

06 May 2021

# Supermax Corporation

## 9MFY21 Below Expectations

By Raymond Choo Ping Khoon | [pkchoo@kenanga.com.my](mailto:pkchoo@kenanga.com.my)

9MFY21 PATAMI of RM2,854m (+23-fold YoY) came in below expectations at 71%/70% of our/consensus full-year forecasts. The negative variance to our estimate is due to lower-than-expected ASP. Hence, we downgrade FY21E/FY22E net profit by 6%/6%. Following the roll-out of Covid-19 vaccines which is likely to cause glove demand to moderate, the group highlighted that global glove prices had since dropped by 15% to 25%. However, the group does not expect glove ASPs to drop sharply due to the structural change in glove consumption from new customer segments. Our TP is downgraded from RM7.80 to RM6.80 based on 11x CY22E revised EPS of 61.9 sen. Reiterate OP.

**Key results' highlights.** QoQ, 3QFY21 revenue fell 3%, no thanks to lower volumes sales despite higher ASP as a result of production loss arising from temporary closure of Meru plants due to the pandemic. EBITDA margin fell 0.4ppt to 70.4% from 70.8% due to a combination of high raw material nitrile cost and one-time donation to the Government (RM75m). This brings 3QFY21 PATAMI to RM1,005m (-5%) due to higher effective tax rate of 24% compared to 23% in 2QFY21. A 2<sup>nd</sup> interim DPS of 13.0 sen was proposed bringing 9MFY21 DPS to 16.8 sen which came in line with our expectation. YoY, 9MFY21 PATAMI rose 23-fold to RM2,854m due to revenue growth (+340%), boosted by higher ASP.

**Key points to highlight in 3QFY21 results note.** The group highlighted in the quarterly result note that global glove prices have since dropped by 15% to 25% following the rollout of Covid-19 vaccines which is likely to cause glove demand to moderate. However, the group does not expect glove ASPs to drop sharply due to the structural change in glove consumption from new customer segments. Looking forward, we are concerned of execution risk in its overseas venture. 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 with still high lead time averaging 6-8 months though lower compared to 12-14 months previously. The lead times suggest that CY22 demand will remain strong. To recap, Supermax is venturing into the US to manufacture medical gloves and other personal protective equipment (PPE) with an initial capital outlay of USD100m (RM405m). Closer to home, Plant 12 comprising Block A and Block B (total 4.4b pieces) have been completed following the commissioning of Block B in 2QFY21, 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 between now and 2022 which will add 22.3b pieces in new capacity and raising total capacity to 48b pieces by end-2022.

**Downgrade FY21E/FY22E net profit by 6%/6%** after imputing slightly lower ASP from USD70/1,000 and USD50/1,000 pieces to USD68/1,000 pieces and USD48/1000 pieces, respectively.

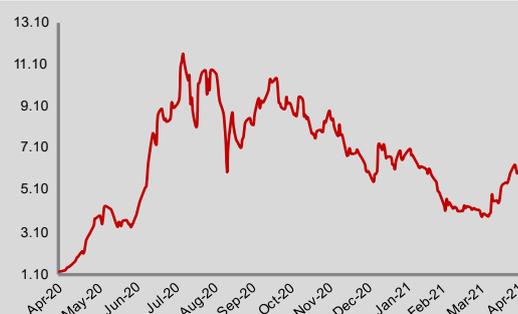
**Reiterate OP.** Correspondingly, we downgrade our TP from RM7.80 to RM6.80 based on 11x CY22E revised EPS of 61.9 sen (previously 12x) (5-year forward historical mean). We reduce PER from 12x to 11x to account for a 10% operating risk discount. In our view, from the perspective of a long-term investor, 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.

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

## OUTPERFORM ↔

Price: **RM5.57**  
Target Price: **RM6.80** ↓

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,575.67 |
| YTD KLCI chg        | -3.2%    |
| YTD stock price chg | -7.3%    |

### Stock Information

|                       |                |
|-----------------------|----------------|
| Shariah Compliant     | Yes            |
| Bloomberg Ticker      | SUCB MK Equity |
| Market Cap (RM m)     | 14,580.2       |
| Shares Outstanding    | 2,617.6        |
| 52-week range (H)     | 11.95          |
| 52-week range (L)     | 1.25           |
| 3-mth avg. daily vol: | 28,387,140     |
| Free Float            | 36%            |
| Beta                  | 1.6            |

