

22 December 2020

Consumer Cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

One Step Closer To The American Dream; Stay BUY

Target Price (Return):	MYR13.25 (+92%)
Price:	MYR6.89
Market Cap:	USD4,478m
Avg Daily Turnover (MYR/USD)	280m/68.6m

- Keep BUY and DCF-derived MYR13.25 TP, 92% upside and c.6% yield.** Supermax has incorporated a subsidiary in the US. This should pave way for the company to build its first manufacturing plant there. We are positive on this, as it will strengthen the Aurelia gloves brand in the US. Our TP reflects 10.9x FY21F (Jun) P/E, which is at a 35% discount vs the 3-year average. This discount is justified due to its lower market cap.

- A step in the right direction.** Supermax announced that it has incorporated a wholly owned subsidiary in the US known as Maxter Healthcare Incorporated (MHI). Note that this is the start of a plan to build its first gloves manufacturing plant there. We gather that construction will start in 1H21 and the company targets to commission these facilities in stages from 1H22. We are positive on the progress of this plan, as this will enhance its branding in the US over the long term. In the US, Supermax sells its gloves under its own brand, Aurelia. An example of the Aurelia nitrile gloves sold on Amazon is shown [here](#). Pending details on the capacity, we maintain our earnings estimates. While cost of production may be higher than Malaysia, we expect the higher ASP for "Made In USA" gloves to cover the increase in cost.

- Issued and paid-up capital to be increased to USD100m.** MHI was incorporated with issued and paid-up capital of USD1.00, but this will be increased to USD100m. This is part of the total allocation of USD550m capital investment for Plant 18. MHI's principal activity is for the manufacturing of "Made In USA" medical gloves, other personal protective equipment, and building of Supermax's national headquarters in the US.

- Officially joined the FBM KLCI on 21 Dec.** We are positive on this, as it will increase investor interest in the stock.

- To add 9% capacity soon.** Plant 12B should be completed in less than a month. Upon completion, total capacity will increase by 2.2bn pieces pa (ppa), or 9% to 26.2bn ppa.

- Gloves ASP uptrend is intact in 2021.** We expect the ASP uptrend to sustain, given the nitrile butadiene rubber (NBR) shortage and gloves deficit of 7.4bn pieces. Refer to pages 4-5 for details on gloves demand-supply, and the NBR shortage.

- Operations not affected, as all workers tested negative for COVID-19.** We gather that Supermax has conducted COVID-19 tests on all of its workers and all are negative. Hence, operations were not affected.

- BUY with TP of MYR13.25.** In the short term, 2QFY21 earnings should benefit from the worsening nitrile glove shortage, due to the temporary closure of some glove manufacturing plants.

- Risks.** Lower-than-expected demand for gloves post COVID-19, lower-than-expected sales volume/USD, and higher-than-expected raw material prices.

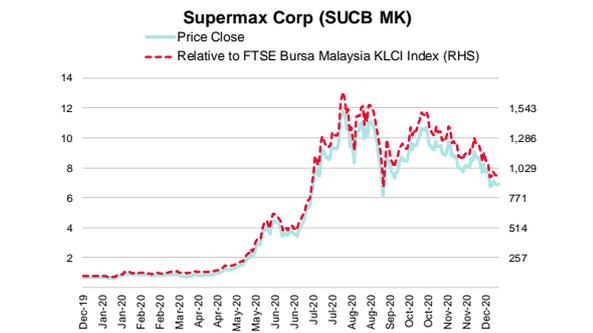
Analyst

Alan Lim, CFA
 +603 9280 8890
alan.lim@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	891.4	(14.7)	(5.5)	86.2	884.3
Relative	887.7	(18.1)	(15.4)	76.9	882.0
52-wk Price low/high (MYR)	0.65 – 11.9				



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	1,538	2,132	6,464	7,269	7,189
Recurring net profit (MYRm)	123	526	3,182	3,297	2,982
Recurring net profit growth (%)	15.5	326.6	505.5	3.6	(9.6)
Recurring P/E (x)	146.14	34.26	5.66	5.46	6.04
P/B (x)	16.0	12.0	4.8	3.0	2.2
P/CF (x)	76.59	23.28	4.73	5.30	6.17
Dividend Yield (%)	0.2	1.0	6.2	6.4	5.8
EV/EBITDA (x)	77.80	24.40	3.56	2.92	2.70
Net debt to equity (%)	19.2	net cash	net cash	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-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.05	0.20	1.22	1.26	1.14
Consumer Cyclical	DPS	0.02	0.07	0.43	0.44	0.40
Supermax Corp	BVPS	0.43	0.57	1.43	2.32	3.13
SUCB MK						
Buy						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Recurring P/E (x)	146.14	34.26	5.66	5.46	6.04
	P/B (x)	16.0	12.0	4.8	3.0	2.2
	FCF Yield (%)	0.7	3.5	20.3	18.0	15.4
	Dividend Yield (%)	0.2	1.0	6.2	6.4	5.8
	EV/EBITDA (x)	77.80	24.40	3.56	2.92	2.70
	EV/EBIT (x)	96.60	27.28	3.63	3.00	2.79
	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total turnover	1,538	2,132	6,464	7,269	7,189
	Gross profit	510	1,102	5,019	5,196	4,481
	EBITDA	232	720	4,162	4,280	3,843
	Depreciation and amortisation	(45)	(76)	(78)	(105)	(124)
	Operating profit	187	644	4,084	4,175	3,719
	Net interest	(20)	(17)	32	83	127
	Pre-tax profit	172	689	4,180	4,331	3,917
	Taxation	(49)	(153)	(982)	(1,018)	(921)
	Reported net profit	123	526	3,182	3,297	2,982
	Recurring net profit	123	526	3,182	3,297	2,982
	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	31	145	564	61	(78)
	Cash flow from operations	235	773	3,808	3,396	2,917
	Capex	(112)	(150)	(150)	(150)	(150)
	Cash flow from investing activities	(112)	(150)	(108)	(57)	(14)
	Dividends paid	(33)	(158)	(955)	(989)	(895)
	Cash flow from financing activities	(104)	(140)	(947)	(1,041)	(944)
	Cash at beginning of period	145	174	667	3,430	5,738
	Net change in cash	19	483	2,754	2,298	1,958
	Ending balance cash	174	667	3,430	5,738	7,706
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	174	667	3,430	5,738	7,706
	Tangible fixed assets	969	1,018	1,068	1,121	1,177
	Total investments	208	208	208	208	208
	Total assets	1,843	2,420	5,752	8,240	10,296
	Short-term debt	331	294	336	327	164
	Total long-term debt	61	129	121	114	107
	Total liabilities	708	921	2,036	2,209	1,993
	Total equity	1,134	1,499	3,715	6,031	8,303
	Total liabilities & equity	1,843	2,420	5,752	8,240	10,296
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	17.9	38.6	203.2	12.4	(1.1)
	Recurrent EPS growth (%)	15.5	326.6	505.5	3.6	(9.6)
	Gross margin (%)	33.2	51.7	77.6	71.5	62.3
	Operating EBITDA margin (%)	15.1	33.8	64.4	58.9	53.5
	Net profit margin (%)	8.0	24.7	49.2	45.4	41.5
	Capex/sales (%)	7.3	7.0	2.3	2.1	2.1
	Interest cover (x)	9.47	37.61	381.22	422.46	410.71

Source: Company data, RHB

Figure 1: Supermax gloves sold in the US under the brand, Aurelia



Brand: Supermax
 4338608 PT# 93996- Glove PF Nitrile Small Aurelia Protege 100/Bx by, Supermax, Inc -4338608 by The Supermax, Incorporated
 ★★★★★ 2 ratings
 Price: \$27.99 + \$13.99 shipping

Specifications for this item	
Brand Name	Supermax
Hand Orientation	Ambidextrous
Material	Nitrile
Part Number	unknown
Size	Small
UNSPSC Code	39120000

Source: Amazon

Figure 2: Key assumptions

Key Assumptions	FY21F	FY22F	FY23F
Installed year-end capacity (m ppa)	26,200	36,425	42,425
Blended ASP (USD per 1,000 pieces)	71	57	48
Average USD/MYR	4.025	4.025	4.025
Utilisation rate	90%	90%	90%

Source: RHB

Figure 3: DCF valuation

FYE Dec (MYR m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	3,396	2,917	2,976	3,281	3,525	3,761	3,953	4,126	4,250	4,378	
+ Interest (1 - Tax Rate)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(155)	(159)	
Free cash flow to firm (FCFF)	3,239	2,760	2,820	3,126	3,370	3,607	3,799	3,973	4,092	4,215	44,224
Discount factor	0.90	0.81	0.72	0.64	0.58	0.51	0.46	0.41	0.37	0.33	0.33
PV of FCFF	2,922	2,225	2,032	2,013	1,940	1,855	1,747	1,633	1,503	1,383	14,514
Risk-free	4.0%										
Beta	1.36										
Cost of Equity	12.2%										
WACC	10.6%										
Terminal growth	1.0%										
Enterprise Value (MYR m)	33,766										
Cash	1,181										
- Debt	(328)										
Equity Value (MYR m)	34,619										
No of shares (m)	2613										
Fair Value (MYR)	13.25										

Source: RHB

Figure 4: Sensitivity of TP based on bull, base and bear case for blended ASP

Scenario	FY21F	FY22F	FY23F	Long Term	TP (MYR)
Bull	71	67	58	58	18.50
Base	71	57	48	48	13.25
Bear	71	47	38	38	8.00

Source: RHB

Figure 5: RHB's demand-supply estimates for NBR

Capacity (tonne per year)	2018	2019	2020F	2021F	2022F
Kumho Petrochemical	400	480	580	640	710
Growth (%)	NA	20.0%	20.8%	10.3%	10.9%
Synthomer	310	400	400	460	460
Growth (%)	NA	29.0%	0.0%	15.0%	0.0%
LG Chemical	143	170	170	270	270
Growth (%)	NA	18.9%	0.0%	58.8%	0.0%
Nantex	195	195	225	325	325
Growth (%)	NA	0.0%	15.4%	44.4%	0.0%
Others	550	715	787	787	837
Growth (%)	NA	30.0%	10.0%	0.0%	6.4%
Estimated manufacturing capacity	1,598	1,960	2,162	2,482	2,602
Utilisation Rate	90%	80%	92%	90%	90%
Effective supply	1,438	1,568	1,989	2,233	2,341
Global demand	1,442	1,482	1,997	2,297	2,351
Surplus/(Deficit)	-4	86	-8	-64	-10

