

02 February 2021

# Supermax Corporation

Solid 1HFY21, Overseas Execution Risk

By Raymond Choo Ping Khoon | [pkchoo@kenanga.com.my](mailto:pkchoo@kenanga.com.my)

1HFY21 PATAMI of RM1,849m (+33-fold YoY) came in above expectations at 59%/56% of our/consensus full-year forecasts. The variance to our estimate is due to higher-than-expected ASP. We upgrade FY21E/FY22E net profit by 27%/16%. The group highlighted that i) ASP in 2QFY21 is not the highest yet and; ii) although the group is presently in an oversold position, it believes that glove demand will moderate following the roll-out of the Covid-19 vaccines albeit gradually rather than dropping sharply due to the structural change in consumption from new customers. Due to the diminishing ASP visibility and execution risk in its overseas venture, we downgrade our TP to RM7.80 based on 12x CY22E EPS of 65.0 sen as we roll over our valuation base from CY21 to CY22. Reiterate OP.

**Key results' highlights.** QoQ, 2QFY21 revenue rose 48%, largely due to higher ASP and volume sales boosted by full-quarter contribution from Plant 12, while 2QFY21 EBITDA rose 33%. However, EBITDA margin fell 8%pts to 71% from 79% which we can only guess could be due to a combination of high input raw material nitrile cost, one-time donation to the Government and workers remediation fee. Note that other cost and expenses in 2QFY21 rose by an additional RM270m QoQ. 2QFY21 PATAMI rose 34% to RM1,060m. A 1<sup>st</sup> interim DPS of 3.8 sen was proposed which came in line with our expectation. YoY, 1HFY21 PATAMI rose 33-fold to RM1,849m due to revenue growth (+343%) boosted by higher ASP.

**Key points to highlight in 2QFY21 results note.** In the quarterly results note, the group highlight that ASP in 2QFY21 is not the highest yet. However, it believes that glove demand and consumption will moderate following the roll-out of the Covid-19 vaccines albeit gradually rather than dropping sharply due to the structural change in consumption from new customers coupled with greatly heightened healthcare and hygiene awareness. Looking forward, we are concerned about execution risk in its overseas venture. To recap, Supermax is venturing into the United States of America (USA) to manufacture medical gloves and other personal protective equipment (PPE) with an initial capital outlay of USD100m (RM405m). The capex earmarked for this venture is USD300m for Phase 1 and USD250m for Phase 2. Plant 18 in USA would kick start in 1H 2021 and targeted to commission in stages starting 1H 2022. The group have shortlisted several suitable manufacturing sites for this Plant 18 in the US and is currently working with state and local county there for various infrastructural support. As for Plant 19 in the United Kingdom, the group is presently studying the suitability of the manufacturing site. Plant 12 comprises Block A and Block B (total 4.4b pieces) have been completed following the commissioning of Block B of in 2QFY21, adding 2.2b pieces bringing installed capacity to 26.2b (+13.4%). It is concurrently building five glove manufacturing plants scheduled for completion progressively between now and 2022 which will add 22.3b new capacity and raising total capacity to 48b by end-2022.

**Raised FY21E/FY22E net profit by 27%/16%** after hiking our ASP from USD65/1,000 and USD45/1,000 pieces to USD70/1,000 pieces and USD50/1000 pieces, respectively.

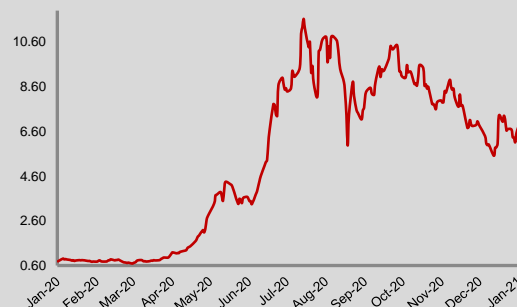
**Reiterate OP.** Due to lack of ASP visibility and overseas execution risk of the US venture, we downgrade our TP from RM9.05 to RM7.80 based on 12x CY22E EPS (5-year forward historical mean) as we roll over our valuation base from CY21 to CY22. We like Supermax for its OBM model which enables it to extract higher margin from distributor prices, compared to the OEM model at lower factory prices.

**Key risks** to our call include: (i) lower ASP occurring sooner than expected since it is unlikely to be sustainable over the long run, and (ii) faster-than-expected vaccine roll-outs.

**OUTPERFORM** ↔

Price: **RM6.80**  
Target Price: **RM7.80** ↓

## Share Price Performance



KLCI	1,566.40
YTD KLCI chg	-3.7%
YTD stock price chg	13.1%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	17,799.9
Shares Outstanding	2,617.6
52-week range (H)	11.95
52-week range (L)	0.64
3-mth avg. daily vol:	30,533,040
Free Float	36%
Beta	1.6

## Major Shareholders

Supermax Holdings SdnBhd	38.3%
Norges Bank	2.4%

## Summary Earnings Table

FY Jun (RM m)	2020A	2021E	2022E
Turnover	2131.8	7553.0	5693.8
PBT	688.6	5474.1	2945.6
Net Profit (NP)	525.6	4015.3	2153.0
<b>Core NP (CNP)</b>	525.6	4015.3	2153.0
Consensus NP		3324.9	2035.1
Earnings Revision	-	+27%	+16%
EPS (sen)	40.2	147.6	79.1
EPS growth (%)	328.6	267.2	(46.4)
NDPS (sen)	47.0	48.7	26.1
BVPS (RM)	0.58	1.57	2.10
PER (X)	16.9	4.6	8.6
PBV (X)	11.7	4.3	3.2
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	6.9	7.2	3.8



02 February 2021

## Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Jun (RM m)	FY21	FY21	Chg %	FY20	Chg %	FY20	FY21	Chg %
Turnover	1,998.6	1,352.5	47.8	385.5	418.5	755.4	3,351.2	343.6
EBITDA	1,414.7	1,065.7	32.7	59.3	2,286.0	108.5	2,480.4	2,186.8
PBT	1,397.2	1,049.2	33.2	41.8	3,240.4	74.3	2,446.5	3,193.9
Net Profit (NP)	1,059.5	789.5	34.2	30.2	3,412.2	54.9	1,849.0	3,267.2
EPS (sen)	39.0	29.0	34.2	1.1	3,412.2	2.0	68.0	3,267.2
EBITDA margin (%)	70.8	78.8		15.4		14.4	74.0	
PBT margin (%)	69.9	77.6		10.9		9.8	73.0	
Effective tax rate (%)	22.7	22.6		28.2		26.0	22.7	

Source: Bursa Malaysia, Kenanga Research

The rest of the page is intentionally left blank

02 February 2021

### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>RUBBER GLOVES</b>																	
HARTALEGA HOLDINGS BHD	12.86	44,079	Y	03/2021	181%	36%	655%	54.5%	98.5	13.3	8.6	16.9	11.3	102%	4.5%	21.00	OP
KOSSAN RUBBER INDUSTRIES	4.45	11,361	Y	12/2020	72.9%	60%	358%	111%	50.6	11.1	5.2	8.0	5.2	56.8%	2.2%	7.50	OP
SUPERMAX CORP BHD	6.80	17,799	Y	06/2021	254%	-25%	674%	-46%	16.9	4.6	8.6	11.7	4.3	137%	7.2%	7.80	OP
TOP GLOVE CORP BHD	6.74	54,079	Y	08/2021	205%	-39%	400%	-56%	29.5	5.9	13.4	11.0	6.2	135%	8.5%	8.50	OP

Source: Bloomberg, Kenanga Research

The rest of the page is intentionally left blank

02 February 2021

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)