

## Supermax Corporation Berhad

**TP: RM6.41 (+18.8%)**
*Robust Quarters Ahead*
*Last Traded: RM5.40*
**Buy**

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*Key takeaways from Supermax 3QFY20 analyst briefing include:*

### Coming Quarterly Earnings will be much Stronger

Since March-20, the market has turned to seller's market as the demand for rubber gloves surged exponentially. As such, the delivery lead time has increased to 10-12 months from 60 days in January-20. For Supermax, we believe the best results would be the next 2 to 3 quarters because the group still has commitments to fulfil its sales orders in Feb and Mar-20, where deliveries of these orders with lower prices will be shipped by May-20. Note that Supermax will benefit more than its peers given that the group OBM, which commands higher margins, will now account for 95% of its sales (versus 70% pre-Covid-19). More importantly, we expect the recent surge in ASP due to the potential second wave of Covid-19 to lead to further margin expansion of circa-20% per quarter till 1Q21.

As such, we expect 4QFY20 earnings to increase to RM149mn (versus RM71.1mn in 3QFY20). This would bring FY20 earnings to RM275.1mn, representing earnings growth of 123.5%. Thereafter, we expect FY21 earnings to increase further to RM388.4mn due to robust demand for the next 1 year. However, we expect the profit to contract in FY22 as when the sales volume and ASP normalise post Covid-19 pandemic.

### Capacity Expansion Plans

On expansion, Plant 12, Block B (2.2bn gloves), consisting of 8 production lines, is expected to start commissioning 4 lines by 3Q20 while the remaining 4 lines by 4Q20. Thereafter, the completion of Plant 13 (3.75bn gloves) and Plant 14 (3.75bn gloves) is targeted for full commissioning by 1Q22 and 3Q22.

All in, Supermax targets to increase its capacity to 26.2bn by end-20 and 31.1bn by end-21 from estimated 23.9bn gloves currently.

### Contact Lens

Management expect its contact lens division to breakeven in the next two quarters driven by: i) launches of new products, ii) expansion to new markets and iii) recurring orders. We expect contributions to be minimal given that production capacity is expected remain at 70mn pieces/annum.

### Impact

We raise FY20/FY21/FY22 earnings by 106%/156.8%/77.1% after increasing: i) ASP assumptions by circa-25%, ii) higher utilisation rates by 5p.p and iii) lower tax rate of 3p.p.

### Valuation & Recommendation

Following the earnings revision, our target price for Supermax is revised higher to RM6.41/share based on 26.0x CY21 EPS. Maintain Buy on the stock.

Share Information	
Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	1360.0
Market Cap (RMmn)	7,346.0
52-wk Hi/Lo (RM)	5.49/1.29
12-mth Avg Daily Vol ('000 shrs)	10,807.3
Estimated Free Float (%)	62.0
Beta	0.8
Major Shareholders (%)	
Dato' Seri Stanley Thai - 38.0	

Forecast Revision		
	FY20	FY21
Forecast Revision (%)	106.0	156.8
Net profit (RMmn)	275.1	388.4
Consensus	172.8	234.7
TA's / Consensus (%)	159.2	165.5
Previous rating	Buy (Maintained)	

Financial Indicators		
	FY20	FY21
Net gearing (x)	0.2	0.1
P/CFPS (x)	26.3	17.1
ROAA (%)	14.1	17.6
ROAE (%)	22.9	28.1
NTA/Share (RM)	0.9	1.1
Price/ NTA (x)	5.8	5.0

Share Performance (%)		
Price Change	SUCB	FBM KLCI
1 mth	152.3	5.1
3 mth	239.6	(5.2)
6 mth	286.1	(9.1)
12 mth	230.3	(9.5)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

## Earnings Summary

### P&L

YE June 31 (RMmn)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,304.5	1,538.2	1,990.5	2,335.6	2,420.4
EBITDA	214.4	234.5	434.6	598.9	468.1
Dep. & amortisation	(45.1)	(48.8)	(48.8)	(56.9)	(63.9)
EBIT	169.4	185.7	385.8	542.0	404.3
Net finance cost	(13.5)	(18.9)	(24.8)	(28.2)	(31.6)
Share of associates	6.0	5.5	5.8	6.1	6.4
EI	0.0	0.0	0.0	0.0	0.0
PBT	161.9	172.4	366.8	519.9	379.0
Taxation	(51.8)	(49.3)	(91.7)	(131.5)	(95.9)
MI	(3.5)	0.0	0.0	0.0	0.0
Net profit (-MI)	106.7	123.1	275.1	388.4	283.1
EPS (sen)	7.8	9.0	20.2	28.5	20.8
DPS (sen)	4.0	3.0	9.1	12.8	6.7

### Ratios

YE June 31 (RMmn)	FY18	FY19	FY20F	FY21F	FY22F
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#### Valuations

PER (x)	68.9	59.7	26.7	18.9	26.0
Dividend yield (%)	0.7	0.6	1.7	2.4	1.2
PBV (x)	7.2	6.5	5.7	4.9	4.3

