

02 Feb 2021

Buy

Price
RM7.08

Target Price
RM8.30

Bloomberg code
SUCB MK

Equity | Malaysia | Manufacturing (Gloves)

Flashnote

Analyst

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Supermax

Commitment to pay higher dividend

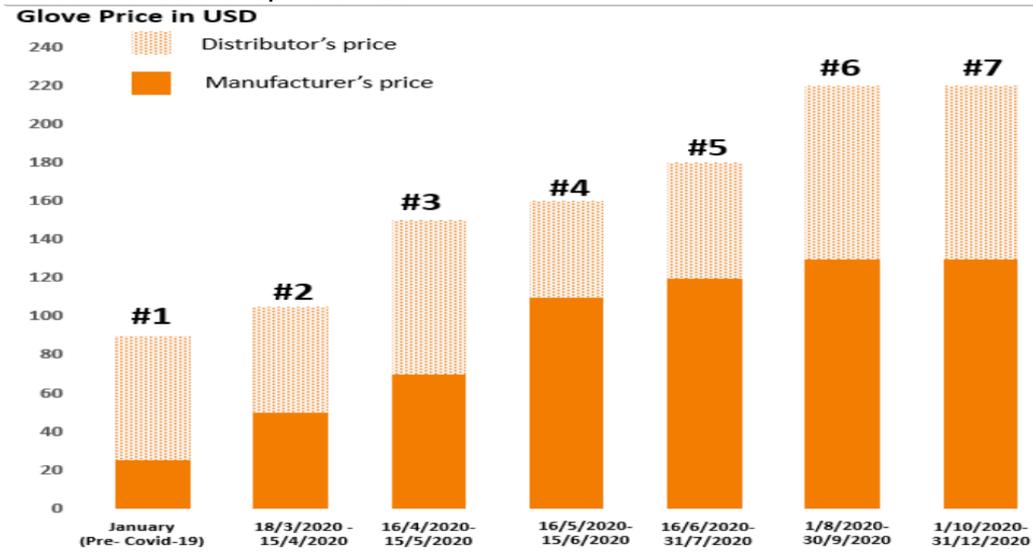
Financial Highlights

FYE Jun	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,538	2,132	7,750	4,875	4,365
Core net profit (RMm)	135	526	3,542	1,493	1,165
Core EPS (Sen)	5	19	130	55	43
EPS growth (%)	69	290	574	-58	-22
DPS (Sen)	2	3	46	19	15
Core PE (x)	143	37	5	13	17
Div yield (%)	0	0	6	3	2
ROE (%)	12	39	107	29	21
Net Gearing (%)	19	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	17	12	4	4	3

Source: Company, KAF

- Maintain Buy rating with an unchanged TP of RM8.30 pegged to 17x PER based on CY22 EPS.
- In addition to the first interim dividend announced together with the latest earnings report (2QFY21), management commits to pay quarterly dividends for the next two quarters, i.e., a second interim dividend for 3QFY21 and special dividend for 4QFY21 which could be paid via a mix of cash dividend and treasury share distribution. Note that dividends were only paid once via share distribution in the last two FYs.
- As at the end of December 2020, the group registered a net cash position of RM2.2b. This has been allocated for cash dividend payout, potential share buyback and capital expenditure. Nonetheless, quarterly dividend payout may extend beyond FY21 given the projected strong net cash position.
- ASP rose between 3% to 6%mom in the 2QFY21 (October to December) to USD85/k for its manufacturing segment and subsequently, ASP could still be adjusted upward due to rising raw material cost.
- Management expects nitrile latex price hike to moderate to ~8%mom in January 2021 after the price increased to more than double (vs April 2020). However, the uptrend will continue as nitrile latex supply shortage will persist until CY22 as existing suppliers have no new capacity to offer until then.
- Most glove orders at distribution segment where selling prices are the most lucrative (highest ASP quoted USD220/k) were presold prior to the surge in raw material cost which occurred from September 2020. This resulted in net profit margin squeeze during the reported quarter.
- Its new plants are currently close to full capacity utilization. However, the overall group's utilization is between 75% to 80% as it is dragged lower by older inefficient plants. However, utilization rate is expected to improve with the upcoming five new glove plants under construction (expected to commence progressively from 2HCY21).
- In regard to its first glove plant in the US, management targets to sign the agreement this April. More details on the venture will be shared after the announcement.
- All in all, we expect the group's future earnings to be supported by a significant increase in volume despite cost pressure. In addition, the stock's risk-reward profile is attractive given that it is currently trading at about 1.0SD below its five-year mean historical PE at CY22F normalised earnings.

Exhibit 1: Nitrile Glove Asp Trend in USD



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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