

6 May 2021

Consumer Cyclical | Rubber Products

## Supermax Corp (SUCB MK)

**Buy** (Maintained)

Still a Value Play; Still BUY

Target Price (Return): MYR6.60 (+18%)  
 Price: MYR5.57  
 Market Cap: USD3,538m  
 Avg Daily Turnover (MYR/USD): 138m/33.6m

- **Still BUY with a new DCF-derived MYR6.60 TP from MYR8.75, 18% upside and 7% yield.** Supermax Corp's 9MFY21 (Jun) earnings missed expectations, as its production was affected by COVID-19 at its manufacturing plant. After lowering utilisation rate and ASP assumptions, we reduce our TP. The call remains on a valuation angle. Its near-term yield of 7% is decent, with low 8.3x FY23F P/E (average: 14x). SUCB has net cash of MYR3.68bn, or MYR1.42/share.
- **9MFY21 earnings missed expectations.** Core net profit of MYR2.85bn made up 70% and 66% of Street and our estimates – below expectations. The negative variance was caused by the temporary closure at its production plant after the detection of several COVID-19 cases among its foreign workers. A 13 sen dividend was announced; ex-date: 24 May.
- **Earnings estimates reduced.** We have lowered FY21F-23F core earnings by 21-41% due to a lower utilisation rate assumption of 85% from 90%. FY21F's utilisation rate is affected by the temporary plant closure. For FY22F-FY23F, the lower utilisation rate is due to normalised demand-supply assumptions. We have also reduced our FY21-23 ASP assumptions to USD77.00, USD49.00, and USD37.00 from USD89.00, USD57.00, and USD48.00 after taking into account the recent ASP decline. SUCB's guidance: Glove ASPs have dropped by between 15% and 25% as more capacity is available in the market.
- **TP lowered to MYR6.60.** This is consistent with the reduction in earnings estimates and long-term blended ASP to USD37.00. We believe the near-term high ASPs will encourage more competition in future. We have lowered our long-term nitrile gloves ASP to USD40.00 per 1,000 pieces. Hence, the long-term blended gloves ASP for SUCB has been reduced to USD37.00. For the company, we maintain our assumption on a long-term volume mix of 75% and 25% for nitrile and non-nitrile gloves.
- **We expect USD40.00 to be the long-term ASP for nitrile gloves.** As the US plans to build its own gloves manufacturing plants, we estimate cost of production to be USD40.00. This should set the long-term global nitrile gloves price. When ASPs drop below USD40.00, US producers will stop producing and, in the long term, ASPs should revert back to USD40.00.
- **Still a BUY on a valuation angle.** At MYR5.57, SUCB's share price has declined 53% from Aug 2020's peak. It is trading at 4.3x FY21F P/E and offers 7% yield. By using an expected trough EPS in FY23, SUCB is trading at 8.3x FY23F P/E, or a 41% discount against its 14x average.
- **Risks.** These include worse-than-expected long-term gloves ASPs after COVID-19 ends, lower-than-expected sales volume/USD, and higher-than-estimated raw material prices. Failure to participate in US gloves manufacturing is another risk, as it may affect sentiment.

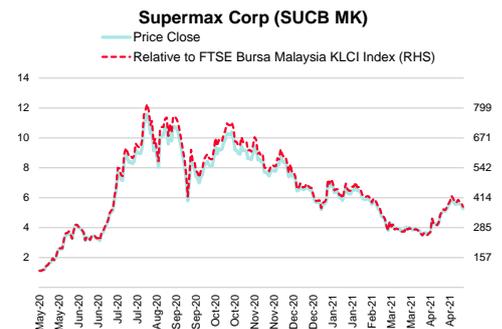
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.3)	45.4	(16.5)	(39.9)	320.4
Relative	(4.1)	46.0	(16.3)	(44.8)	307.0
52-wk Price low/high (MYR)					1.43 – 11.9



Source: Bloomberg

**Overall ESG Score: 2.89 (out of 4)**

**E: Good**

SUCB 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. It also treats its wastewater to protect the environment.

**S: Good**

SUCB has reported several positive COVID-19 cases among its workers. The cases remain low vis-à-vis its peers. This could be caused by efforts spent to ensure all accommodations are in compliance with regulations and standards.

