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26 April 2018 | Briefing Note

Supermax Corporation Berhad

Two-pronged approach to propel growth

***Maintain* BUY**

***Revised* Target Price (TP): RM3.09**

(Previously RM2.70)

INVESTMENT HIGHLIGHTS

- **Two-pronged approach to propel growth**
- **Rebuilding and refurbishing plants in Taiping and Sg. Buloh**
- **New gloves production plant in Klang and Taiping**
- **3QFY18 earnings to be hit by +23% hike in natural gas**
- **FY19F earnings revised up by +14.1%**
- **Maintain BUY with a revised TP of RM3.09 per share**

Two-pronged approach to propel growth. We attended Supermax's analyst briefing yesterday with the management and obtained a better view of the company's direction going forward. Management revealed that the company will be undertaking a two-pronged approach to propel Supermax's growth going forward i.e: (i) rebuilding and replacement of old production facilities and; (ii) adding new capacity via building new plants.

Rebuilding and refurbishing plants in Taiping and Sg. Buloh. Supermax is currently upgrading, rebuilding and replacing its old production lines in two of its older plants located in Taiping and Sg. Buloh. Upon completion, the Block G plant located in Kamunting Raya Taiping will have six double former lines with an average capacity output of 1.35b pieces per annum. Meanwhile, its Sg. Buloh plant will have ten double former lines with an average capacity output of 2.42b pieces per annum. Its Block G plant in Taiping is expected to start contributing to Supermax's revenue from July 2018 onwards whilst its Sg. Buloh plant will start commissioning in 4QCY19. Though we note that these two plants will stop production due to the upgrading works, we opine that the newly commissioned Plant 10 and 11 in Klang with 2.2bn and 3.4bn pieces per annum capacity will be able to offset the shortage of capacity coming from the two plants.

New gloves production plant in Klang and Taiping. Supermax will be adding two new gloves production plants i.e: Block F in Kamunting Raya, Taiping and Plant 12 in Klang. These two production plants are expected to increase Supermax's production capacity by +4.24b pieces per annum and are expected to be completed in 1HCY19 and 2HCY19 respectively. CAPEX of RM205m is expected to be spent on building these two new plants. 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.

RETURN STATS	
Price (25 April 2018)	RM2.85
Target Price	RM3.09
Expected Share Price Return	+8.4%
Expected Dividend Yield	+2.1%
Expected Total Return	**+10.5%**

STOCK INFO	
KLCI	1,851.93
Bursa / Bloomberg	7106 / SUCB MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	655.65
Market cap. (RM'm)	1,868.61
Price over NA	1.74
52-wk price Range	RM1.69 – RM3.01
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	4.61m
3-mth Avg Daily Value	RM11.8m
Major Shareholders (%)	
Kim Sim Thai	21.21
Bee Geok Tan	15.70
FMR LLC	4.93

3QFY18 earnings to be hit by +23% hike in natural gas tariff. Management shared that it is expecting its 3QFY18 earnings to be hit by the +23% hike in natural gas tariff. We understand that the hike in natural gas tariff will cost the company about RM7m in profit as the company had a lag period of two months in fully transferring the cost increase to their customers. That said, the cost increase was fully-transferred to the customers starting from March 2018 onwards. Due to this, we are expecting Supermax's earnings for 3QFY18 to come in between RM28-30m.

FY18F earnings forecasts maintained, FY19F earnings forecasts revised up by +14.1%. We are maintaining our FY18F earnings forecasts for now despite expecting three new lines to start commissioning in early May 2018; we believe that the impact from the +23% hike in natural gas tariff would offset the revenue coming from the three new lines. That said, we are revising our earnings forecasts for FY19F up by +14.1% as we are expecting higher revenue to come in due to the commissioning of: (i) newly replaced production lines in its Sg. Buloh and Taiping plants as well as; (ii) new production lines from Block F in Taiping as well as Plant 12 in Klang. 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.

Maintain BUY with a revised Target Price (TP) of RM3.09. Post-earnings revision we are reiterating our **BUY** recommendation on Supermax with a revised TP of **RM3.09** per share (from RM2.70 previously). Our TP is derived via pegging our FY19F EPS of 22sen to an unchanged PER19 of 14x, which is its 5-year average PER.

Going forward, we opine that the continued strong global demand for rubber gloves with global consumption of rubber gloves expected to rise to 246b pieces per annum in 2018 will bode well for the company. Furthermore, the rubber gloves export from Malaysia is also expected to grow to RM18.6b in 2018 from RM16.2b in 2017 and a CAGR of 10.7% over the past 14 years in terms of gloves export value signifies both a solid and sustainable growth in demand for rubber gloves going forward. Additionally, we are positive on the fact that management has clarified on the direction of the company going forward which concentrates on improving and expanding its existing production capacities via the two-pronged approach.

Table 1: Supermax's CAPEX expenditure and capacity expansion timeline

Project	CAPEX (RM'm)	Annual Capacity (b pcs per annum)	Target Completion Date
Upgrading, Rebuilding & Replacement of Old Lines			
Block G, Kamunting Raya, Taiping	58.0	1.35	3QCY18
Lot 38, Sg Buloh	70.0	2.42	4QCY19
New capacity expansion			
Block F, Kamunting Raya, Taiping	75.0	2.03	1HCY19
Plant 12, Klang	130.0	2.20	2HCY19
Total	**333.0**	**8.0**	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE June (RM'm)	FY2014*	FY2016 (18M)	FY2017	FY2018F	FY2019F
Revenue	**1,004.4**	**1,544.7**	**1,126.6**	**1,502.2**	**1,670.8**
Cost of goods sold	(812.5)	(1,326.6)	(1,016.8)	(1,337.7)	(1,470.2)
Gross profit	**191.8**	**218.1**	**109.7**	**164.5**	**200.6**
Finance costs	(8.2)	(13.6)	(11.0)	(12.3)	(11.8)
Profit before tax	**128.3**	**220.6**	**110.4**	**162.1**	**197.3**
Income tax expense	(33.1)	(67.1)	(37.1)	(38.9)	(47.3)
Net Profit (RM'm)	**95.2**	**153.5**	**73.3**	**123.2**	**149.9**
PBT Margin (%)	12.8	14.3	9.8	10.8	11.8
Net Profit Margin (%)	9.5	9.9	6.5	8.2	9.0
EPS (sen)	14.1	25.8	10.5	18.1	22.0
EPS Growth (%)	(20.1)	83.0	(59.3)	72.5	21.7
PER (x)	20.2	12.6	27.6	15.7	12.9
Dividend (sen)	5.0	8.0	5.5	6.0	6.0
Dividend yield (%)	2.3	3.6	2.5	2.1	2.1
Tax rate (%)	25.8	30.4	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 *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.