

Supermax SUPM.KL SUCB MK

EQUITY: HEALTH CARE & PHARMACEUTICALS

1QFY21 results: Another record quarter

Coming quarters should be even better, with demand still outpacing supply

1QFY21 results: Ahead of expectations with record revenue/earnings

Supermax posted another record-breaking quarter, with revenue hitting a new high of MYR1.35bn (up 266% y-y and 46% q-q) and core profit of MYR776mn (up 28x y-y and 94% q-q), forming 41%/40% of our/consensus estimates for the full year. The performance was driven by unprecedented rubber gloves demand around the world coupled with limited supply, leading to higher ASPs and super-normal profits for glove makers. Supermax also benefited from its distribution business, early ASP hike and higher capacity allocation to spot orders (which yield significantly higher ASPs than regular customers). EBITDA margin for the quarter jumped to 76% vs 15% in 1QFY20 and 59% in 4QFY20.

Several new growth plans in motion while performance continue to improve

Management expects demand to remain high in the near term due to increasing COVID-19 cases and in the long term as well due to higher hygiene awareness and per capita consumption, especially in emerging economies. The company has kickstarted several projects to benefit from this trend. It has allocated USD550mn and GBP50mn for manufacturing base in US (Plant 18) and UK (Plant 19) respectively. This is in addition to its earlier announced plans to expand capacity from ~26bn pcs p.a. currently to 48.4bn pcs by end-2022. Factoring in the continued strength in ASPs over the near term, we have raised FY21F/22F EPS by 51%/18%. Our FY23F EPS is trimmed by 1% as we foresee a slightly faster ASP erosion post COVID-19. On a side note, the group will soon start face-mask manufacturing in Malaysia after having recently commenced such production in Canada under one of its subsidiaries beginning early this month. It is also exploring the possibility of dual-listing in Singapore stock exchange to widen its investors base; details are to be unveiled upon finalization.

Maintain Buy with a slightly higher TP of MYR12.84

We cut our target CY21F P/E to 15x (20x earlier) due to possible risks from the ongoing vaccine development, entry of several new players in the market, etc, which might balance the current demand-supply gap in the industry. This, coupled with our earnings revision, lifts our TP to MYR12.84. With 31% implied upside, we reaffirm Buy. The stock currently trades at 11.4x CY21F P/E. Key downside risks to our rating are fluctuations in raw-material prices and USD/MYR rate, as well as development of a COVID-19 vaccine that could impact sustained demand for gloves in the long term.

Year-end 30 Jun	FY20	FY21F		FY22F		FY23F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	2,132	5,184	6,238	4,950	5,028	5,260	5,599
Reported net profit (mn)	523	1,873	2,834	1,404	1,654	1,468	1,455
Normalised net profit (mn)	526	1,873	2,834	1,404	1,654	1,468	1,455
FD normalised EPS	20.05c	71.45c	1.08	53.55c	63.10c	55.99c	55.52c
FD norm. EPS growth (%)	289.6	256.3	439.2	-25.0	-41.6	4.6	-12.0
FD normalised P/E (x)	48.8	-	9.0	-	15.5	-	17.6
EV/EBITDA (x)	34.8	-	6.4	-	10.5	-	11.5
Price/book (x)	8.1	-	8.6	-	6.8	-	5.7
Dividend yield (%)	2.1	-	5.6	-	3.3	-	2.9
ROE (%)	38.6	91.6	124.2	49.3	48.9	41.3	35.1
Net debt/equity (%)	net cash						

Source: Company data, Nomura estimates

Rating Remains	Buy
Target price Increased from MYR 12.50	MYR 12.84
Closing price 27 October 2020	MYR 9.78
Implied upside	+31.3%
Market Cap (USD mn)	6,389.9
ADT (USD mn)	118.8

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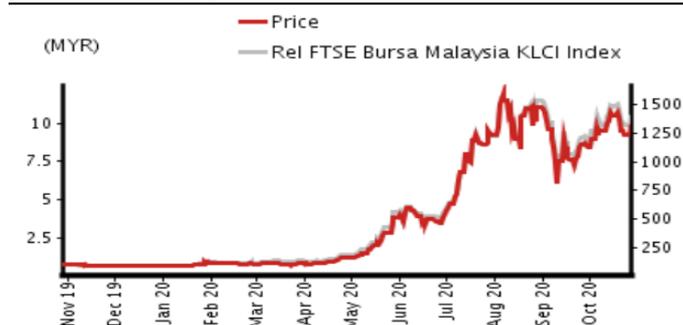
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Key Data on Supermax

