

07 July 2020

Supermax Corporation

Heads I Win, Tails I Win Too

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Taking cue from the other glove players' quarterly earnings announcements over the past month, we are raising our assumptions for SUPERMX. Our analysis further suggests that ASP is expected to stay elevated over the next few quarters. We highlight that SUPERMXs OBM distribution model could yield higher margins. Hence, we raised our FY20E/FY21E net profit by 7%/33%, to account for higher margins. TP is raised from RM10.90 to RM14.00 based on 25x CY21E EPS. Reiterate OP.

Dual-stream incomes from manufacturing and distribution. Supermax is expected to gain from higher margins from both its gloves manufacturing and distribution divisions. We expect higher margins going forward due to product mix skewed higher towards OBM distribution to account for 95% of total sales 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. With a diverse customer base, we expect SUPERMX to have better pricing power, potentially getting higher than industry average selling prices.

Our analysis suggests shortage in supply. We have done an analysis to dispel any concerns of gloves oversupply. Our analysis (see table overleaf) suggests that acute supply and supernormal demand could persist till end 2021. Interestingly, players are also getting orders from new group of users including airlines, restaurants, retail apparel chains and hotel operators. If we look at the capacity expansion numbers in isolation, it looks overwhelming. But viewed against the incremental new pandemic-driven demand in addition to the annual base level demand growth, the additional capacity is not a concern. In fact, the estimated new yearly capacity may not actually start as scheduled and hence the supply shortage will continue to be acute in 2021. Typically, to cater for normal demand, glove makers essentially need to build just one plant per year. However, from channel checks, to cater for this current pandemic-driven demand, two to three plants are required for each glove maker (on average) annually in order to meet the supernormal demand, which takes between 12 to 24 months to complete.

China and low user per capita countries are potential high growth markets. We expect gloves consumption per capita in China to surge sharply following the COVID-19 experience. For illustration purposes, assuming a population of 1.4b and conservative 30 gloves per capita (from currently 9 compared to developed western countries which averaged 200 pieces per capita), this implies a massive 42b piece (from currently 2.8bn pieces) of rubber gloves consumption in China annually. Hence, any new supply from the Chinese players could be absorbed domestically.

Raised FY20E/FY21E net profit by 7%/33% after raising EBITDA margin assumption from 21%/28% to 22%/36% in FY20E/FY21E. Raise our plant utilisation assumption for FY21 from 95% to 100%.

Undemanding FY21E PER valuation of 19x. TP is raised from RM10.90 to RM14.00 based on 25x CY21 revised EPS of 55.9 sen (previously 26x) (at slightly less +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 19x 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 : RM10.36
Target Price : RM14.00 ↑

Share Price Performance



KLCI 1,576.90
YTD KLCI chg -0.7%
YTD stock price chg 645.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SUCB MK Equity
Market Cap (RM m) 13,379.1
Shares Outstanding 1,291.4
52-week range (H) 10.70
52-week range (L) 1.29
3-mth avg daily vol: 30,285,920
Free Float 58%
Beta 1.6

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	3107.5
PBT	172.8	356.0	1045.4
Net Profit	123.8	266.9	783.8
Core N.Profit (CNP)	127.6	266.9	783.8
Consensus (NP)	-	281.3	480.8
Earnings Revision	-	+7%	+33%
EPS (sen)	9.4	19.6	55.0
EPS growth (%)	19.2	109.2	180.6
NDPS (sen)	4.2	7.8	22.0
BVPS (RM)	0.82	0.94	1.27
PER (X)	110.5	52.8	18.8
PBV (X)	12.6	11.0	8.2
Net Gearing (%)	19.5	32.0	14.9
Dividend Yield (%)	0.4	0.8	2.1



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Estimated incoming capacity indicating potential acute supply shortage

	Top Glove	Supermax	Kossan	Hartalega	Total
Estimated capacity in start of CY2020 (bn pieces)	70.5	21.8	28.0	36.6	156.9
Estimated new capacity	15.9	4.4	3.0	2.8	26.1
Total estimated capacity by end CY2020	86.4	26.2	31.0	39.4	183.0
	Top Glove	Supermax	Kossan	Hartalega	Total
Estimated capacity start of CY2021 (bn pieces)	86.4	26.2	31.0	39.4	183.0
Estimated new capacity	14.0	4.9	4.5	3.8	27.2
Total estimated capacity by end CY2021	100.4	31.1	35.5	43.2	210.2

Estimated new supply from Malaysia and new world demand in 2020 (demand > supply)

(a) Estimated world demand (b pieces)	360b
(b) Estimated new global demand growth [20% = pandemic demand (10%) + normal demand (10%)]	60b
(c) Top four (Kossan, Supermax, Top Glove and Hartalega) incremental net capacity increase in CY20	26.1
(d) Malaysia accounts for 65% world market share and new demand = (b) x 65%	39
(e) Total estimated of new supply in Malaysia (assumption: Top four accounts for an estimated 80% to total production in Malaysia) = (C) / 80%	33