**G: Good**

63% of its board members are independent. 13% of its directors are female – still below the Malaysian Code on Corporate Governance requirement of 30%. Additionally, SUCB provides full disclosures on its directors' remunerations, including salaries and bonuses. It holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	1,538	2,132	6,751	6,004	5,366
Recurring net profit (MYRm)	123	526	3,417	2,445	1,750
Recurring net profit growth (%)	15.5	326.6	550.2	(28.5)	(28.4)
Recurring P/E (x)	118.46	27.77	4.27	5.97	8.34
P/B (x)	13.0	9.7	3.7	2.6	2.1
P/CF (x)	62.09	18.87	3.57	6.27	8.99
Dividend Yield (%)	0.3	1.1	7.0	5.0	3.6
EV/EBITDA (x)	63.08	19.66	2.51	3.05	3.76
Net debt to equity (%)	19.2	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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## Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.05	0.20	1.30	0.93	0.67
Consumer Cyclical	DPS	0.01	0.06	0.39	0.28	0.20
<b>Supermax Corp</b>	BVPS	0.43	0.57	1.49	2.15	2.62
SUCB MK						
Buy						
	<b>Valuation metrics</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Recurring P/E (x)	118.46	27.77	4.27	5.97	8.34
	P/B (x)	13.0	9.7	3.7	2.6	2.1
	FCF Yield (%)	0.8	4.3	27.0	14.9	10.1
	Dividend Yield (%)	0.3	1.1	7.0	5.0	3.6
	EV/EBITDA (x)	63.08	19.66	2.51	3.05	3.76
	EV/EBIT (x)	78.32	21.98	2.56	3.16	3.97
	<b>Income statement (MYRm)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Total turnover	1,538	2,132	6,751	6,004	5,366
	Gross profit	510	1,102	5,354	3,959	2,708
	EBITDA	232	720	4,466	3,177	2,264
	Depreciation and amortisation	(45)	(76)	(78)	(105)	(124)
	Operating profit	187	644	4,388	3,072	2,140
	Net interest	(20)	(17)	34	79	105
	Pre-tax profit	172	689	4,489	3,212	2,299
	Taxation	(49)	(153)	(1,055)	(755)	(540)
	Reported net profit	123	526	3,417	2,445	1,750
	Recurring net profit	123	526	3,417	2,445	1,750
	<b>Cash flow (MYRm)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Change in working capital	31	145	609	(153)	(155)
	Cash flow from operations	235	773	4,087	2,329	1,623
	Capex	(112)	(150)	(150)	(150)	(150)
	Cash flow from investing activities	(112)	(150)	(106)	(61)	(36)
	Dividends paid	(33)	(158)	(1,025)	(733)	(525)
	Cash flow from financing activities	(104)	(140)	(1,019)	(781)	(568)
	Cash at beginning of period	145	174	667	3,639	5,136
	Net change in cash	19	483	2,963	1,487	1,019
	Ending balance cash	174	667	3,639	5,136	6,165
	<b>Balance sheet (MYRm)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Total cash and equivalents	174	667	3,639	5,136	6,165
	Tangible fixed assets	969	1,018	1,068	1,121	1,177
	Total investments	208	208	208	208	208
	Total assets	1,843	2,420	5,986	7,500	8,565
	Short-term debt	331	294	336	327	164
	Total long-term debt	61	129	121	114	107
	Total liabilities	708	921	2,106	1,901	1,556
	Total equity	1,134	1,499	3,880	5,599	7,009
	Total liabilities & equity	1,843	2,420	5,986	7,500	8,565
	<b>Key metrics</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Revenue growth (%)	17.9	38.6	216.7	(11.1)	(10.6)
	Recurrent EPS growth (%)	15.5	326.6	550.2	(28.5)	(28.4)
	Gross margin (%)	33.2	51.7	79.3	65.9	50.5
	Operating EBITDA margin (%)	15.1	33.8	66.2	52.9	42.2
	Net profit margin (%)	8.0	24.7	50.6	40.7	32.6
	Dividend payout ratio (%)	30.0	30.0	30.0	30.0	30.0
	Capex/sales (%)	7.3	7.0	2.2	2.5	2.8
	Interest cover (x)	9.47	37.61	409.62	310.84	236.32

Source: Company data, RHB

**Sector view: Nitrile Gloves ASP to normalise towards long-term USD40.00**

**We expect USD40.00 to be the long-term bottom ASP for nitrile gloves.** This is calculated on a per 1,000 pieces basis. As the US plans to build its own glove manufacturing plants, we estimate production costs at USD40.00 per 1,000 pieces of nitrile gloves. We expect the US' cost of production to set the bottom for future global nitrile glove prices. When ASPs drop below USD40.00, US producers will stop producing and, in the long term, ASPs should revert back to the USD40.00 level.

**Production costs in the US are likely to be higher than Malaysia's.** The reason: Labour costs are higher over there – with the minimum wage at USD7.25 per hour, equivalent to 6x that of Malaysia's level. The cost to build a plant in the US is also much higher, as this is a time when commodities such as steel are near historical peaks.

**Glove ASPs should not fall off the cliff despite the optimism on vaccines.** We do expect the demand for gloves for COVID-19 testing to decline – assuming the pandemic will start to be contained in 2H21. However, some hospitals are using gloves during vaccinations as well – which should lead to new demand. Lastly, the demand for gloves outside of the medical industry is growing faster than expected. In the US, during 4Q20, the importing of items with Code 3962.20.10 “Gloves, seamless, of plastics” (which are polyvinyl chloride or PVC gloves) have grown 93% YoY. We understand the surge was due to some consumers having no choice but to accept PVC gloves – such customers should shift towards nitrile gloves once supply is available, which should support demand.