Relative Performance Chart



Source: Thomson Reuters, Nomura

Performance

(%)	1M	3M	12M		
Absolute (MYR)	13.9	12.2	1,224.1	M cap (USDm)	6,389.9
Absolute (USD)	14.0	14.5	1,230.6	Free float (%)	60.2
Rel to FTSE Bursa Malaysia KLCI Index	14.8	18.2	1,228.9	3-mth ADT (USDm)	118.8

Income statement (MYRmn)

Year-end 30 Jun	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,538	2,132	6,238	5,028	5,599
Cost of goods sold	-1,070	-1,094	-1,601	-2,067	-2,786
Gross profit	468	1,038	4,637	2,961	2,813
SG&A	-323	-392	-817	-736	-855
Employee share expense	0	0	0	0	0
Operating profit	145	646	3,820	2,225	1,958
EBITDA	190	722	3,883	2,300	2,044
Depreciation	-45	-76	-63	-75	-86
Amortisation	0	0	0	0	0
EBIT	145	646	3,820	2,225	1,958
Net interest expense	-20	-17	-20	-29	-37
Associates & JCEs	6	18	9	9	9
Other income	53	42	42	42	47
Earnings before tax	184	689	3,851	2,247	1,977
Income tax	-49	-153	-963	-562	-494
Net profit after tax	135	536	2,888	1,686	1,483
Minority interests	0	-10	-54	-32	-28
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	135	526	2,834	1,654	1,455
Extraordinary items	-12	-3	0	0	0
Reported NPAT	123	523	2,834	1,654	1,455
Dividends	-20	-268	-1,444	-843	-742
Transfer to reserves	103	255	1,390	811	714

Valuations and ratios

Reported P/E (x)	208.2	49.0	9.0	15.5	17.6
Normalised P/E (x)	190.0	48.8	9.0	15.5	17.6
FD normalised P/E (x)	190.0	48.8	9.0	15.5	17.6
Dividend yield (%)	0.2	2.1	5.6	3.3	2.9
Price/cashflow (x)	119.1	19.8	9.7	13.6	17.1
Price/book (x)	11.4	8.1	8.6	6.8	5.7
EV/EBITDA (x)	136.9	34.8	6.4	10.5	11.5
EV/EBIT (x)	177.8	38.8	6.5	10.8	12.0
Gross margin (%)	30.4	48.7	74.3	58.9	50.2
EBITDA margin (%)	12.4	33.8	62.3	45.7	36.5
EBIT margin (%)	9.5	30.3	61.2	44.3	35.0
Net margin (%)	8.0	24.5	45.4	32.9	26.0
Effective tax rate (%)	26.8	22.2	25.0	25.0	25.0
Dividend payout (%)	16.0	51.2	51.0	51.0	51.0
ROE (%)	11.5	38.6	124.2	48.9	35.1
ROA (pretax %)	9.4	35.5	165.7	83.8	67.1

Growth (%)

Revenue	17.9	38.6	192.6	-19.4	11.4
EBITDA	26.6	278.9	438.2	-40.8	-11.1
Normalised EPS	75.1	289.6	439.2	-41.6	-12.0
Normalised FDEPS	75.1	289.6	439.2	-41.6	-12.0

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 30 Jun	FY19	FY20	FY21F	FY22F	FY23F
EBITDA	190	722	3,883	2,300	2,044
Change in working capital	31	712	-288	137	-65
Other operating cashflow	-6	-137	-941	-549	-484
Cashflow from operations	215	1,297	2,655	1,888	1,495
Capital expenditure	-112	-192	-210	-360	-185
Free cashflow	103	1,105	2,445	1,528	1,310
Reduction in investments	0	0	0	0	0
Net acquisitions	0	0	0	0	0
Dec in other LT assets	0	0	0	0	0
Inc in other LT liabilities	0	0	0	0	0
Adjustments	1	0	0	0	0
CF after investing acts	104	1,105	2,445	1,528	1,310
Cash dividends	-33	0	-1,444	-843	-742
Equity issue	0	0	0	0	0
Debt issue	-45	-63	147	180	93
Convertible debt issue	0	0	0	0	0
Others	2	-34	0	0	0
CF from financial acts	-75	-98	-1,297	-663	-649
Net cashflow	29	1,007	1,148	865	661
Beginning cash	145	174	1,181	2,329	3,194
Ending cash	174	1,181	2,329	3,194	3,855
Ending net debt	218	-853	-1,854	-2,539	-3,108

