

2 February 2021

Consumer Cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

The Best Quarter Is Yet To Come; Keep BUY

Target Price (Return): MYR10.60 (+56%)
 Price: MYR6.80
 Market Cap: USD4,406m
 Avg Daily Turnover (MYR/USD): 209m/51.3m

- **Keep BUY, with lower DCF-derived MYR10.60 TP from MYR13.25, 56% upside and c.7% yield.** 1HFY21 (Jun) earnings beat expectations due to better-than-expected ASP. Our TP reflects 8.3x FY22F P/E (20% discount vs peers). This discount is justified due to Supermax's lower market cap. Our BUY call is premised on stronger earnings prospects in 3QFY21F, expected positive news flow from its venture to build a manufacturing plant in the US and dual listing in Singapore Exchange (SGX).
- **1HFY21 earnings beat expectations.** 1HFY21 core net profit of MYR1.85bn was ahead of our and consensus estimates at 58% and 56%. We expect Supermax to increase its ASP further in 3QFY21F as gloves shortage remains.
- **Expansion plan intact.** Supermax completed its Plant 12B in Dec 2020. Accordingly, its total capacity has increased from 24bn pieces pa (ppa) currently to 26.2bn ppa. The company plans to add its capacity aggressively by 10.2bn ppa to 36.4bn this year.
- **US manufacturing plant to start construction in first half of 2021.** We gather that construction will start in the first half of 2021 with gradual commissioning from the first half of 2022. We are positive on the progress of Supermax's plan as it will enhance the company's brand in the US over the long term.
- **Outlook.** Supermax expects gloves demand to moderate as COVID-19 vaccines are being rolled out in an increasing number of countries. The company believes that demand moderation will likely be gradual and not drop sharply due to the structural change in consumption. This includes new consumption, new customers as well as greatly heightened healthcare and hygiene awareness. This is consistent with our ASP assumptions of lower YoY ASP in FY22F.
- **Earnings estimates increased.** We increase FY21F core earnings by 36% due to higher ASP assumptions. However, we maintain our FY22F-23F earnings as we keep ASP assumptions unchanged. Note that our FY21F-23F blended ASPs of USD89.00, USD57.00 and USD48.00 already assume an ASP decline in the future once COVID-19 ends.
- **We lower our TP to MYR10.60.** Long-term ASP has been lowered to USD47.00/box (from USD48.00) as higher near-term ASP should result in stronger competition in the long run. Beta has been increased to account for higher share price volatility.
- **Stay BUY.** In the short term, we expect earnings to continue to rise in 3QFY21F. Beyond that, Supermax is a beneficiary of stable gloves growth demand of 8-10% annually. Our ESG score for Supermax is 2.89.
- **Risks.** These include worse-than-expected gloves demand after the COVID-19 pandemic ends, lower-than-expected sales volume/USD, and higher-than-estimated raw material prices.

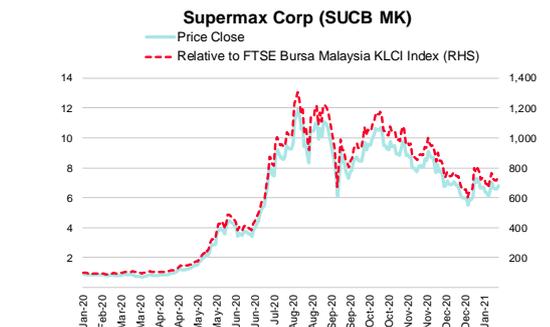
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.1	12.2	(28.1)	(27.2)	664.0
Relative	16.8	16.4	(32.9)	(24.4)	663.0
52-wk Price low/high (MYR)					0.70 – 11.9



Source: Bloomberg

Overall ESG Score: 2.89 (out of 4)

E: Good

Supermax uses alternative fuel source such as biomass at several factories. It has spent MYR24m over the years to build, upgrade and maintain its biomass facilities. Supermax also treats its wastewater to protect the environment.

S: Good

To date, Supermax has not reported any positive COVID-19 cases among its workers. This could be caused by efforts spent to ensure all accommodation is in compliance with regulations and standards.

