

13 July 2020

Supermax Corporation

Supercharged ASP Rises Again

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Signs of higher ASP in the industry have prompted us to raise our ASP assumptions again. Players have again raised selling prices, indicating continuing supernormal demand and acute shortages. Standing testimony to the increasingly strong prospects of the sector, analysts surveyed by Bloomberg Consensus have over the last 5 months consistently upgraded the earnings forecasts for SUPERMX. Hence, we raised our FY20E/FY21E net profit by 46%/85%, to account for higher ASP. TP is raised from RM14.00 to RM17.10 based on 22x CY21E EPS. Reiterate OP.

Expect quantum leap in earnings. We highlight that industry ASPs have strengthened for Aug delivery. Coupled with the latest strong Q-o-Q earnings results of glove players, this is suggesting that demand will continue to be strong over the next few quarters. Anecdotal evidence is also suggesting that rubber glove players' explosive Q-o-Q earnings growth will sustain over the next few quarters. Judging by industry's higher ASP for the month of Aug, we are raising our assumptions for SUPERMX.

Consensus upgraded earnings by 70%-170% over the past 5 months. Standing testimony to the increasingly strong prospects of the sector, analysts surveyed by Bloomberg Consensus have over the last 5 months consistently upgraded their earnings forecasts for SUPERMX which we believe may not be enough judging by the runaway ASPs which will be higher M-o-M at least till end Dec 2020.

Two bets for the price of one. Supermax is expected to gain from higher margins from both its gloves manufacturing and OBM distribution due to abnormal demand and acute supply tightness. Amplifying the pent-up demand, buyers are paying between 30% to 50% deposits in advance to secure glove supply and timely delivery. Supermax expects the heightened demand to continue for the next 1 to 1.5 years. As demand picks up, containers are shipping at prices higher than preceding months. On new capacity, its Plant 12 comprises Block A and Block B, each consisting of 8 double former lines with 2.2b pieces each (total 4.4b pieces). As of now, for Block A, 3 new lines started commissioning in end March 2020 on top of the 5 lines already in commercial production. For Block B, all 8 lines are expected to be fully commissioned by 2H 2020. Upon full commercial production by 2H 2020, installed capacity will rise 13.4% to 26.2b pieces per annum.

Raised FY20E/FY21E net profit by 46%/85% after raising ASP from USD24/USD36//1,000 pieces to USD31/USD40/1,000 pieces in FY20E/FY21E.

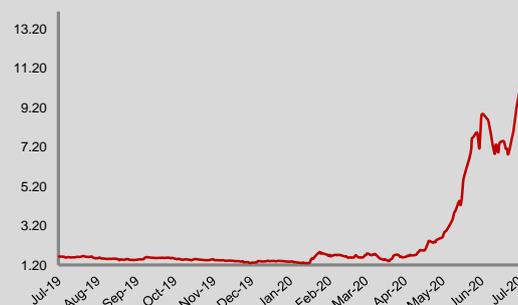
Undemanding FY21E PER valuation of 18x compared to >100% earnings growth. TP is raised from RM14.00 to RM17.10 based on 22x CY21 revised EPS of 77.6 sen (previously 25x) (at slightly below +2.0SD above the 5-year historical forward mean). We lowered our PER rating as we believe valuations are pegged to supernormal earnings; hence, upside to peak earnings should have been factored in. We like Supermax because: (i) the stock is trading at an undemanding 18x FY21E EPS compared to expected explosive earnings growth of >100%, and (ii) of its OBM model, where it can extract higher margin from distributor prices, compared to the OEM model at lower factory prices. **Reiterate Outperform.**

Key risk to our call is lower-than-expected ASP.

OUTPERFORM ↔

Price : RM13.62
Target Price : RM17.10 ↑

Share Price Performance



KLCI 1,591.84
YTD KLCI chg 0.2%
YTD stock price chg 879.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SUCB MK Equity
Market Cap (RM m) 17,589.2
Shares Outstanding 1,291.4
52-week range (H) 13.82
52-week range (L) 1.29
3-mth avg daily vol: 32,562,670
Free Float 58%
Beta 1.7

Major Shareholders

Dato' Seri Stanley Thai 21.9%
Datin Seri Tan Bee Geok, Cheryl 16.2%
Norges Bank 2.4%

