

# Supermax Corporation Berhad

**TP: RM1.82 (+10.4%)**
*Earnings to Pick up in 2HFY20*
*Last Traded: RM1.65*
**Buy**

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## Review

- Supermax's 1HFY20 net profit of RM54.9mn (-25.9% YoY) accounted for 41.6% and 41.8% of our and consensus' full-year estimates respectively. We deem the results to be within expectation as we expect stronger earnings in 2HFY20 on the back of higher volumes and ASP.
- QoQ**, PBT increased by 28.9% to RM41.8mn, ahead of revenue growth of 4.2% to RM385.5mn. The improved performance was due to: i) higher sales volumes, ii) cost pass through to customers and iii) operating efficiency. As such, PBT margin rose by 2.1p.p to 10.9%.
- YoY**, PBT dipped by 30.6% to RM74.3mn despite revenue growth of 0.4% to RM755.4mn. We attribute the weaker performance to increase in production cost and lower average selling prices.

## Impact

- No change to our earnings estimates.

## Outlook

- We expect Supermax to record a stronger performance in 2HFY20 on the back of surge in gloves demand since the outbreak of Covid-19. As such, we expect utilisation rates to increase to 82% from circa-76% in 2QFY20. Moreover, we note that ASP had normalised towards Nov-19 and further improved in Jan-20.
- On expansion plans, Plant 12 will increase annual capacity by 4.4bn gloves/annum once fully completed (Block A and Block B). For Block A, the group have commissioned 5 lines out of a total 8 lines, while the remainder 3 lines will commission by March-20. Thereafter, Block B is scheduled to be completed by end 2020. All in, the group's capacity is targeted to increase by 16% to 27.4bn gloves by end 2020.

## Valuation

- We roll forward our valuation base year to CY21 and raised Supermax's target price to RM1.82/share (RM1.66/share previously), based on an unchanged PE multiple of 16.0x. Maintain Buy.

## Share Information

|                                  |                                |
|----------------------------------|--------------------------------|
| Bloomberg Code                   | SUCB MK                        |
| Stock Code                       | 7106                           |
| Listing                          | Main Market                    |
| Share Cap (mn)                   | 1320.2                         |
| Market Cap (RMmn)                | 2,178.3                        |
| 52-wk Hi/Lo (RM)                 | 1.93/1.29                      |
| 12-mth Avg Daily Vol ('000 shrs) | 6,947.4                        |
| Estimated Free Float (%)         | 62.8                           |
| Beta                             | 0.6                            |
| <b>Major Shareholders (%)</b>    |                                |
|                                  | Dato' Seri Stanley Thai - 37.2 |

## Forecast Revision

|                       | FY20             | FY21  |
|-----------------------|------------------|-------|
| Forecast Revision (%) | 0.0              | 0.0   |
| Net profit (RMmn)     | 132.2            | 149.8 |
| Consensus             | 131.3            | 149.6 |
| TA's / Consensus (%)  | 100.7            | 100.1 |
| Previous rating       | Buy (Maintained) |       |

## Financial Indicators

|                 | FY20 | FY21 |
|-----------------|------|------|
| Net gearing (x) | 0.2  | 0.2  |
| P/CFPS (x)      | 12.9 | 10.6 |
| ROAA (%)        | 6.9  | 7.3  |
| ROAE (%)        | 11.3 | 11.8 |
| NTA/Share (RM)  | 0.9  | 1.0  |
| Price/ NTA (x)  | 1.9  | 1.7  |

## Scorecard

|               | % of FY |        |
|---------------|---------|--------|
| vs. TA        | 41.6    | Within |
| vs. Consensus | 41.8    | Within |

## Share Performance (%)

| Price Change | SUCB | FBM KLCI |
|--------------|------|----------|
| 1 mth        | 2.5  | (4.6)    |
| 3 mth        | 19.7 | (5.2)    |
| 6 mth        | 12.4 | (6.2)    |
| 12 mth       | 7.4  | (12.7)   |

