

8 February 2021

Consumer Cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

Living The American Dream; Still BUY

Target Price (Return): MYR10.60 (+59%)
 Price: MYR6.67
 Market Cap: USD4,290m
 Avg Daily Turnover (MYR/USD): 203m/49.9m

- **Keep BUY and DCF-derived MYR10.60 TP, 59% upside with c.9% FY21F (Jun) yield.** As the US plans to use the Defence Production Act (DPA) to produce 12bn gloves pa to reduce its reliance on imported personal protection equipment (PPE), Supermax stands a great chance of participating in this initiative. We also expect positive news flow on this matter in the next 3-6 months. The company's stronger earnings growth prospects in 3QFY21F and investors' expectation of a special dividend should support its share price performance, as well.

- **The US will use the DPA to increase glove supply.** At a press briefing by the White House COVID-19 Response Team and public health officials, the COVID-19 Supply Coordinators representative Tim Manning said, "Right now, we just don't have enough gloves, we're nearly 100% reliant on overseas manufacturers to export to us our country's surgical gloves that protect healthcare workers, and that's unacceptable." It is believed that the US Government plans to use the DPA to increase the supply of PPE, including surgical gloves, in the country.

- **The US aims to produce 12bn gloves pa by end 2021.** At the press briefing, the US Government revealed its plan to produce 1bn nitrile gloves a month, which will be enough to fulfil half the need from the country's healthcare community.

- **Supermax could take part in this DPA initiative.** It has distribution channels through Aurelia Gloves in the US. From its website, Aurelia Gloves stated that it has been the top provider of examination gloves in the North American market since 2000. As Supermax is also the glove manufacturer with a 26.2bn ppa capacity, it could be able to participate in this DPA initiative. In fact, the company has shared details of its plan to build a manufacturing facility in its 2QFY21 results announcement (see page 3 for further details).

- **Stay BUY, TP remains unchanged at MYR10.60.** We maintain our FY21-23F earnings. Our BUY call is premised on: i) Positive news flow on its US glove manufacturing plant in the near term, ii) earnings growth in 3QFY21F, and iii) the expectation of special dividends. Our ESG score for Supermax is 2.89.

- **Risks.** These include worse-than-expected demand for gloves after the COVID-19 pandemic ends, lower-than-expected sales volume/USD, and higher-than-estimated raw material prices.

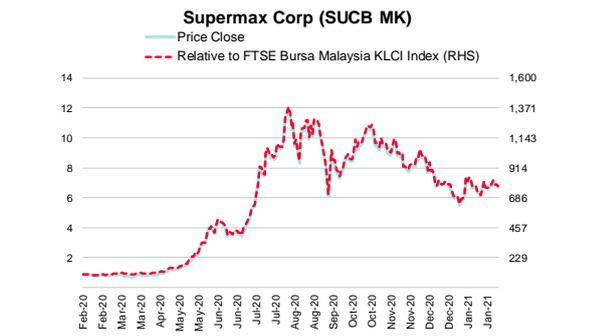
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.0	13.8	(28.0)	(42.0)	675.6
Relative	14.0	15.7	(33.1)	(42.7)	672.9
52-wk Price low/high (MYR)	0.70 – 11.9				



Source: Bloomberg

Overall ESG Score: 2.89 (out of 4)

E: Good

Supermax uses alternative fuel sources such as biomass at several factories. It has spent MYR24m over the years to build, upgrade and maintain its biomass facilities. Supermax also treats its wastewater to protect the environment.

S: Good

To date, it has not reported any positive COVID-19 cases among its workers. This could be caused by efforts made to ensure all accommodations are in compliance with regulations and safety standards.