G: Good

63% of its board members are independent. 13% of its directors are female – still below the MCGG requirement of 30%. Additionally, Supermax provides full disclosure on its directors' remuneration, including salaries and bonuses. Supermax holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
Total turnover (MYRm)	1,304	1,538	2,132	8,211	7,382
Recurring net profit (MYRm)	107	123	526	4,336	3,297
Recurring net profit growth (%)	-	15.5	326.6	725.0	(24.0)
Recurring P/E (x)	164.18	142.14	33.32	4.04	5.31
P/B (x)	17.3	15.6	11.7	3.8	2.5
P/CF (x)	98.83	74.50	22.64	3.38	5.55
Dividend Yield (%)	1.2	0.2	1.1	8.7	6.6
EV/EBITDA (x)	72.15	75.68	23.71	2.36	2.63
Net debt to equity (%)	28.5	19.2	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
Malaysia	Recurring EPS	0.04	0.05	0.20	1.68	1.28
Consumer Cyclical	DPS	0.08	0.02	0.07	0.59	0.45
Supermax Corp	BVPS	0.39	0.44	0.58	1.77	2.67
SUCB MK						
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
	Recurring P/E (x)	164.18	142.14	33.32	4.04	5.31
	P/B (x)	17.3	15.6	11.7	3.8	2.5
	FCF Yield (%)	0.7	0.7	3.6	28.7	17.2
	Dividend Yield (%)	1.2	0.2	1.1	8.7	6.6
	EV/EBITDA (x)	72.15	75.68	23.71	2.36	2.63
	EV/EBIT (x)	87.04	93.96	26.51	2.39	2.70
	Income statement (MYRm)	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
	Total turnover	1,304	1,538	2,132	8,211	7,382
	Gross profit	430	510	1,102	6,693	5,189
	EBITDA	244	232	720	5,650	4,261
	Depreciation and amortisation	(42)	(45)	(76)	(78)	(105)
	Operating profit	202	187	644	5,572	4,156
	Net interest	(14)	(20)	(17)	42	102
	Pre-tax profit	162	172	689	5,696	4,332
	Taxation	(52)	(49)	(153)	(1,339)	(1,018)
	Reported net profit	107	123	526	4,336	3,297
	Recurring net profit	107	123	526	4,336	3,297
	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
	Change in working capital	57	31	145	787	(161)
	Cash flow from operations	177	235	773	5,180	3,156
	Capex	(59)	(112)	(150)	(150)	(150)
	Cash flow from investing activities	(55)	(112)	(150)	(97)	(39)
	Dividends paid	(76)	(33)	(158)	(1,301)	(989)
	Cash flow from financing activities	(126)	(104)	(140)	(1,299)	(1,041)
	Cash at beginning of period	156	145	174	667	4,461
	Net change in cash	(4)	19	483	3,784	2,076
	Ending balance cash	145	174	667	4,461	6,546
	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
	Total cash and equivalents	145	174	667	4,461	6,546
	Tangible fixed assets	900	969	1,018	1,068	1,121
	Total investments	197	208	208	208	208
	Total assets	1,700	1,843	2,420	6,986	9,075
	Short-term debt	374	331	294	336	327
	Total long-term debt	62	61	129	121	114
	Total liabilities	677	708	921	2,463	2,236
	Total equity	1,023	1,134	1,499	4,523	6,839
	Total liabilities & equity	1,700	1,843	2,420	6,986	9,075
	Key metrics	Jun-18	Jun-19	Jun-20	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	17.9	38.6	285.2	(10.1)
	Recurrent EPS growth (%)	0.0	15.5	326.6	725.0	(24.0)
	Gross margin (%)	33.0	33.2	51.7	81.5	70.3
	Operating EBITDA margin (%)	18.7	15.1	33.8	68.8	57.7
	Net profit margin (%)	8.2	8.0	24.7	52.8	44.7
	Capex/sales (%)	4.5	7.3	7.0	1.8	2.0
	Interest cover (x)	14.5	9.5	37.6	520.1	420.5

