices. Also, slower than expected capacity growth can stunt volume growth, resulting in flattish earnings growth.

Year-end 30 Jun	FY18		FY19F		FY20F		FY21F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	1,304	1,501	1,501	1,786	1,786	2,044	2,044	
Reported net profit (mn)	107	141	141	161	161	176	176	
Normalised net profit (mn)	80	141	141	161	161	176	176	
FD normalised EPS	5.88c	10.34c	10.34c	11.85c	11.85c	12.92c	12.92c	
FD norm. EPS growth (%)	2.8	76.0	76.0	14.6	14.6	9.0	9.0	
FD normalised P/E (x)	25.2	N/A	14.3	N/A	12.5	N/A	11.5	
EV/EBITDA (x)	12.3	N/A	8.9	N/A	7.9	N/A	7.1	
Price/book (x)	2.0	N/A	1.9	N/A	1.7	N/A	1.6	
Dividend yield (%)	2.6	N/A	3.6	N/A	4.1	N/A	4.5	
ROE (%)	10.3	13.4	13.4	14.4	14.4	14.6	14.6	
Net debt/equity (%)	28.7	34.5	34.5	39.0	39.0	35.5	35.5	

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

15 May 2019

Rating Remains	Buy
Target Price Remains	MYR 2.00
Closing price 14 May 2019	MYR 1.48
Potential upside	+35.1%

Anchor themes

Supermax is the cheapest glove stock under our coverage. We see room for a valuation re-rating with its manufacturing operations now running at full pace, as the previous water supply shortage has now been resolved.

Nomura vs consensus

Our TP and FY19-21F earnings estimates are ahead of consensus, as we expect management to focus on increasing its overall utilisation rates to achieve higher production efficiency.

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Key data on Supermax Corporation Berhad

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (MYR)	-2.6	-8.1	-6.0	M cap (USDm)	482.9
Absolute (USD)	-4.0	-10.2	-11.0	Free float (%)	60.2
Rel to MSCI Malaysia	-0.5	-2.7	6.9	3-mth ADT (USDm)	1.7

Income statement (MYRmn)

Year-end 30 Jun	FY17	FY18	FY19F	FY20F	FY21F
Revenue	1,127	1,304	1,501	1,786	2,044
Cost of goods sold	-804	-907	-1,047	-1,264	-1,467
Gross profit	323	397	454	522	577
SG&A	-246	-256	-239	-274	-304
Employee share expense	0	0	0	0	0
Operating profit	77	141	215	248	273
EBITDA	118	183	263	305	339
Depreciation	-41	-42	-48	-57	-65
Amortisation	0	0	0	0	0
EBIT	77	141	215	248	273
Net interest expense	-11	-14	-16	-20	-23
Associates & JCEs	11	6	7	8	9
Other income	42	2	2	2	2
Earnings before tax	118	135	208	238	261
Income tax	-38	-52	-62	-71	-80
Net profit after tax	81	83	145	167	182
Minority interests	-3	-3	-5	-5	-6
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	78	80	141	161	176
Extraordinary items	-11	27	0	0	0
Reported NPAT	67	107	141	161	176
Dividends	-36	-52	-73	-83	-91
Transfer to reserves	31	54	68	78	85

Valuations and ratios

Reported P/E (x)	30.0	18.9	14.3	12.5	11.5
Normalised P/E (x)	25.9	25.2	14.3	12.5	11.5
FD normalised P/E (x)	25.9	25.2	14.3	12.5	11.5
Dividend yield (%)	1.8	2.6	3.6	4.1	4.5
Price/cashflow (x)	18.4	12.3	12.5	11.5	10.0
Price/book (x)	1.9	2.0	1.9	1.7	1.6
EV/EBITDA (x)	17.9	12.3	8.9	7.9	7.1
EV/EBIT (x)	26.3	15.7	10.8	9.7	8.8
Gross margin (%)	28.7	30.5	30.2	29.2	28.2
EBITDA margin (%)	10.5	14.0	17.5	17.1	16.6
EBIT margin (%)	6.8	10.8	14.3	13.9	13.4
Net margin (%)	6.0	8.2	9.4	9.0	8.6
Effective tax rate (%)	31.8	38.3	30.0	30.0	30.5
Dividend payout (%)	54.1	49.2	51.6	51.6	51.6
ROE (%)	6.4	10.3	13.4	14.4	14.6
ROA (pretax %)	5.6	9.2	13.5	14.1	14.4

Growth (%)

