

### COMPANY RESULTS

## Supermax Corp (SUCB MK)

2QFY21: Beyond Expectations; ASPs Remain Resilient

2QFY21 results came in above expectations off robust ASP revisions ahead. Significantly higher NBR cost but was largely alleviated by lofty ASPs. Supermax is slated for an explosive influx of capacity over the next two years. Combined, these factors with largely still-favourable near-term industry dynamics should support windfall earnings for Supermax. Maintain BUY with a lower target price of RM7.80 as we anticipate sentiment to diminish once peak quarterly earnings are realised.

### 2QFY21 RESULTS

Year to 31 Mar (RMm)	2QFY21	qoq % chg	yoy % chg	1HFY20	1HFY21	yoy % chg
Revenue	1,998.6	47.8	418.5	755.4	3,351.2	343.6
Operating exp.	(586.5)	95.9	80.0	(647.5)	(886.0)	36.8
EBITDA	1,412.1	34.1	2,270.6	107.9	2,465.2	2,184.0
EBIT	1,396.6	34.4	2,888.7	82.6	2,435.7	2,850.4
Finance costs	1,397.2	33.2	3,240.4	74.3	2,446.5	3,193.9
PBT	(317.5)	34.1	2,589.4	(19.3)	(554.3)	2,773.5
Taxation	1,059.5	34.2	3,412.2	54.9	1,849.0	3,267.2
Core net profit	1,059.5	34.2	3,412.2	54.9	1,849.0	3,267.2
		qoq ppt chg	yoy ppt chg			yoy ppt chg
EBITDA margin (%)	70.7	(7.2)	55.2	14.3	73.6	59.3
Eff. tax rate (%)	(22.7)	(0.2)	5.5	(26.0)	(22.7)	3.3
Core Net Margin (%)	53.0	(5.4)	45.2	7.3	55.2	47.9

Source: Supermax, UOB Kay Hian

### RESULTS

- Above expectations.** Supermax Corp (Supermax) saw a blockbuster core net profit of RM1,060m (+34% qoq, +3,412% yoy) for 2QFY21, bringing 1HFY21 core profit to RM1,849m (+3,267% yoy). This is above both our and consensus' expectations, accounting for 52% and 53% of our and consensus' full-year estimates respectively. The positive deviation arose from Supermax upward revision of its ASPs.
- Revenue uplift from ASP hike and Plant 12's full commissioning.** Revenue surged 48% qoq (418% yoy) in 2QFY21. This was largely due to up-trending blended ASPs (~40% qoq). During the quarter, Supermax fully commissioned all the production lines of Plant 12 (Block B: 2.2b pieces p.a.), lifting production capacity to 26.2 pieces p.a. and increasing by 9.2% qoq. This was amid the US dollar weakening against the ringgit by 2.4% 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	3947	2295	1148
Net profit (adj.)	123	525	3947	2295	1148
EPS (sen)	4.5	19.3	145.1	84.3	42.2
PE (x)	148.5	34.8	4.7	8.1	16.1
P/B (x)	16.3	12.0	4.3	3.1	2.8
EV/EBITDA (x)	88.5	22.8	1.3	1.8	3.1
Dividend yield (%)	0.2	0.3	6.4	3.7	1.9
Net margin (%)	8.0	24.6	52.8	38.4	24.0
Net debt/(cash) to equity (%)	8.0	-31.7	-73.7	-131.4	-157.9
Interest cover (x)	9.1	40.6	571.9	895.7	453.6
ROE (%)	11.0	34.3	148.9	61.8	29.8
Consensus net profit	-	-	3488	2100	1527
UOBKH/Consensus (x)	-	-	1.13	1.09	0.75

Source: Supermax, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM6.80
Target Price	RM7.80
Upside	+14.7%
(Previous TP)	RM9.90

### COMPANY DESCRIPTION

Among the largest nitrile glove manufacturers in the world, Supermax differentiates itself with its OBM range and independent distribution network. It 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):	17,590.5
Market cap (US\$m):	4,338.5
3-mth avg daily t'over (US\$m):	57.3

### Price Performance (%)

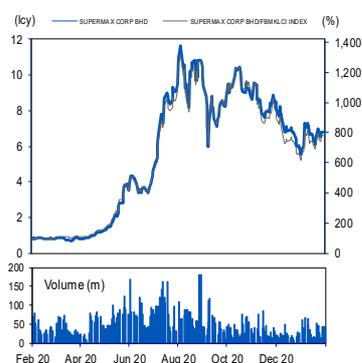
52-week high/low	RM11.63/RM0.685
1mth	10.9
3mth	(27.3)
6mth	(26.5)
1yr	671.8
YTD	11.8

### Major Shareholders

Stanley Thai	37.2
Vanguard	2.4
Norges Bank	2.4

FY21 NAV/Share (RM)	1.48
FY21 Net Cash/Share (RM)	0.66

### PRICE CHART



Source: Bloomberg

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- **NBR cost surge more than offset ASP hike.** EBITDA margins declined to 70.1% (or 7.2 ppt qoq) despite the significantly higher ASPs. We believe this is largely attributed to more costly nitrile butadiene rubber (NBR). The tight supply of NBR has seen the raw material's ASP surge by 2-3x. Based on market pricing, NBR should be at least 20% higher going into 3QFY21. However, Supermax is anticipating blended ASPs to further uptrend going forward. Due to elevated nitrile ASPs, latex ASPs are expected to significantly narrow the discount. Overall, PAT margins declined to 53.0% for the quarter (1QFY21: 58.4%).

