

30 August 2018 | 4QFY18 Results Review

Supermax Corporation Berhad

Expecting better performance next year

Maintain NEUTRAL

Adjusted Target Price (TP): RM3.58
(Previously RM3.31)

INVESTMENT HIGHLIGHTS

- **FY18 earnings below expectations due to higher operating expenses, mainly incurred in 4QFY18**
- **Newly commissioned production lines boosted revenue**
- **Expecting a stronger financial performance in FY19, in-line with the expansion in production capacity**
- **Maintain NEUTRAL with an adjusted TP of RM3.58 per share**

Below expectations. Supermax's 4QFY18 earnings came in at RM9.8m. This brings its full year FY18 earnings to RM107.0m which is below expectations, accounting for only 82.0% of both ours and consensus' full year FY18 earnings estimates. During the quarter, revenue and PATAMI rose by +5.3%yoy and +84.2%yoy respectively.

Newly commissioned production lines boosted revenue. Supermax's 4QFY18 revenue saw an increase year-over-year 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, there are higher demands 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. Also, a reduction in effective tax rate to 51.0% (from 73.0% in 4QFY17) caused the surged in PATAMI.

Impact to earnings. We are maintaining our earnings forecast for FY19F as we expect the rebuilding and replacement of old production facilities as well as the commencement of two additional plants in FY19 will contribute to stronger earnings. Key risks to our earnings estimates would be: (i) sudden surge in raw materials price; (ii) strong appreciation of Ringgit; and (iii) production line breakdowns.

Target Price. We revised our target price to **RM3.58** per share (from RM3.31 previously) as we rolled forward our valuation base year to FY20. Our TP is derived via pegging our FY20F EPS of 25.6sen to an unchanged PER19 of 14x, which is its 5-year average PER.

RETURN STATS	
Price (29 August 2018)	RM3.92
Target Price	RM3.58
Expected Share Price Return	-8.7%
Expected Dividend Yield	+1.7%
Expected Total Return	-7.0%

STOCK INFO	
KLCI	1,820.64
Bursa / Bloomberg	7106 / SUCB MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	655.65
Market cap. (RM'm)	2,570.16
Price over NA	2.37
52-wk price Range	RM1.69 – RM4.61
Beta (against KLCI)	0.49
3-mth Avg Daily Vol	3.20m
3-mth Avg Daily Value	RM12.9m
Major Shareholders (%)	
Kim Sim Thai	21.21
Bee Geok Tan	15.70
FMR LLC	4.14


Maintain NEUTRAL. Despite the quarterly earnings came in below our expectation, we opine stronger earnings going forward. This is premised on the: (i) rebuilding and replacement of old production facilities aimed at extracting higher production output from existing locations; and (ii) adding new capacity via building two new plants. The new plants are expected to increase Supermax's production capacity by +4.2b pieces per annum and targeted to be completed in 1HCY19 and 2HCY19. At the end of CY19 and post-completion of all upgrading works and building of new plants, Supermax is expected to have an annual capacity of 27.2b pieces per annum. However, we expect the higher supply of gloves to have downward pressure on the ASP. This would lead to compression in profit margin moving forward. All in, we maintain our **NEUTRAL** recommendation on the stock. 

Table 1: Supermax's quarterly earnings review

FYE June (RM'm)	Quarterly results				Cumulative results			
	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	312.9	327.1	329.5	0.7	5.3	1,126.9	1,304.5	15.8
Operating expenses	(277.8)	(279.7)	(303.8)	8.6	9.4	(1,019.1)	(1,128.8)	10.8
Finance costs	(3.7)	(3.3)	(4.0)	20.9	8.4	(11.1)	(14.0)	26.3
Share of profit of associated companies	2.1	1.4	1.8	30.9	(14.7)	11.3	5.5	(50.9)
Profit Before Tax	33.6	45.5	23.4	(48.4)	(30.2)	107.9	167.2	54.9
Taxation	(24.5)	(11.4)	(12.0)	5.2	(51.2)	(37.6)	(56.2)	49.3
Profit After Tax	9.1	34.1	11.5	(66.3)	26.6	70.3	111.0	57.9
Minority interest	3.7	0.7	1.6	130.2	(55.8)	3.1	4.0	27.8
PATAMI	5.3	33.4	9.8	(70.5)	84.2	67.2	107.0	59.2
Basic EPS (sen)	0.8	5.1	1.5	(70.5)	89.7	9.9	15.7	59.2
Dividend per share (sen)	-	3.0	-	(100.0)	nm	5.5	6.0	9.1
				<i>(+/-) ppts</i>				<i>(+/-) ppts</i>
PBT margin(%)	10.7	13.9	7.1	(6.8)	(3.6)	9.6	12.8	3.2
PAT margin (%)	2.9	10.4	3.5	(6.9)	0.6	6.2	8.5	2.3
PATAMI margin(%)	1.7	10.2	3.0	(7.2)	1.3	6.0	8.2	2.2
Tax rate (%)	73.0	25.0	51.0	26.0	(22.0)	34.9	33.6	(1.3)

Source: Company, MIDFR

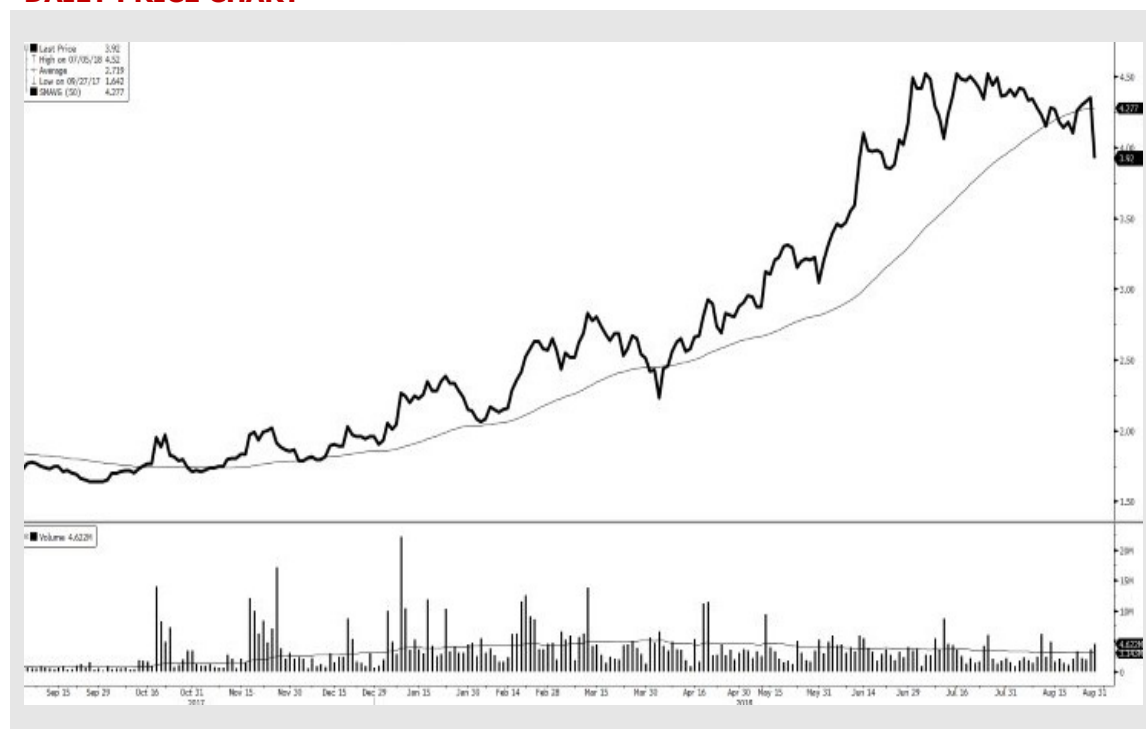
INVESTMENT STATISTICS

FYE June (RM'm)	FY2016 (18M)	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,544.7	1,126.9	1,304.5	1,718.5	2,423.2
Profit before tax	220.6	110.4	167.2	211.7	228.8
Income tax expense	(67.1)	(37.1)	(56.2)	(50.8)	(54.9)
Net Profit (RM'm)	153.5	70.3	111.0	160.9	173.9
PBT Margin (%)	14.3	9.8	12.8	12.3	9.4
Net Profit Margin (%)	9.9	6.2	8.5	9.4	7.2
EPS (sen)	25.8	10.5	15.7	23.7	25.6
EPS Growth (%)	83.0	(59.3)	49.9	50.3	8.1
PER (x)	17.4	38.0	24.9	16.6	15.3
Dividend (sen)	8.0	6.0	6.0	6.0	6.5
Dividend yield (%)	3.6	2.5	1.5	1.5	1.7
Tax rate (%)	30.4	33.6	33.6	24.0	24.0

Source: Company, Forecasts by MIDFR

*FYE December

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> 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 <i>fall</i> 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.