

Supermax Corporation Berhad

(7106 | SUCB MK) | Health Care | Health Care Equipment & Services

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM1.75

(Previously RM2.09)

Prolong period of low average selling prices

KEY INVESTMENT HIGHLIGHTS

- **2QFY20 earnings came in at RM30.2m (-20.9%yoy) which lagged our and consensus' expectations**
- **Earnings was impacted by the prolong period of subdued selling prices as well as higher production costs**
- **We expect glove prices to remain suppress as glove players compete to capture higher market share**
- **Downgrade to NEUTRAL with a revised TP of RM1.75**

2QFY20 earnings dropped by -20.9%yoy. Supermax's 2QFY20 earnings came in at RM30.2m which lagged our and consensus' expectations, accounting for 40.0% and 42.0% of our and consensus' full year FY20 earnings estimates respectively. The deviation in financial performance was mainly due to the lower average selling price (ASP) as glove players compete to capture higher market share as well as higher production costs.

Lower ASP was offset by a higher sales volume. Despite the subdued ASP, 2QFY20 revenue was resilient thanks to the higher production output during the quarter. This followed the commencement of five new lines (out of a total of eight lines) from Block A of its latest plant i.e. Plant 12. Nevertheless, 2QFY20 earnings were severely impacted by the: (i) higher rubber latex prices (up by +14.0%yoy) and; (ii) higher labour and labour-related costs from compliance with ESG requirements.

Higher production output to sustain future earnings growth.

All eight lines (in Block A) of Supermax's new 12th plant in Meru, Klang is expected to fully commenced by the end of the quarter. While Block B is scheduled to be completed in the 2HCY20. This plant is equipped with new high-speed and highly automated production lines. In summary, this plant will boost Supermax's production capacity by +4.4b per annum. Hence, we expect the higher production output will continue to offset the subdued ASP in the near term.

Impact to earnings. We are revising our FY20, FY21 and FY22 forecast downward to RM121.2m, RM138.1m and RM152.7m respectively to take into account the pro-long subdued ASP for glove products.

Target Price. Post our earnings adjustment, we are revising our target price to **RM1.75** (previously RM2.07). Our TP is derived via pegging the FY21F EPS of 10.5sen to target PER of 16.7x which is its five-year historical average PER.

RETURN STATISTICS

Price @ 25 th February 2020 (RM)	1.65
Expected share price return (%)	+6.1
Expected dividend yield (%)	+2.9
Expected total return (%)	+9.0

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	2.5	7.4
3 months	18.7	26.3
12 months	7.4	23.0

KEY STATISTICS

FBM KLCI	1,500.88
Syariah compliant	Yes
Issue shares (m)	1326.60
Estimated free float (%)	59.18
Market Capitalisation (RM'm)	2,178.35
52-wk price range	RM1.29 - RM1.93
Beta vs FBM KLCI (x)	0.58
Monthly velocity (%)	11.02
Monthly volatility (%)	16.48
3-mth average daily volume (m)	15.02
3-mth average daily value (RM'm)	24.57
Top Shareholders (%)	
Kim Sim Thai	21.39
Bee Geok Tan	15.83
Dimensional Fund	2.25

ANALYST

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Downgrade to NEUTRAL. The group's financial performance has been impacted by a prolong period of suppressed average selling price for its glove products. We expect this trend to continue given the aggressiveness of glove players in ramping up their nitrile glove production. Nevertheless, we expect earnings growth will continue to be sustained going forward as we are positive on the group's effort to: (i) rebuild and replace old production facilities aimed at extracting higher production output from existing locations and; (ii) add new capacity via building new plant. At the end of CY20 (1HFY21) and post-completion of all upgrading works and building of new plants, Supermax is expected to have an annual capacity of 27.4b pieces per annum. This translates to an increase on Supermax's production capacity by more than +10.0%. Over a longer term, the group target to have an annual capacity of 44.1b pieces per annum by the end of 1HCY24. Premised on this, we believe that the current subdued average selling price will be moderated by the increase in sales volume. Taking everything into consideration, we are downgrading our recommendation on the stock to **NEUTRAL** (previously BUY). 

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	1,304.5	1,538.2	1,572.2	1,759.0	1,945.7
Cost of goods sold	(1,134.6)	(1,351.6)	(1,382.9)	(1,543.6)	(1,707.5)
Gross profit	169.9	186.6	189.4	215.4	238.2
Finance costs	(14.0)	(19.7)	(20.1)	(22.5)	(24.9)
PBT	161.9	172.4	176.2	200.6	221.9
Taxation	(51.8)	(49.3)	(52.8)	(60.2)	(66.6)
PATANCI	106.7	123.1	121.2	138.1	152.7
PBT Margin (%)	12.4	11.2	11.2	11.4	11.4
PATANCI Margin (%)	8.2	8.0	7.7	7.8	7.8
EPS (sen)	8.1	9.4	9.2	10.5	11.7
EPS Growth (%)	58.7	15.4	(1.5)	13.9	10.6
PER (x)	20.3	17.6	17.8	15.7	14.2
Dividend (sen)	4.0	1.5*	4.0	4.8	6.0
Dividend yield (%)	2.4	0.9	2.4	2.9	3.6

Source: Company, MIDFR

* Final dividend via share dividend distribution

SUPERMAX CORPORATION BERHAD: 2QFY20 RESULTS SUMMARY

FYE June (RM'm)	Quarterly results			Cumulative results		
	2QFY20	YoY (%)	QoQ (%)	1HFY20	1HFY19	YoY (%)
Revenue	385.5	0.1	4.2	755.4	752.2	0.4
Operating expenses	(338.8)	3.7	1.4	(672.9)	(637.9)	5.5
Finance costs	(4.6)	(0.7)	10.4	(8.8)	(9.3)	(5.0)
Share of profit of associated companies	(0.3)	(158.6)	(134.2)	0.5	2.0	(73.0)
Profit Before Tax	41.8	(23.0)	28.9	74.3	107.0	(30.6)
Taxation	(11.8)	(24.3)	57.8	(19.3)	(32.3)	(40.3)
Profit After Tax	30.0	(22.5)	20.3	55.0	74.7	(26.4)
Minority interest	(0.1)	nm	(167.1)	0.1	0.6	(88.6)
PATANCI	30.2	(20.9)	21.9	54.9	74.1	(25.9)
Basic EPS (sen)	2.3	(20.6)	22.4	4.2	5.7	(25.5)
			(+/-) pts			(+/-) pts
PBT margin(%)	10.9	(3.3)	(19.2)	9.8	14.2	(4.4)
PAT margin (%)	7.8	(2.3)	(13.4)	7.3	9.9	(2.7)
PATANCI margin(%)	7.8	(2.1)	(14.5)	7.3	9.8	(2.6)
Effective tax rate (%)	28.2	(0.5)	(18.3)	26.0	30.2	(4.2)

Source: Company, MIDFR

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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.

