

Supermax Corporation Berhad

TP: RM12.33 (+74.2%)

Outlook Still Rosy

Last Traded: RM7.08

Buy

Tan Kong Jin

Tel: +603-2167 9729

kjtan@ta.com.my

www.taonline.com.my

Below are key takeaways from Supermax 2QFY21 results conference call:-

- To recap, the increase in raw material cost (Nitrile butadine rubber, NBR) and sales of gloves (tier 4 prices) at predetermined ASPs (locked in April-July 2020) caused Supermax's 2QFY21 PAT margin to decrease by 5.4p.p QoQ to 53.0%. Note that nitrile glove ASP under Supermax's tier 4 pricing, supplying mainly to governments and hospitals, have remained stagnant over the past 4 months at USD220/1000 gloves. Positively, the group has revised its ASP higher recently and eliminated all "middleman" costs and these would help to mitigate the rise in NBR and packaging costs. Having said that, management expects PAT margin to maintain at circa-50% over the next 1.5-2 years.
- The demand for medical gloves is expected to remain robust, which would exceed the current supply in the market. As such, management expects higher earnings over the next few quarters on the back of higher ASP and additional production capacity.
- The group is currently building 5 glove plants concurrently which are targeted for completion by 2022. P13 (3.8bn), P14 (3.8bn), P15 (3.8bn), P16 (5.5bn), P17 (5.5bn) will add additional 22.2bn gloves to its capacity of estimated 26.2bn gloves by end-22.
- On dividend, Supermax has only paid 3.8sen per share versus its EPS of 71.8sen for 1HFY21. Note that Supermax has about 103mn treasury shares and we believe a portion of it will be distributed to shareholders as share dividends. Besides that, we also expect the group to pay a second interim dividend and a special dividend in FY21. In our forecast, we estimate the company to pay 85.0sen per share in FY21, representing a dividend yield of 12.0%.
- There are no reported Covid-19 cases at Supermax's manufacturing plants. The group will continue to take preventive measures like social distancing, PPE gears for its workers and segregating the workers in packaging department and production workers to mitigate the risk.

Impact

- We raise our FY21-FY23 earnings by 8.2%/15.3%/16.2% after increasing our ASP assumptions by 9%. Note that our ASP assumptions are USD81.1/USD64.9/USD43 per 1000 pieces for FY21/FY22/FY23.

Valuation & Recommendation

- Reiterate Buy on Supermax with an unchanged TP of RM12.33/share based on 16.0x CY22 EPS.

Share Information

Bloomberg Code	SUCB MK
Stock Code	7106
Listing	Main Market
Share Cap (mn)	2721.0
Market Cap (RMmn)	19,262.0
52-wk Hi/Lo (RM)	11.954/0.636
12-mth Avg Daily Vol ('000 shrs)	49,026.3
Estimated Free Float (%)	61.7
Beta	1.6

Major Shareholders (%)

Supermax Holdings Sdn Bhd - 38.3

Forecast Revision

	FY21	FY22
Forecast Revision (%)	8.2	15.3
Net profit (RMmn)	4111.8	2653.6
Consensus	3806.3	2193.0
TA's / Consensus (%)	108.0	121.0
Previous rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net gearing (x)	Net cash	Net cash
ROAA (%)	87.2	37.1
ROAE (%)	170.2	65.4
NTA/Share (RM)	1.2	1.8
Price/ NTA (x)	5.8	3.9

Share Performance (%)

Price Change	SUCB	FBM KLCI
1 mth	17.8	(2.9)
3 mth	(18.8)	7.7
6 mth	(21.8)	(1.5)
12 mth	713.2	3.2

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Earnings Summary

P&L

YE June 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,538.2	2,131.8	7,811.4	7,215.0	5,704.3
EBITDA	247.4	747.8	5,468.7	3,723.1	2,243.7
Dep. & amortisation	(61.7)	(61.7)	(71.0)	(98.7)	(130.3)
EBIT	185.7	686.1	5,397.7	3,624.4	2,113.5
Net finance cost	(18.9)	(15.7)	(23.4)	(20.0)	(19.8)
Share of associates	5.5	18.1	23.6	16.5	9.2
EI	0.0	0.0	0.0	0.0	0.0
PBT	172.4	688.6	5,397.9	3,620.9	2,102.9
Taxation	(49.3)	(153.0)	(1,203.7)	(916.1)	(532.0)
MI	0.0	(10.0)	(82.4)	(51.2)	(29.8)
Net profit (-MI)	123.1	525.6	4,111.8	2,653.6	1,541.1
Adj EPS (sen)	4.5	19.3	151.1	97.5	56.6
Adj DPS (sen)	1.8	7.5	85.0	39.8	23.1