Revenue	-27.3	15.8	15.0	19.0	14.5
EBITDA	-53.9	55.2	43.7	16.0	11.1
Normalised EPS	-53.3	2.8	76.0	14.6	9.0
Normalised FDEPS	-53.3	2.8	76.0	14.6	9.0

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 30 Jun	FY17	FY18	FY19F	FY20F	FY21F
EBITDA	118	183	263	305	339
Change in working capital	9	20	-26	-41	-37
Other operating cashflow	-17	-40	-76	-89	-100
Cashflow from operations	110	163	161	175	201
Capital expenditure	-111	-59	-170	-170	-100
Free cashflow	-2	104	-9	5	101
Reduction in investments	0	0	0	0	0
Net acquisitions	0	0	0	0	0
Dec in other LT assets	0	0	0	0	0
Inc in other LT liabilities	0	0	0	0	0
Adjustments	1	4	0	0	0
CF after investing acts	0	109	-9	5	101
Cash dividends	-27	-76	-73	-83	-91
Equity issue	0	0	0	0	0
Debt issue	66	-14	69	69	20
Convertible debt issue	0	0	0	0	0
Others	-7	-29	0	0	0
CF from financial acts	31	-119	-4	-14	-71
Net cashflow	31	-11	-13	-10	30
Beginning cash	125	156	145	132	123
Ending cash	156	145	132	123	153
Ending net debt	294	291	373	452	442

Balance sheet (MYRmn)

As at 30 Jun	FY17	FY18	FY19F	FY20F	FY21F
Cash & equivalents	156	145	132	123	153
Marketable securities	0	0	0	0	0
Accounts receivable	238	188	216	257	295
Inventories	190	188	201	225	241
Other current assets	55	51	51	51	51
Total current assets	639	572	600	656	740
LT investments	238	197	204	212	221
Fixed assets	878	895	1,017	1,130	1,165
Goodwill	29	29	29	29	29
Other intangible assets	0	0	0	0	0
Other LT assets	7	6	6	6	6
Total assets	1,790	1,700	1,857	2,033	2,160
Short-term debt	344	374	434	493	510
Accounts payable	201	185	201	225	241
Other current liabilities	26	6	6	6	6
Total current liabilities	571	566	641	724	758
Long-term debt	107	62	71	81	84
Convertible debt	0	0	0	0	0
Other LT liabilities	42	49	49	49	49
Total liabilities	720	677	761	855	891
Minority interest	3	10	15	20	26
Preferred stock	0	0	0	0	0
Common stock	340	340	340	340	340
Retained earnings	727	673	741	819	904
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	1,067	1,013	1,081	1,159	1,244
Total equity & liabilities	1,790	1,700	1,857	2,033	2,160

Liquidity (x)

Current ratio	1.12	1.01	0.94	0.91	0.98
Interest cover	6.9	10.1	13.4	12.6	12.0

Leverage

Net debt/EBITDA (x)	2.50	1.59	1.42	1.48	1.30
Net debt/equity (%)	27.6	28.7	34.5	39.0	35.5

Per share

Reported EPS (MYR)	4.94c	7.84c	10.34c	11.85c	12.92c
Norm EPS (MYR)	5.71c	5.88c	10.34c	11.85c	12.92c
FD norm EPS (MYR)	5.71c	5.88c	10.34c	11.85c	12.92c
BVPS (MYR)	0.78	0.74	0.79	0.85	0.91
DPS (MYR)	0.03	0.04	0.05	0.06	0.07

Activity (days)

Days receivable	77.2	59.6	49.2	48.5	49.3
Days inventory	86.1	76.0	67.8	61.6	58.0
Days payable	91.4	77.8	67.3	61.6	58.0
Cash cycle	71.9	57.8	49.6	48.5	49.3

