

11 August 2020

Supermax Corporation

Great Set of Results, More to Come

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

FY20 core net profit of RM526m (+345% YoY) beat expectations by 35%/31% of our/consensus full-year forecasts. The positive variance compared to our forecast was due to higher-than-expected ASP and margin. We raise our FY21E/FY22E net profit by 57%/58% taking into account higher ASP and margin. TP is raised from RM17.10 to RM25.45 based on 20.8x CY21E EPS. Reiterate OP.

Key results' highlights. QoQ, 4QFY20 revenue rose 107%, largely due to higher ASPs and volume sales from new lines commissioned in Plant 12. The increase in overall sales was mainly due to surge from the group's overseas distribution centres as a result of an exponential surge in demand due to the pandemic. 4QFY20 PBT rose 444% as PBT margin rose 34.6ppt to 55.9% from 21.3% in 3QFY20, largely due to higher ASP, better economies of scale on improved efficiencies from the new plant, and higher margins from Own Brand Manufacturing (OBM) in both Manufacturing & Distribution divisions. This brings 4QFY20 core net profit to RM400m (+462% QoQ) which was further boosted by a lower effective tax rate of 21% compared to 24% in 3QFY20. A final single-tier dividend was proposed via a share dividend distribution on the basis of 1 treasury share for every 45 ordinary shares implying 47.0 sen/share at current market price of RM21.20/share or 2.2% yield.

YoY, FY20 core net profit rose 345% to RM526m due to revenue growth (+39%) and further boosted by higher ASP. Net cash position rose to RM853m with cash & bank balances amounting to RM1.2b as of 30 June 2020 compared to net debt of RM218m in FY19. The cash deluge is mainly due to customers paying 30%, 40% and 50% deposits in advance to secure supply.

Key highlight is ASP anticipated to continue rising, Two bets for the price of one. The highest ASPs so far have not been reflected in this current quarter and we are optimistic that the group's OBM-cum-distribution business model will exhibit even healthier performance in the coming quarters. 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% in advance deposits 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.

We upgrade FY21E/FY22E net profit by 57%/58% **after raising ASP/1,000 pieces from USD36/USD40 to USD44/USD43 in FY21E/FY22E, and raising EBITDA margin from 36% to 48%.**

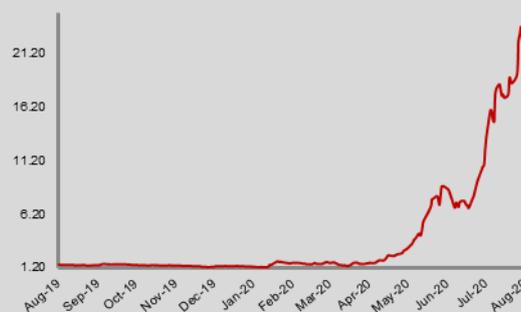
Undemanding FY21E PER valuation of 17x compared to expected earnings growth of 200%. Correspondingly, our TP is raised from RM17.10 to RM25.45 based on 20.8x CY21 revised EPS of 122.3 sen (previously 22x) (at slightly below +2.0SD above the 5-year historical forward mean). We like Supermax because: (i) the stock is trading at an undemanding 17x FY21E EPS compared to expected explosive earnings growth of >100%, and (ii) its OBM model enables it to 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 : **RM21.20**
Target Price : **RM25.45** ↑

Share Price Performance



KLCI 1,571.66
YTD KLCI chg -1.1%
YTD stock price chg 1425.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SUCB MK Equity
Market Cap (RM m) 27,378.1
Shares Outstanding 1,291.4
52-week range (H) 24.44
52-week range (L) 1.29
3-mth avg. daily vol: 37,901,880
Free Float 58%
Beta 1.9

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)	2020A	2021E	2022E
Turnover	2131.8	4747.6	4896.7
PBT	688.6	2233.3	2322.9
Net Profit (NP)	525.6	1630.3	1696.0
Core NP (CNP)	525.6	1630.3	1696.0
Consensus NP		1165	738
Earnings Revision	-	+57%	+58%
EPS (sen)	40.2	119.9	124.7
EPS growth (%)	328.6	198.2	4.0
NDPS (sen)	47.0	47.9	49.9
BVPS (RM)	1.17	1.89	2.63
PER (X)	52.7	17.7	17.0
PBV (X)	18.2	11.2	8.1
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	2.2	2.3	2.4

11 August 2020

Result Highlight

FY Jun (RM m)	4Q FY20	3Q FY20	QoQ Chg %	4Q FY19	YoY Chg %	12M FY19	12M FY20	YoY Chg %
Turnover	929.1	447.2	107.7	376.0	147.1	1,538.2	2,131.8	38.6
EBITDA	561.4	111.9	401.7	33.7	1,564.4	237.2	781.7	229.6
PBT	519.0	95.3	444.7	16.2	3,104.1	172.4	688.6	299.4
Net Profit (NP)	399.6	71.1	462.4	15.1	2,553.7	123.1	525.6	326.9
Core net profit (CNP)	399.6	71.1	462.4	15.1	2,553.7	118.1	525.6	345.0
EPS (sen)	30.6	5.2	462.4	1.2	2,553.7	9.0	40.2	345.0
EBITDA margin (%)	60.4	25.0		9.0		15.8	36.7	
PBT margin (%)	55.9	21.3		4.3		11.6	32.3	
Effective tax rate (%)	21.3	24.1		13.5		28.4	22.2	

Source: Bursa Malaysia, Kenanga Research

*Note that FY19 core net profit excluding one-off insurance claims RM6.5m in 1Q19

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11 August 2020

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	18.36	62,930	Y	03/2021	115%	23.4%	357%	24.1%	140.6	31.4	25.3	24.1	17.7	65.4%	1.6%	26.22	OP
KOSSAN RUBBER INDUSTRIES	17.90	22,893	Y	12/2020	53.9%	21.0%	203%	19.0%	101.8	33.6	28.2	16.0	11.6	40.0%	0.6%	17.10	OP
SUPERMAX CORP BHD	21.20	27,378	Y	06/2021	123%	3.1%	214%	4.0%	52.2	17.7	17.0	18.2	11.2	78.6%	2.3%	25.45	OP
TOP GLOVE CORP BHD	27.20	73,532	Y	08/2020	66%	59.6%	278%	185%	186.9	52.3	18.3	28.5	23.3	50.4%	1.0%	32.00	OP

Source: Bloomberg, Kenanga Research

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11 August 2020

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