

21 May 2020

# Supermax Corporation

## Strong Up-cycle Looming

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9MFY20 core net profit of RM126m (+23% YoY) came in above expectations at 77%/86% of our/consensus full-year forecasts. The positive variance compared to our forecast is due to higher-than-expected ASP. We believe consensus have under-estimated the potential impact from higher ASP and margins from its OBM distribution amidst the current tight supply situation for gloves with buyers aggressively stockpiling critical medical supplies. We raise our FY20E/FY21E net profit by 36%/16%. TP is raised from RM6.00 to RM6.60 based on unchanged 26x CY21E EPS. Reiterate OP.

**Key results' highlights.** QoQ, 3QFY20 revenue rose 16% largely due to higher ASPs and volume sales from new lines commissioned in Plant 12. The increase in overall sales was mainly due to surge from the group's overseas distribution centres as a result of an exponential surge in demand due to the pandemic. 3QFY20 PBT rose 128% as PBT margin rose 10.5ppt to 21.3% from 10.9% in 2QFY20, largely due to higher ASP, better economies of scale from improved efficiencies from the new plant and lower production costs. Specifically, QoQ, nitrile and natural rubber material prices have decreased 7.3% and 2.5%, respectively. This brings 3QFY20 core net profit to RM71m (+136% QoQ) which was further boosted by a lower effective tax rate of 24% compared to 28% in 2QFY20. No dividend was declared in this quarter as expected.

**YoY, 9MFY20** core net profit rose 23% to RM126m despite flat revenue growth (+8%) due to higher average selling prices and lower production costs namely nitrile and latex input costs.

**Outlook.** Plant 12 consists of Block A and Block B, each consisting of 8 double former lines with 2.2bn pieces each (total 4.4bn pieces). As of now, for Block A, its remaining three lines started commissioning end March 2020 on top of the five lines already in commercial production. For Block B, all eight lines are expected to be fully commissioned by 2H 2020. Upon full commercial production by 2H 2020, its installed capacity will rise 13.4% to 26.2bn pieces per annum. Recall, it had completed the acquisition of a piece of land in Meru, Klang on which it plans to build three plants namely Plant 13,14 and 15 which will contribute another 12bn pieces of gloves to its total installed capacity over the next few years.

**Raised FY20E/FY21E net profit by 36%/16%** after raising utilisation rate from 85%/97% to 91%/99%. We also raise our ASP from USD23.80/1,000 to USD32/1,000 in FY20 and from USD32/1,000 to USD38/1,000 pieces in FY21.

**Undemanding FY21E PER valuation of 18x compared to expected earnings growth of 55%.** Correspondingly, our TP is raised from RM6.00 to RM6.60 based on unchanged 26x CY21 revised EPS of 25.4 sen (at slightly above +2.0SD above the 5-year historical forward mean). We like Supermax because the stock is trading at an undemanding 18x FY21E EPS compared to expected earnings growth of 53%. We believe consensus have under-estimated the potential impact from higher ASP and margins from its OBM distribution amidst the current tight supply situation for gloves with buyers aggressively stockpiling critical medical supplies. **Reiterate Outperform.**

**Key risk** to our call is longer-than-expected commercial operations of new plants.

## OUTPERFORM ↔

Price : RM4.59  
Target Price : RM6.60 ↑

### Share Price Performance



KLCI	1,435.12
YTD KLCI chg	-9.7%
YTD stock price chg	230.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	5,927.6
Shares Outstanding	1,291.4
52-week range (H)	4.62
52-week range (L)	1.29
3-mth avg daily vol:	20,402,850
Free Float	58%
Beta	0.8

### 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	2217.5	3174.7
PBT	172.8	291.1	447.5
Net Profit	123.8	221.1	339.9
<b>Core N.Profit (CNP)</b>	127.6	221.1	339.9
Consensus (NP)	-	147.4	195.8
Earnings Revision	-	+36%	+16%
EPS (sen)	9.4	16.3	25.0
EPS growth (%)	19.2	73.3	53.7
NDPS (sen)	4.2	7.3	11.2
BVPS (RM)	0.82	0.91	1.05
PER (X)	48.9	28.2	18.4
PBV (X)	5.6	5.0	4.4
Net Gearing (%)	19.5	31.3	24.9
Dividend Yield (%)	0.9	1.6	2.4

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### Result Highlight

<b>FY Jun (RM m)</b>	<b>3Q FY20</b>	<b>2Q FY20</b>	<b>QoQ Chg %</b>	<b>3Q FY19</b>	<b>YoY Chg %</b>	<b>9M FY19</b>	<b>9M FY20</b>	<b>YoY Chg %</b>
Turnover	447.2	385.5	16.0	361.2	23.8	1,113.4	1,202.7	8.0
EBITDA	111.9	59.3	88.7	64.3	74.0	202.2	220.4	9.0
PBT	95.3	41.8	127.8	49.4	92.8	156.4	169.5	8.4
Net Profit (NP)	71.1	30.2	135.6	34.6	105.3	108.7	126.0	15.9
Core net profit (CNP)	71.1	30.2	135.6	34.6	105.3	102.2	126.0	23.2
EPS (sen)	5.2	2.3	135.6	2.5	105.3	7.5	9.3	23.2
EBITDA margin (%)	25.0	15.4		17.8		18.2	18.3	
PBT margin (%)	21.3	10.9		13.7		14.0	14.1	
Effective tax rate (%)	24.1	28.2		29.2		29.9	24.9	

Source: Bursa Malaysia, Kenanga Research

\*Note that 9MFY19 core net profit excluding one-off insurance claims RM6.5m in 1Q19

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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.			
<b>RUBBER GLOVES</b>																	
HARTALEGA HOLDINGS BHD	9.42	31,888	Y	03/2021	47.7%	13.3%	56.6%	13.0%	72.1	46.1	40.8	12.3	10.9	25.1%	1.1%	11.66	OP
KOSSAN RUBBER INDUSTRIES	7.70	9,848	Y	12/2020	17.0%	13.0%	24.6%	11.2%	43.8	35.2	31.6	6.9	6.0	18.3%	0.8%	7.20	OP
SUPERMAX CORP BHD	4.59	5,928	Y	06/2020	48.9%	43.2%	88.5%	53.7%	48.9	28.2	18.4	5.6	5.0	18.7%	0.9%	6.60	OP
TOP GLOVE CORP BHD	10.80	27,722	Y	08/2020	20.6%	13.7%	92.4%	21.4%	74.2	38.6	31.8	11.3	9.4	26.7%	0.8%	12.60	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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