

COMPANY RESULTS

Supermax Corp (SUCB MK)

3QFY21: Within Expectations As Temporary Closure Weighs On Output

3QFY21 results came in within expectations as revenue remained flat despite higher ASPs as a result of the temporary closure of production due to COVID-19. Supermax is due for an explosive influx of capacity over the next two years. However, this is against the backdrop of realising its peak quarterly earnings and potentially moderating sentiment. This balanced reward-to-risk payoff prompts us to downgrade Supermax to a HOLD from BUY with an unchanged target price of RM5.00.

3QFY21 RESULTS

Year to 30 Jun (RMm)	3QFY21	qoq % chg	yoy % chg	9MFY20	9MFY21	yoy % chg
Revenue	1,937.5	(3.1)	333.2	1,202.7	5,288.7	339.7
Operating exp.	(591.1)	0.8	73.9	(987.4)	(1,477.0)	49.6
EBITDA	1,346.4	(4.7)	1,154.6	215.3	3,811.7	1,670.8
EBIT	1,326.7	(5.0)	1,307.9	176.8	3,762.4	2,028.2
Finance costs	(1.8)	(10.9)	(50.2)	(12.3)	(6.1)	(50.2)
PBT	1,342.3	(3.9)	1,308.8	169.5	3,788.8	2,134.6
Taxation	(320.0)	0.8	1,295.5	(42.2)	(874.3)	1,970.8
Core net profit	1,080.2	2.0	1,420.2	126.0	2,929.2	2,225.3
		qoq ppt chg	yoy ppt chg			yoy ppt chg
EBITDA margin (%)	69.5	(1.2)	45.5	17.9	72.1	54.2
Eff. tax rate (%)	(23.8)	(1.1)	0.2	(24.9)	(23.1)	1.8
Core Net Margin (%)	55.8	2.7	39.9	10.5	55.4	44.9

Source: Supermax, UOB Kay Hian

RESULTS

- Within expectations.** Supermax Corp (Supermax) saw another solid quarter with a core net profit of RM1,080m (+2.0% qoq, +1,420% yoy) for 3QFY21, bringing 9MFY21 core profit to RM2,929m (+2,225% yoy). This is within our and consensus' expectations, accounting for 74% and 72% of our and consensus' full-year estimates respectively. Core net profit has been adjusted for a RM75m contribution to the government in its efforts to combat COVID-19. The company declared a special DPS of 13 sen.
- Temporary closure mutes top-line growth.** Revenue declined 3.1% qoq (+332% yoy) in 3QFY21. This was largely due to the temporary closure at its Meru plants following the detection of several COVID-19 cases among its foreign workforce. This more than offset the higher ASPs. During the quarter, Supermax realised a full quarter's contribution from its new Plant 12 (Block B: 2.2b pieces p.a.). This lifted production capacity to 26.2 pieces p.a. or 9.2% enlarged capacity. This was amid the US dollar weakening against the ringgit by 1.1% qoq.

KEY FINANCIALS

Year to 30 Jun (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	1,538	2,132	7,471	5,979	4,783
EBITDA	179	693	5,424	3,164	1,602
Operating profit	134	631	5,364	3,095	1,524
Net profit (rep./act.)	123	525	3,947	2,295	1,148
Net profit (adj.)	123	525	3,947	2,295	1,148
EPS (sen)	4.5	19.3	145.1	84.3	42.2
PE (x)	127.5	29.9	4.0	6.8	13.7
P/B (x)	14.0	10.3	3.7	2.7	2.3
EV/EBITDA (x)	73.4	18.9	2.4	4.1	8.2
Dividend yield (%)	0.3	0.3	7.6	4.4	2.2
Net margin (%)	8.0	24.6	52.8	38.4	24.0
Net debt/(cash) to equity (%)	19.4	(56.4)	(46.8)	(60.7)	(64.2)
Interest cover (x)	9.1	40.6	571.9	895.7	453.6
ROE (%)	11.5	39.6	135.7	45.1	18.2
Consensus net profit	-	-	4,083	2,388	1,501
UOBKH/Consensus (x)	-	-	0.97	0.96	0.76

Source: Supermax, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	RM5.57
Target Price	RM5.00
Upside	-10.2%

COMPANY DESCRIPTION

Among the largest nitrile glove manufacturers in the world, Supermax differentiates itself with its OBM range and independent distribution network. Also produces latex, surgical gloves and contact lens.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	SUCB MK
Shares issued (m):	2,617.6
Market cap (RMm):	15,103.8
Market cap (US\$m):	3,673.5
3-mth avg daily t'over (US\$m):	35.1

