

28 October 2020

Supermax Corporation

Great Set of Results, More to Come

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

1QFY21 core net profit of RM790m (+98% QOQ; +3000% YoY) came in above expectations at 49%/41% of our/consensus full-year forecasts. The positive variance compared to our forecast was due to higher-than-expected ASP and margin. While we raised FY21E/FY22E net profit by 94%/9% to account for higher ASP assumptions, our target price is lowered slightly from RM12.75 to RM12.00 as we lowered our target PER rating to 0.5SD above 5-year mean to reflect a moderation in earnings growth towards more sustainable levels beyond FY21. Reiterate Outperform.

Key results' highlights. QoQ, 1QFY21 revenue rose 46%, largely due to higher ASPs and volume sales from full quarter contribution in Plant 12. 1QFY21 PBT rose 100% as PBT margin rose 21.7ppt to 77.6% from 55.9% in 4QFY20, largely due to higher ASP, better economies of scale on improved efficiencies from the new plant, and higher margins from its Own Brand Manufacturing (OBM) in both Manufacturing & Distribution divisions. This brings 1QFY21 core net profit to RM790m (+98% QoQ). No dividend was proposed for 1QFY21 as expected.

YoY, 1QFY21 core net profit rose 3,000% to RM790m due to revenue growth (+265%) and was further boosted by higher ASP.

Key highlight is ASP anticipated to continue rising. We highlight that industry ASP has risen for Sept to Dec delivery suggesting that the robust demand will continue over the next few quarters. We do not expect supply to flood the market at least in the first three quarters of 2021 despite growing concern amongst investors that a number of Malaysian listed companies have announced new ventures into the gloves manufacturing segment. We expect demand will stay strong at least over the next two years and shortage in supply will remain tight due to formers shortage and raw material constraint. In an unprecedented move, Supermax is allocating USD550m capex in 2 phases of which details are scant at the moment with regards to production capacity. The group is looking to set up a manufacturing plant in the United States namely Plant 18 and currently in talks with various government agencies in the US looking for a suitable estimated 50 acre site initially. Financing is expected to come from profits generated from distribution centres. Separately, in an announcement to Bursa Malaysia, Supermax has proposed for a dual listing on the Singapore Exchange (SGX).

We upgrade FY21E/FY22E net profit by 94%/9% after raising ASP/1,000 pieces from USD44/USD43 to USD65/USD45 in FY21E/FY22E, and raising EBITDA margin from 48%/48% to 62%/50%.

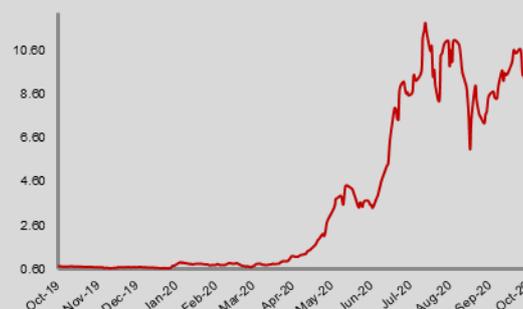
Undemanding PER valuation. However, we reduce our TP from RM12.75 to RM12.00 based on 13x CY21E EPS (vs 20.8x previously) (at 0.5SD above 5-year historical forward mean). We lowered our PER rating as we believe valuations are already pegged to super-normal earnings; hence, moderation in earnings momentum beyond this phase should have been factored in. We like Supermax because: (i) the stock is trading at an undemanding 8x 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 : RM9.78
Target Price : RM12.00 ↓

Share Price Performance



KLCI	1,500.35
YTD KLCI chg	-5.6%
YTD stock price chg	1307.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	25,122.2
Shares Outstanding	2,568.7
52-week range (H)	12.22
52-week range (L)	0.65
3-mth avg. daily vol:	52,159,610
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	7013.5	5124.4
PBT	688.6	4326.4	2541.2
Net Profit (NP)	525.6	3168.6	1856.4
Core NP (CNP)	525.6	3168.6	1856.4
Consensus NP	-	1939	1298
Earnings Revision	-	+94%	+9%
EPS (sen)	40.2	116.5	68.2
EPS growth (%)	328.6	189.7	(41.4)
NDPS (sen)	47.0	46.6	27.3
BVPS (RM)	0.58	1.28	1.69
PER (X)	24.3	8.4	14.3
PBV (X)	16.8	7.6	5.8
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	4.8	4.8	2.8

28 October 2020

Result Highlight

FY Jun (RM m)	1Q FY20	4Q FY20	1Q FY21	YoY Chg %	QoQ Chg %
Turnover	369.9	929.1	1,352.5	265.6	45.6
EBITDA	49.2	561.4	1,065.7	2,067.3	89.8
PBT	32.4	519.0	1,049.2	3,134.1	102.2
Net Profit (NP)	24.7	399.6	789.5	3,090.4	97.6
EPS (sen)	1.8	30.6	29.0	1,495.2	97.5
EBITDA margin (%)	13.3	60.4	78.8		
PBT margin (%)	8.8	55.9	77.6		
Effective tax rate (%)	23.1	21.3	22.6		

Source: Bursa Malaysia, Kenanga Research

The rest of the page is intentionally left blank

28 October 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.	1-Yr. Fwd.		
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	18.28	62,657	Y	03/2021	158%	48%	564%	75.7%	134.3	21.7	12.3	24.2	16.9	92.6%	2.8%	26.22	OP
KOSSAN RUBBER INDUSTRIES	7.52	19,235	Y	12/2020	53.9%	21%	203%	19.0%	85.6	28.2	23.7	13.5	9.7	40.0%	0.7%	8.55	OP
SUPERMAX CORP BHD	9.78	25,122	Y	06/2021	229%	-27%	510%	-41%	24.3	8.4	14.3	16.8	7.6	125%	4.8%	12.00	OP
TOP GLOVE CORP BHD	8.91	72,562	Y	08/2021	139%	-22%	257%	-38%	39.0	10.9	17.7	14.6	9.6	106%	4.6%	10.68	OP

Source: Bloomberg, Kenanga Research

The rest of the page is intentionally left blank

28 October 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

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