Source: Company data, Nomura estimates

Fig. 1: SUCB: 3QFY19 results highlights

FYE June (MYR mn)	3QFY18	2QFY19	3QFY19	q-q (%)	y-y (%)	YTD FY18	YTD FY19	y-y (%)
Revenue	327.1	385.1	361.2	-6.2	10.4	975.0	1,113.4	14.2
EBITDA	41.3	73.4	59.2	-19.3	43.5	150.5	206.4	37.1
<i>EBITDA Margin (%)</i>	12.6	19.1	16.4			15.4	18.5	
Depreciation & amortization	-10.0	-11.3	-10.4	-7.9	4.0	-30.4	-32.0	5.4
EBIT	31.3	62.2	48.9	-21.4	56.1	120.2	174.4	45.1
<i>EBIT Margin (%)</i>	9.6	16.1	13.5			12.3	15.7	
Interest expense	-3.3	-4.7	-4.5	-2.6	36.7	-10.0	-13.8	38.6
Interest income	0.0	0.0	0.0	Nm	Nm	0.0	0.0	Nm
Associates	0.0	0.0	0.0	Nm	Nm	0.0	0.0	Nm
El/Others	17.5	-3.2	5.1	-260.4	-70.8	33.5	-4.2	-112.5
Pretax profit	45.5	54.3	49.4	-9.0	8.7	143.7	156.4	8.8
<i>Pretax Margin (%)</i>	13.9	14.1	13.7			14.7	14.0	
Tax	-11.4	-15.6	-14.5	-7.3	27.2	-44.3	-46.8	5.6
<i>Effective tax rate (%)</i>	25.0	28.7	29.2			30.8	29.9	
Minority Interest	-0.7	-0.6	-0.3	-40.9	-51.6	-2.3	-1.0	-58.4
Net Profit	33.4	38.1	34.6	-9.2	3.7	97.2	108.7	11.8
Core Profit	15.9	41.3	29.5	-28.6	85.7	63.6	112.9	77.4
<i>Net Margin (%)</i>	4.9	10.7	8.2			6.5	10.1	

Source: Company data, Nomura research

Appendix A-1

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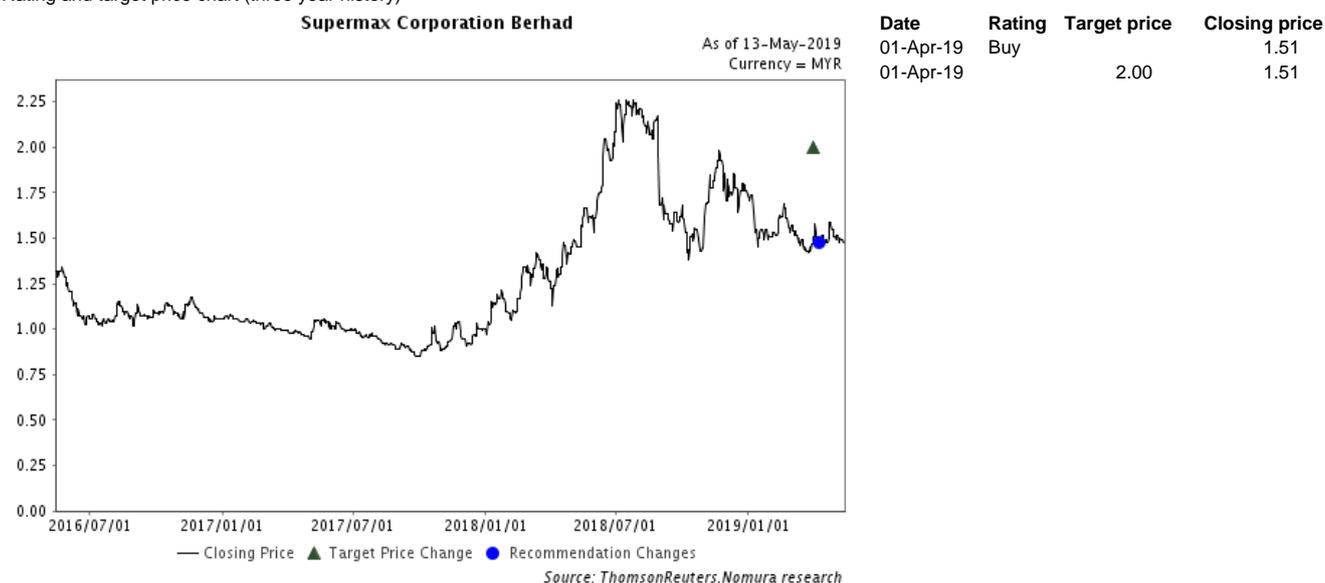
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Supermax Corporation Berhad	SUCB MK	MYR 1.48	13-May-2019	Buy	N/A	

Supermax Corporation Berhad (SUCB MK) MYR 1.48 (13-May-2019) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of MYR2.00 is derived from ascribing a target 2019F P/E of 18x. This valuation is in line with the 18-35x 2019F P/E multiple range that we peg for the glove manufacturers under our coverage and is further supported by its 5-year historical P/E mean of 12.2x, with our target multiple implying +2 standard deviation from its mean, which we deem justified following the turnaround in operations with water supply to its plants having normalised. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Risks to our view include: 1) an unexpected surge in latex prices, whereby cost inflation pass-on would likely see a lag; 2) delays in its expansion plans which will stunt volume growth, resulting in flattish earnings growth; and 3) strengthening MYR against the USD.

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