

Supermax Corporation Berhad

(7106 | SUCB MK) | Health Care | Health Care Equipment & Services

Maintain BUY

Higher ASP offset by lower volume

Revised Target Price: RM6.73
(previously RM13.83)

KEY INVESTMENT HIGHLIGHTS

- **9MFY21 earnings missed the mark**
- **3QFY21 CNI improved by 2.0%qoq to RM1.1b**
- **ASPs likely to have peaked in 3QFY21**
- **Maintain BUY with a revised TP of RM6.73 (previously RM13.83)**

9MFY21 earnings missed the mark. Supermax's core net income (CNI) for the period of RM2.9b made up 72.2% of our full estimates and % of consensus' 71.7%. The cumulative result is deemed below expectation as we had previously anticipated a much stronger 3QFY21. We have excluded RM75.0m from the CNI as it is a one-off contribution to the Covid-19 fund. A special dividend of 13.0 sen was announced, bringing YTD DPS to 16.8 sen.

3QFY21 CNI improved by +2.0%qoq to RM1.1b although revenue slid by -3.1%qoq to RM1.9b. The lower sales can be attributed to the lower production volume during the quarter due to a Covid-19 outbreak at its factory in February, that led to a halt at some of its plants. This was mitigated by the higher average selling price (ASP) compared to the immediate preceding quarter. Compared to 3QFY20, revenue surged by +333.3%yoy while CNI jumped by +1,276.7%yoy due to the spike in demand for rubber gloves as well as the astronomical rise in ASP. Supermax which distributes its own brand product was able to benefit from the market condition.

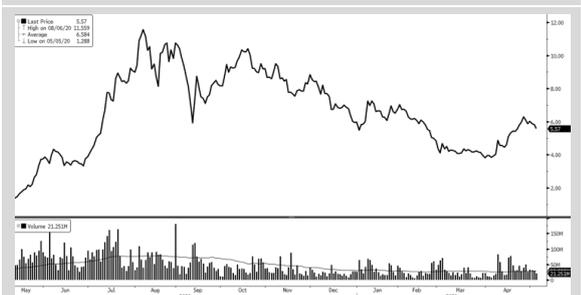
9MFY21 CNI of RM2.9b was +2,096.2% higher than 9MFY20 as revenue grew by +339.7%yoy to RM5.3b. The cumulative results can be attributed to the pro-longed pandemic at a global scale.

ASPs likely to have peaked in 3QFY21. Gauging from Supermax's latest set of results, we think that ASP for the company has likely peaked in 3QFY21. We expect that ASPs may moderate depending on the development of the pandemic and how well and soon the situation can be contained. We understand that some buyers are adopting a wait-and-see approach in replenishing their inventories given the high prices currently. Production capacity of glove makers has expanded due to the attractive profitability during this period, and these have led to moderation in spot prices for rubber gloves as supply increases. On the other hand, worldwide structural step-up and better hygiene awareness has created the demand for additional rubber gloves, which is expected to support prices at above pre-pandemic level. In the near-term, we do not expect a drastic correction in ASP as demand is expected to remain high.

RETURN STATISTICS

Price @ 5 th May 2021 (RM)	5.57
Expected share price return (%)	+20.8
Expected dividend yield (%)	+5.2
Expected total return (%)	+23.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	45.4	46.2
3 months	46.2	-16.3
12 months	329.7	279.0

KEY STATISTICS

FBM KLCI	1,575.67
Syariah compliant	Yes
Issue shares (m)	2640.24
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆
Estimated free float (%)	35.83
Market Capitalisation (RM'm)	14,580.25
52-wk price range	RM1.25 - RM11.9
Beta vs FBM KLCI (x)	1.55
Monthly volatility (%)	16.48
3-mth average daily volume (m)	28.39
3-mth average daily value (RM'm)	142.37
Top Shareholders (%)	
SUPERMAX H SDN BHD	38.38
Employees Provident Fund Board	12.58
Amanah Saham Nasional Bhd	8.77

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Earnings for FY21E/FY22F revised by -4.7% and -6.7% as we adjust our ASP and input cost assumptions to better reflect current market dynamics.