Summary Earnings Table

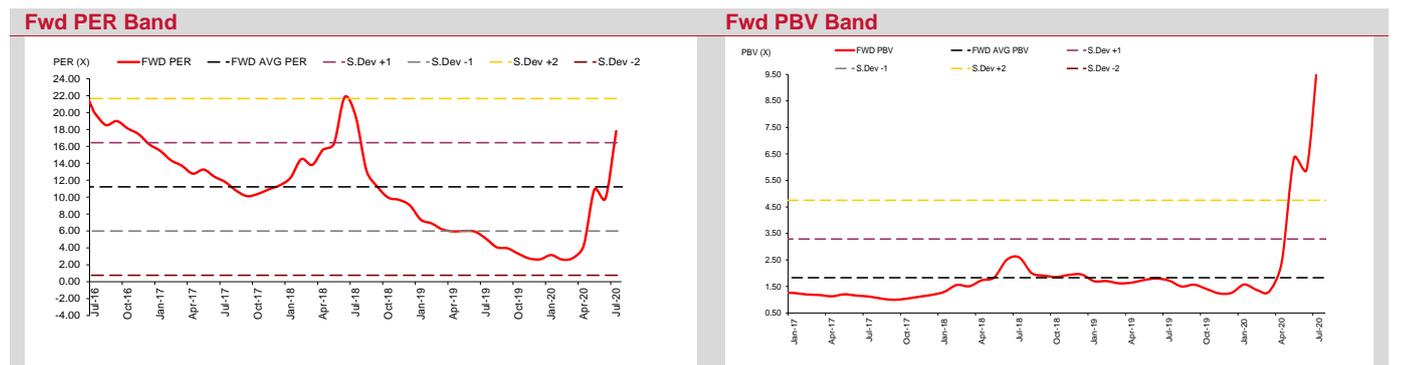
FY Jun (RM m)	2019A	2020E	2021E
Turnover	1489.3	2350.8	4348.4
PBT	172.8	519.7	1405.7
Net Profit	123.8	389.6	1039.9
Core N.Profit (CNP)	127.6	389.6	1039.9
Consensus (NP)	-	304.7	722.7
Earnings Revision	-	+46%	+85%
EPS (sen)	9.4	28.6	76.4
EPS growth (%)	19.2	205.4	166.9
NDPS (sen)	4.2	11.5	30.6
BVPS (RM)	0.82	0.99	1.45
PER (X)	145.2	47.6	17.8
PBV (X)	16.6	13.7	9.4
Net Gearing (%)	19.5	28.9	5.9
Dividend Yield (%)	0.3	0.8	2.2



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Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E	FY Jun	2017A	2018A	2019A	2020E	2021E
Revenue	1126.9	1304.5	1489.3	2350.8	4348.4	Growth					
EBITDA	160.1	221.9	236.0	587.7	1478.4	Turnover	-27.3%	15.8%	14.2%	57.8%	85.0%
Operating Profit	107.4	175.6	186.9	-58.0	-67.1	EBITDA	-43.3%	38.6%	6.3%	149.0%	151.6%
Associate	11.3	6.0	5.4	529.8	1411.3	Operating Profit	-51.6%	63.5%	6.4%	183.4%	166.4%
PBT	107.9	167.2	172.8	519.7	1405.7	PBT	-47.9%	54.9%	3.4%	200.8%	170.5%
Taxation	-37.6	-56.2	-49.0	-129.9	-365.5	Net Profit /(loss)	-53.3%	59.3%	15.6%	214.9%	166.9%
MI	-3.1	-4.0	-0.1	-0.2	-0.3	Profitability					
Net Profit	67.2	107.0	123.8	389.6	1039.9	EBITDA Margin	14.2%	17.0%	15.8%	25.0%	34.0%
						Operating Margin	10.5%	13.5%	12.6%	22.5%	32.5%
						PBT Margin	9.6%	12.8%	11.6%	22.1%	32.3%
						Core Net Margin	6.0%	8.2%	8.3%	16.6%	23.9%
						Eff. Tax Rate	34.9%	0.0%	24.0%	25.0%	26.0%
						ROA	3.8%	6.2%	6.7%	17.4%	32.2%
						ROE	6.3%	10.2%	11.1%	28.8%	52.6%
						DuPont Analysis					
						Net Margin (%)	6.0%	8.2%	8.3%	16.6%	23.9%
						Assets T/O (x)	1.6	1.3	1.2	1.0	0.7
						Lev. Factor (x)	1.7	1.6	1.6	1.7	1.6
						ROE (%)	6.3%	10.2%	11.1%	28.8%	52.6%
						Leverage					
						Debt/Asset (x)	0.3	0.2	0.2	0.2	0.1
						Debt/Equity (x)	0.4	0.4	0.4	0.3	0.2
						Valuations					
						EPS (sen)	4.9	7.9	9.1	28.6	76.4
						NDPS (sen)	1.5	4.0	4.2	11.5	30.6
						BVPS (RM)	0.78	0.77	0.82	0.99	1.45
						PER (x)	275.7	173.1	145.2	47.6	17.8
						Net Div. Yld (%)	1.0	0.1	0.3	0.3	0.8
						PBV (x)	17.4	17.6	16.6	13.7	9.4

Source: Kenanga Research



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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.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	17.06	57,799	Y	03/2021	85.0%	16.9%	251%	17.3%	131.7	37.5	32.0	22.4	17.2	52.3%	1.3%	22.30	OP
KOSSAN RUBBER INDUSTRIES	12.38	15,833	Y	12/2020	46.8%	19.1%	128%	29.5%	70.4	30.9	23.9	11.1	8.7	31.6%	0.8%	14.00	OP
SUPERMAX CORP BHD	13.62	17,589	Y	06/2020	57.8%	85.0%	232%	167%	145.2	47.6	17.8	16.6	13.7	31.5%	0.3%	17.00	OP
TOP GLOVE CORP BHD	21.92	59,106	Y	08/2020	65.5%	59.6%	278%	185%	150.6	42.1	14.8	23.0	18.5	50.4%	1.2%	32.00	OP

Source: Bloomberg, Kenanga Research

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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.**

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