15 February 2018 | 2QFY18 Results Review

Supermax Corporation Berhad

New production lines boosted revenue

***Maintain* BUY**

***Revised* Target Price (TP): RM2.70**

(Previously RM2.42)

INVESTMENT HIGHLIGHTS

- **2QFY18 earnings above expectations**
- **Newly commissioned production lines boosted revenue**
- **FY18-19F earnings forecast revised up by +11.7% and 12.3% respectively**
- **Maintain BUY with a revised TP of RM2.70 per share**

Above expectations. Supermax's 2QFY18 earnings came in at RM35.9m. This brings its 1HFY18 earnings to RM63.8m which is above our and consensus' expectations, accounting for 58% and 66% of our and street's full year earnings estimates respectively. During the quarter, revenue and PATANCI surged by +41.9% and +58.7% year-over-year respectively. Meanwhile, on a quarterly sequential basis, revenue climbed by +7.7% while PATANCI climbed by +28.7%. An interim dividend of 3.0sen was also declared for the quarter under review translating to a yield of 1.4% to yesterday's closing price.

Newly commissioned production lines boosted revenue. Supermax's revenue saw an increase for both year-over-year as well as quarter-over-quarter due to: (i) higher average selling prices (ASPs) (ii) higher output rising from revamp work on its older production lines and; (iii) increased output from newly commissioned production lines from Plant 10 and Plant 11 in Klang. In addition, earnings climbed by 58.7%yoy in 2QFY18 due to improved demand which is partly due generally higher demand coming from China due to the shortage in vinyl gloves. In addition, from our channel checks, higher demand has been coming from countries such as those in Eastern Europe, which are currently in the midst of upgrading their healthcare quality as a result of increase in healthcare awareness. Due to that, PATANCI margin has also improved to 10.7% from 9.6% in 2QFY17.

FY18-19F earnings forecasts revised up by +11.7% and +12.3%. We are revising our earnings forecasts for FY18-19F up by +11.7% and +12.3% respectively as we are expecting higher revenue to come in due to the commissioning of new production lines. Key risks to our earnings would most likely be: (i) sudden surge in raw materials price; (ii) strong appreciation of Ringgit and; (iii) production line breakdowns.

RETURN STATS	
Price (14 February 2018)	RM2.20
Target Price	RM2.70
Expected Share Price Return	+22.9%
Expected Dividend Yield	+2.3%
Expected Total Return	**+25.2%**

STOCK INFO	
KLCI	1,834.93
Bursa / Bloomberg	7106 / SUCB MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	655.65
Market cap. (RM'm)	1,442.44
Price over NA	1.34
52-wk price Range	RM1.69 – RM2.50
Beta (against KLCI)	0.41
3-mth Avg Daily Vol	4.36m
3-mth Avg Daily Value	RM9.27m
Major Shareholders (%)	
Kim Sim Thai	21.21
Bee Geok Tan	15.70
FMR LLC	4.89

Maintain BUY with a revised Target Price (TP) of RM2.70. Post-earnings revision we are reiterating our **BUY** recommendation on Supermax with a revised TP of **RM2.70** per share (from RM2.42 previously). Our TP is derived via pegging our FY19F EPS of 19.3sen to an unchanged PER19 of 14x, which is its 5-year average PER.

Going forward, we opine that the continued strong demand for rubber gloves will bode well for the company. Additionally, we are positive on the fact that management has finally rolled out the remaining production lines that were stalled due to utility issue as this will add additional capacity to cater to the strong demand for gloves. Furthermore, the current stable currency environment will be beneficial to glove manufacturers by providing visibility on both revenue and expenses.

Table 1: Supermax's quarterly earnings review

FYE June (RM'm)	Quarterly results					Cumulative Results		
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	**236.7**	**312.0**	**335.9**	7.7	41.9	**452.6**	**647.9**	43.2
Operating expenses	(209.9)	(269.9)	(275.4)	2.0	31.2	(397.0)	(545.3)	37.4
Finance costs	(2.0)	(3.3)	(3.3)	0.1	66.3	(4.2)	(6.6)	58.1
Share of profit of associates	2.2	1.9	0.5	(75.2)	(78.7)	6.4	2.3	(63.1)
Profit Before Tax	**27.0**	**40.7**	**57.6**	**41.8**	**113.6**	**57.8**	**98.3**	**70.1**
Taxation	(4.9)	(12.6)	(20.3)	61.9	318.2	(8.1)	(32.9)	308.6
Profit After Tax	**22.1**	**28.1**	**37.3**	**32.8**	**68.6**	**49.7**	**65.4**	**31.5**
Non-controlling interest	(0.5)	(0.2)	(1.4)	623.3	179.8	(0.5)	(1.6)	230.4
PATANCI	**22.6**	**27.9**	**35.9**	**28.7**	**58.7**	**50.2**	**63.8**	**27.1**
Basic EPS (sen)	3.4	4.2	5.4	28.7	60.6	7.3	9.6	31.2
PBT margin (%)	11.4	13.0	17.2	4.1	5.8	12.8	15.2	2.4
PAT margin (%)	9.3	9.0	11.1	2.1	1.8	11.0	10.1	(0.9)
PATANCI margin (%)	9.6	8.9	10.7	1.7	1.1	11.1	9.8	(1.2)
Tax rate (%)	18.0	30.9	35.3	4.4	17.3	13.9	33.5	19.5

Source: Company, MIDFR

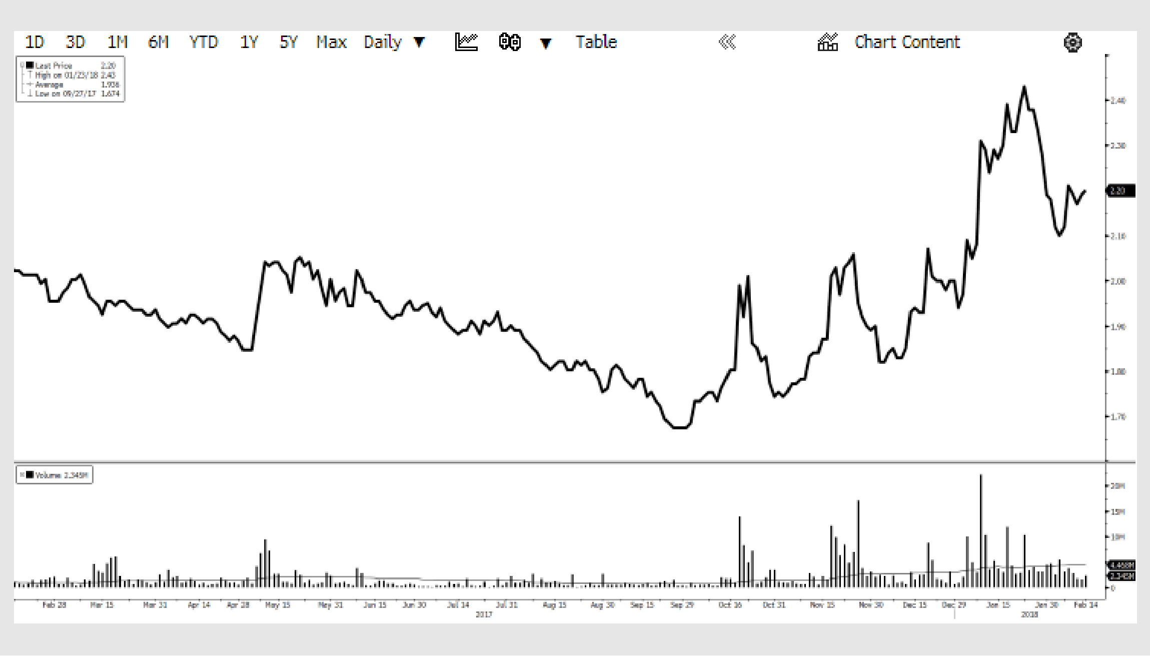
INVESTMENT STATISTICS

FYE June (RMm)	FY2014*	FY2016 (18M)	FY2017	FY2018F	FY2019F
Revenue	1,004.4	1,544.7	1,126.6	1,472.5	1,659.5
Cost of goods sold	(812.5)	(1,326.6)	(1,016.8)	(1,207.5)	(1,369.0)
Gross profit	191.8	218.1	109.7	265.1	290.4
Finance costs	(8.2)	(13.6)	(11.0)	(10.1)	(9.6)
Profit before tax	**128.3**	**220.6**	**110.4**	**171.1**	**187.7**
Income tax expense	(33.1)	(67.1)	(37.1)	(47.9)	(56.3)
Net Profit (RM'm)	**95.2**	**153.5**	**73.3**	**123.2**	**131.4**
PBT Margin (%)	12.8	14.3	9.8	11.6	11.3
Net Profit Margin (%)	9.5	9.9	6.5	8.4	7.9
EPS (sen)	14.1	25.8	10.5	18.1	19.3
EPS Growth (%)	-20.1	83.4	-59.4	72.8	6.7
PER (x)	15.8	8.2	21.0	12.1	11.4
Net Dividend (sen)	5.0	8.0	5.5	5.0	5.0
Dividend yield (%)	2.3	3.6	2.5	2.3	2.3
Tax rate (%)	25.8	30.4	33.6	28.0	30.0

Source: Company, Forecasts by MIDFR

**FYE December*

DAILY PRICE CHART



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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.