#### Profitability ratios

ROAE (%)	10.3	11.5	22.9	28.1	17.9
ROAA (%)	6.1	7.0	14.1	17.6	11.4
EBITDA margin (%)	16.4	15.2	21.8	25.6	19.3
PBT margin (%)	12.4	11.2	18.4	22.3	15.7
PAT margin (%)	8.2	8.0	13.8	16.6	11.7

#### Liquidity ratios

Current ratio (x)	1.0	1.1	1.4	1.5	1.5
Quick ratio (x)	0.7	0.8	1.0	1.1	1.1

#### Leverage ratios

Total liabilities/equity (x)	0.7	0.6	0.6	0.6	0.6
Net debt/equity (x)	0.3	0.2	0.2	0.1	0.1

#### Growth ratios

Sales (%)	15.8	17.9	29.4	17.3	3.6
Pretax (%)	50.0	6.5	112.7	41.7	(27.1)
Earnings (%)	58.7	15.4	123.5	41.2	(27.1)
Total assets (%)	(5.0)	8.4	11.4	14.4	12.2

### Balance Sheet

YE June 31 (RMmn)	FY18	FY19	FY20F	FY21F	FY22F
<b>Fixed assets</b>	<b>895.9</b>	<b>965.6</b>	<b>1,066.9</b>	<b>1,210.0</b>	<b>1,346.1</b>
Investments in associates	196.8	207.1	207.1	207.1	207.1
Intangible assets	28.7	28.7	28.7	28.7	28.7
Others	6.2	5.5	5.5	5.5	5.5
<b>LT assets</b>	<b>1,127.6</b>	<b>1,207.0</b>	<b>1,308.2</b>	<b>1,451.3</b>	<b>1,587.5</b>
Inventories	187.8	181.9	222.2	250.5	284.1
Trade receivables	188.1	173.8	208.5	247.5	257.3
Cash	145.2	173.8	207.9	293.0	399.8
Others	51.0	106.1	106.1	106.1	106.1
<b>Current assets</b>	<b>572.1</b>	<b>635.7</b>	<b>744.7</b>	<b>897.2</b>	<b>1,047.3</b>
<b>Total assets</b>	<b>1,699.7</b>	<b>1,842.7</b>	<b>2,052.9</b>	<b>2,348.5</b>	<b>2,634.8</b>
Trade payables	185.3	217.5	229.4	258.6	293.3
ST borrowings	374.5	330.5	263.2	294.8	330.2
Others	6.4	53.9	53.9	53.9	53.9
<b>Current liabilities</b>	<b>566.2</b>	<b>601.9</b>	<b>546.4</b>	<b>607.3</b>	<b>677.4</b>
LT borrowings	61.7	61.0	175.4	196.5	220.2
Others	49.0	45.6	45.6	45.6	45.6
<b>LT liabilities</b>	<b>110.7</b>	<b>106.6</b>	<b>221.0</b>	<b>242.1</b>	<b>265.7</b>
Share capital	340.1	340.1	340.1	340.1	340.1
Reserves	672.6	783.6	934.9	1,148.5	1,341.1
Shareholders' funds	1,012.7	1,123.7	1,275.0	1,488.6	1,681.2
MI	10.0	10.5	10.5	10.5	10.5
<b>Total liabilities and equity</b>	<b>1,699.7</b>	<b>1,842.7</b>	<b>2,052.9</b>	<b>2,348.5</b>	<b>2,634.8</b>

### Cash Flow

YE June 31 (RMmn)	FY18	FY19	FY20F	FY21F	FY22F
PBT	161.9	172.4	366.8	519.9	379.0
Dep. & amortisation	45.0	48.8	48.8	56.9	63.9
Changes in WC	56.8	30.5	(63.1)	(38.1)	(8.7)
Tax paid	(64.1)	(38.1)	(91.7)	(131.5)	(95.9)
Others	(22.3)	21.4	19.0	22.1	25.2
Operational cash flow	177.2	235.1	279.8	429.3	363.5
Capex	(58.9)	(112.2)	(150.0)	(200.0)	(200.0)
Others	3.8	0.0	5.8	6.1	6.4
Investing cash flow	(55.1)	(112.2)	(144.2)	(193.9)	(193.6)
Dividend paid	(75.7)	(32.8)	(123.8)	(174.8)	(90.6)
Net change in debts	(14.4)	(44.4)	47.1	52.7	59.1
Others	(36.3)	(26.8)	(24.8)	(28.2)	(31.6)
Financial cash flow	(126.4)	(104.0)	(101.6)	(150.3)	(63.2)
Net cash flow	(4.3)	18.8	34.0	85.1	106.8
Opening cash flow	156.1	145.2	173.8	207.9	293.0
Forex	(6.6)	9.8	0.0	0.0	0.0
Closing cash flow	145.2	173.8	207.9	293.0	399.8

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, May 22, 2020, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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