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Supermax SUPM.KL SUCB MK

EQUITY: HEALTH CARE & PHARMACEUTICALS

3QFY21 earnings call takeaways

Quick Note

Rating Remains	Buy
Target price Remains	MYR 8.39
Closing price 05 May 2021	MYR 5.57

Supermax hosted a 3QFY21 earnings call earlier today. To recap, the quarter's total revenue/core profit of MYR1.94bn/MYR1.04bn were up 4x/13x y-y, as resurgence of COVID-19 in several countries spurred exceptionally high demand, and thus ASPs, in 3QFY21. The group also realized the full quarter's contribution from its Plant 12 Block B (2.2bn pcs pa), which commenced in 2QFY21, but pointed out that there was loss of production output at its Meru plants in Feb 2021 due to COVID-19 cases. The latter led to both revenue/core earnings declining 3% q-q due to partial shutdown for sanitization. Below are the key takeaways from the call:

- ASPs have peaked in this quarter. Blended ASP per 1,000 pcs for Jan/Feb/Mar was USD84.6/87.65/89.2. Supermax has orders booked until the end of this year with advance payment (30%-50% of order value in some cases) collected. Its contractual orders in hand will help avoid any drastic fall in ASPs for the rest of the year as spot prices have gone below contracted prices now. Currently, only 5% of its capacity is allocated to spot orders. Apr-June quarter blended ASP is likely to be in USD80-110 range, while spot prices are already at USD70-80 range.
- Any order cancellations for the rest of the year will likely be mitigated by the fact that most of its orders deal directly with end-customers. Current order cancellations are being seen among independent distributors but Supermax sells directly to end customers through its own distribution centres. Currently, income share of manufacturing/distribution stands at 65%/35% at Supermax. However, any new contracts will likely be negotiated on prevailing spot prices.
- Management attributes pressure on ASP to new glove manufacturers emerging, especially in China, which are fast increasing their capacity and selling at lower prices in order to gain market share. But management is confident that once ASPs have come down enough, the profitability of these new players will suffer because of higher production cost (especially the price of natural gas) in China as compared to Malaysia.
- Due to shutdown in February caused by COVID-19 cases among workers, management estimates a revenue loss of ~MYR330mn and gross profit loss of MYR249mn.
- Management noted that after stabilising in 3QFY21, raw material prices have started coming down in May by ~USD20-50 per tonne.
- On its US expansion, management reiterated receiving approval from a US state government for capital investment tax credit of USD482mn and currently exploring potential incentives with a different state in US. It has previously allocated ~USD550mn to invest in glove facilities in the US. Management pointed out that US, UK and Canada is where most of the customers are located and these locations also come with raw materials supply.
- In the long term, management sees intense competitive pressure from new players, which could bring EBITDA and net profit margins down to 40-50% and 30-40% respectively, which is still significantly above its profitability pre-COVID-19 level.
- On foreign labor issues, management said that they work with only a limited number of agents and hence it was easier to estimate the remediation payments, which were relatively low and have already been paid. Currently 55-60% workers are foreign. Share of local workers increased recently after the MCO (movement control order) imposed last year.

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- Management said they have exposure to India, where COVID-19 cases are currently at very high levels, through partners in different provinces, some of which did contact lens business with Supermax earlier.
- In terms of product mix in 3QFY21, NBR (nitrile based rubber) gloves formed 68% of volume, followed by NR (natural rubber) gloves at 25% and 5%/2% coming from NR latex and surgical gloves respectively.
- Management said that before COVID-19 started, 40% of its volume went to own distribution centres under OBM, followed by 30% to independent distributors in over 165 countries under OBM and 30% to OEM customers. This changed post March 2020 with 58% going to own distribution centres, 40% to independent distributors in over 165 countries under OBM and 2% to OEM customers, especially to the big US distributors. Once demand starts to normalise management expects this mix to return to pre-COVID-19 status.
- Management reiterated its capacity growth target of reaching 48bn pcs pa by end-2022 (from ~26bn pcs currently). Plant 12 was fully commissioned in 4QCY20 and plant 13 to 17 are currently under development.
- Secondary listing at Singapore exchange has been postponed. The company may still do some shares buy back due to availability of cash in hand and will consider distributing its existing treasury shares of 103mn as stock bonus as well.

Appendix A-1

Analyst Certification

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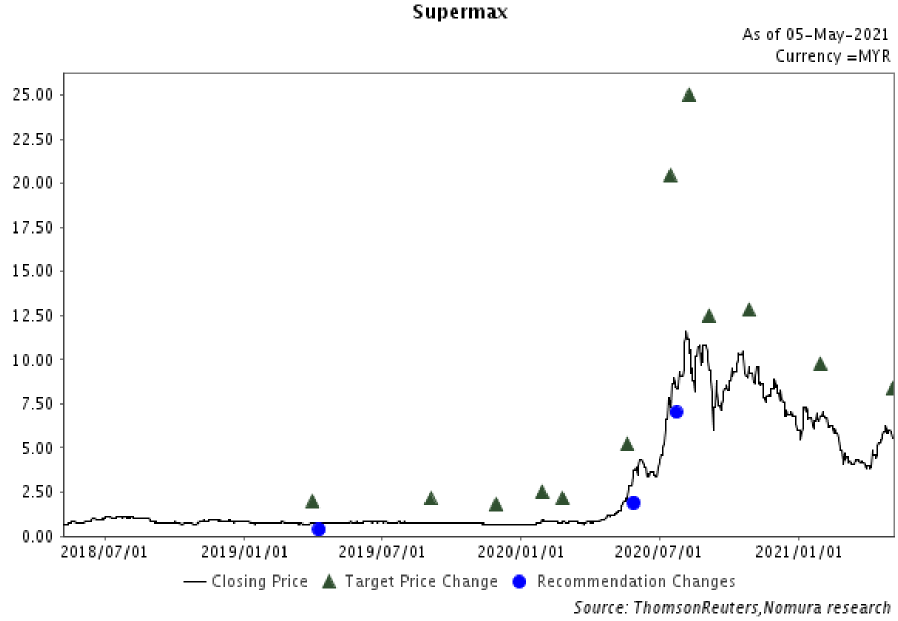
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Supermax	SUCB MK	MYR 5.57	05-May-2021	Buy	N/A	

Supermax (SUCB MK) **MYR 5.57 (05-May-2021)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
05-May-21		8.39	5.57
30-Jan-21		9.79	6.80
27-Oct-20		12.84	9.57
04-Sep-20		12.50	9.39
10-Aug-20		25.00	10.37
15-Jul-20	Buy		7.37
15-Jul-20		20.42	7.37
20-May-20	Neutral		2.25
20-May-20		5.26	2.25
25-Feb-20		2.15	0.81
28-Jan-20		2.52	0.91
29-Nov-19		1.84	0.66
03-Sep-19		2.11	0.71
01-Apr-19	Buy		0.73
01-Apr-19		2.00	0.73

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of MYR8.39 is derived from ascribing a target CY22F P/E of 17.5x (+2SD above pre-Covid-19 long term mean). The benchmark index for the stock is KLCI Malaysia.

Risks that may impede the achievement of the target price Key downside risks to our rating are fluctuations in raw material prices and USD/MYR rate, as well as development of COVID-19 vaccine, which could impact the rubber gloves demand in the long term.

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