Source: Company data, RHB

NBR shortage to sustain nitrile glove ASP increase throughout 2021. Due to the unprecedented demand for nitrile gloves, demand for NBR has spiked. The situation has worsened, leading to NBR suppliers raising the price of this raw material by 20% each month since September. This is a strong indicator that almost all nitrile butadiene supply in the market has been booked, as buyers are now willing to pay higher prices.

Our demand-supply estimates for NBR shows that the shortage situation should be resolved in early-2023, as more supply comes on stream from Kumho Petrochemicals in 2022. While this means costs will increase for gloves producers, the overall impact is actually positive for existing players, as the ASP uptrend for nitrile gloves will continue. This also serves as a natural entry barrier for new players that are unlikely to be able to secure enough NBR to compete with existing nitrile gloves producers.

We expect the higher ASP for nitrile gloves to translate into higher latex glove ASPs as well, due to the substitution effect.

Figure 6: RHB's demand-supply estimates for gloves

Capacity (bn ppa)	2018	2019	2020F	2021F	2022F
Hartalega	33.0	36.6	41.0	43.7	48.5
Growth (%)	10.0%	10.9%	12.0%	6.6%	11.0%
Kossan	26.5	29.0	32.0	35.0	38.4
Growth (%)	20.5%	9.4%	10.3%	9.4%	9.7%
Top Glove	60.5	70.1	90.0	100.4	106.6
Growth (%)	17.2%	15.9%	28.4%	11.6%	6.2%
Supermax	22.0	21.7	26.2	31.1	38.2
Growth (%)	-6.0%	-1.4%	20.6%	18.6%	22.9%
Sri Trang*	21.0	27.0	33.0	38.0	49.1
Growth (%)	NA	28.6%	22.2%	15.2%	29.2%
China	7.0	9.0	18.0	37.0	56.0
Growth (%)	NA	28.6%	100.0%	105.6%	51.4%
Others	70.0	74.2	81.6	91.6	101.6
Growth (%)	NA	6.0%	10.0%	12.3%	10.9%
Estimated manufacturing capacity	240.0	270.0	321.8	376.8	438.4
Supply change	92.0	30.0	51.8	55.0	61.6
Supply growth	62.2%	12.5%	19.2%	17.1%	16.4%
Global demand	256.0	263.0	333.9	384.2	437.6
Demand change	28.0	7.0	70.9	50.3	53.4
Demand growth	12.3%	2.7%	26.9%	15.1%	13.9%
Surplus/(deficit)	-16.0	7.0	-12.1	-7.4	0.8

Source: Company data, RHB

2021 sector outlook: We expect the ASP uptrend to sustain, due to the gloves deficit of 7.4bn pieces. We expect total demand of 384.2bn ppa to exceed the total supply of 376.8bn ppa in 2021. Demand will be driven by the US, which was the top gloves consumer in 2019 (35% of global demand). Note that COVID-19 cases there remain extremely high.

Additionally, gloves demand may increase if vaccines are approved in more countries. Factors that may limit supply, include foreign worker and nitrile butadiene shortages, and infections among the workforce of gloves producers.

Vaccine is a major step towards ending COVID-19, but continued public health measures are needed. During the [Bloomberg New Economy forum](#) on 19 Nov, Moderna CEO Stéphane Bancel said that "the vaccine is not a silver bullet...". We believe that vaccines are a crucial step towards ending COVID-19. However, it has to come hand-in-hand with continued public health measures.

As the acceptance and availability of vaccines are likely to vary greatly among countries, we believe that the selling on gloves stocks – due to vaccine-related news flow – is overdone. We expect a gradual global availability of vaccines by 2H21. In the next 12 months, we also expect additional demand for gloves, of up to 18bn pieces, from vaccine deployment.

The end of COVID-19 is not the end of long-term gloves demand growth. After the H1N1 pandemic in 2009-2010, demand for gloves dipped slightly YoY in 2011, by 1.3% or 2bn ppa, to 148bn ppa. Growth continued from 2012 onwards, and has remained on an uptrend.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-10-28	Buy	13.2	9.5
2020-08-11	Buy	12.0	10.8
2020-07-21	Buy	10.9	8.9
2020-07-14	Buy	9.4	8.0
2020-07-08	Buy	6.9	5.4
2020-06-02	Buy	5.3	3.8
2020-05-22	Buy	3.3	2.9
2020-05-21	Buy	3.0	2.7
2020-05-13	Buy	2.0	1.8
2020-01-23	Buy	0.9	0.8
2019-09-03	Neutral	0.8	0.7
2019-07-19	Buy	0.9	0.8

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531