Balance sheet (MYRmn)

As at 30 Jun	FY19	FY20	FY21F	FY22F	FY23F
Cash & equivalents	174	1,181	2,329	3,194	3,855
Marketable securities	0	0	0	0	0
Accounts receivable	174	392	705	568	633
Inventories	182	253	263	340	458
Other current assets	106	85	85	85	85
Total current assets	636	1,910	3,382	4,187	5,031
LT investments	208	225	234	243	252
Fixed assets	965	1,086	1,232	1,518	1,617
Goodwill	29	29	29	29	29
Other intangible assets	0	0	0	0	0
Other LT assets	6	2	2	2	2
Total assets	1,843	3,252	4,879	5,978	6,930
Short-term debt	331	226	327	451	515
Accounts payable	217	227	263	340	458
Other current liabilities	54	1,024	1,024	1,024	1,024
Total current liabilities	602	1,477	1,615	1,815	1,997
Long-term debt	61	102	148	204	233
Convertible debt	0	0	0	0	0
Other LT liabilities	46	64	64	64	64
Total liabilities	708	1,643	1,826	2,083	2,294
Minority interest	11	22	76	108	135
Preferred stock	0	0	0	0	0
Common stock	340	340	340	340	340
Retained earnings	784	1,348	2,738	3,550	4,263
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	-102	-102	-102	-102
Total shareholders' equity	1,124	1,586	2,976	3,788	4,502
Total equity & liabilities	1,843	3,252	4,879	5,978	6,930

Liquidity (x)

Current ratio	1.06	1.29	2.09	2.31	2.52
Interest cover	7.4	37.7	190.0	77.1	53.6

Leverage

Net debt/EBITDA (x)	1.14	net cash	net cash	net cash	net cash
Net debt/equity (%)	19.4	net cash	net cash	net cash	net cash

Per share

Reported EPS (MYR)	4.70c	19.95c	1.08	63.10c	55.52c
Norm EPS (MYR)	5.15c	20.05c	1.08	63.10c	55.52c
FD norm EPS (MYR)	5.15c	20.05c	1.08	63.10c	55.52c
BVPS (MYR)	0.86	1.21	1.14	1.44	1.72
DPS (MYR)	0.02	0.20	0.55	0.32	0.28

Activity (days)

Days receivable	43.1	48.5	32.1	46.2	39.1
Days inventory	63.2	72.7	58.8	53.2	52.3
Days payable	68.9	74.3	55.9	53.2	52.3
Cash cycle	37.4	46.9	35.0	46.2	39.1

Source: Company data, Nomura estimates

Fig. 1: SUCB MK: 1QFY21 results highlights

FYE June (MYR mn)	1QFY20	4QFY20	1QFY21	q-q (%)	y-y (%)
Revenue	369.9	929.1	1,352.5	45.6	265.6
EBITDA	54.0	547.7	1,025.9	87.3	1,800.0
<i>EBITDA Margin (%)</i>	<i>14.6</i>	<i>59.0</i>	<i>75.8</i>		
Depreciation & amortization	-12.5	-37.6	-14.0	-62.6	12.0
El/Others	-3.0	0.0	13.4	Nm	Nm
EBIT	38.5	510.1	1,025.2	101.0	2,564.1
<i>EBIT Margin (%)</i>	<i>10.4</i>	<i>54.9</i>	<i>75.8</i>		
Interest expense	-4.2	-4.8	-2.4	-49.5	-42.4
Interest income	0.3	0.6	0.4	Nm	Nm
Associates	0.8	13.0	12.6	Nm	Nm
Pretax profit	32.4	519.0	1,049.2	102.2	3,134.1
<i>Pretax Margin (%)</i>	<i>8.8</i>	<i>55.9</i>	<i>77.6</i>		
Tax	-7.5	-110.7	-236.8	113.8	Nm
<i>Effective tax rate (%)</i>	<i>23.1</i>	<i>21.3</i>	<i>22.6</i>		
Minority Interest	-0.2	-8.7	-23.0	Nm	Nm
Net Profit	24.7	399.6	789.5	97.6	3,090.4
Core Profit	27.7	399.6	776.1	94.2	2,700.3
<i>Net Margin (%)</i>	<i>7.5</i>	<i>43.0</i>	<i>57.4</i>		

