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Wednesday, November 30, 2016

Market Access

Supermax Corporation Berhad

“Hit by Higher Overheads”

1QFY17 Results Review

- Actual vs. expectations.** Supermax Corporation Berhad (Supermax) recorded 1Q17 revenue of RM269.0 million (-13% y-o-y) and EBITDA of RM37.3 million (-26% y-o-y) during the period. The 1Q17 results missed our forecast and made up only 15% of our FY17 PAT forecast due to lower sales turnover and higher operating costs such as higher wages, natural gas expenses as well as advertising and promotion expenses for contact lens division.
- Dividend.** No dividend was announced for 1Q17.
- Modest 1QFY17 results.** Compared to previous quarter, Supermax registered modest revenue growth of 1% q-o-q from RM267 million amid continued healthy market demand for examination gloves. However, due to higher operating cost, both EBITDA and EBIT fell by double-digit to RM37 million (-27% q-o-q) and RM29 million (-23% q-o-q), respectively. That subsequently pressured PBT to RM26 million or -24% q-o-q while PATMI eventually reached RM20 million (+188% q-o-q). Note that the 188% q-o-q jump PATMI in 1Q17 was the result of higher tax in previous quarter (6Q16).

HOLD (TP:RM2.35)

Current Price (RM)	RM2.14
New Target Price (RM)	RM2.35
Previous Target Price (RM)	RM2.28
Previous Recommendation	HOLD
Upside/(Downside) To Target	9.8%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	SUCB MK
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Stock Information

Listing	MAIN MARKET	
Sector	Glove	
Shariah Compliance	Yes	
Issued Shares (mn)	671.3	
Market Cap (RM mn)	1,436.5	
YTD Chg in Share Price	-34%	
Beta (x)	0.70	
52-week Hi/Lo (RM)	3.56	2.01
3M Average Volume (shrs)	1.8mn	
Estimated Free Float	58%	

Major Shareholders

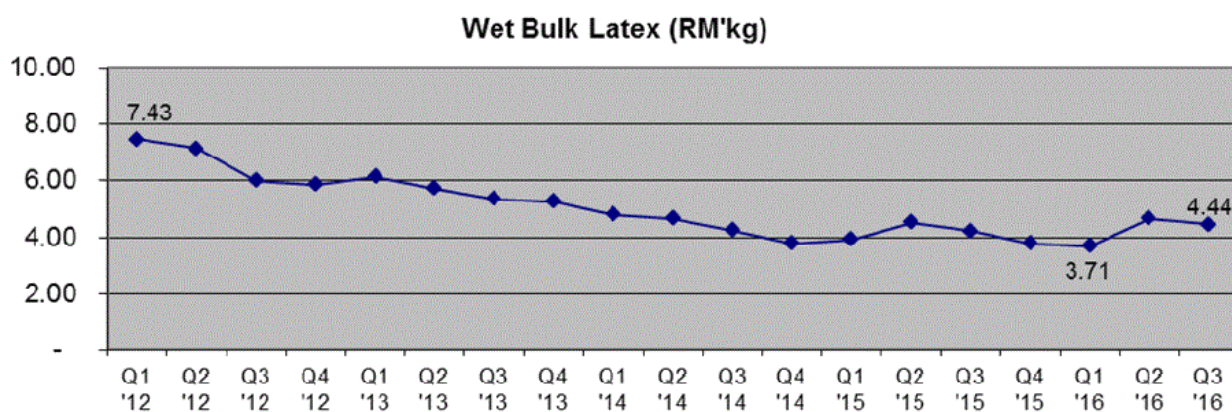
Kim Sim Thai	20.7%
Bee Geok Tan	10.4%
EPF	5.0%

- **Rebound in latex prices.** In Q3 CY16, natural rubber (NR) price remained stable at RM4.44 per MT after seeing a strong rebound to RM4.67 per MT in previous quarter. However, due to weaker ringgit, NR prices had surged to RM5.78/kg as at 25-Nov-2016. Whereas nitrile latex (NBR) showed more stable performance compared to NR for the same time frame, maintaining around USD1,000/MT level. We understand that the recent spike in NR price was largely due to wintering season for rubber trees in the region as well as intervention efforts by major rubber production nations including Malaysia to shore up prices.
- **Outlook.** We expect the demand for gloves will continue to stay robust going forward due to increasing regulation of the healthcare sector and higher healthcare spending in both public and private sectors amid growing population and living standard. The decline in ASP in the previous quarters is expected to smooth out in the event of rising cost of raw materials, however, we remain cautious on the topline growth as price competition among glove makers continue to intensify amid supply expansion.

