30 August 2016 | FY16 Results Review

Supermax Corporation Berhad

Earnings hit by higher tax expense

Maintain BUY

***Revised* Target Price (TP): RM3.02**
(Previously RM3.21)

INVESTMENT HIGHLIGHTS

- **FY16 earnings below expectation**
- **Revenue boosted by higher ASP and NR prices**
- **Earnings impacted by higher tax**
- **Earnings forecast revised by -6.0% for FY17F**
- **Maintain BUY with a revised TP of RM3.02**

Below expectation. Supermax's FY16 (18 months FY16) earnings of RM153.4m came in below expectation at 87.3% of our estimate. 6MFY16 revenue saw an increase by +16.2%yoy and whilst PATANCI dipped by 73.1%yoy respectively. A 2.0sen dividend was also declared during the quarter under review. This brings total dividends declared year-to-date to 8.0sen which translates to a 3.8% yield to yesterday's closing price.

Revenue boosted by higher ASP and NR prices. The increase in revenue and earnings during the quarter were mainly attributable to: (i) favourable USD to RM exchange rate, (ii) higher average selling price (ASP) in line with higher raw material prices during the period, and (iii) higher revenue contribution from overseas distribution subsidiaries. Management disclosed that although the RM has strengthened against the USD by 4% during the quarter, the company has revised its ASP upward in order to compensate for the higher natural rubber (NR) price which has surged by 26% since the preceding quarter.

Earnings affected by higher tax. Despite recording higher revenue during the period, PATANCI dipped by -73.1% against corresponding period. This was mainly due to higher tax paid amounting to RM7.7m in respect of previous years' assessments and provision for deferred tax during the quarter. As a result, PAT and PATANCI margins slid to 2.6% and 2.5% respectively as opposed to 10.9% and 11.0% in the previous corresponding period. We believe the higher tax with respect to previous years' assessments is a temporary blip in the company's earnings performance. Going forward, we are positive that the company will be able to perform better in light of the strong and robust demand for medical gloves and the tightening of medical regulations in developed countries.

RETURN STATS	
Price (29 August '16)	RM2.12
Target Price	RM3.02
Expected Share Price Return	+42.53%
Expected Dividend Yield	+2.60%
Expected Total Return	**+45.13%**

STOCK INFO	
KLCI	1,681.60
Bursa / Bloomberg	7106 / SUCB MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	671.27
Par Value (RM)	1.00
Market cap. (RM'm)	1,423.10
Price over NA	1.36
52-wk price Range	RM1.93 – RM3.56
Beta (against KLCI)	0.76
3-mth Avg Daily Vol	2.38m
3-mth Avg Daily Value	RM5.27m
Major Shareholders (%)	
Kim Sim Thai	20.71
Bee Geok Tan	15.33
EPF	5.03

Earnings forecasts. We are revising our earnings forecast for FY17F down by -6.0% to RM146.6m (from RM156m previously) in view of intensifying competition among glove makers that could put pressure on ASP. Additionally, we introduce our FY18F numbers in this report. Key risks to our earnings forecasts would most likely be: (i) aggressive competition which may squeeze margins and ASP, (ii) sudden jump in raw materials prices, i.e. latex and nitrile, (iii) strong appreciation of Ringgit, and (iv) delay in capacity expansion.

Maintain BUY with a revised Target Price (TP) of RM3.02. Post FY16 earnings announcement and after updating our valuation model, we are reiterating our BUY recommendation on Supermax with a revised TP of RM3.02 per share (from RM3.52 previously). Our TP is derived via pegging our FY17F EPS of 21.6sen to an unchanged PER of 14x, which is its 3-year average PER. We think that despite the strong demand for rubber gloves going forward, the increasingly intense competition could potentially pressure margins and ASP. That said, we remain positive on the company's future business prospects as it continues to: (i) contain cost increases, (ii) secure reputable customers such as the UK's National Health Services (NHS) authorities, and (iii) diversifying its revenue base to include production of contact lenses.

Table 1: Supermax's quarterly earnings review

FYE June (RM'm)	Quarterly results					
	6MFY15	**3MFY16**	**6MFY16**	**QoQ (%)**	**YoY (%)**	**FY16**
Revenue	**229.4**	**225.0**	**266.5**	18.5	16.2	**1,544.7**
Operating expenses	(200.7)	(189.8)	(231.1)	21.8	15.2	(1,326.6)
Finance costs	(2.0)	(3.0)	(2.5)	(15.6)	25.4	(13.6)
Share of profit of associates	2.8	1.2	1.9	50.9	(33.2)	16.1
Profit Before Tax	**29.5**	**33.5**	**34.8**	**3.9**	**17.8**	**220.6**
Taxation	(4.6)	(13.2)	(27.9)	111.3	509.4	(67.1)
Profit After Tax	**25.0**	**20.3**	**6.9**	**(66.2)**	**(72.5)**	**153.5**
Non-controlling interest	(0.3)	0.6	(0.1)	(112.0)	nm	0.5
PATANCI	**25.3**	**19.7**	**6.8**	**(65.5)**	**(73.1)**	**153.4**
Basic EPS (sen)	3.6	2.9	1.0	(65.4)	(72.5)	0.0
PBT margin (%)	12.9	14.9	13.0	(1.8)	0.2	14.3
PAT margin (%)	10.9	9.0	2.6	(6.4)	(8.3)	9.9
PATANCI margin (%)	11.0	8.7	2.5	(6.2)	(8.5)	9.9
Tax rate (%)	15.5	39.5	80.3	40.8	64.8	30.4

INVESTMENT STATISTICS

FYE June (RMm)	FY2012*	FY2013*	FY2014*	FY2016 (18M)	FY2017F	FY2018F
Revenue	997.4	1,048.2	1,004.4	1,544.7	1,571.6	1,642.9
Cost of goods sold	(745.4)	(830.3)	(812.5)	(1,326.6)	(1,288.7)	(1,339.0)
Gross profit	252.0	217.9	191.8	218.1	282.9	303.9
Finance costs	(8.7)	(7.6)	(8.2)	(13.6)	(9.1)	(10.1)
Profit before tax	**137.3**	**148.2**	**128.3**	**220.6**	**192.9**	**206.0**
Income tax expense	(15.9)	(29.2)	(33.1)	(67.1)	(46.3)	(49.4)
Net Profit (RM'm)	**121.4**	**119.0**	**95.2**	**153.5**	**146.6**	**156.6**
PBT Margin (%)	13.8	14.1	12.8	14.3	12.3	12.5
Net Profit Margin (%)	12.2	11.4	9.5	9.9	9.3	9.5
EPS (sen)	17.9	17.6	14.1	25.8	21.6	23.0
EPS Growth (%)	-41.5	-1.6	-20.1	83.4	-16.6	6.8
PER (x)	12.4	12.6	15.8	8.2	9.8	9.2
Net Dividend (sen)	5.0	5.0	5.0	8.0	5.5	6.0
Dividend yield (%)	2.4	2.4	2.4	3.8	2.6	2.8
Tax rate (%)	11.6	19.7	25.8	30.4	24.0	24.0

Source: Company, Forecasts by MIDFR
**FYE June*

DAILY PRICE CHART

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% 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.