

10 June 2020

Supermax Corporation

Expansionary Mode

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

In an announcement to Bursa Malaysia, SUPERMX disclosed that it is buying another piece of land for RM21.8m which is located within the vicinity of its Klang Maxter Glove plant as well as two other pieces of land purchased recently in April 2020 and July 2019 which should yield operational synergies. We are positive on SUPERMX's improving earnings visibility due to the scrupulous execution of its expansion plans. More importantly, recent land acquisitions underlined SUPERMX's commitment towards future growth. TP is RM10.90 based on 26x CY21 EPS of 41.9 sen. Reiterate OP.

Buying land for RM21.8m. In an announcement to Bursa Malaysia, SUPERMX's wholly-owned Maxter Glove Manufacturing Sdn Bhd is buying a piece of industrial land for RM21.8m measuring 5 acres (218k sq feet). The acquisition works out to RM100/sq feet which is about 9% more expensive than the previous adjacent acquisition at RM92/sq feet purchased back in Apr 2020. With the latest acquisition, the enlarged land tract and subsequent expanded facility within the vicinity of its Klang Maxter Glove plant should yield operational synergies and greater economies of scale. Specifically, the land is located between Plant 12 and its nearby factories in Klang. Based on our estimates, the size of this piece of land can house one plant with an estimated capacity of 4.7b pieces per annum. The RM21.8m land acquisition and estimated capex of RM60-100m for plant and machinery will not have any material impact on SUPERMX's net debt and net gearing of RM254m and 0.2x, respectively, as at 31 Mar 2020 which will be further reinforced with operating cash flows averaging RM380m per annum over the next two years.

Outlook. Supermax is expected to gain from higher margins from both its gloves manufacturing and OBM distribution due to abnormal demand and acute supply tightness. Amplifying the pent-up demand, buyers are paying between 30% to 50% deposits in advance to secure glove supply and timely delivery. Supermax expects the heightened demand to continue for the next 1 to 1.5 years. As demand picks up, containers are shipping at prices higher than preceding months. Plant 12 consists of Block A and Block B, each consisting of 8 double former lines with 2.2b pieces each (total 4.4b pieces). As of now, for Block A, its remaining 3 lines started commissioning in end March 2020 on top of the 5 lines already in commercial production. For Block B, all 8 lines are expected to be fully commissioned by 2H 2020. Upon full commercial production by 2H 2020, installed capacity will rise 13.4% to 26.2b pieces per annum.

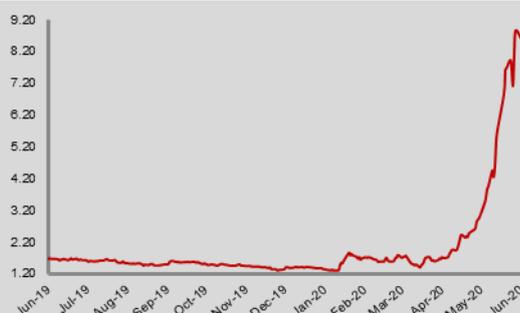
Undemanding FY21E PER valuation compared to earnings growth of >100%. TP is RM10.90 based on unchanged 26x CY21 EPS of 41.9 sen (at slightly above +2.0SD above the 5-year historical forward mean). We like Supermax because: (i) the stock is trading at an undemanding 21x FY21E EPS compared to expected earnings growth of >100%, and (ii) of its OBM model, where it can extract higher margin from distributor prices, compared to the OEM model at lower factory prices. **Reiterate Outperform.**

Key risk to our call is longer-than-expected commercial operations of new plants.

OUTPERFORM ↔

Price : **RM8.65**
Target Price : **RM10.90** ↔

Share Price Performance



KLCI	1,575.16
YTD KLCI chg	-0.9%
YTD stock price chg	522.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	11,170.8
Shares Outstanding	1,291.4
52-week range (H)	9.30
52-week range (L)	1.29
3-mth avg daily vol:	25,594,750
Free Float	58%
Beta	1.3

Major Shareholders

Dato' Seri Stanley Thai	21.9%
Datin Seri Tan Bee Geok, Cheryl	16.2%
Norges Bank	2.4%

Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	1489.3	1927.7	2952.1
PBT	172.8	333.7	748.6
Net Profit	123.8	250.1	561.2
Core N.Profit (CNP)	127.6	250.1	561.2
Consensus (NP)	-	233.0	355.4
Earnings Revision	-	-	-
EPS (sen)	9.4	18.4	41.3
EPS growth (%)	19.2	96.0	124.4
NDPS (sen)	4.2	8.3	18.6
BVPS (RM)	0.82	0.92	1.15
PER (X)	92.2	47.0	21.0
PBV (X)	10.5	9.4	7.5
Net Gearing (%)	19.5	26.6	13.5
Dividend Yield (%)	0.5	1.0	2.1



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Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1126.9	1304.5	1489.3	1927.7	2952.1
EBITDA	160.1	221.9	236.0	399.0	814.8
Operating Profit	107.4	175.6	186.9	343.4	754.6
Associate	11.3	6.0	5.4	6.2	10.6
PBT	107.9	167.2	172.8	333.7	748.6
Taxation	-37.6	-56.2	-49.0	-83.4	-187.1
MI	-3.1	-4.0	-0.1	-0.1	-0.2
Net Profit	67.2	107.0	123.8	250.1	561.2