### STOCK IMPACT

- **Relatively robust ASP outlook for now.** Similar to its peers, Supermax expects the demand-supply imbalance to persist up till 2023. Over the nearer term, ASPs are expected to remain on an uptrend in the following quarter as well. This is partly due to latex gloves narrowing the discount to nitrile gloves. Apart from that, ASPs are expected to be sustained up until end-21, before seeing a gradual decline.
- **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 Plant 13, 14, 15, 16 and 17. Capacity arising from these new plants amounts 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.
- **Project dividend yields of 6.4-1.9% for FY21-23.** The company does not have a dividend policy, but its payout has averaged 17.7% over the last three years. However, we have assumed a 30% payout going forward, against the backdrop of earnings windfall. This translates into dividend yields of 6.4%, 3.7% and 1.9% for FY21-23 respectively. The most recent share buyback was conducted at an average price of RM6.61. Despite accumulating a total of 103m treasury shares, we expect Supermax to remain in a net cash position with RM1.3b.

### EARNINGS REVISION/RISK

- We raise our FY21 and FY22 earnings by 11% and 22% respectively in tandem with the robust ASP outlook. 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) a potential windfall tax.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM7.80 (from RM9.90),** pegged to 6.2x 2021F PE, or -2SD of its 5-year historical mean (from 9.0x). Although earnings are above expectations, we believe the glove sector is approaching peak quarterly super-cycle earnings. Therefore, we have pegged our valuations to -2SD as we believe its super-cycle earnings growth is not sustainable in the long run. That said, despite the rock bottom valuations, there is still ample upside to current valuations. We continue to like Supermax for: a) its proven OBM (own brand model) model creating downstream value; b) aggressive expansion ambitions; and c) teething operational issues being resolved.

### 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

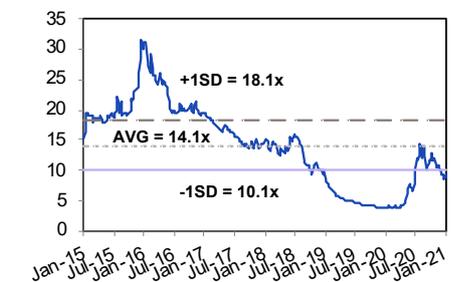
Source: UOB Kay Hian

### SUPERMAX: CAPACITY EXPANSION PLAN

	Plant	Capacity (b pieces p.a.)	Capacity at YE (b pieces p.a.)	% (yoy)
2019			24.0	10.3
2020	12	2.2		
	13	2.8	26.2	9.1
	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		
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
<b>Pre-tax profit</b>	<b>680</b>	<b>5,420</b>	<b>3,157</b>	<b>1,586</b>
Tax	-145	-1,464	-852	-428
Minorities	-10	-10	-10	-10
<b>Net profit</b>	<b>525</b>	<b>3,947</b>	<b>2,295</b>	<b>1,148</b>
Net profit (adj.)	525	3,947	2,295	1,148

### CASH FLOW

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>1,304</b>	<b>2,621</b>	<b>2,544</b>	<b>1,367</b>
Pre-tax profit	680	5,420	3,157	1,586
Tax	-145	-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	(31.2)	0.0	0.0	0.0
Other operating cashflows	16	9	4	4
<b>Investing</b>	<b>-191</b>	<b>-280</b>	<b>-280</b>	<b>-295</b>
Capex (growth)	-191	-280	-280	-295
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(0.1)	0.0	0.0	0.0
<b>Financing</b>	<b>-150</b>	<b>-1,447</b>	<b>-695</b>	<b>-351</b>
Dividend payments	0	-1,187	-691	-347
Proceeds from borrowings	(91.5)	(250.0)	0.0	0.0
Loan repayment	24.8	0.0	0.0	0.0
Others/interest paid	-84	-9	-4	-4
<b>Net cash inflow (outflow)</b>	<b>963</b>	<b>894</b>	<b>1,570</b>	<b>721</b>
Beginning cash & cash equivalent	174	1,186	2,080	3,650
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>1,186</b>	<b>2,080</b>	<b>3,650</b>	<b>4,371</b>

### 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
<b>Total assets</b>	<b>3,204</b>	<b>4,999</b>	<b>6,711</b>	<b>7,561</b>
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	0
Shareholders' equity	1,529	4,289	5,892	6,693
Minority interest	21	13	5	-3
<b>Total liabilities &amp; equity</b>	<b>3,204</b>	<b>4,999</b>	<b>6,711</b>	<b>7,561</b>

### KEY METRICS

Year to 30 Jun (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
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	16.4	117.9	46.3	24.8
ROE	34.3	148.9	61.8	29.8
<b>Growth</b>				
Turnover	38.6	250.5	180.5	266.7
EBITDA	372.7	682.6	356.5	664.3
Pre-tax profit	696.9	696.9	364.1	879.6
Net profit	652.1	652.1	337.2	976.1
Net profit (adj.)	652.1	652.1	337.2	976.1
EPS	652.1	652.1	337.2	976.1
<b>Leverage</b>				
Debt to total capital	20.9	1.7	1.3	1.1
Debt to equity	21.2	1.7	1.3	1.1
Net debt/(cash) to equity	8.0	-31.7	-73.7	-131.4
Interest cover (x)	40.6	571.9	895.7	453.6

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