Ratios

YE June 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
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Valuations

PER (x)	156.5	36.6	4.7	7.3	12.5
Dividend yield (%)	0.2	1.1	12.0	5.6	3.3
PBV (x)	17.0	12.0	5.7	3.8	3.2

Profitability ratios

ROAE (%)	11.5	38.8	170.2	65.4	28.9
ROAA (%)	7.0	20.6	87.2	37.1	17.9
EBITDA margin (%)	16.1	35.1	70.0	51.6	39.3
PBT margin (%)	11.2	32.3	69.1	50.2	36.9
PAT margin (%)	8.0	24.7	52.6	36.8	27.0

Liquidity ratios

Current ratio (x)	1.1	1.3	1.7	2.0	2.2
Quick ratio (x)	0.8	1.1	1.6	1.8	2.0

Leverage ratios

Total liabilities/equity (x)	0.6	1.0	0.8	0.6	0.5
Net debt/equity (x)	0.2	(0.5)	(1.0)	(0.8)	(0.7)

Growth ratios

Sales (%)	17.9	38.6	266.4	(7.6)	(20.9)
Pretax (%)	6.5	299.4	683.9	(32.9)	(41.9)
Earnings (%)	15.4	326.9	682.3	(35.5)	(41.9)
Total assets (%)	8.4	76.5	90.0	31.3	12.5

Balance Sheet

YE June 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	965.6	1,085.6	1,321.8	2,023.1	2,392.8
Investments in associates	207.1	225.3	248.8	265.3	274.6
Intangible assets	28.7	28.7	28.7	28.7	28.7
Others	5.5	1.6	2.6	2.6	2.6
LT assets	1,207.0	1,341.2	1,601.9	2,319.7	2,698.7
Inventories	181.9	252.8	362.9	520.1	693.5
Trade receivables	173.8	247.4	271.2	820.6	645.3
Cash	173.8	1,180.8	3,699.4	4,198.4	4,811.9
Others	106.1	229.3	243.2	252.5	273.1
Current assets	635.7	1,910.4	4,576.7	5,791.6	6,423.7
Total assets	1,842.7	3,251.6	6,178.6	8,111.4	9,122.4

Trade payables	217.5	175.7	287.4	536.8	536.9
ST borrowings	330.5	226.1	219.6	193.1	216.3
Others	53.9	1,075.6	2,166.5	2,141.2	2,141.2
Current liabilities	601.9	1,477.5	2,673.5	2,871.1	2,894.3

LT borrowings	61.0	102.1	67.7	128.7	144.2
Others	45.6	63.7	87.2	87.2	87.2
LT liabilities	106.6	165.7	154.8	215.9	231.3

Share capital	340.1	340.1	340.1	340.1	340.1
Reserves	783.6	1,246.2	2,905.7	4,528.6	5,471.2
Shareholders' funds	1,123.7	1,586.3	3,245.8	4,868.7	5,811.2
MI	10.5	22.1	104.5	155.7	185.5

Total liabilities and equity	1,842.7	3,251.6	6,178.6	8,111.4	9,122.4
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Cash Flow

YE June 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
PBT	172.4	688.6	5,397.9	3,620.9	2,102.9
Dep. & amortisation	61.7	61.7	71.0	98.7	130.3
Changes in WC	30.5	636.7	(22.2)	(457.1)	2.0
Tax paid	(38.1)	(61.9)	(1,203.7)	(916.1)	(532.0)
Others	8.5	(31.2)	(0.2)	3.5	10.6
Operational cash flow	235.1	1,293.9	4,242.8	2,349.9	1,713.7
Capex	(112.2)	(192.0)	(500.0)	(800.0)	(500.0)
Others	0.0	(0.1)	23.6	16.5	9.2
Investing cash flow	(112.2)	(192.1)	(476.4)	(783.5)	(490.8)
Dividend paid	(32.8)	(63.4)	(2,313.1)	(1,081.9)	(628.3)
Net change in debts	(44.4)	0.0	39.4	34.5	38.7
Others	(26.8)	(81.5)	1,025.9	(20.0)	(19.8)
Financial cash flow	(104.0)	(144.9)	(1,247.8)	(1,067.4)	(609.5)
Net cash flow	18.8	957.0	2,518.6	499.0	613.4
Opening cash flow	145.2	173.8	1,180.8	3,699.4	4,198.4
Forex	9.8	50.0	0.0	0.0	0.0
Closing cash flow	173.8	1,180.8	3,699.4	4,198.4	4,811.9

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, February 03, 2021, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD(14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my