

Supermax SUPM.KL SUCB MK

EQUITY: HEALTH CARE & PHARMACEUTICALS

2QFY21 earnings call takeaways

Quick Note

Supermax hosted a briefing for 2QFY21 earnings announced last Friday. To recap, 2QFY21 revenue of ~MYR2bn was up 418% y-y and 48% q-q due to higher ASPs and commissioning of Plant 12 (Block B). As a result, profitability shot up with EBITDA margin of >70% (10% in 2QFY20) and, overall, core profit of MYR1.07bn was up 52x y-y and 38% q-q. Below are the key highlights from the briefing today:

- Blended ASPs during the quarter stood at USD78/USD80/USD85 per 1,000 pcs in Oct/Nov/Dec, implying a 2.5-6.8% m-m increase every month. This is 290-306% higher than pre-COVID-19 ASPs. In comparison, July/Aug/Sep ASPs stood at USD65/USD70/USD73.
- Management pointed out that ASP increases are now more in line with raw material prices, which have been trending up for the past several months. In January, NBR latex prices were up ~8% vs December but have stabilized now in February. This may allude to the re-adoption of the cost-pass through mechanism in the industry, as we had earlier expected.
- Higher raw material prices also affected EBITDA margin of ~72% vs 76% in 1QFY21, as ASPs for end consumer have begun to stabilize. Management said that as end consumers or tier 4 customers' ASPs stabilize, manufacturing margins may begin to retrace due to rising raw material costs. However, due to high demand that is still outpacing supply, additions in ASPs will help profits grow on an absolute basis. Management expects ~50% PAT margin in the near term.
- Share of profits from associates dropped during the quarter to MYR2.6mn vs MYR12.6mn in 1QFY21 because some countries where these associates operate started re-imposing import duties to the tune of 35%, which were abolished last year due to the COVID-19 emergency. Going forward, management expects this to be compensated by corresponding ASP increases.
- Capacity growth plans look on track, as Supermax currently has five new plants (seven blocks) under construction. Six of seven planned blocks are currently under construction, while the seventh, which is an old factory, is being used for construction worker accommodations. With these five new plants, the company intends to expand its production capacity from ~26bn pcs p.a. currently to 48.4bn pcs by end-2022 with capex of ~MYR1.39bn.
- On the new plant in the US, management said that it expects to sign an agreement with state government and local communities by Apr-2021 for the necessary infrastructure support. To recap, Supermax has allocated USD550mn for its plant 18 in the US and expects to start production by 1H22. Its plan for a GBP50mn plant 19 in the UK is seeing delays owing to new travel restrictions imposed by the local authority.
- Management also said that it has not seen any COVID-19 cases among its employees and are taking several measures to ensure social distancing.
- After announcing its first interim dividend of MYR0.038 per share in 2QFY21, management expects to announce another interim dividend and a one-time special dividend in 2H21F along with share dividends. Management said that the company currently has ~MYR3.7bn cash and ~100mn treasury shares on its balance sheet that can be used to pay these dividends.

Rating Remains	Buy
Target price Remains	MYR 9.79
Closing price 29 January 2021	MYR 6.80

Research Analysts

Malaysia Health Care & Pharmaceuticals

Heng Siong Kong - NSM

hengsiong.kong@nomura.com
+603 2027 6894

Rahul Dohare - NSFSP

rahul.dohare@nomura.com
+91 22 672 34560

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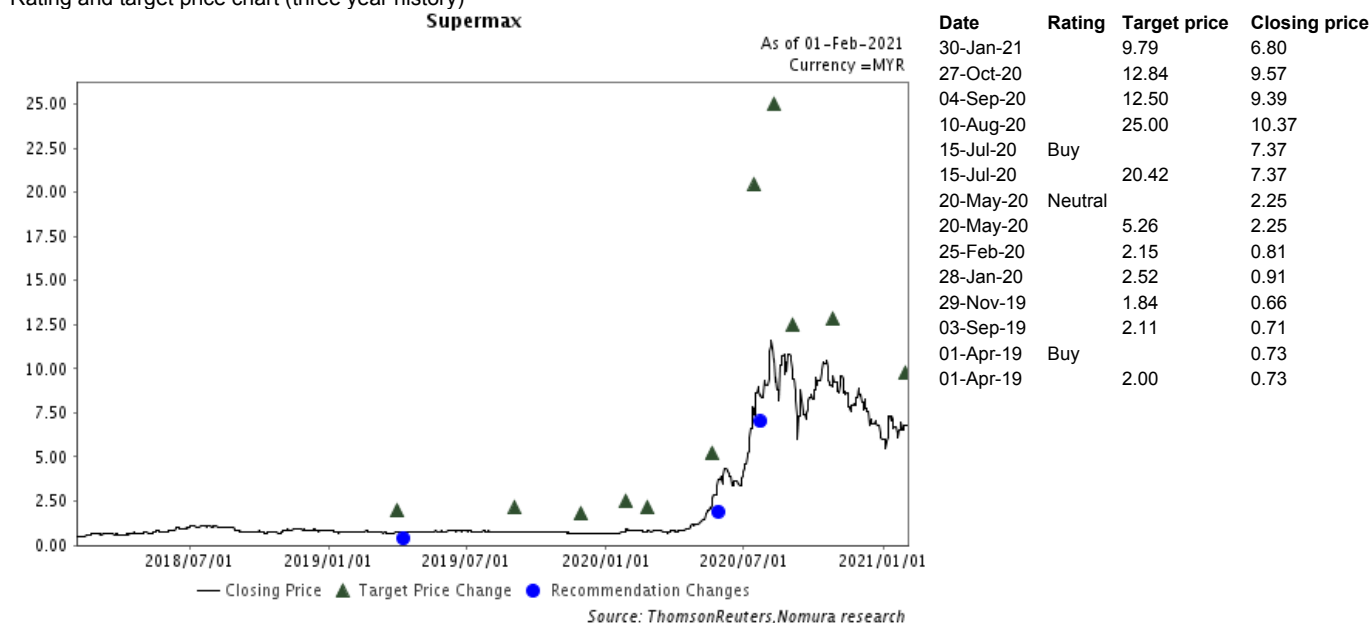
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Supermax	SUCB MK	MYR 6.80	29-Jan-2021	Buy	N/A	

Supermax (SUCB MK)

MYR 6.80 (29-Jan-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



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

Valuation Methodology Our TP of MYR9.79 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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As at 31 December 2020.

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