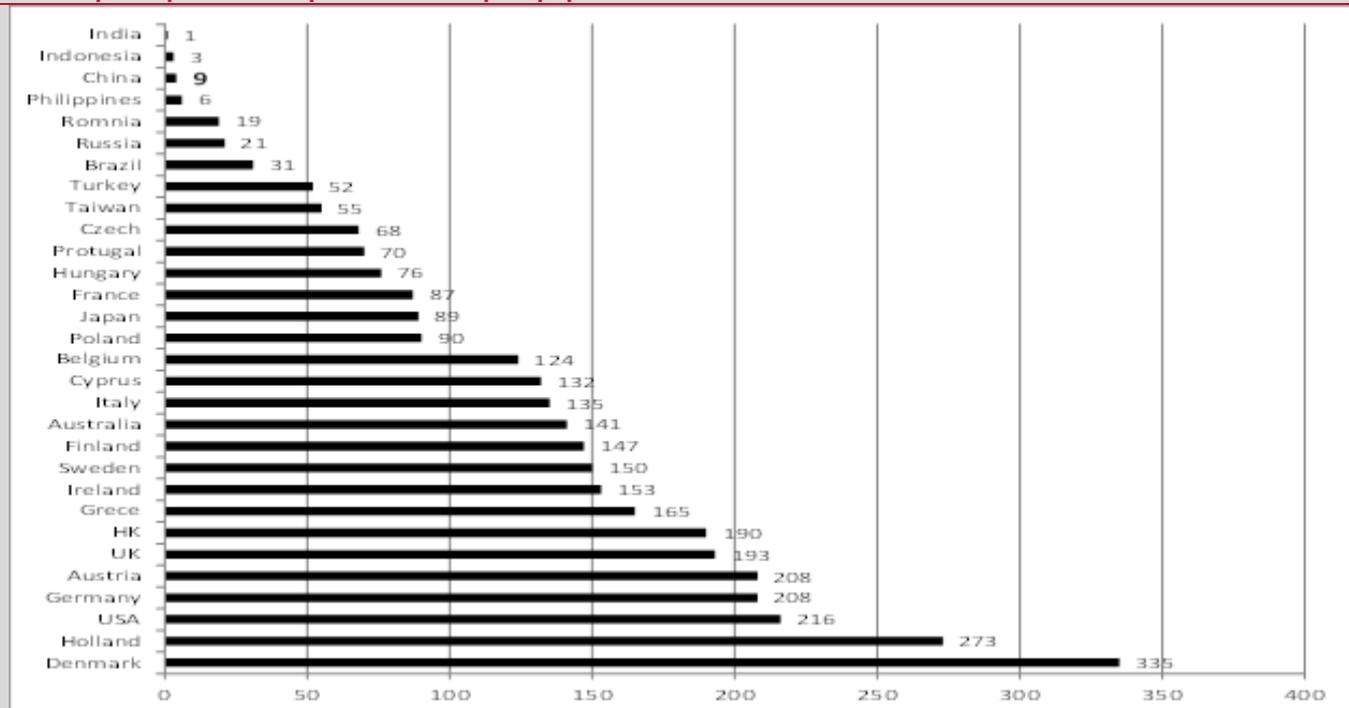
Estimated new supply from Malaysia and new world demand in 2021 (demand > supply)

(a) Estimated world demand (b pieces)	432b
(b) Estimated new global demand growth [20% = pandemic demand (10%) + normal demand (10%)]	72b
(c) Top four (Kossan, Supermax, Top Glove and Hartalega) new incremental net capacity increase in CY21	27.2
(d) Malaysia accounts for 65% world market share and new demand = (b) x 65%	47
(e) Total estimated of new supply in Malaysia (assumption: Top four accounts for an estimated 80% to total production) = (C) / 80%	34

Source: Companies, Kenanga Research

^actual estimated new capacity is lower caused unable to come onstream all at one go, hence the effective capacity is lower

Gloves per capita consumption – 2019 import/population estimate



Source: Hartalega, various, Kenanga Research

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Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1126.9	1304.5	1489.3	1927.7	3107.5
EBITDA	160.1	221.9	236.0	424.1	1118.7
Operating Profit	107.4	175.6	186.9	-58.0	-67.1
Associate	11.3	6.0	5.4	366.1	1051.6
PBT	107.9	167.2	172.8	356.0	1045.4
Taxation	-37.6	-56.2	-49.0	-89.0	-261.3
MI	-3.1	-4.0	-0.1	-0.1	-0.2
Net Profit	67.2	107.0	123.8	266.9	783.8

Balance Sheet

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	878.3	864.9	972.1	1276.5	1459.4
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	382.1
Receivables	238.3	215.0	197.0	255.0	411.0
Other CA	54.6	48.9	77.4	77.4	77.4
Cash	156.1	145.0	173.8	32.2	226.0
Total Assets	1789.9	1736.9	1835.8	2110.5	2788.4
Payables	201.2	124.7	144.0	186.5	300.5
ST Borrowings	343.5	345.6	349.9	399.9	419.9
Ot. ST Liability	25.9	76.4	133.4	155.4	228.7
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	1279.3	1749.6
Share Capital	340.1	340.1	340.1	340.1	340.1
Reserves	727.1	713.2	779.1	939.3	1409.6
Equity	1067.2	1053.3	1119.2	1279.3	1749.6

