

27 August 2021

Supermax Corporation

FY21 Inline With Expectations

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FY21 PATAMI of RM3,813m (+6-fold YoY) came in within expectations at 99%/96% of our/consensus forecasts. In our view, the current share price weakness reflects an overly bearish take on the expected decline in ASP in subsequent quarters ahead. We conservatively downgrade our FY23E net profit by 26% after imputing slightly lower ASP. Our FY22E ASP remains at USD48/1,000 pieces. Correspondingly, we downgrade our TP from RM6.49 to RM5.00 based on 9x CY22E EPS. Reiterate OP.

Key results' highlights. QoQ, 4QFY21 revenue fell 3%, no thanks to lower ASP and we believe on lower volume sales as well due to production loss arising from MCO's 60% restriction on workforce. EBITDA margin fell 3.6ppt to 66.8% from 70.4% due to a lower ASP. This brings 3QFY21PATAMI to RM959m (-5%) due to higher effective tax rate of 18% compared to 24% in 3QFY21. A special dividend of 15.0 sen was declared bringing FY21 DPS to 31.8 sen which came in line with our expectation. YoY, FY21 PATAMI rose 6-fold to RM3,813m due to revenue growth (+236%), boosted by higher ASP.

Outlook. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. The group highlighted in the quarterly result note that global glove prices have since dropped following the rollout of Covid-19 vaccines but does not expect glove ASPs to drop sharply due to the structural change in glove consumption from new customer segments. Net cash as at 30 June 2021 stood at RM3.5b or RM1.29/share. According to Malaysian Rubber Glove Manufacturers Association, the global shortage of rubber gloves will last beyond 1Q 2022 with growth rate averaging between 15% and 20% per annum going forward. The lead times suggest that CY22 demand will remain strong. Post COVID-19, inventory restocking cycle is expected to spur demand coupled with increased usage arising from new users and increased hygiene awareness. Plant 12 Block B (total 4.4b pieces) have been completed following the commissioning of the remaining lines adding 2.2b pieces, elevating total installed capacity to 26.2b (+13.4%). It is concurrently building five glove manufacturing plants, scheduled for completion progressively which will add 22.3b pieces in new capacity and raising total capacity to 48b pieces.

Downgrade FY23E net profit by 26% after imputing slightly lower ASP from USD35/1,000 to USD30/1,000 pieces. Our FY22E ASP remains at USD48/1,000 pieces.

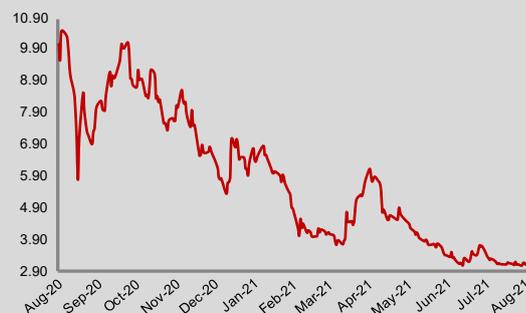
Reiterate OP. Correspondingly, we downgrade our TP from RM6.49 to RM5.00 based on 9xCY22E revised EPS of 55.6 sen (-1.0SD below 5-year forward historical mean). We reduce PER from 10.5x to 9x to account for a 10% operating risk discount. In our view, from the perspective of a long-term investor, we still see significant value in Malaysian glove players which command 65-68% of global market share and have consistently evolve and innovate in terms of products and plant modernization via automations. In our view, the current share price weakness reflects an overly bearish take on the expected decline in ASP in subsequent quarters ahead.

Key risks to our call include: (i) lower ASP occurring sooner than expected and (ii) faster-than-expected global vaccine roll-outs.

OUTPERFORM ↔

Price: **RM3.08**
Target Price: **RM5.00** ↓

Share Price Performance



KLCI	1,585.74
YTD KLCI chg	-2.5%
YTD stock price chg	-47.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	8,062.3
Shares Outstanding	2,617.6
52-week range (H)	11.11
52-week range (L)	3.02
3-mth avg. daily vol:	14,316,840
Free Float	36%
Beta	1.7

Major Shareholders

Supermax Holdings SdnBhd	38.4%
Black Rock	2.0%

Summary Earnings Table

FY Jun (RM m)	2021A	2022E	2023E
Turnover	7164.2	5466.0	3809.7
PBT	5019.4	2757.2	1377.1
Net Profit (NP)	3812.9	2025.6	1000.1
Core NP (CNP)	3812.9	2025.6	1000.1
Consensus NP		1888.6	1056
Earnings Revision	-	-	-26%
EPS (sen)	140.2	74.5	36.8
EPS growth (%)	248.7	(46.9)	(50.6)
NDPS (sen)	31.8	24.6	14.7
BVPS (RM)	1.75	2.25	2.47
PER (X)	2.2	4.1	8.4
PBV (X)	1.8	1.4	1.2
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	10.3	8.0	4.8



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Result Highlight

FY Jun (RM m)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY21	FY21	Chg %	FY20	Chg %	FY20	FY21	Chg %
Turnover	1,875.5	1,937.5	(3.2)	929.1	101.9	2,131.8	7,164.2	236.1
EBITDA	1,252.2	1,363.8	(8.2)	551.5	127.1	771.8	5,096.4	560.3
PBT	1,230.6	1,342.3	(8.3)	510.6	141.0	680.2	5,019.4	638.0
Net Profit (NP)	958.7	1,005.2	(4.6)	398.8	140.4	524.8	3,812.9	626.6
EPS (sen)	35.2	37.0	(4.6)	14.7	140.4	19.3	140.2	626.6
EBITDA margin (%)	66.8	70.4		59.4		36.2	71.1	
PBT margin (%)	65.6	69.3		55.0		31.9	70.1	
Effective tax rate (%)	17.8	23.8		20.2		21.4	21.8	

Source: Bursa Malaysia, Kenanga Research

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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	7.05	24,093	Y	03/2022	52.1%	-29%	50%	-42%	8.3	5.6	9.5	4.8	3.6	73.9%	10.8%	11.35	OP
KOSSAN RUBBER INDUSTRIES	3.08	7,859	Y	12/2021	106%	-34%	210%	-62%	7.2	2.3	6.2	3.3	1.6	93.0%	11.4%	5.00	OP
SUPERMAX CORP BHD	3.08	8,062	Y	06/2021	-24%	-30%	-47%	-51%	2.2	4.1	8.4	1.8	1.4	37.3%	8.1%	5.00	OP
TOP GLOVE CORP BHD	3.86	30,907	Y	08/2021	157%	-28%	395%	-56%	16.9	3.4	7.8	6.3	4.3	150%	19.7%	5.60	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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