# Supermax Corporation Berhad

(7106 | SUCB MK) | Health Care| Health Care Equipment & Services

***Maintain* BUY**

***Unchanged* Target Price: RM13.83**

## Prospects still intact

### KEY INVESTMENT HIGHLIGHTS

- **Expect margins to stabilise**
- **Glove shortage expected to last for 1.5 to 2 years, boding well for ASP**
- **Upbeat on US venture**
- **Potential special dividend in store**
- **Maintain BUY with an unchanged TP RM13.83**

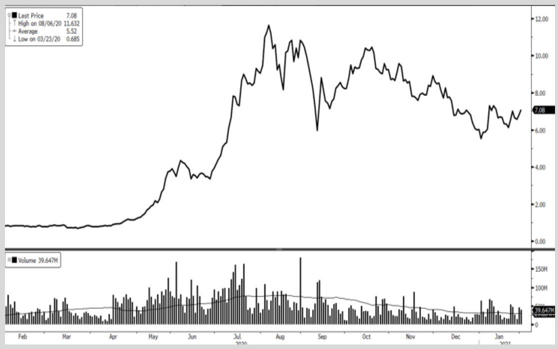
**Expect margins to stabilise.** Supermax held a virtual briefing to update some of the recent development in the industry and on its prospects. One of the issues discussed was the profit margin, which eroded by c.5ppt in 2QFY21 compared to 1QFY21. Management explained that that the weaker margin was primarily due to higher raw material costs while part of its selling prices to customers had been fixed earlier on. Going forward, there will be some adjustment to prices to incorporate the higher raw material costs. This is expected to partially mitigate the rise in raw material cost, which in turn protects its profitability. We believe that net profit margin for the company should be able to stay in the 50% range for FY21F.

**Glove shortage expected to last for 1.5 to 2 years, boding well for ASP.** Management also shared that average selling prices (ASP) for rubber gloves are expected to remain robust given the short supply in nitrile rubber, which restricts the production of nitrile rubber gloves and hence the continued shortage in nitrile rubber gloves. Due to the acute shortage of rubber gloves in general, end users are switching to natural rubber gloves, which also drive up ASP. Management expects the situation to last for about another 1.5 years to 2 years as there is no excess capacity from the raw material until 2023.

**Upbeat on US venture.** Management also updated on the progress of its US expansion and that it is in discussion for the infrastructure support with the local authorities there for its Plant 18. An agreement is expected to be signed in 2QCY21. We opine that Supermax's plans to expand its manufacturing facility there is in-line with President Joe Biden's plans to ramp up the production personal protection equipment (PPE) in the country to combat the pandemic. As such, we believe that it is likely in the local authorities' interest to assist manufacturers to speed up the process as well as to potentially provide incentives to them so that the nation can be less reliant on foreign countries for emergency PPE supplies in the future.

| RETURN STATISTICS | |
|---|---|
| Price @ 2nf February 2021 (RM) | 7.08 |
| Expected share price return (%) | +95.4 |
| Expected dividend yield (%) | +4.3 |
| **Expected total return (%)** | **+99.7** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 17.8 | 21.3 |
| 3 months | 17.8 | -24.6 |
| 12 months | 713.2 | 687.8 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,580.49 |
| Syariah compliant | Yes |
| Issue shares (m) | 2640.24 |
| F4BGM Index | No |
| ESG Grading Band (Star rating) | ☆☆ |
| Estimated free float (%) | 35.83 |
| Market Capitalisation (RM'm) | 18,532.88 |
| 52-wk price range | RM0.63 - RM11.9 |
| Beta vs FBM KLCI (x) | 1.57 |
| Monthly volatility (%) | 16.48 |
| 3-mth average daily volume (m) | 29.73 |
| 3-mth average daily value (RM'm) | 222.04 |
| Top Shareholders (%) | |
| SUPERMAX H SDN BHD | 38.38 |
| Thai Kim Sim | 22.05 |
| Norges Bank | 2.39 |

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**Potential special dividend in store.** We notice that Supermax's treasury shares increased to 212.3 million from 101.9 million in FY20 and it is possible that the shares could be paid out as dividends. Topping that with Supermax improving operating cash flow and cashpile, we think that there is a possibility that the company may reward shareholders with a potential special dividend.

**Maintain BUY with an unchanged TP of RM13.83.** We reiterate our **BUY** recommendation on **Supermax** as valuation is still very attractive at current level. We make no changes to our assumptions and earnings estimates following the briefing. Our **TP of RM13.83** is based on 18.0x FY22F EPS of 13.3 sen. The 18.0x PER is based on its 10-year average. Dividend yield based on FY21F is estimated at 8.8% and FY22F at 4.3%, which is also attractive.

## INVESTMENT STATISTICS

| **Financial year ending 30th June (in RM'm, unless otherwise stated)** | **2020A** | **2021E** | **2022F** | **2023F** | **2024F** |
|---|---|---|---|---|---|
| **Revenue** | **2,131.8** | **7,848.9** | **7,209.6** | **7,001.9** | **6,971.9** |
| Cost of goods sold | (1,444.3) | (2,004.0) | (4,292.0) | (4,518.4) | (4,499.1) |
| **Gross profit** | **687.5** | **5,844.9** | **2,917.6** | **2,483.4** | **2,472.8** |
| Finance costs | (17.1) | (62.8) | (57.7) | (56.0) | (55.8) |
| **PBT** | **688.5** | **5,816.8** | **2,891.8** | **2,458.3** | **2,447.8** |
| Taxation | (153.0) | (1,745.0) | (867.5) | (712.9) | (685.4) |
| **PATANCI** | **535.5** | **4,061.3** | **2,014.6** | **1,736.1** | **1,753.1** |
| PBT Margin (%) | 32.3 | 74.1 | 40.1 | 35.1 | 35.1 |
| PATANCI Margin (%) | 25.1 | 51.7 | 27.9 | 24.8 | 25.1 |
| EPS (sen) | 40.2 | 154.9 | 76.9 | 66.2 | 66.9 |
| EPS Growth (%) | 756.0 | 285.4 | (50.4) | (13.8) | 1.0 |
| PER (x) | 17.6 | 4.6 | 9.2 | 10.7 | 10.6 |
| Dividend (sen) | 23.6 | 62.0 | 30.7 | 20.5 | 21.4 |
| Dividend Yield (%) | 3.3 | 8.8 | 4.3 | 2.9 | 3.0 |

**Dividend paid in treasury shares*
*Source: Company, MIDFR*

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(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER



| **MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| HOLD | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology