

05 May 2021

Buy

Price
RM5.57

Target Price
RM8.30

Bloomberg code
SUCB MK

Equity | Malaysia | Manufacturing (Gloves)

Flashnote

Analyst

Nabil Zainoodin, CFA, CA
(603) 2171 0415
nabil@kaf.com.my

Supermax

9MFY21: broadly in-line with estimates

Financial Highlights

FYE Jun	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,538.2	2,131.8	7,750.2	4,874.9	4,364.5
Core net profit (RMm)	134.9	525.6	3,542.2	1,492.5	1,164.8
Core EPS (Sen)	5.0	19.3	130.2	54.9	42.8
EPS growth (%)	68.8	289.6	574.0	-57.9	-22.0
DPS (Sen)	1.5	2.9	45.6	19.2	15.0
Core PE (x)	112.3	28.8	4.3	10.2	13.0
Div yield (%)	0.3	0.5	8.2	3.4	2.7
ROE (%)	11.5	38.8	106.8	28.8	20.7
Net Gearing (%)	19.4	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	13.4	9.4	3.0	2.8	2.5

Source: Company, KAF

- Maintain Buy rating with unchanged TP of RM8.30 pegged to 17x PER based on CY22F EPS of 48.8sen.
- 3QFY21 core earnings came in at RM1,080.2m (QoQ:3%;YoY:1,420%) which brings its 9MFY21 core earnings to RM2,908.9m (YoY:2,239.2%).
- Results were broadly in-line with ours and consensus' estimates accounting for 81% and 71% of full- year forecasts respectively.
- The Group performance was impacted by the temporary closure of its Meru plants in February 2021 for sanitisation and deep-cleansing exercise following the detection of several Covid-19 cases among foreign workers.
- Also, the donation of RM75m towards the government's efforts in fighting Covid-19 pandemic was paid during the quarter.
- In addition, operating cost increased marginally by 1.5%qoq due to the rise in nitrile latex cost.
- Going forward, we postulate that earnings will further moderate in the coming quarters as average selling price (ASP) drops on the back of increasing gloves' supplies entering the market.
- Currently, the spot price for gloves are lower than the contracted price. Given the group has been selling considerable volume on spot, its overall ASP has dropped by between 15% to 25%.
- A special dividend of 13sen was also declared for FY21. Cumulatively, the group has so far declared dividends of 16.8sen for FY21.
- The group's net cash position has improved by 18%qoq to RM2.6b (excluding prepayment received from customers and borrowings totaling RM1.4b).
- Coupled with cumulative treasury share holdings of 103.0m, we expect a larger dividend distribution next quarter which could be a mix of cash and treasury shares.
- The group is building five glove manufacturing plants which are concurrently under construction and scheduled for completion progressively over the next two-year period.
- The new plants will add 22.3b new capacity, bringing the group's total capacity to 48.4b gloves by the end of CY22. A total of RM1.4b has been allocated for this plan.
- With regards to its first glove plant in the US, we understand that the group has shortlisted several suitable manufacturing sites and is currently negotiating with local authorities on tax incentives.

- All in all, we expect the group's future earnings to be supported by a significant increase in sales volume despite the normalization in ASP.

Exhibit 1: Results summary

FYE June	3Q20	4Q20	1Q21	2Q21	3Q21	%qoq	%yoy	9MFY20	9MFY21	%chg	FY21F	9M/F
Revenue	447.2	929.1	1352.5	1998.6	1937.5	-3.1	333.2	1202.7	5288.7	339.7	7750.2	68
Operating costs	-339.9	-380.8	-299.4	-586.5	-516.1	1.5	73.0	-1025.9	-1526.3	48.8		
EBITDA	107.3	548.4	1053.1	1412.1	1421.4	0.7	1224.5	213.6	3886.7	1719.3	4771.6	81
EBITDA margin (%)	24	59	78	71	73			18	73		62	
Depreciation	-13.1	-37.6	-14.1	-15.5	-19.8	27.6	51.0	-38.5	-49.3	28.1	-80.3	61
Operating profit	94.2	510.8	1039.0	1396.6	1401.7	0.4	1387.5	175.2	3837.4	2090.7	4691.3	82
Net finance costs	-3.5	-4.8	-2.4	-2.0	-1.8	-10.9	-50.2	-12.3	-6.1	-50.2	-15.8	39
Associates	4.6	13.0	12.6	2.6	17.4	574.0	279.7	5.1	32.6	537.4		
Pretax profit												
Tax	95.3	519.0	1049.2	1397.2	1342.3	-3.9	1308.8	167.9	3788.8	2156.1	4736.3	80
Minority interest	-22.9	-110.7	-236.8	-317.5	-320.0	0.8	1295.5	-42.2	-874.3	1970.8	-1184.1	74
Net profit	-1.3	-8.7	-23.0	-20.0	-17.1	-14.4	1223.7	-1.4	-60.1	4307.6	-10.0	600
Net profit margin (%)	71.1	399.6	780.7	1048.0	1005.2	-4.1	1314.7	124.4	2833.9	2178.9	3552.3	80
Normalised net profit	16	43	58	52	52						46	
Normalised net margin (%)	71.1	399.6	780.7	1048.0	1080.2	3.1	1420.2	124.4	2908.9	2239.2	3542.2	82

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)