

22 May 2020

Consumer Non-cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

Expect 4QFY20 To Jump 35% QoQ; Reiterate BUY

Target Price (Return): MYR6.66 (23.3%)
Price: MYR5.40
Market Cap: USD1,605m
Avg Daily Turnover (MYR/USD) 48.6m/11.2m

- **Reiterate BUY with a higher DCF-derived MYR6.66 TP from MYR6.08, 23% upside and 1% yield.** Supermax said gloves demand has increased exponentially, with lead times surging to 10-12 months (10 days ago: eight months). Due to stronger-than-expected demand, we increase our earnings estimates and TP after increasing ASP assumptions. Our new TP implies FY21 (Jun) forward P/E of 28.1x. This reflects a 20% discount against the sector average forward P/E, which we believe is justified due to its lower market cap/liquidity.
- **Strong participation for the maiden virtual analysts briefing.** We attended a virtual analysts briefing organised by Supermax. Based on our observation, it was attended by 100-120 participants. During the briefing, the company shared that the gloves demand had exponentially increased this year amid the spread of the COVID-19 pandemic. Supermax also mentioned that this demand surge had resulted in a rapid rise in ASPs.
- **Lead time has surged to 10-12 months.** This is a significant increase vis-à-vis the previous 8-month lead time from data we gathered as recent as 10 days ago. Before COVID-19, the normal lead time range was 2-2.5 months. Supermax's plants' utilisation rate is now full – at 90-95% – as compared to normal levels of 80-85%.
- **Bullish prospects.** The company expects its outlook to remain strong for at least the next 1.5-2 years. It also said that it has registered strong profits since March. On the demand side, Supermax is seeing the emergence of new consumers and consumption levels not previously seen. We gather that gloves consumption has also expanded beyond the healthcare sector to include the general public. In our view, this should include the aviation, hotel, and hair salon industries, which in the past consumed very little.
- **Expect 4QFY20 earnings to jump 35% QoQ.** We have increased our FY20F-22F earnings by 11-14% after increasing our ASP assumptions. Our FY20F average ASP increase has been updated to 9% from 7%. Effectively, we expect a strong 4QFY20 net profit of MYR96m – representing a 35% QoQ growth (3QFY20: MYR71m).
- **Reiterate BUY with a higher MYR6.66 TP.** We expect the QoQ and YoY earnings improvement momentum to continue for 4QFY20 in the near term. In the long run, Supermax is a beneficiary of the long term uptrend in global gloves consumption: At 8-10% pa, even without COVID-19.
- **Risks to our BUY call:** Lower-than-expected sales volume, weaker-than-expected ASPs, and higher-than-expected raw material prices.

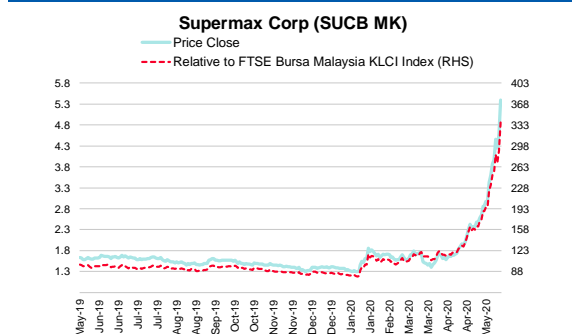
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	288.5	170.0	239.6	283.5	230.3
Relative	297.1	164.9	244.8	292.3	239.8
52-wk Price low/high (MYR)					1.30 – 5.40



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	1,304	1,538	1,748	2,082	2,258
Recurring net profit (MYRm)	107	123	222	310	361
Recurring net profit growth (%)	-	15.5	80.4	39.3	16.8
Recurring P/E (x)	66.14	57.26	31.75	22.79	19.52
P/B (x)	7.0	6.3	5.5	4.7	4.0
P/CF (x)	39.81	30.01	17.26	15.52	14.74
Dividend Yield (%)	1.5	0.3	1.1	1.5	1.8
EV/EBITDA (x)	29.32	30.54	19.13	13.99	11.82
Return on average equity (%)	-	11.5	18.5	22.3	22.2
Net debt to equity (%)	28.5	19.2	0.6	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Malaysia	Recurring EPS	0.08	0.09	0.17	0.24	0.28
Consumer Non-cyclical	DPS	0.08	0.02	0.06	0.08	0.10
Supermax Corp	BVPS	0.78	0.86	0.98	1.15	1.34
SUCB MK	Return on average equity (%)	-	11.5	18.5	22.3	22.2
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	66.14	57.26	31.75	22.79	19.52
We use DCF-FCFE valuation.	P/B (x)	7.0	6.3	5.5	4.7	4.0
	FCF Yield (%)	1.7	1.7	3.7	4.3	4.7
Key drivers	Dividend Yield (%)	1.5	0.3	1.1	1.5	1.8
Our earnings forecasts are most sensitive to:	EV/EBITDA (x)	29.32	30.54	19.13	13.99	11.82
i. Nitrile and latex glove volumes;	EV/EBIT (x)	35.37	37.92	24.64	17.29	14.42
ii. USD/MYR;						
iii. Raw material prices.						
	Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Key risks	Total turnover	1,304	1,538	1,748	2,082	2,258
Downside risks include:	Gross profit	430	510	709	855	935
i. Lower-than-expected volumes;	EBITDA	244	232	359	475	543
ii. Volatile currency movements;	Depreciation and amortisation	(42)	(45)	(80)	(91)	(98)
iii. Volatile raw material prices.	Operating profit	202	187	279	384	445
	Net interest	(14)	(20)	(4)	2	7
Company Profile	Pre-tax profit	162	172	292	407	475
Supermax is one of the world's Big 4 glove makers. It produces both latex and nitrile gloves.	Taxation	(52)	(49)	(69)	(96)	(112)
	Reported net profit	107	123	222	310	361
	Recurring net profit	107	123	222	310	361
	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	57	31	101	54	24
	Cash flow from operations	177	235	409	455	478
	Capex	(59)	(112)	(150)	(150)	(150)
	Cash flow from investing activities	(55)	(112)	(143)	(138)	(133)
	Dividends paid	(76)	(33)	(67)	(93)	(108)
	Cash flow from financing activities	(126)	(104)	(35)	(71)	(146)
	Cash at beginning of period	156	145	174	415	671
	Net change in cash	(4)	19	231	246	200
	Ending balance cash	145	174	415	671	880
	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	145	174	415	671	880
	Tangible fixed assets	900	969	1,018	1,068	1,121
	Total investments	197	208	208	208	208
	Total assets	1,700	1,843	2,124	2,475	2,753
	Short-term debt	374	331	294	336	327
	Total long-term debt	62	61	129	121	114
	Total liabilities	677	708	833	966	990
	Total equity	1,023	1,134	1,291	1,509	1,763
	Total liabilities & equity	1,700	1,843	2,124	2,475	2,753
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	17.9	13.6	19.2	8.4
	Recurrent EPS growth (%)	0.0	15.5	80.4	39.3	16.8
	Gross margin (%)	33.0	33.2	40.6	41.1	41.4
	Operating EBITDA margin (%)	18.7	15.1	20.5	22.8	24.1
	Net profit margin (%)	8.2	8.0	12.7	14.9	16.0
	Capex/sales (%)	4.5	7.3	8.6	7.2	6.6
	Interest cover (x)	14.5	9.5	24.1	35.9	45.0

Source: Company data, RHB

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Valuation. In our DCF valuation we have increased FCFF assumptions, in line with the better earnings prospects. This is driven by a higher ASP outlook. Our DCF-derived TP of MYR6.66 reflects a forward P/E of 28.1x. While this is higher than Supermax's peak of 24.4x, we believe this is justified, as it is still at a 20% discount against its peers' average.

The company also has a higher ASP increase potential, given its 50% product exposure in the own brand manufacturing segment.

Figure 1: DCF valuation

FYE Dec (MYRm)	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	Terminal
CFO	455	478	458	525	567	580	620	664	692	713	
+ Interest (1 - tax rate)	(8)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	
Free cash flow to firm (FCFF)	296	321	301	369	412	425	465	510	539	560	14,658
Discount factor	0.92	0.85	0.78	0.72	0.66	0.61	0.56	0.51	0.47	0.44	0.44
PV of FCFF	273	272	235	265	272	258	260	263	255	244	6,388
Risk-free	4.0%										
Beta	0.81										
Cost of equity	8.8%										
WACC	8.0%										
Terminal growth	4.0%										
Enterprise value (MYRm)	8,983										
Cash	218										
- Debt	(473)										
Equity value (MYRm)	8,729										
Number of shares (m)	1309.90										
TP (MYR)	6.66										

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-21	Buy	6.08	5.40
2020-05-13	Buy	3.90	3.60
2020-03-15	Buy	1.86	1.71
2020-02-26	Buy	1.86	1.70
2020-01-23	Buy	1.86	1.52
2019-11-29	Neutral	1.50	1.34
2019-09-03	Neutral	1.61	1.46
2019-07-19	Buy	1.88	1.62
2019-05-15	Buy	1.88	1.57

Source: RHB, Bloomberg

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