Price Performance (%)

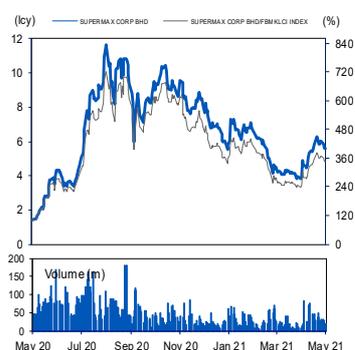
52-week high/low	RM11.63/RM1.13
1mth	35.8
3mth	(11.6)
6mth	(37.7)
1yr	451.2
YTD	(4.0)

Major Shareholders

Stanley Thai	37.2
Vanguard	2.4
Norges Bank	2.4

FY21 NAV/Share (RM)	1.58
FY21 Net Cash/Share (RM)	0.74

PRICE CHART



Source: Bloomberg

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- **Operating margins softened by lower economies of scale.** EBITDA margins declined marginally to 69.5% (or 1.2 ppt qoq) despite the higher ASPs. We believe this can be attributed to a combination of issues: a) lower economies of scale; b) market pricing for nitrile butadiene rubber (NBR) was 15% higher qoq; and c) weakening of the US dollar against the ringgit. Going forward, Supermax's NBR prices could ease alongside that seen by its peers. Despite the marginally higher effective tax rate, 3QFY21 PAT margins improved to 55.8% or 2.7ppt due to the adjustment of RM75m contribution to the government's COVID-19 fund.

- **Sustained earnings for 4QFY21.** Following the completion of Plant 12 (Block B) and Supermax addressing the COVID-19 outbreak among its foreign workforce, Supermax's output should pick up in the subsequent quarter. Apart from that, Supermax expects ASPs to soften by 15-25%. That said, we expect margins to be sustained off the back of moderating NBR prices and higher economies of scale.

STOCK IMPACT

- **Huge capacity influx up ahead.** Off the back of the fully commissioned Block B of Plant 12 amounting to 2.2b pieces p.a., Supermax is in the midst of constructing Plants 13, 14, 15, 16 and 17. Capacity arising from these new plants will amount to 22.2b pieces p.a., and would boost existing capacity to 48.4b pieces p.a. or 85%. These plants are slated to be completed by end-22. Over 2021-22, capacity is slated to grow by 39.2% and 32.9% respectively.

- **Widening production footprint.** We gather that Supermax is in the midst of incorporating a US-based subsidiary with a paid-up capital of US\$100m. In the long run, it intends to have a 15b-piece annual production capacity in the US, or 10% of the country's glove consumption. We gather that the US government agencies have offered lucrative incentives and tax breaks to attract Supermax. This is amid the government's intention to lower its dependence on imported gloves. Supermax is also looking to build a plant in the UK, with similar strategic intentions.

- **Possibility of dropping out of the FBMKLCI Index.** Supermax has declined by close to 40% over the past four months, with that, its market capitalisation has eroded to RM14.5b. It is currently the last among the 30 constituents (slightly behind Sime Darby by RM15.0b) and is at risk of being replaced by the possible entry of Mr. DIY. Mr. DIY is now positioned 20th in terms of its market capitalisation and will replace the lowest of the 30 constituents when it rebalances.

EARNINGS REVISION/RISK

- Unchanged earnings.
- Key risks are: a) vaccine newsflow. The gradual ramp-up in global manufacturing of vaccines would mean that glove ASPs are unlikely to fall sharply immediately; b) the strengthening of the ringgit against the US dollar; and c) heightened competition.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD from BUY with an unchanged target price of RM5.00.** Our target price is derived from the present value of: a) expected dividends over 2021-23, and b) 2023 earnings pegged to Supermax's mean of its five-year PE (18x) as a reflection of normalised earnings. Our target price implies a PE of 5.9x to FY22. While we continue to like Supermax for its aggressive expansion ambitions and its OBM model for creating downstream value, the reward-to-risk payoff appears balanced at this juncture with our expectations of sentiment moderating going forward.

- The execution of its aggressive expansion could be a catalyst to its valuations being rerated from 18x (in our derivation of its target price) closer to its peers (30x) that includes Hartalega (42x), Top Glove (25x) and Kossan (23x).