Source: Company data, Nomura research

Fig. 2: SUCB: Key assumptions

Key assumptions	FY21F	FY22F	FY23F
Average capacity (mn pcs p.a.)	26,044	34,331	47,566
Blended ASP (USD per 1000 pcs)	64.4	42.1	35.9
USD/MYR rate	4.13	4.09	4.10

Source: Nomura estimates

Appendix A-1

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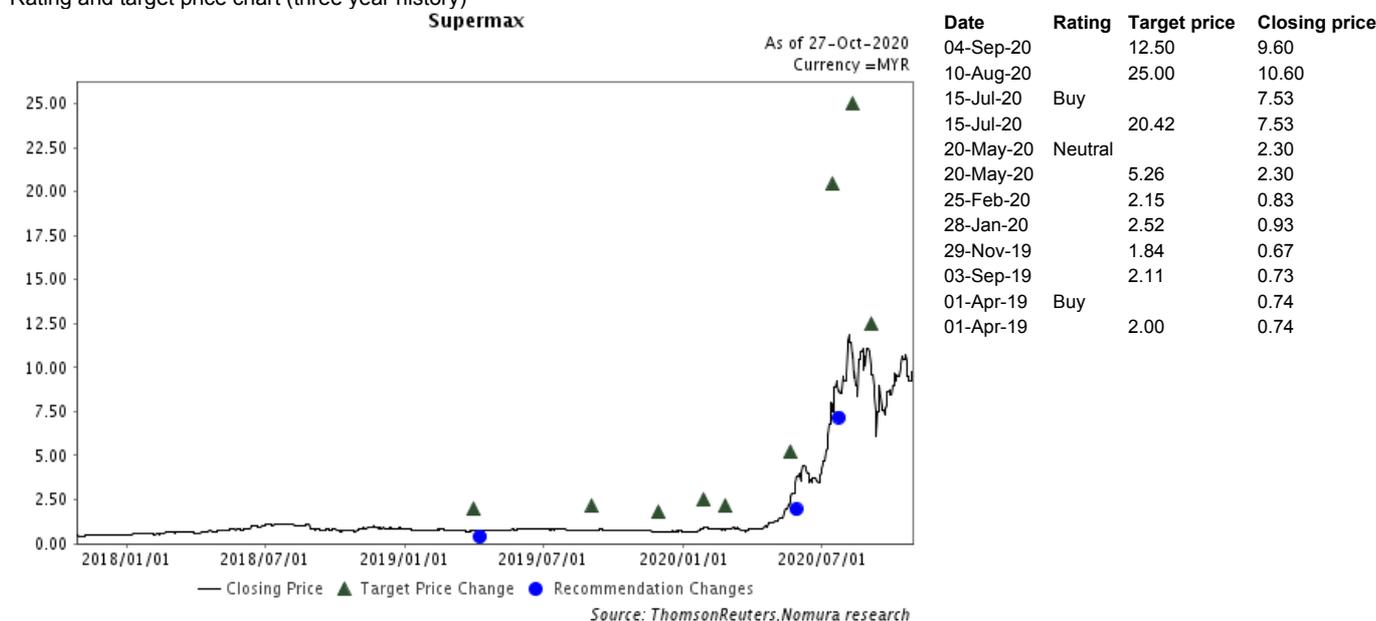
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Supermax	SUCB MK	MYR 9.78	27-Oct-2020	Buy	N/A	

Supermax (SUCB MK)

MYR 9.78 (27-Oct-2020) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of MYR12.84 is derived from ascribing a target 2021F P/E of 15x. The benchmark index for the stock is KLCI Malaysia.

Risks that may impede the achievement of the target price Key downside risks to our rating are fluctuations in raw material prices and USD/MYR rate, as well as development of COVID-19 vaccine, which could impact the rubber gloves demand in the long term.

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As at 30 September 2020.

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