### Major Shareholders

|                          |       |
|--------------------------|-------|
| Supermax Holdings SdnBhd | 38.3% |
| Norges Bank              | 2.1%  |

### Summary Earnings Table

| FY Jun (RM m)        | 2020A  | 2021E  | 2022E  |
|----------------------|--------|--------|--------|
| Turnover             | 2131.8 | 7337.2 | 5466.0 |
| PBT                  | 688.6  | 5169.3 | 2771.2 |
| Net Profit (NP)      | 525.6  | 3790.8 | 2025.0 |
| <b>Core NP (CNP)</b> | 525.6  | 3790.8 | 2025.0 |
| Consensus NP         | -      | 4082.9 | 2387.9 |
| Earnings Revision    | -      | -6%    | -6%    |
| EPS (sen)            | 19.3   | 139.3  | 74.4   |
| EPS growth (%)       | 328.6  | 246.6  | (46.6) |
| NDPS (sen)           | 47.0   | 46.0   | 24.6   |
| BVPS (RM)            | 0.58   | 1.52   | 2.02   |
| PER (X)              | 28.9   | 4.0    | 7.5    |
| PBV (X)              | 9.6    | 3.7    | 2.8    |
| Net Gearing (%)      | Net    | Net    | Net    |
|                      | Cash   | Cash   | Cash   |
| Dividend Yield (%)   | 8.4    | 8.3    | 4.4    |

06 May 2021

## Result Highlight

| FY Jun (RM m)          | 3Q      | 2Q      | QoQ   | 3Q    | YoY     | 9M      | 9M      | YoY     |
|------------------------|---------|---------|-------|-------|---------|---------|---------|---------|
|                        | FY21    | FY21    | Chg % | FY20  | Chg %   | FY20    | FY21    | Chg %   |
| Turnover               | 1,937.5 | 1,998.6 | (3.1) | 447.2 | 333.2   | 1,202.7 | 5,288.7 | 339.7   |
| EBITDA                 | 1,363.8 | 1,414.7 | (3.6) | 111.9 | 1,118.9 | 220.4   | 3,844.2 | 1,644.5 |
| PBT                    | 1,342.3 | 1,397.2 | (3.9) | 95.3  | 1,308.8 | 169.5   | 3,788.8 | 2,134.6 |
| Net Profit (NP)        | 1,005.2 | 1,059.5 | (5.1) | 71.1  | 1,314.7 | 126.0   | 2,854.2 | 2,165.8 |
| EPS (sen)              | 37.0    | 39.0    | (5.1) | 2.6   | 1,314.7 | 4.6     | 104.9   | 2,165.8 |
| EBITDA margin (%)      | 70.4    | 70.8    |       | 25.0  |         | 18.3    | 72.7    |         |
| PBT margin (%)         | 69.3    | 69.9    |       | 21.3  |         | 14.1    | 71.6    |         |
| Effective tax rate (%) | 23.8    | 22.7    |       | 24.1  |         | 24.9    | 23.1    |         |

Source: Bursa Malaysia, Kenanga Research

The rest of the page is intentionally left blank

06 May 2021

### 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   | 9.83            | 33,629            | Y                 | 03/2022     | 129%           | 57%        | 55%                  | -38%       | 11.6                    | 7.5        | 12.0       | 6.7     | 4.9        | 76%        | 8.0%            | 16.00             | OP     |
| KOSSAN RUBBER INDUSTRIES | 4.30            | 10,972            | Y                 | 12/2021     | 124%           | -39%       | 237%                 | -65%       | 10.1                    | 3.0        | 8.6        | 4.6     | 2.1        | 97%        | 8.1%            | 6.00              | OP     |
| SUPERMAX CORP BHD        | 5.57            | 14,580            | Y                 | 06/2021     | 244%           | -26%       | 630%                 | -47%       | 28.9                    | 4.0        | 7.5        | 9.6     | 3.7        | 133%       | 8.3%            | 6.80              | OP     |
| TOP GLOVE CORP BHD       | 5.32            | 42,583            | Y                 | 08/2021     | 242%           | -41%       | 483%                 | -56%       | 23.3                    | 4.0        | 9.1        | 8.7     | 5.4        | 167%       | 16.3%           | 6.80              | OP     |

Source: Bloomberg, Kenanga Research

The rest of the page is intentionally left blank

06 May 2021

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)