G: Good

63% of its board members are independent. 13% of its directors are female – still below the Malaysian Code of Corporate Governance requirement of 30%. Additionally, Supermax provides full disclosure on its directors' remuneration, including salaries and bonuses. It holds investor briefings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	1,538	2,132	8,211	7,382	6,494
Recurring net profit (MYRm)	123	526	4,336	3,297	2,430
Recurring net profit growth (%)	15.5	326.6	725.0	(24.0)	(26.3)
Recurring P/E (x)	139.42	32.68	3.96	5.21	7.07
P/B (x)	15.3	11.4	3.8	2.5	2.0
P/CF (x)	73.07	22.21	3.32	5.44	7.67
Dividend Yield (%)	0.2	1.1	8.8	6.7	5.0
EV/EBITDA (x)	74.23	23.25	2.30	2.55	2.97
Net debt to equity (%)	19.2	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.05	0.20	1.68	1.28	0.94
Consumer Cyclical	DPS	0.02	0.07	0.59	0.45	0.33
Supermax Corp	BVPS	0.44	0.58	1.77	2.67	3.34
SUCB MK						
Buy						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Recurring P/E (x)	139.42	32.68	3.96	5.21	7.07
	P/B (x)	15.3	11.4	3.8	2.5	2.0
	FCF Yield (%)	0.7	3.6	29.3	17.5	12.2
	Dividend Yield (%)	0.2	1.1	8.8	6.7	5.0
	EV/EBITDA (x)	74.23	23.25	2.30	2.55	2.97
	EV/EBIT (x)	92.17	25.99	2.33	2.62	3.09
	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total turnover	1,538	2,132	8,211	7,382	6,494
	Gross profit	510	1,102	6,693	5,189	3,678
	EBITDA	232	720	5,650	4,261	3,114
	Depreciation and amortisation	(45)	(76)	(78)	(105)	(124)
	Operating profit	187	644	5,572	4,156	2,989
	Net interest	(20)	(17)	42	102	138
	Pre-tax profit	172	689	5,696	4,332	3,192
	Taxation	(49)	(153)	(1,339)	(1,018)	(750)
	Reported net profit	123	526	4,336	3,297	2,430
	Recurring net profit	123	526	4,336	3,297	2,430
	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	31	145	787	(161)	(188)
	Cash flow from operations	235	773	5,180	3,156	2,240
	Capex	(112)	(150)	(150)	(150)	(150)
	Cash flow from investing activities	(112)	(150)	(97)	(39)	(3)
	Dividends paid	(33)	(158)	(1,301)	(989)	(729)
	Cash flow from financing activities	(104)	(140)	(1,299)	(1,041)	(776)
	Cash at beginning of period	145	174	667	4,461	6,546
	Net change in cash	19	483	3,784	2,076	1,462
	Ending balance cash	174	667	4,461	6,546	8,018
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	174	667	4,461	6,546	8,018
	Tangible fixed assets	969	1,018	1,068	1,121	1,177
	Total investments	208	208	208	208	208
	Total assets	1,843	2,420	6,986	9,075	10,551
	Short-term debt	331	294	336	327	164
	Total long-term debt	61	129	121	114	107
	Total liabilities	708	921	2,463	2,236	1,826
	Total equity	1,134	1,499	4,523	6,839	8,725
	Total liabilities & equity	1,843	2,420	6,986	9,075	10,551
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	17.9	38.6	285.2	(10.1)	(12.0)
	Recurrent EPS growth (%)	15.5	326.6	725.0	(24.0)	(26.3)
	Gross margin (%)	33.2	51.7	81.5	70.3	56.6
	Operating EBITDA margin (%)	15.1	33.8	68.8	57.7	48.0
	Net profit margin (%)	8.0	24.7	52.8	44.7	37.4
	Capex/sales (%)	7.3	7.0	1.8	2.0	2.3
	Interest cover (x)	9.47	37.61	520.15	420.52	330.17

Source: Company data, RHB

Details of Supermax's plan to build a manufacturing plant in the US

In its 2QFY21 results release, Supermax said that it is reinvesting the earnings derived from distribution centres into the respective countries where it operates. It has allocated USD300m for glove manufacturing in the US for Phase 1 and another USD250m for Phase 2.

Currently, it is working with various US government agencies on the following:

- i. To identify suitable manufacturing sites;
- ii. To negotiate with various agencies, counties, and local governments for providing the full infrastructure that the company needs for the production of medical gloves;
- iii. To provide various supportive initiatives from local institutions such as on research and development, employee training, and other support services that the company needs to manufacture PPE such as medical gloves.

Figure 1: DCF valuation

FYE Jun (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	3,156	2,902	2,945	3,131	3,383	3,609	3,791	3,955	4,074	4,196	
+ Interest (1 - Tax Rate)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(155)	(159)	
Free cash flow to firm (FCFF)	2,998	2,745	2,788	2,976	3,228	3,455	3,637	3,802	3,916	4,034	35,790
Discount factor	0.89	0.78	0.68	0.60	0.52	0.46	0.40	0.35	0.31	0.27	0.27
PV of FCFF	2,656	2,131	1,896	1,773	1,685	1,580	1,458	1,335	1,205	1,087	9,647
Risk-free	4.0%										
Beta	1.73										
Cost of equity	14.4%										
WACC	12.4%										
Terminal growth	1.0%										
Enterprise value (MYR m)	26,453										
Cash	1,181										
- Debt	(328)										
Equity value (MYR m)	27,306										
Number of shares (m)	2575										
Fair value (MYR)	10.60										

Source: RHB

Figure 2: Key assumptions

Key Assumptions	FY21F	FY22F	FY23F
Installed year-end capacity (m ppa)	26,200	36,425	42,425
Blended ASP (USD per 1,000 pieces)	89	57	48
Average USD/MYR	4.10	4.10	4.10
Utilisation rate	90%	90%	90%

Source: RHB

Figure 3: Sensitivity of TP based on bull, base and bear case for blended ASP

Scenario	FY21F	FY22F	FY23F	Long term	TP (MYR)
Bull	89	67	58	57	15.20
Base	89	57	48	47	10.60
Bear	89	47	38	37	6.00

Source: RHB

Figure 4: Supermax gloves (under the Aurelia brand) sold in the North American market



Source: Aurelia Gloves website

Figure 5: Supermax gloves (under the Aurelia brand) sold via Amazon

Brand: Supermax

4338608 PT# 93996- Glove PF Nitrile Small Aurelia Protege 100/Bx by, Supermax, Inc -4338608 by The Supermax, Incorporated

★★★★★ 2 ratings

Price: \$27.99 + \$13.99 shipping

Size Small
Material Nitrile
Brand Supermax
Hand Orientation Ambidextrous
Material type free Powder Free, Latex Free

Specifications for this item

Brand Name	Supermax
Hand Orientation	Ambidextrous
Material	Nitrile
Part Number	unknown
Size	Small



Click image to open expanded view

Source: Amazon.com

Recommendation Chart



Source: RHB, Bloomberg

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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