

21 July 2020

Consumer Non-cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

1-for-1 Bonus Issue; Keep BUY

Target Price (Return): MYR21.80 (+19%)
 Price: MYR18.40
 Market Cap: USD5,573m
 Avg Daily Turnover (MYR/USD): 287m/66.9m

- **Keep BUY, with new DCF-derived MYR21.80 TP from MYR18.88, 19% upside with 1% FY20F (Jun) yield.** We are positive on Supermax's 1-for-1 bonus issue, as it will increase the stock's marketability and trading liquidity. Separately, we raise our earnings estimates and TP as a result of elevated ASP projections. Our new TP reflects 19x FY21F P/E, which is at a 35% discount from the sector average, due to its smaller market cap and lesser liquidity.
- **Supermax announced a 1-for-1 bonus issue yesterday.** The ex-date will be determined later. As the number of shares will effectively double, its share price will be adjusted downwards – divided by two after the ex-date. The company's justification for the corporate exercise is to enhance the stock's marketability and trading liquidity. The bonus issue's expected completion date is in 4Q20.
- **High number of new COVID-19 cases globally means glove demand remains high.** According to the World Health Organisation's Situation Report - 180, published on 18 Jul, new COVID-19 cases have reached a record of 259,848. We gather that four countries contributed to the increase in new cases – the US, Brazil, India, and South Africa. The stubbornly high number of new cases in these countries means that demand for gloves should stay high for an extended period. Gloves form a part of personal protective equipment, which is necessary to protect medical staff.
- **Supply further constrained by freeze on foreign workers.** According to a 22 Jun report in The Star, Minister of Human Resources Datuk Seri M Saravanan said: "There will be no new intake of foreign workers in all sectors until the year-end, as locals will be given priority to fill up vacancies". While glove makers have tried their best to hire more locals, we believe this is not enough to accommodate the surge in glove demand.
- **BUY, with a higher TP.** As the acute demand-supply mismatch continues, we gather that Supermax's ASP has increased further. We lift our FY20-22 earnings forecast by 0-69%, after increasing our ASP estimates. In the short term, 4QFY20 core earnings should show a significant improvement QoQ as ASP is trending upwards. Post COVID-19, the company's earnings growth outlook remains positive, as we expect the demand for gloves to continue its usual 8-10% growth YoY, as hygiene awareness improves around the world.
- **Key downside risks** are a safe and effective COVID-19 vaccine being made available globally faster-than-expected, lower-than-expected ASP, and a weaker-than-expected USD/MYR rate.

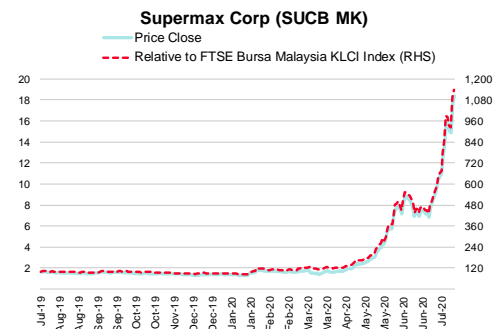
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1223.7	148.6	848.5	1304.6	1039.3
Relative	1223.7	143.1	836.0	1304.6	1043.5
52-wk Price low/high (MYR)					1.30 – 18.4