**Why should long-term ASPs not revert to pre-COVID level?** Our assumption of USD40.00 is higher than the pre-pandemic range of USD20.00-25.00 for nitrile gloves. This is because prior to COVID-19, almost all glove suppliers were efficient producers, with costs below USD20.00. When COVID-19 spread across the globe, many new entrants came into the market and operated at higher costs – estimated at between USD30.00 and USD45.00.

During this current period of high-priced nitrile gloves (more than USD100.00), such inefficient players are able to make a good profit. However, as prices have declined to around USD40.00, some US manufacturers should start to post losses. As such, the demand-supply dynamic should move closer back towards the equilibrium level.

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Figure 1: Results snapshot

FYE June (MYRm)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
<b>Revenue</b>	<b>447.2</b>	1,998.6	<b>1,937.5</b>	(3.1)	333.2	<b>1,202.7</b>	<b>5,288.7</b>	339.7	Lower QoQ due to a temporary plant closure.
<b>EBITDA</b>	<b>107.3</b>	1,412.1	<b>1,346.4</b>	(4.7)	1,154.6	<b>215.3</b>	<b>3,811.7</b>	1,670.8	
<i>EBITDA Margin (%)</i>	24.0	70.7	69.5			17.9	72.1		
Depreciation	(13.1)	(15.5)	(19.8)	27.6	51.0	(38.5)	(49.3)	28.1	
<b>EBIT</b>	<b>94.2</b>	1,396.6	<b>1,326.7</b>	(5.0)	1,307.9	<b>176.8</b>	<b>3,762.4</b>	2,028.2	
<i>EBIT Margin (%)</i>	21.1	69.9	12.1			14.7	71.1		
Interest expense	(3.5)	(2.0)	(1.8)	(10.9)	(50.2)	(12.3)	(6.1)	(50.2)	
<b>Pre-tax profit</b>	<b>95.3</b>	1,397.2	<b>1,342.3</b>	(3.9)	1,308.8	<b>169.5</b>	<b>3,788.8</b>	2,134.6	
<i>Pre-tax margin (%)</i>	21.3	69.9	69.3			14.1	71.6		
Tax	(22.9)	(317.5)	(320.0)	0.8	1,295.5	(42.2)	(874.3)	1,970.8	
<i>Effective tax rate (%)</i>	24.1	22.7	23.8			24.9	23.1		
Minority Interest	(1.3)	(20.2)	(17.1)	nm	nm	(1.4)	(60.3)	n.m	
<b>Net Profit</b>	<b>71.1</b>	1,059.5	<b>1,005.2</b>	(5.1)	1,314.7	<b>126.0</b>	<b>2,854.2</b>	2,165.8	Below expectations.
<i>Net Margin (%)</i>	15.9	53.0	51.9			10.5	54.0		
<b>Core Net Profit</b>	<b>71.1</b>	1,059.5	<b>1,005.2</b>	(5.1)	1,314.7	<b>126.0</b>	<b>2,854.2</b>	2,165.8	
<i>Core Net Margin (%)</i>	15.9	53.0	51.9			10.5	54.0		

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)	77	49	37
Average USD/MYR	4.15	4.25	4.25
Utilisation rate	85%	85%	85%

Source: RHB

Figure 3: DCF valuation

FYE Jun (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	2,329	1,623	1,987	2,136	2,282	2,421	2,530	2,626	2,705	2,786	
+ 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)	
<b>Free cash flow to firm (FCFF)</b>	<b>2,172</b>	<b>1,466</b>	<b>1,831</b>	<b>1,981</b>	<b>2,127</b>	<b>2,267</b>	<b>2,376</b>	<b>2,473</b>	<b>2,547</b>	<b>2,623</b>	<b>21,104</b>
Discount factor	0.88	0.76	0.66	0.57	0.49	0.42	0.37	0.32	0.27	0.24	0.24
PV of FCFF	1,901	1,110	1,199	1,122	1,043	961	871	785	699	623	5,010
Risk-free	3.0%										
Beta	1.37										
Cost of Equity	12.6%										
WACC	13.5%										
Terminal growth	1.0%										
Enterprise Value (MYR m)	15,324										
Cash	3,986										
- Debt	(311)										
Equity Value (MYR m)	18,999										
No of shares (m)	2589										
<b>Equity value per share (MYR)</b>	<b>7.34</b>										
<b>Operation risk discount</b>	<b>10%</b>										
<b>TP (MYR)</b>	<b>6.60</b>										

Source: RHB

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	59	47	47	9.70
Base	77	49	37	37	6.60
Bear	77	39	27	27	3.50

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-10	Buy	8.8	6.2
2021-02-01	Buy	10.6	6.8
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

Source: RHB, Bloomberg

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