

03 June 2020

Supermax Corporation

Quantum Leap

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Contrary to our earlier assumptions, the industry ASP has risen further month-on-month in anticipation of tighter supply and supernormal demand due to the pandemic. We highlight that SUPERMXs OBM distribution model could yield higher price and margins. Industry ASP over the next few months is now higher by between 5% and 15%, as opposed to the previous monthly 5% hike. With a diverse customer base, we expect SUPERMX to have better pricing power, potentially getting higher than industry average selling prices. Hence, we raised our FY20E/FY21E net profit by 11%/43%, to account for higher margins. TP is raised from RM7.60 to RM10.90 based on unchanged 26x CY21E EPS. Reiterate OP.

Dual-stream incomes from manufacturing and distribution. We gather that it is confident of raising ASP by between 5% to 10% each month from June till Dec 2020, vs. our previous expectation of 5% monthly increase from June to Sep 2020 indicating supply tightness have further propelled ASP higher. Specifically, Supermax is expected to gain from higher margins from both its gloves manufacturing and distribution. We expect higher margins going forward due to higher product mix skewed towards OBM distribution which accounts for 95% compared to 70% pre Covid-19 which we believe had caught us as well as the market by surprise at a time when supply is tight due to aggressive stockpiling of critical medical supplies including gloves. Supermax is getting enquiries from foreign government agencies, non-government organisations, retailers and restaurants chains. Amplifying the pent-up demand, buyers are paying between 30% to 50% deposits in advance to secure glove supply and timely delivery. From a conference call with its investor relations, we understand that demand has continued to climb over the past 2 weeks indicating that lead time is now 12 months compared to 10 months and order-book filled up to June 2021. This led to higher utilisation rate of >95% as compared to pre-COVID-19 level of 80-85%. Case in point is Supermax's overseas distribution centres which are experiencing fast inventory depletion from the normal 4 months to within 6 weeks. Supermax expects the heightened demand to continue for the next 1 to 1.5 years.

Outlook. Plant 12 consists of 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, its remaining 3 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 11%/43% after raising pre-tax margin assumption from 16%/18% to 17%/25%.

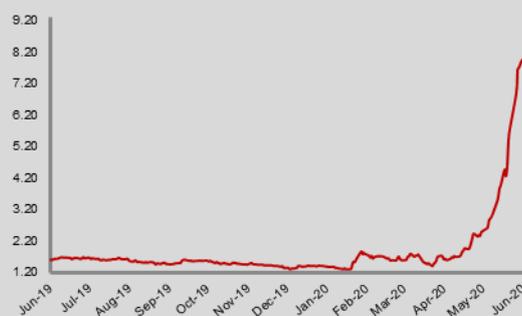
Undemanding FY21E PER valuation of 18x compared to earnings growth of >100%. Correspondingly, our TP is raised from RM7.60 to RM10.90 based on unchanged 26x CY21 revised EPS of 41.9 sen (at slightly above +2.0SD above the 5-year historical forward mean). We like Supermax because: (i) the stock is trading at an undemanding 18x FY21E EPS compared to expected 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 longer-than-expected commercial operations of new plants.

OUTPERFORM ↔

Price : RM7.61
Target Price : RM10.90 ↑

Share Price Performance



KLCI	1,507.69
YTD KLCI chg	-5.1%
YTD stock price chg	447.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	9,827.7
Shares Outstanding	1,291.4
52-week range (H)	8.22
52-week range (L)	1.29
3-mth avg daily vol:	23,512,950
Free Float	58%
Beta	1.2

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	1927.7	2952.1
PBT	172.8	333.7	748.6
Net Profit	123.8	250.1	561.2
Core N.Profit (CNP)	127.6	250.1	561.2
Consensus (NP)	-	231.4	338.6
Earnings Revision	-	+11%	+43%
EPS (sen)	9.4	18.4	41.3
EPS growth (%)	19.2	96.0	124.4
NDPS (sen)	4.2	8.3	18.6
BVPS (RM)	0.82	0.92	1.15
PER (X)	81.1	41.4	18.4
PBV (X)	9.2	8.2	6.6
Net Gearing (%)	19.5	26.6	13.5
Dividend Yield (%)	0.5	1.1	2.4

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Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1126.9	1304.5	1489.3	1927.7	2952.1
EBITDA	160.1	221.9	236.0	399.0	814.8
Operating Profit	107.4	175.6	186.9	343.4	754.6
Associate	11.3	6.0	5.4	6.2	10.6
PBT	107.9	167.2	172.8	333.7	748.6
Taxation	-37.6	-56.2	-49.0	-83.4	-187.1
MI	-3.1	-4.0	-0.1	-0.1	-0.2
Net Profit	67.2	107.0	123.8	250.1	561.2