Source: Company data, RHB

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Figure 1: Results snapshot

FYE Jun (MYRm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)	Comments
Revenue	385.5	1,352.5	1,998.6	47.8	418.5	755.4	3,351.2	343.6	Surge in gloves demand led to higher ASP
EBITDA	59.6	1,053.1	1,412.1	34.1	2,270.6	107.9	2,465.2	2,184.0	
<i>EBITDA Margin (%)</i>	<i>15.5</i>	<i>77.9</i>	<i>70.7</i>			<i>14.3</i>	<i>73.6</i>		
Depreciation	(12.8)	(14.1)	(15.5)	10.2	20.6	(25.4)	(29.5)	16.4	
EBIT	46.7	1,039.0	1,396.6	34.4	2,888.7	82.6	2,435.7	2,850.4	
<i>EBIT Margin (%)</i>	<i>12.1</i>	<i>76.8</i>	<i>69.9</i>			<i>10.9</i>	<i>72.7</i>		
Interest expense	(4.6)	(2.4)	(2.0)	(18.2)	(57.4)	(8.8)	(4.4)	(50.3)	
Pretax profit	41.8	1,049.2	1,397.2	33.2	3,240.4	74.3	2,446.5	3,193.9	
<i>Pretax Margin (%)</i>	<i>10.9</i>	<i>77.6</i>	<i>69.9</i>			<i>9.8</i>	<i>73.0</i>		
Tax	(11.8)	(236.8)	(317.5)	34.1	2,589.4	(19.3)	(554.3)	2,773.5	
<i>Effective tax rate (%)</i>	<i>28.2</i>	<i>22.6</i>	<i>22.7</i>			<i>26.0</i>	<i>22.7</i>		
Minority Interest	0.1	(23.0)	(20.2)	nm	nm	(0.1)	(43.2)	nm	
Net Profit	30.2	789.5	1,059.5	34.2	3,412.2	54.9	1,849.0	3,267.2	Beat expectations
<i>Net Margin (%)</i>	<i>7.8</i>	<i>58.4</i>	<i>53.0</i>			<i>7.3</i>	<i>55.2</i>		
Core Net Profit	30.2	789.5	1,059.5	34.2	3,412.2	54.9	1,849.0	3,267.2	
<i>Core Net Margin (%)</i>	<i>7.8</i>	<i>58.4</i>	<i>53.0</i>			<i>7.3</i>	<i>55.2</i>		

Source: Company data, RHB

Figure 2: Key assumptions

Key Assumptions	FY21F	FY22F	FY23F
Installed Year End Capacity (m ppa)	26,200	36,425	42,425
Blended ASP (USD per 1000 pieces)	89	57	48
Average USDMYR	4.10	4.10	4.10
Utilisation Rate	90%	90%	90%

Source: RHB

Figure 3: DCF valuation

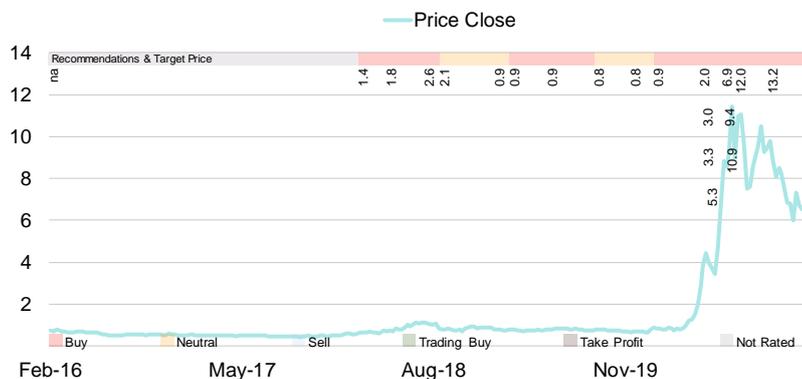
FYE Jun (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	3,156	2,902	2,945	3,131	3,383	3,609	3,791	3,955	4,074	4,196	
+ Interest (1 - Tax Rate)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(155)	(159)	
Free cash flow to firm (FCFF)	2,998	2,745	2,788	2,976	3,228	3,455	3,637	3,802	3,916	4,034	35,790
Discount factor	0.89	0.78	0.68	0.60	0.52	0.46	0.40	0.35	0.31	0.27	0.27
PV of FCFF	2,656	2,131	1,896	1,773	1,685	1,580	1,458	1,335	1,205	1,087	9,647
Risk-free	4.0%										
Beta	1.73										
Cost of Equity	14.4%										
WACC	12.4%										
Terminal growth	1.0%										
Enterprise Value (MYR m)	26,453										
Cash	1,181										
- Debt	(328)										
Equity Value (MYR m)	27,306										
No of shares (m)	2575										
Fair Value (MYR)	10.60										

Figure 4: Sensitivity of TP based on bull, base and bear case for blended ASP

Scenario	FY21F	FY22F	FY23F	Long Term	TP (MYR)
Bull	89	67	58	57	15.20
Base	89	57	48	47	10.60
Bear	89	47	38	37	6.00

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-10-28	Buy	13.2	9.5
2020-08-11	Buy	12.0	10.8
2020-07-21	Buy	10.9	8.9
2020-07-14	Buy	9.4	8.0
2020-07-08	Buy	6.9	5.4
2020-06-02	Buy	5.3	3.8
2020-05-22	Buy	3.3	2.9
2020-05-21	Buy	3.0	2.7
2020-05-13	Buy	2.0	1.8
2020-01-23	Buy	0.9	0.8
2019-09-03	Neutral	0.8	0.7

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Analyst	Company
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