Maintain BUY with a revised TP of RM6.73 (previously RM13.83). We reiterate our **BUY** recommendation on **Supermax** as valuation is very attractive at current level. Opportunities include its overseas ventures while imminent risks include sharper-than-expected drop in ASP. Our revised **TP of RM6.73** is based on revised 14.0x FY23F EPS of 48.1 sen as we roll over our base year. The 14.0x PER is based on -0.5SD of its 5-year PER mean. Dividend yield based on FY21F is estimated at 10.6% and FY22F at 5.2%. 

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2020A	2021E	2022F	2023F	2024F
Revenue	2,131.8	7,279.6	6,729.0	5,391.4	5,172.7
Cost of goods sold	(1,444.3)	(1,713.0)	(4,005.9)	(3,587.0)	(3,441.5)
Gross profit	687.5	5,566.5	2,723.1	1,804.4	1,731.2
Finance costs	(17.1)	(58.2)	(53.8)	(43.1)	(41.4)
PBT	688.5	5,540.5	2,699.0	1,785.1	1,712.7
Taxation	(153.0)	(1,662.1)	(809.7)	(517.7)	(479.5)
PATANCI	535.5	3,868.6	1,880.3	1,260.2	1,226.2
PBT Margin (%)	32.3	76.1	40.1	33.1	33.1
PATANCI Margin (%)	25.1	53.1	27.9	23.4	23.7
EPS (sen)	40.2	147.6	71.7	48.1	46.8
EPS Growth (%)	756.0	267.1	(50.7)	(33.0)	(2.7)
PER (x)	13.9	3.8	7.8	11.6	11.9
Dividend (sen)	23.6	59.0	28.7	14.9	15.0
Dividend Yield (%)	4.2	10.6	5.2	2.7	2.7

Source: Company, MIDFR

SUPERMAX CORPORATION BERHAD: 3QFY21 RESULTS SUMMARY

FYE June (RM'm)	Quarterly results					Cumulative results		
	3QFY21	2QFY21	3QFY20	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	1,937.5	1,998.7	447.2	333.2	(3.1)	5,288.7	1,202.7	339.7
Operating expenses	(610.8)	(602.0)	(353.0)	73.0	1.5	(1,526.3)	(1,025.9)	48.8
Finance costs	(1.8)	(2.0)	(3.5)	(50.1)	(10.7)	(6.1)	(12.3)	(50.2)
Share of profit of associated companies	17.4	2.6	4.6	279.7	573.3	32.6	5.1	537.4
Profit Before Tax	1,342.3	1,397.3	95.3	1,308.8	(3.9)	3,788.8	169.5	2,134.6
Taxation	(320.0)	(317.5)	(22.9)	1,295.7	0.8	(874.3)	(42.2)	1,970.9
Profit After Tax	1,022.3	1,079.7	72.3	1,313.0	(5.3)	2,914.5	127.3	2,188.9
Minority interest	17.1	20.2	1.3	1,222.5	(15.5)	60.3	1.4	4,324.8
PATANCI	1,005.2	1,059.5	71.1	1,314.7	(5.1)	2,854.2	126.0	2,165.8
Core PATANCI	1,080.2	1,059.5	78.5	1,276.7	2.0	2,929.2	133.4	2,096.2
Basic EPS (sen)	38.8	41.1	2.7	1,333.2	(5.6)	110.3	4.8	2,195.5
					(+/-) ppts			(+/-) ppts
PBT margin(%)	69.3	69.9	21.3	48.0	(0.6)	71.6	14.1	57.5
PAT margin (%)	52.8	54.0	16.2	36.6	(1.3)	55.1	10.6	44.5
PATANCI margin(%)	51.9	53.0	15.9	36.0	(1.1)	54.0	10.5	43.5
Tax rate (%)	23.8	22.7	24.1	(0.2)	(4.7)	23.1	24.9	(1.8)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology