

22 May 2020

# Supermax Corporation

## Two Bets for the Price of One

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We are excited with Supermax prospects over the next few quarters following a 3QFY20 post result briefing. Specifically, Supermax is expected to gain from higher margins from both its gloves manufacturing and distribution channels due to abnormal demand and acute supply tightness. We expect higher margins going forward due to higher product mix skewed towards OBM distribution which accounts for 95% compared to 70% pre Covid-19 which we believe had caught us as well as market by surprise. Hence, we raised our FY20E/FY21E net profit by 6%/16%, to account for higher margins. TP is raised from RM6.60 to RM7.60 based on unchanged 26x CY21E EPS. Reiterate OP.

**Dual-stream incomes from manufacturing and distribution.** Specifically, Supermax is expected to gain from higher margins from both its gloves manufacturing and distribution due to abnormal demand and acute supply tightness. We expect higher margins going forward due to higher product mix skewed towards OBM distribution which accounts for 95% compared to 70% pre Covid-19 which we believe had caught us as well as the market by surprise at a time when of tight supply due to aggressive stockpiling of critical medical supplies including gloves. Typically, manufacturing OEM pre-tax margin ranges between 12% to 15% compared to Own Brand Manufacturing (OBM) pre-tax margin of 15% to 20%. In terms of demand, Supermax is getting enquiries from foreign government agencies, non-government organisations, retail and restaurants chains. Amplifying the pent-up demand, buyers are paying between 30% to 50% deposits in advance to secure glove supply and timely delivery. The delivery lead time has now risen from 45 to 60 days pre Covid-19 to 10 to 12 months currently. Case in point is Supermax's overseas distribution centres which are experiencing fast inventory depletion from usual 4 months to within 6 weeks. Supermax expects the heightened demand to continue for the next 1 to 1.5 years. All in, we are bullish on higher-than-expected margins since ASP has been moving upwards week-on-week. As demand pick up, containers are shipping at prices higher than previous months.

**Outlook.** 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.

**Raised FY20E/FY21E net profit by 6%/16%** after raising our pre-tax margin from 13%/14% to 16%/18%.

**Undemanding FY21E PER valuation of 18x compared to expected earnings growth of 68%.** Correspondingly, our TP is raised from RM6.60 to RM7.60 based on unchanged 26x CY21 revised EPS of 25.4 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 18x FY21E EPS compared to expected earnings growth of 68%, 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 : **RM5.40**  
Target Price : **RM7.60 ↑**

### Share Price Performance



KLCI 1,452.11  
YTD KLCI chg -8.6%  
YTD stock price chg 288.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	6,973.7
Shares Outstanding	1,291.4
52-week range (H)	5.49
52-week range (L)	1.29
3-mth avg daily vol:	20,595,100
Free Float	58%
Beta	0.8

### 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	1986.8	2952.1
PBT	172.8	312.1	523.7
Net Profit	123.8	233.9	392.6
<b>Core N.Profit (CNP)</b>	127.6	233.9	392.6
Consensus (NP)	-	172.8	234.7
Earnings Revision	-	+6%	+16%
EPS (sen)	9.4	17.2	28.9
EPS growth (%)	19.2	83.3	67.8
NDPS (sen)	4.2	7.7	13.0
BVPS (RM)	0.82	0.92	1.08
PER (X)	57.6	31.4	18.7
PBV (X)	6.6	5.9	5.0
Net Gearing (%)	19.5	28.1	21.1
Dividend Yield (%)	0.8	1.4	2.4

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## Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1126.9	1304.5	1489.3	1986.8	2952.1
EBITDA	160.1	221.9	236.0	377.5	590.4
Operating Profit	107.4	175.6	186.9	321.9	530.3
Associate	11.3	6.0	5.4	6.2	10.6
PBT	107.9	167.2	172.8	312.1	523.7
Taxation	-37.6	-56.2	-49.0	-78.0	-130.9
MI	-3.1	-4.0	-0.1	-0.1	-0.2
Net Profit	67.2	107.0	123.8	233.9	392.6

## 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	244.3	363.0
Receivables	238.3	215.0	197.0	262.8	390.5
Other CA	54.6	48.9	77.4	77.4	77.4
Cash	156.1	145.0	173.8	90.7	152.9
Total Assets	1789.9	1736.9	1835.8	2086.4	2484.9
Payables	201.2	124.7	144.0	192.1	285.4
ST Borrowings	343.5	345.6	349.9	399.9	419.9
Ot. ST Liability	25.9	76.4	133.4	157.0	226.1
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	1247.9	1463.8
Share Capital	340.1	340.1	340.1	340.1	340.1
Reserves	727.1	713.2	779.1	907.8	1123.7
Equity	1067.2	1053.3	1119.2	1247.9	1463.8

## Cashflow Statement

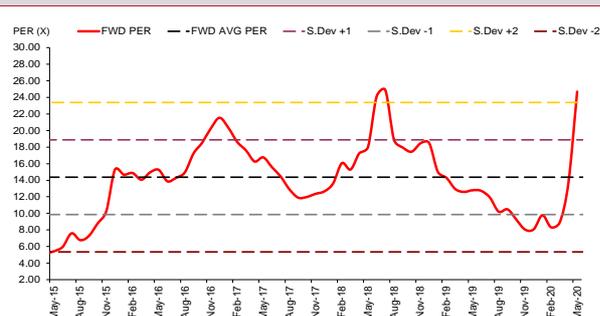
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	120.8	163.7	228.2	228.2	358.4
Investing CF	(110.2)	(18.8)	(115.7)	(150.0)	(150.0)
Financing CF	20.1	(143.3)	(104.5)	(161.4)	(146.2)
Change In Cash	30.6	1.6	8.0	(83.2)	62.2
Free CF	20.8	13.7	78.2	78.2	208.4

Source: Kenanga Research

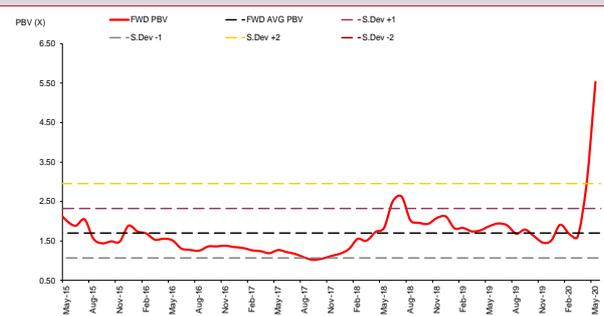
## Financial Data & Ratios

FY Jun	2017A	2018A	2019A	2020E	2021E
<b>Growth</b>					
Turnover	-27.3%	15.8%	14.2%	33.4%	48.6%
EBITDA	-43.3%	38.6%	6.3%	60.0%	56.4%
Operating Profit	-51.6%	63.5%	6.4%	72.2%	64.7%
PBT	-47.9%	54.9%	3.4%	80.6%	67.8%
Net Profit /(loss)	-53.3%	59.3%	15.6%	89.0%	67.8%
<b>Profitability</b>					
EBITDA Margin	14.2%	17.0%	15.8%	19.0%	20.0%
Operating Margin	10.5%	13.5%	12.6%	12.5%	16.2%
PBT Margin	9.6%	12.8%	11.6%	15.7%	17.7%
Core Net Margin	6.0%	8.2%	8.3%	11.8%	13.3%
Eff. Tax Rate	34.9%	0.0%	24.0%	25.0%	25.0%
ROA	3.8%	6.2%	6.7%	11.2%	15.8%
ROE	6.3%	10.2%	11.1%	18.7%	26.8%
<b>DuPont Analysis</b>					
Net Margin (%)	6.0%	8.2%	8.3%	11.8%	13.3%
Assets T/O (x)	1.6	1.3	1.2	1.1	0.8
Lev. Factor (x)	1.7	1.6	1.6	1.7	1.7
ROE (%)	6.3%	10.2%	11.1%	18.7%	26.8%
<b>Leverage</b>					
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
<b>Valuations</b>					
EPS (sen)	4.9	7.9	9.1	12.0	21.6
NDPS (sen)	1.5	4.0	4.2	5.4	9.7
BVPS (RM)	0.78	0.77	0.82	0.89	1.01
PER (x)	109.3	68.6	57.6	31.4	18.7
Net Div. Yld (%)	1.0	0.3	0.7	0.8	1.4
PBV (x)	6.9	7.0	6.6	5.9	5.0

## 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.			
<b>RUBBER GLOVES</b>																	
HARTALEGA HOLDINGS BHD	10.00	33,851	Y	03/2021	47.7%	13.3%	56.6%	13.0%	76.6	48.9	43.3	13.1	11.6	25.1%	1.0%	11.66	OP
KOSSAN RUBBER INDUSTRIES	8.63	11,037	Y	12/2020	38.5%	18.0%	55.1%	17.2%	49.1	31.7	27.0	7.7	6.5	22.3%	0.7%	9.60	OP
SUPERMAX CORP BHD	5.40	6,974	Y	06/2020	29.4%	53.1%	92.2%	74.1%	62.6	32.6	18.7	6.6	5.9	19.1%	0.7%	7.60	OP
TOP GLOVE CORP BHD	11.66	29,946	Y	08/2020	29.8%	17.8%	126%	31.1%	80.1	35.5	27.1	12.2	9.7	30.6%	0.7%	15.60	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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