Balance Sheet

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	878.3	864.9	972.1	1178.9	1268.7
Int. Assets	237.2	-	-	-	-
Goodwill	28.7	28.7	28.7	28.7	28.7
Other FA	7.2	244.7	203.6	203.6	203.7
Inventories	189.7	189.8	183.1	237.1	363.0
Receivables	238.3	215.0	197.0	255.0	390.5
Other CA	54.6	48.9	77.4	77.4	77.4
Cash	156.1	145.0	173.8	107.3	250.8
Total Assets	1789.9	1736.9	1835.8	2088.0	2582.9
Payables	201.2	124.7	144.0	186.4	285.4
ST Borrowings	343.5	345.6	349.9	399.9	419.9
Ot. ST Liability	25.9	76.4	133.4	155.4	222.4
LT Borrowings	107.0	74.1	42.0	42.0	42.0
Ot. LT Liability	42.1	52.3	39.6	39.6	39.6
Minorities Int.	3.0	10.5	7.8	7.9	8.1
Net Assets	1067.2	1053.3	1119.2	1256.8	1565.5
Share Capital	340.1	340.1	340.1	340.1	340.1
Reserves	727.1	713.2	779.1	916.7	1225.4
Equity	1067.2	1053.3	1119.2	1256.8	1565.5

Cashflow Statement

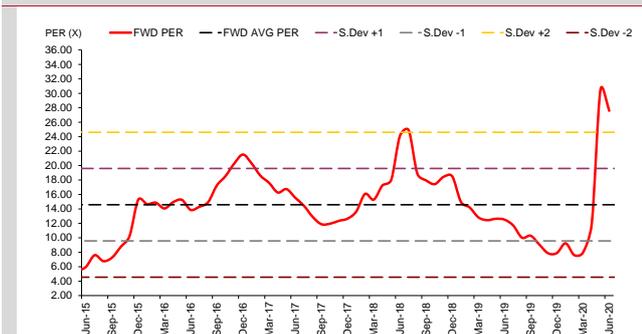
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	120.8	163.7	228.2	252.2	515.6
Investing CF	(110.2)	(18.8)	(115.7)	(150.0)	(150.0)
Financing CF	20.1	(143.3)	(104.5)	(168.7)	(222.1)
Change In Cash	30.6	1.6	8.0	(66.5)	143.5
Free CF	20.8	13.7	78.2	102.2	365.6

Source: Kenanga Research

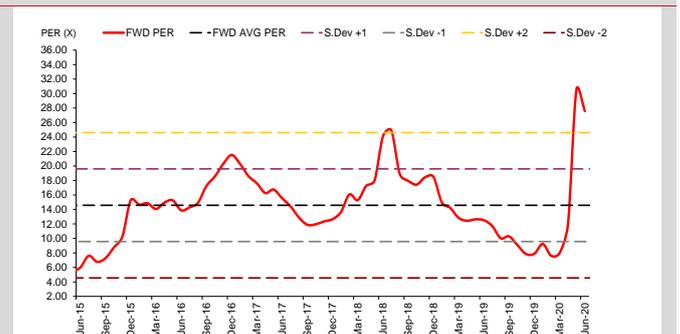
Financial Data & Ratios

FY Jun	2017A	2018A	2019A	2020E	2021E
Growth					
Turnover	-27.3%	15.8%	14.2%	29.4%	53.1%
EBITDA	-43.3%	38.6%	6.3%	69.1%	104.2%
Operating Profit	-51.6%	63.5%	6.4%	83.7%	119.7%
PBT	-47.9%	54.9%	3.4%	93.1%	124.3%
Net Profit /(loss)	-53.3%	59.3%	15.6%	102.1%	124.4%
Profitability					
EBITDA Margin	14.2%	17.0%	15.8%	20.7%	27.6%
Operating Margin	10.5%	13.5%	12.6%	12.5%	17.8%
PBT Margin	9.6%	12.8%	11.6%	17.3%	25.4%
Core Net Margin	6.0%	8.2%	8.3%	13.0%	19.0%
Eff. Tax Rate	34.9%	0.0%	24.0%	25.0%	25.0%
ROA	3.8%	6.2%	6.7%	12.0%	21.7%
ROE	6.3%	10.2%	11.1%	19.9%	35.9%
DuPont Analysis					
Net Margin (%)	6.0%	8.2%	8.3%	13.0%	19.0%
Assets T/O (x)	1.6	1.3	1.2	1.1	0.9
Lev. Factor (x)	1.7	1.6	1.6	1.7	1.6
ROE (%)	6.3%	10.2%	11.1%	19.9%	35.9%
Leverage					
Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.4	0.4	0.4	0.4	0.3
Valuations					
EPS (sen)	4.9	7.9	9.1	18.4	41.3
NDPS (sen)	1.5	4.0	4.2	8.3	18.6
BVPS (RM)	0.78	0.77	0.82	0.92	1.15
PER (x)	154.1	96.7	83.7	41.4	18.4
Net Div. Yld (%)	1.0	0.2	0.5	0.5	1.1
PBV (x)	9.7	9.8	9.2	8.2	6.6

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research, Bloomberg

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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	12.74	43,126	Y	03/2021	59.2%	14.9%	91.5%	14.9%	97.6	50.9	44.3	16.7	14.3	30.3%	1.0%	13.90	OP
KOSSAN RUBBER INDUSTRIES	8.80	11,254	Y	12/2020	42.1%	18.1%	72.6%	22.8%	50.1	29.0	23.6	7.9	6.7	24.9%	1.1%	11.20	OP
SUPERMAX CORP BHD	7.61	9,827	Y	06/2020	29.4%	53.1%	113%	124%	81.1	41.4	18.4	9.3	8.2	21.1%	0.5%	10.90	OP
TOP GLOVE CORP BHD	14.80	38,827	Y	08/2020	35.0%	21.6%	167%	41.5%	101.7	38.1	26.9	15.5	12.9	37.0%	1.3%	20.10	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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