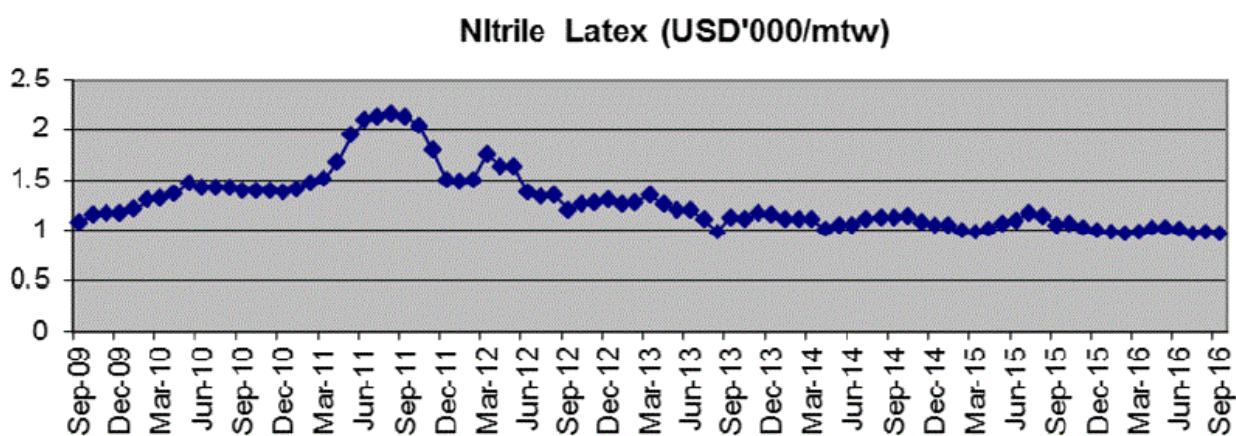
As an export-oriented company, the new record low of USD against Ringgit performance (RM4.46/USD1) will somehow boost the topline growth and cushion the overall adverse earnings impact due to higher overheads. Headwinds faced by glove manufacturers especially after the rise of operating costs fuelled by hike in natural gas prices will further induce manufactures to employ more automation in their production lines to achieve better efficiency. Potential freeze-lifting on the hiring of foreign labour (which has already been applied in 4 sectors in early-May 2016) could help reduce pressure on labour shortage in the glove industry as well.

Production wise, 50% of the 2 new plants (Plant 10 & 11) are up and running while the remaining 50% have also been commissioned in mid-2016. We expect full earnings contribution in CY17 should there be no further delays. Upon completion of all lines in both new plants, Supermax is expected to ramp up its total capacity by 5.6 billion pieces/annum to 23.2 billion pieces per annum.

- **Changes in earnings forecast.** We make no changes on the earnings forecast and maintain our FY17/18 PAT estimates at RM132 million and RM147 million, respectively.
- **Valuation.** We maintain target price of RM2.35 on Supermax after assigning a 20% discount to the previous target price of RM2.94 due to the lack of management guidance on the company's prospects and operational data. The earlier target price was based on target PER pegged to FY17 earnings forecast of 19 sen. Reduce to **HOLD**. We reckon the growth drivers have not fully been factored in the current price which is believed to have suffered from overselling activity in recent months.



Source: Company



Source: Company

Figure 3: Peers Comparison

Company	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Supermax	Jun	2.17	17	15	10	22	1	2	11	3	2.35	HOLD
Kossan	Dec	6.69	23	30	20	20	4	4	22	2	8.55	BUY
Hartalega	Mar	4.81	16	14	22	32	5	5	19	2	4.78	BUY
Top Glove	Aug	5.08	15	23	16	17	2	3	23	3	6.12	BUY
Average			18	21	17	23	3	4				

