6 May 2021

Outthink. Outperform.

AFFIN HWANG CAPITAL

Result Note | **RM5.57 @ 05 May 2021**

"The decline in qoq profit was mainly due to lower sales volume as SUCB was operating at a lower capacity in Feb"

Share price performance

	1M	3M	12M
Absolute (%)	45.4	-16.5	329.7
Rel KLCI (%)	46.2	-16.3	279.0

	BUY	HOLD	SELL
Consensus	11	-	-

Source: Bloomberg

Stock Data

Sector	Rubber Products
Issued shares (m)	2,617.6
Mkt cap (RMm)/(US$m)	14580.2/3539.9
Avg daily vol - 6mth (m)	29.0
52-wk range (RM)	1.25-11.95
Est free float	35.8%
Stock Beta	1.55
Net cash/(debt) (RMm)	3,412.18
ROE (FY22E)	47.0%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Supermax Holdings	38.4%
Thai Kim Sim	22.1%

Source: Affin Hwang, Bloomberg

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Supermax (SUCB MK)

BUY (maintain)
Up/Downside: +32.9%

Price Target: RM7.40
Previous Target (Rating): RM10.90 (BUY)

Lower sales volume due to production halt

- **Although Supermax reported a decent performance for 9MFY21, as core-PATAMI of RM2,911m was up by more than 20x, this came in below our expectation, but within consensus**
- **We believe that the miss was due to our having underestimated the duration of the production halt in February, which is estimated to be around 5-10% of the production volume for the quarter**
- **We are lowering our earnings forecast for FY21 by 7% to factor in the FY3Q performance and lowering our TP to RM7.40 while maintaining our BUY call**

Underestimated the production halt

The flattish earnings qoq came as a negative surprise to us, as we had underestimated the impact of the production halt at SUCB's factories due to the Covid19 outbreak, which resulted in revenue declining by 3.1% qoq. The increase in ASPs was not sufficient to compensate for this. Given that production has resumed, we are expecting overall sales volume to continue growing in 4QFY21E. SUCB has also added around 8% capacity recently. Nevertheless, the overall performance is still commendable, as 3QFY21 EBITDA at RM1.4bn is still significantly higher than the RM107m achieved a year ago.

Management believes that ASPs might have peaked

Interestingly, management's guidance on ASP was different from its peers, as they believe that ASPs have peaked and have since fallen by around 15-25%. Management also guided that prices are likely to fall gradually as demand for spot orders has slowed, which we believe is due to the easing of cases in the US. We believe that not all glove makers are facing similar issues, as some glove makers are still selling below the market (peak) price, and hence there is still room for them to raise prices. We have already factored in a 5-10% decline in ASP by end of the year, and a 3-5% mom decline in ASP for 2022.

Maintain BUY with a lower TP at RM7.40

We are lowering our EPS forecast for FY21 by 7% to factor in the performance for 3QFY21E. We are, however, pegging valuation to a lower PE multiple of 10.6x (at -1SD of historical average), which is lower than the previous 15.6x (at historical average), as investors remain sceptical on the ASP trend, and so lower our TP to RM7.40 (from RM10.90). Key downside risks are: 1) unexpected disruption to its production line, and 2) spike in volatility in the US$/RM. Reiterate BUY due to its undemanding valuation.

Earnings & Valuation Summary

FYE 30 Jun	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,489.3	2,131.8	7,661.1	5,932.9	3,782.0
EBITDA (RMm)	224.1	763.6	5,750.7	3,533.6	1,661.8
Pretax profit (RMm)	172.6	688.6	5,712.8	3,495.9	1,624.5
Net profit (RMm)	123.8	525.6	4,036.3	2,470.0	1,323.1
EPS (sen)	4.5	19.3	148.4	90.8	48.6
PER (x)	122.5	28.8	3.8	6.1	11.5
Core net profit (RMm)	117.3	525.6	4,036.3	2,470.0	1,323.1
Core EPS (sen)	4.3	19.3	148.4	90.8	48.6
Core EPS growth (%)	9.9	348.2	668.0	(38.8)	(46.4)
Core PER (x)	129.2	28.8	3.8	6.1	11.5
Net DPS (sen)	4.5	4.7	68.0	41.6	19.8
Dividend Yield (%)	0.8	0.8	12.2	7.5	3.6
EV/EBITDA	68.6	18.7	2.2	3.2	6.2
Chg in EPS (%)			-7.0	-	-
Affin/Consensus (x)			1.0	1.0	0.9

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE 30 Jun (RMm)	3Q FY20	2Q FY21	3Q FY21	QoQ % chg	YoY % chg	9M FY20	9M FY21	YoY % chg	Comments
Revenue	**447.2**	**1,998.6**	**1,937.5**	**(3.1)**	**333.2**	1,202.7	5,288.7	339.7	The decline in revenue qoq was due to lower sales volume due to the production halt in Feb
Op costs	(339.9)	(586.5)	(516.1)	(12.0)	51.8	(987.4)	(1,402.0)	42.0	
EBITDA	**107.3**	**1,412.1**	**1,421.4**	**0.7**	**1,224.5**	**215.3**	**3,886.7**	**1,705.6**	
EBITDA margin (%)	*24.0*	*70.7*	*73.4*	*+2.7 ppts*	*+49.4 ppts*	*17.9*	*73.5*	*+55.6 ppts*	Margin improved despite the lower volume, as SUCB continue to raise ASP
Depn and amort	(13.1)	(15.5)	(19.8)	27.6	51.0	(38.5)	(49.3)	28.1	Higher depreciation yoy due to the new lines
EBIT	**94.2**	**1,396.6**	**1,401.7**	**0.4**	**1,387.5**	**176.8**	**3,837.4**	**2,070.7**	
EBIT margin (%)	*21.1*	*69.9*	*72.3*	*+2.5 ppts*	*+51.3 ppts*	*14.7*	*72.6*	*+57.9 ppts*	
Int expense	(3.5)	(2.0)	(1.8)	(10.9)	(50.2)	(12.3)	(6.1)	(50.2)	
JV & Associates	4.6	2.6	17.4	574.0	279.7	5.1	32.6	537.4	
EI	-	-	(75.0)	n.m	n.m	-	(75.0)	n.m	Contribution to M'sia vaccine fund
Pretax profit	**95.3**	**1,397.2**	**1,342.3**	**(3.9)**	**1,308.8**	**169.5**	**3,788.8**	**2,134.6**	Flow through from EBITDA
Tax	(22.9)	(317.5)	(320.0)	0.8	1,295.5	(42.2)	(874.3)	1,970.8	
Tax rate (%)	*24.1*	*22.7*	*23.8*	*+1.1 ppts*	*-0.2 ppts*	*23.1*	*22.6*	*-0.5 ppts*	
MI	(1.3)	(20.2)	(17.1)	(15.4)	1,223.7	(1.4)	(60.3)	4,325.6	
Net profit	**71.1**	**1,059.5**	**1,005.2**	**(5.1)**	**1,314.7**	**126.0**	**2,854.2**	**2,165.8**	
EPS (sen)	2.6	38.9	36.9	(5.1)	1,314.7	4.6	104.9	2,165.8	
Core net profit	**71.1**	**1,059.5**	**1,062.3**	**0.3**	**1,395.1**	**126.0**	**2,911.3**	**2,211.2**	Below our but within consensus expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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