Results Note | **RM6.80 @ 29 January 2021**

"Earnings continue to surprise on the upside"

Share price performance

	1M	3M	12M
Absolute (%)	12.2	-26.4	681.0
Rel KLCI (%)	17.8	-29.8	673.7

	BUY	HOLD	SELL
Consensus	11	-	-

Source: Bloomberg

Stock Data

Sector	Rubber Products
Issued shares (m)	2,617.6
Mkt cap (RMm)/(US$m)	17799.9/4407.6
Avg daily vol - 6mth (m)	41.7
52-wk range (RM)	0.64-11.95
Est free float	35.8%
Stock Beta	1.58
Net cash/(debt) (RMm)	2,013.5
ROE (FY22E)	46%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Supermax Holdings	38.4%

Source: Affin Hwang, Bloomberg

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Supermax (SUCB MK)

BUY (maintain)
Up/Downside: 60.3%

Price Target: RM10.90
Previous Target (Rating): RM9.30 (BUY)

Another strong performance

- **Supermax (SUCB) reported yet another strong set of results, as 1HFY21 PATAMI of RM1,849m (+3,276% yoy) was above both our and consensus estimates**
- **Despite EBITDA margin declining to 70.7% in 2QFY21 from 77.9% in 1QFY21, PATAMI for 2QFY21 was still up by 34.2% qoq to RM1,059m**
- **We have raised our EPS forecasts for FY21-22E by 10-98% to factor in the latest ASP assumptions, raised our TP to RM10.90 and maintained our BUY call**

Decline in EBITDA margin as expected

Despite the decline in EBITDA margin to 70.7% in 2QFY21 from 77.9% in 1QFY21, we are not overly concerned, as SUCB still managed to grow PATAMI by 34% qoq. The increase in operating cost was likely due to higher raw material prices and labour costs. Although revenue only increased by 47.8% qoq, we believe that price increases are more than sufficient to cover the incremental costs. The decline in margin was mainly due to a base effect. The current shortage situation has enabled manufacturers like SUCB to pass on the higher costs to its customers. As such, we are not overly concerned about the recent spike in raw material prices.

Guidance on expansion remains intact

There is no change to SUCB's expansion target for its glove production, where it targets to increase overall capacity to 36bn pcs/year from the current 26bn pcs/year or up 39% yoy. However, we believe that SUCB would continue to act rationally and could delay some of the expansion if there are signs of an oversupply in the near term to maintain overall profitability. We reckon that overall demand growth for gloves are likely to sustain at around 10-15% per year post Covid-19, supported by higher hygiene awareness and also new demand from the non-medical sectors.

Raised our TP to RM10.90 and reiterate BUY

We have raised our EPS forecasts for FY21E-23E by 9.7-97.7% to factor in the latest performance and also the current ASPs. Management has also guided that the highest ASPs have yet to be fully reflected in the latest results. We have raised our TP for SUCB to RM10.90 based on a lower PE multiple of 15.6x (3-year historical average) from 20.7x (+1SD), to reflect investor concerns on earnings sustainability. We believe that there is upside risk to our forecasts if the current Covid-19 situation worsens, as the current shortage will likely continue to drive ASPs higher. Downside risks include shortage of raw materials and labour.

Earnings & Valuation Summary

FYE 30 June	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,489.3	2,131.8	8,237.7	5,932.9	3,782.0
EBITDA (RMm)	224.1	763.6	6,180.3	3,533.6	1,661.8
Pretax profit (RMm)	172.6	688.6	6,142.4	3,495.9	1,624.5
Net profit (RMm)	123.8	525.6	4,339.8	2,470.0	1,323.1
EPS (sen)	4.5	19.3	159.5	90.8	48.6
PER (x)	149.5	35.2	4.3	7.5	14.0
Core net profit (RMm)	117.3	525.6	4,339.8	2,470.0	1,323.1
Core EPS (sen)	4.3	19.3	159.5	90.8	48.6
Core EPS growth (%)	9.9	348.2	725.7	(43.1)	(46.4)
Core PER (x)	157.8	35.2	4.3	7.5	14.0
Net DPS (sen)	4.5	4.7	73.2	41.6	19.8
Dividend Yield (%)	0.7	0.7	10.8	6.1	2.9
EV/EBITDA	83.5	23.1	2.6	4.1	8.1
Chg in EPS (%)			+45.2	+97.7	+9.7
Affin/Consensus (x)			1.3	1.2	0.8

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 30 Jun (RMm)	2Q FY20	1Q FY21	2Q FY21	QoQ % chg	YoY % chg	1H FY20	1H FY21	YoY % chg	Comments
Revenue	**369.9**	**1,352.5**	**1,998.6**	**47.8**	**418.5**	**755.4**	**3,351.2**	**343.6**	The increase qoq was due to both higher selling prices and higher sales volume
Op costs	(321.6)	(299.4)	(586.5)	95.9	80.0	(647.5)	(886.0)	36.8	The increase qoq was mainly due to higher raw material and operating costs
EBITDA	**48.4**	**1,053.1**	**1,412.1**	**34.1**	**2,270.6**	**107.9**	**2,465.2**	**2,184.0**	
EBITDA margin (%)	*13.1*	*77.9*	*70.7*	*-7.2 ppt*	*+55.2 ppt*	*14.3*	*73.6*	*+59.3 ppt*	Declined qoq due to cost increases
Depn and amort	(12.5)	(14.0)	(15.5)	10.2	20.6	(25.4)	(29.5)	16.4	Higher depreciation yoy due to the new lines
EBIT	**35.8**	**1,039.0**	**1,396.6**	**34.4**	**2,888.7**	**82.6**	**2,435.7**	**2,850.4**	
EBIT margin (%)	*9.7*	*76.8*	*69.9*	*-6.9 ppt*	*+57.8 ppt*	*10.9*	*72.7*	*+61.8 ppt*	
Int expense	(4.2)	(2.4)	(2.0)	(18.2)	(57.4)	(8.8)	(4.4)	(50.3)	
JV & Associates	0.8	12.6	2.6	(79.6)	(1,030.3)	0.5	15.2	2,753.9	
EI	-	-	-	n.m	n.m	-	-	n.m	
Pretax profit	**32.4**	**1,049.2**	**1,397.2**	**33.2**	**3,240.4**	**74.3**	**2,446.5**	**3,193.9**	Flow through from EBITDA
Tax	(7.5)	(236.8)	(317.5)	34.1	2,589.4	(19.3)	(554.3)	2,773.5	
Tax rate (%)	*23.1*	*22.6*	*22.7*	*+0.2 ppt*	*-5.5 ppt*	*28.4*	*22.2*	*-6.1 ppt*	
MI	(0.2)	(23.0)	(20.2)	(11.9)	n.m	(0.1)	(43.2)	>100	
Net profit	**24.7**	**789.5**	**1,059.5**	**34.2**	**3,412.2**	**54.9**	**1,849.0**	**3,267.2**	
EPS (sen)	0.9	29.0	38.9	34.2	3,412.2	2.0	68.0	3,267.2	
Core net profit	**24.7**	**789.5**	**1,059.5**	**34.2**	**3,412.2**	**54.9**	**1,849.0**	**3,267.2**	Above our and consensus expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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