Balance Sheet

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	878.3	864.9	972.1	1178.9	1268.7
Int. Assets	237.2	-	-	-	-
Goodwill	28.7	28.7	28.7	28.7	28.7
Other FA	7.2	244.7	203.6	203.6	203.7
Inventories	189.7	189.8	183.1	237.1	363.0
Receivables	238.3	215.0	197.0	255.0	390.5
Other CA	54.6	48.9	77.4	77.4	77.4
Cash	156.1	145.0	173.8	107.3	250.8
Total Assets	1789.9	1736.9	1835.8	2088.0	2582.9
Payables	201.2	124.7	144.0	186.4	285.4
ST Borrowings	343.5	345.6	349.9	399.9	419.9
Ot. ST Liability	25.9	76.4	133.4	155.4	222.4
LT Borrowings	107.0	74.1	42.0	42.0	42.0
Ot. LT Liability	42.1	52.3	39.6	39.6	39.6
Minorities Int.	3.0	10.5	7.8	7.9	8.1
Net Assets	1067.2	1053.3	1119.2	1256.8	1565.5
Share Capital	340.1	340.1	340.1	340.1	340.1
Reserves	727.1	713.2	779.1	916.7	1225.4
Equity	1067.2	1053.3	1119.2	1256.8	1565.5

Cashflow Statement

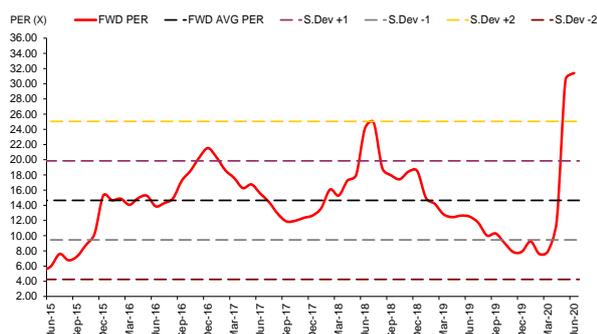
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	120.8	163.7	228.2	252.2	515.6
Investing CF	(110.2)	(18.8)	(115.7)	(150.0)	(150.0)
Financing CF	20.1	(143.3)	(104.5)	(168.7)	(222.1)
Change In Cash	30.6	1.6	8.0	(66.5)	143.5
Free CF	20.8	13.7	78.2	102.2	365.6

Source: Kenanga Research

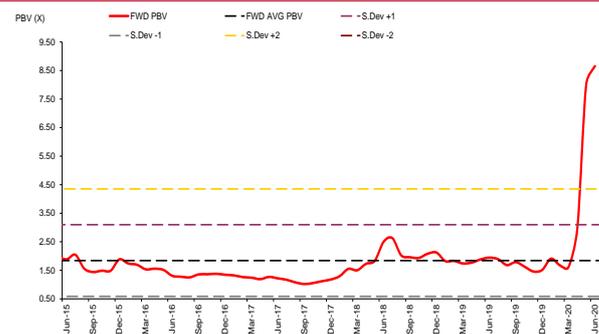
Financial Data & Ratios

FY Jun	2017A	2018A	2019A	2020E	2021E
Growth					
Turnover	-27.3%	15.8%	14.2%	29.4%	53.1%
EBITDA	-43.3%	38.6%	6.3%	69.1%	104.2%
Operating Profit	-51.6%	63.5%	6.4%	83.7%	119.7%
PBT	-47.9%	54.9%	3.4%	93.1%	124.3%
Net Profit /(loss)	-53.3%	59.3%	15.6%	102.1%	124.4%
Profitability					
EBITDA Margin	14.2%	17.0%	15.8%	20.7%	27.6%
Operating Margin	10.5%	13.5%	12.6%	12.5%	17.8%
PBT Margin	9.6%	12.8%	11.6%	17.3%	25.4%
Core Net Margin	6.0%	8.2%	8.3%	13.0%	19.0%
Eff. Tax Rate	34.9%	0.0%	24.0%	25.0%	25.0%
ROA	3.8%	6.2%	6.7%	12.0%	21.7%
ROE	6.3%	10.2%	11.1%	19.9%	35.9%
DuPont Analysis					
Net Margin (%)	6.0%	8.2%	8.3%	13.0%	19.0%
Assets T/O (x)	1.6	1.3	1.2	1.1	0.9
Lev. Factor (x)	1.7	1.6	1.6	1.7	1.6
ROE (%)	6.3%	10.2%	11.1%	19.9%	35.9%
Leverage					
Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.4	0.4	0.4	0.4	0.3
Valuations					
EPS (sen)	4.9	7.9	9.1	18.4	41.3
NDPS (sen)	1.5	4.0	4.2	8.3	18.6
BVPS (RM)	0.78	0.77	0.82	0.92	1.15
PER (x)	175.1	110.0	92.2	47.0	21.0
Net Div. Yld (%)	1.0	0.2	0.5	0.5	1.0
PBV (x)	11.0	11.2	10.5	9.4	7.5

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research, Bloomberg

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	12.52	42,418	Y	03/2021	59.2%	14.9%	91.5%	14.9%	95.9	50.1	43.6	16.4	14.1	30.3%	1.0%	13.90	OP
KOSSAN RUBBER INDUSTRIES	9.13	11,676	Y	12/2020	42.1%	18.1%	72.6%	22.8%	51.9	30.1	24.5	8.2	6.9	24.9%	1.1%	11.20	OP
SUPERMAX CORP BHD	8.65	11,171	Y	06/2020	29.4%	53.1%	113%	124%	92.2	47.1	21.0	10.5	9.4	21.1%	0.5%	10.90	OP
TOP GLOVE CORP BHD	17.00	44,818	Y	08/2020	35.0%	21.6%	167%	41.5%	116.8	43.8	30.9	17.8	14.8	37.0%	1.1%	20.10	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