Source: Bloomberg, M&A Securities

Figure 4: Results Analysis

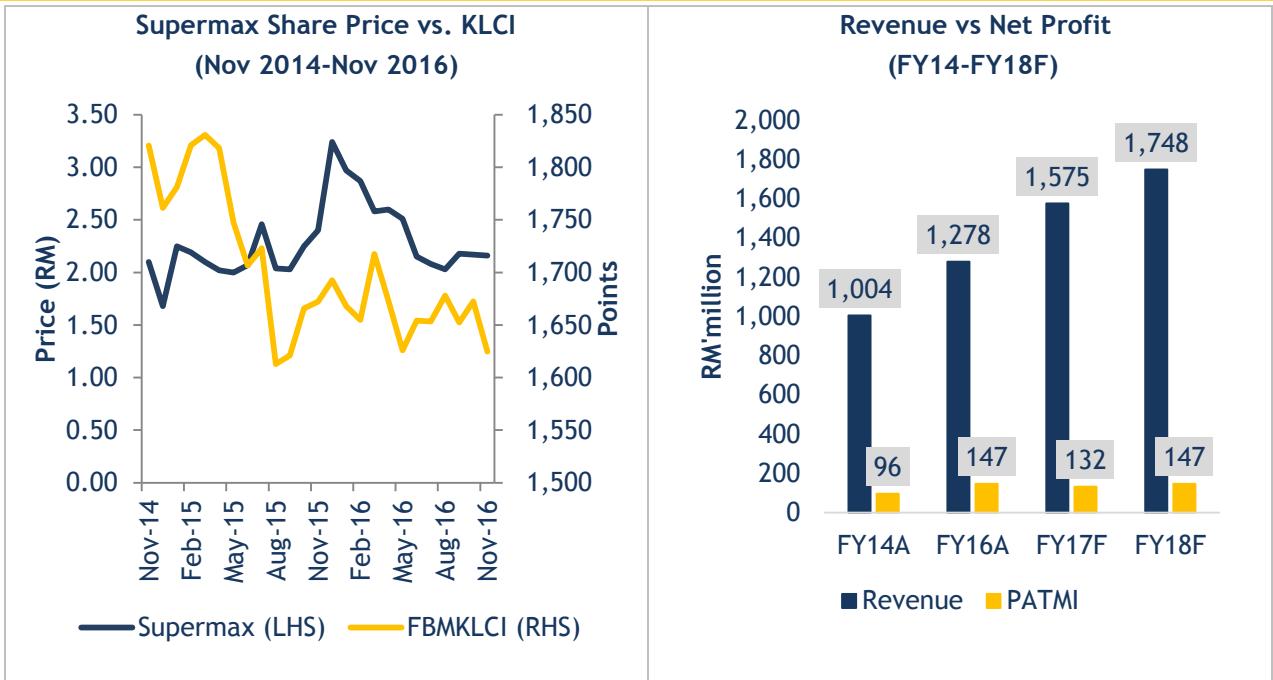
FYE DEC (RM million)	30-Sep-16	30-Jun-16	30-Sep-15	Q-o-Q	Y-o-Y
Turnover	269	267	310	1%	-13%
EBITDA	37	51	51	-27%	-26%
EBIT	29	37	51	-23%	-43%
D&A	(8)	(14)	0	-38%	-1913%
Interest expense	(2)	(2)	(3)	-5%	-12%
Pretax profit	26	35	48	-24%	-45%
Taxation	(7)	(28)	(10)	-76%	-33%
Minority interest	(0)	(0)	0	285%	-350%
PATMI	20	7	38	188%	-49%
EPS (sen)	3	1	6	189%	-49%
EBITDA margin	14%	19%	16%	-5%	-2%
EBIT margin	11%	14%	16%	-3%	-6%
PBT margin	10%	13%	16%	-3%	-6%
Net profit margin	7%	3%	12%	5%	-5%

Source: Company, M&A Securities

Figure 5: Financial Forecast

FYE Jun (RM million)	FY14A	FY16A(15M)	FY17F	FY18F
Revenue	1,004	1,278	1,575	1,748
EBITDA	165	232	236	262
D&A	-29	-36	-56	-62
EBIT	136	197	181	200
Net interest income	-8	-11	-10	-10
PBT	128	186	170	190
Tax	-33	-39	-38	-43
PAT	95	147	132	147
MI	0	0	0	0
PATMI	96	147	132	147
EPS	14	22	19	22
EBITDA margin	16%	18%	15%	15%
EBIT margin	14%	15%	11%	11%
PBT margin	13%	15%	11%	11%
Net profit margin	10%	11%	8%	8%
PER (x)	18	14	13	12
P/BV (x)	2	2	1	1
Dividend (sen)	5	6	6	6
Dividend yield	2%	2%	2%	3%

Source: M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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