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Table 1: IHFY20 Result Analysis**

| FYE June (RM mn')             | 2QFY19  | 1QFY20  | 2QFY20  | QoQ       | YoY       | IHFY19  | IHFY20  | YoY       |
|-------------------------------|---------|---------|---------|-----------|-----------|---------|---------|-----------|
| Revenue                       | 385.1   | 369.9   | 385.5   | 4.2       | 0.1       | 752.2   | 755.4   | 0.4       |
| Operating expenses            | (326.6) | (334.1) | (338.8) | 1.4       | 3.7       | (637.9) | (672.9) | 5.5       |
| EBITDA                        | 70.2    | 49.2    | 59.3    | 20.6      | (15.6)    | 137.9   | 108.5   | (21.4)    |
| Finance costs                 | (4.7)   | (4.2)   | (4.6)   | 10.4      | (0.7)     | (9.3)   | (8.8)   | (5.0)     |
| Share of profit of associates | 0.5     | 0.8     | (0.3)   | (134.2)   | (158.6)   | 2.0     | 0.5     | (73.0)    |
| PBT                           | 54.3    | 32.4    | 41.8    | 28.9      | (23.0)    | 107.0   | 74.3    | (30.6)    |
| Taxation                      | (15.6)  | (7.5)   | (11.8)  | 57.8      | (24.3)    | (32.3)  | (19.3)  | (40.3)    |
| PAT(-MI)                      | 38.1    | 24.7    | 30.2    | 21.9      | (20.9)    | 74.1    | 54.9    | (25.9)    |
| EPS (sen)                     | 2.9     | 1.9     | 2.3     | 22.2      | (20.6)    | 5.7     | 4.2     | (25.5)    |
| DPS (sen)                     | 1.5     | 0.0     | 0.0     | nm        | (100.0)   | 1.5     | 0.0     | (100.0)   |
|                               |         |         |         | <b>pp</b> | <b>pp</b> |         |         | <b>pp</b> |
| EBITDA margin (%)             | 18.2    | 13.3    | 15.4    | 2.1       | (2.9)     | 18.3    | 14.4    | (4.0)     |
| PBT margin (%)                | 14.1    | 8.8     | 10.9    | 2.1       | (3.3)     | 14.2    | 9.8     | (4.4)     |
| Tax rates (%)                 | 28.7    | 23.1    | 28.2    | 5.2       | (0.5)     | 30.2    | 26.0    | (4.2)     |
| PAT (-MI) margin (%)          | 9.9     | 6.7     | 7.8     | 1.1       | (2.1)     | 9.8     | 7.3     | (2.6)     |

**Table 2: Earnings Summary**

| FYE June (RM mn')  | FY18      | FY19      | FY20F     | FY21F     | FY22F     |
|--------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue            | 1,304.5   | 1,538.2   | 1,655.9   | 1,790.7   | 1,925.5   |
| Other income       | 40.6      | 58.5      | 5.8       | 6.1       | 6.4       |
| Operating expenses | (1,169.2) | (1,404.6) | (1,452.5) | (1,559.6) | (1,677.3) |
| Finance Cost       | (14.0)    | (19.7)    | (24.8)    | (28.2)    | (31.6)    |
| PBT                | 161.9     | 172.4     | 184.4     | 208.9     | 223.0     |
| Taxation           | (51.8)    | (49.3)    | (52.2)    | (59.1)    | (63.1)    |
| Net profit (-MI)   | 106.7     | 123.1     | 132.2     | 149.8     | 159.9     |
| Adj EPS (sen)      | 7.8       | 9.1       | 9.7       | 11.0      | 11.8      |
| EPS Growth (%)     | 58.7      | 15.4      | 7.4       | 13.3      | 6.7       |
| PER (x)            | 21.0      | 18.2      | 17.0      | 15.0      | 14.0      |
| Dividend (sen)     | 4.0       | 3.0       | 3.1       | 3.5       | 3.8       |
| Div Yield (%)      | 2.4       | 1.8       | 1.9       | 2.1       | 2.3       |

### 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 Wednesday, February 26, 2020, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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