Cashflow Statement

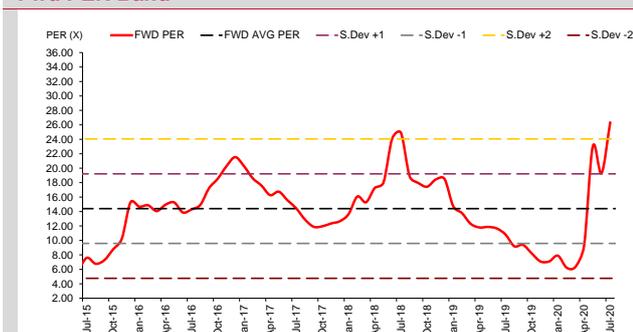
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	120.8	163.7	228.2	271.3	691.8
Investing CF	(110.2)	(18.8)	(115.7)	(250.0)	(250.0)
Financing CF	20.1	(143.3)	(104.5)	(162.9)	(269.0)
Change In Cash	30.6	1.6	8.0	(141.6)	172.8
Free CF	20.8	13.7	78.2	21.3	441.8

Source: Kenanga Research

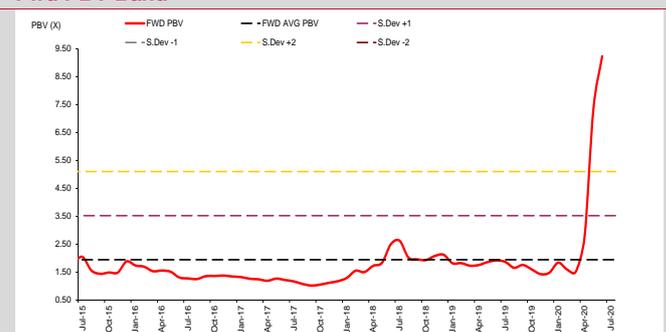
Financial Data & Ratios

FY Jun	2017A	2018A	2019A	2020E	2021E
Growth					
Turnover	-27.3%	15.8%	14.2%	29.4%	61.2%
EBITDA	-43.3%	38.6%	6.3%	79.7%	163.8%
Operating Profit	-51.6%	63.5%	6.4%	95.9%	187.2%
PBT	-47.9%	54.9%	3.4%	106.0%	193.6%
Net Profit /(loss)	-53.3%	59.3%	15.6%	115.7%	193.7%
Profitability					
EBITDA Margin	14.2%	17.0%	15.8%	22.0%	36.0%
Operating Margin	10.5%	13.5%	12.6%	12.5%	19.0%
PBT Margin	9.6%	12.8%	11.6%	18.5%	33.6%
Core Net Margin	6.0%	8.2%	8.3%	13.8%	25.2%
Eff. Tax Rate	34.9%	0.0%	24.0%	25.0%	25.0%
ROA	3.8%	6.2%	6.7%	12.6%	28.1%
ROE	6.3%	10.2%	11.1%	20.9%	44.8%
DuPont Analysis					
Net Margin (%)	6.0%	8.2%	8.3%	13.8%	25.2%
Assets T/O (x)	1.6	1.3	1.2	1.1	0.9
Lev. Factor (x)	1.7	1.6	1.6	1.6	1.6
ROE (%)	6.3%	10.2%	11.1%	20.9%	44.8%
Leverage					
Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.4	0.4	0.4	0.3	0.3
Valuations					
EPS (sen)	4.9	7.9	9.1	19.6	57.6
NDPS (sen)	1.5	4.0	4.2	7.8	23.0
BVPS (RM)	0.78	0.77	0.82	0.94	1.29
PER (x)	209.7	131.7	110.5	52.8	18.8
Net Div. Yld (%)	1.0	0.1	0.4	0.4	0.8
PBV (x)	13.2	13.4	12.6	11.0	8.2

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	16.50	55,902	Y	03/2021	68.4%	17.3%	182%	19.5%	126.4	44.8	37.5	21.6	17.4	43.1%	1.1%	18.16	OP
KOSSAN RUBBER INDUSTRIES	10.38	13,275	Y	12/2020	46.8%	19.1%	128%	29.5%	59.1	25.9	20.0	9.3	7.3	31.6%	1.0%	14.00	OP
SUPERMAX CORP BHD	10.36	13,379	Y	06/2020	29.4%	61.2%	126%	181%	110.5	52.8	18.8	12.6	11.0	22.3%	0.4%	14.00	OP
TOP GLOVE CORP BHD	19.96	53,773	Y	08/2020	36.7%	23.0%	226%	50.8%	137.1	43.8	29.0	20.9	17.4	44.2%	1.1%	25.00	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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Published and printed by:

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