SUPERMAX: ASSUMPTIONS

	FY21F	FY22F	FY23F
Revenue (RMm)	7471	5979	4783
- yoy % chg	250	-20	-20
Utilisation rate (%)	95	95	95
Output (b pcs/year)	24.8	33.1	37.1
- yoy % chg	34.1	33.4	12.0
ASP - yoy % chg	161.2	-40.0	-28.6

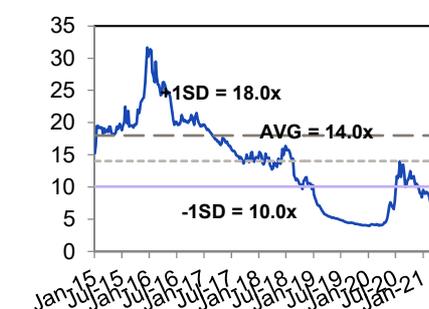
Source: UOB Kay Hian

SUPERMAX: CAPACITY EXPANSION PLAN

	Plant	Capacity (b pieces p.a.)	Capacity at YE (b pieces p.a.)	% (yoy)
2019			24.0	10.3
	12	2.2		
2020			26.2	9.1
	13	2.8		
	14	1.0		
	15	3.8		
	16	1.4		
	17	1.4		
2021			36.4	39.2
	13	1.0		
	14	2.8		
	16	4.1		
	17	4.1		
2022			48.4	32.9

Source: Supermax

5-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
Net turnover	2,132	7,471	5,979	4,783
EBITDA	693	5,424	3,164	1,602
Deprec. & amort.	62	60	69	78
EBIT	631	5,364	3,095	1,524
Total other non-operating income	48	48	48	48
Associate contributions	18	18	18	18
Net interest income/(expense)	(17)	(9)	(4)	(4)
Pre-tax profit	680	5,420	3,157	1,586
Tax	(145)	(1,464)	(852)	(428)
Minorities	(10)	(10)	(10)	(10)
Net profit	525	3,947	2,295	1,148
Net profit (adj.)	525	3,947	2,295	1,148

CASH FLOW

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
Operating	1,304	2,621	2,544	1,367
Pre-tax profit	680	5,420	3,157	1,586
Tax	(62)	(1,464)	(852)	(428)
Deprec. & amort.	62	60	69	78
Associates	(18)	(18)	(18)	(18)
Working capital changes	658	(1,388)	185	145
Non-cash items	(31)	0	0	0
Other operating cashflows	16	9	4	4
Investing	(191)	(280)	(280)	(295)
Capex (growth)	(191)	(280)	(280)	(295)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(150)	(1,447)	(695)	(351)
Dividend payments	0	(1,187)	(691)	(347)
Proceeds from borrowings	(91)	(250)	0	0
Loan repayment	25	0	0	0
Others/interest paid	(84)	(9)	(4)	(4)
Net cash inflow (outflow)	963	894	1,570	721
Beginning cash & cash equivalent	174	1,186	2,080	3,650
Changes due to forex impact	50	0	0	0
Ending cash & cash equivalent	1,186	2,080	3,650	4,371

BALANCE SHEET

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,082	1,414	1,624	1,841
Other LT assets	209	209	209	209
Cash/ST investment	1,186	2,080	3,650	4,371
Other current assets	728	1,296	1,229	1,140
Total assets	3,204	4,999	6,711	7,561
ST debt	224	24	24	24
Other current liabilities	1,283	575	693	750
LT debt	100	50	50	50
Other LT liabilities	47	47	47	47
Shareholders' equity	1,529	4,289	5,892	6,693
Minority interest	21	13	5	(3)
Total liabilities & equity	3,204	4,999	6,711	7,561

KEY METRICS

Year to 30 Jun (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	32.5	72.6	52.9	33.5
Pre-tax margin	31.9	72.5	52.8	33.2
Net margin	24.6	52.8	38.4	24.0
ROA	20.8	96.2	39.2	16.1
ROE	39.6	135.7	45.1	18.2
Growth				
Turnover	38.6	250.5	(20.0)	(20.0)
EBITDA	287.9	682.6	(41.7)	(49.4)
Pre-tax profit	294.5	696.9	(41.8)	(49.8)
Net profit	326.3	652.1	(41.9)	(50.0)
Net profit (adj.)	326.3	652.1	(41.9)	(50.0)
EPS	326.3	652.1	(41.9)	(50.0)
Leverage				
Debt to total capital	17.3	1.7	1.2	1.1
Debt to equity	21.2	1.7	1.3	1.1
Net debt/(cash) to equity	(56.4)	(46.8)	(60.7)	(64.2)
Interest cover (x)	40.6	571.9	895.7	453.6

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