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	1,304	1,538	2,026	3,911	4,228
Recurring net profit (MYRm)	107	123	419	1,518	1,691
Recurring net profit growth (%)	-	15.5	240.4	261.9	11.4
Recurring P/E (x)	225.36	195.11	57.32	15.84	14.22
P/B (x)	23.7	21.4	16.9	9.7	6.5
P/CF (x)	135.65	102.26	37.75	12.95	13.29
Dividend Yield (%)	0.4	0.1	0.6	2.2	2.5
EV/EBITDA (x)	98.88	103.84	38.60	11.04	9.49
Return on average equity (%)	-	11.5	33.0	77.7	54.8
Net debt to equity (%)	28.5	19.2	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Malaysia	Recurring EPS	0.08	0.09	0.32	1.16	1.29
Consumer Non-cyclical	DPS	0.08	0.02	0.11	0.41	0.45
Supermax Corp	BVPS	0.78	0.86	1.09	1.91	2.82
SUCB MK	Return on average equity (%)	-	11.5	33.0	77.7	54.8
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	225.36	195.11	57.32	15.84	14.22
DCF-FCFE	P/B (x)	23.7	21.4	16.9	9.7	6.5
	FCF Yield (%)	0.5	0.5	2.0	7.1	6.9
Key drivers	Dividend Yield (%)	0.4	0.1	0.6	2.2	2.5
Our earnings forecasts are most sensitive to changes in:	EV/EBITDA (x)	98.88	103.84	38.60	11.04	9.49
i. Nitrile and latex glove volumes;	EV/EBIT (x)	119.28	128.93	44.41	11.56	9.93
ii. USD/MYR rate;						
iii. Raw material prices.						
Key risks	Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
i. A safe and effective COVID-19 vaccine being made available globally faster-than-expected;	Total turnover	1,304	1,538	2,026	3,911	4,228
ii. Lower-than-expected ASP;	Gross profit	430	510	992	2,604	2,836
iii. Weaker-than-expected USD/MYR rate.	EBITDA	244	232	613	2,030	2,236
	Depreciation and amortisation	(42)	(45)	(80)	(91)	(98)
	Operating profit	202	187	533	1,939	2,138
	Net interest	(14)	(20)	(3)	15	41
	Pre-tax profit	162	172	551	1,994	2,221
	Taxation	(52)	(49)	(129)	(469)	(522)
	Reported net profit	107	123	419	1,518	1,691
	Recurring net profit	107	123	419	1,518	1,691
Company Profile	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Supermax is one of the world's Big 4 glove makers. It produces both latex and nitrile gloves.	Change in working capital	57	31	132	255	53
	Cash flow from operations	177	235	637	1,856	1,809
	Capex	(59)	(112)	(150)	(150)	(150)
	Cash flow from investing activities	(55)	(112)	(141)	(124)	(99)
	Dividends paid	(76)	(33)	(126)	(455)	(507)
	Cash flow from financing activities	(126)	(104)	(95)	(439)	(551)
	Cash at beginning of period	156	145	174	584	1,887
	Net change in cash	(4)	19	401	1,293	1,159
	Ending balance cash	145	174	584	1,887	3,055
	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	145	174	584	1,887	3,055
	Tangible fixed assets	900	969	1,018	1,068	1,121
	Total investments	197	208	208	208	208
	Total assets	1,700	1,843	2,326	3,905	5,147
	Short-term debt	374	331	294	336	327
	Total long-term debt	62	61	129	121	114
	Total liabilities	677	708	897	1,413	1,469
	Total equity	1,023	1,134	1,429	2,493	3,678
	Total liabilities & equity	1,700	1,843	2,326	3,905	5,147
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	17.9	31.7	93.0	8.1
	Recurrent EPS growth (%)	0.0	15.5	240.4	261.9	11.4
	Gross margin (%)	33.0	33.2	49.0	66.6	67.1
	Operating EBITDA margin (%)	18.7	15.1	30.3	51.9	52.9
	Net profit margin (%)	8.2	8.0	20.7	38.8	40.0
	Capex/sales (%)	4.5	7.3	7.4	3.8	3.5
	Interest cover (x)	14.5	9.5	46.2	181.0	216.3

Source: Company data, RHB

Valuation

FCFF increased. In our DCF valuation, we have increased our FCFF assumptions – this is in line with the company’s better earnings prospects. This, in turn, is driven by a better ASP outlook, as demand-supply remains extremely tight.

Our DCF-derived MYR21.80 TP reflects a FY21 P/E of 19x. Our TP also implies a 35% discount against the sector average forward P/E – which is justified, due to its smaller market cap and lower liquidity.

For the discount factor, we have applied an 11-month discount to FY22 for the first cash flow to estimate the TP, as of Jul 2021, ie 12 months from now.

Figure 1: DCF valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	1,809	1,719	1,841	1,930	1,919	1,994	2,075	2,101	2,164	2,228	
+ Interest (1 - tax rate)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(155)	(159)	
FCFF	1,652	1,562	1,685	1,775	1,764	1,840	1,921	1,947	2,006	2,066	40,546
Discount factor	0.92	0.85	0.78	0.71	0.65	0.60	0.55	0.51	0.46	0.43	0.43
PV of FCFF	1,526	1,324	1,311	1,267	1,155	1,105	1,059	985	931	880	17,266
Risk-free	4.0%										
Beta	0.86										
Cost of Equity	9.2%										
WACC	8.2%										
Terminal growth	3.0%										
Enterprise value (MYRm)	28,810										
Cash	218										
- Debt	(473)										
Equity value (MYRm)	28,555										
No of shares (m)	1309.90										
Fair Value (MYR)	21.80										

Source: RHB

Figure 2: Key assumptions

Key assumptions	FY20F	FY21F	FY22F
Installed capacity (m ppa)	26,200	31,100	38,200
ASP change YoY	29%	88%	4%
Average USD/MYR	4.28	4.28	4.28
Utilisation rate	80%	90%	90%

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-14	Buy	18.9	15.9
2020-07-08	Buy	13.9	10.9
2020-06-02	Buy	10.5	7.6
2020-05-22	Buy	6.7	5.8
2020-05-21	Buy	6.1	5.4
2020-05-13	Buy	3.9	3.6
2020-03-15	Buy	1.9	1.7
2019-11-29	Neutral	1.5	1.3
2019-09-03	Neutral	1.6	1.5
2019-07-19	Buy	1.9	1.6
2019-01-08	Neutral	1.9	1.6

Source: RHB, Bloomberg

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