

EQUITY: HEALTH CARE & PHARMACEUTICALS

Solid end to the year

ASPs likely to rise further in subsequent quarters

4QFY20 review: Solid end to the year

Supermax reported 4QFY20 revenue/core earnings of MYR929.1mn/399.6mn respectively. Its FY20 core earnings registered MYR528.1mn, which we deem within our expectations but significantly above consensus estimates at 96%/132% of the forecasts. We attribute the strong 4QFY20 performance (on both y-y and q-q basis) to the increase in ASPs each month starting from March 2020 for both its manufacturing and distribution divisions owing to elevated demand due to COVID-19 outbreak. By the same token, 4QFY20 profitability margins and overall earnings base swung to an all-time high for the group. More importantly, management mentioned in an official press release that “the highest ASPs have not been reflected in this current quarter” and that it hopes to report healthier performance in the coming quarters. This is consistent with our view that ASPs remain on uptrend currently across the industry.

Other highlights

The group’s cash balance closed at MYR1.18bn as of June 2020, of which prepayment from customers accounted for MYR892.4mn (the company said its customers are paying 30%-50% deposits in advance to secure supply). We believe this is an indication of its relatively sturdy order book outlook as management expects demand to remain buoyant until mid-2021. Having accumulated over 68.9mn treasury shares, the group has proposed a 1-for-45 shares dividend. Upon distribution, we estimate that its treasury shares holding would reduce to 35-40mn shares. Supermax currently exports 55% of production under its own brands via own distribution centres and 40% through independent distributors. The remaining 5% is for OEM production. In terms of product segmentation, 72% is from nitrile gloves, followed by 18% from latex powder-free and 7% and 3% from powdered latex and surgical gloves respectively. The group is looking to build 5 new plants between now and 2022, which would increase its installed capacity to 48.4bn pcs pa (from 26.1bn currently).

Maintain Buy with TP revised to MYR25.00 (18% upside)

Factoring in the likely robust hike in ASPs over the near term to capitalize on the elevated demand, we raise FY21F-22F EPS by 20-25%. Pegging an unchanged 20x 2021F P/E, our TP now stands at MYR25.00. Maintain Buy. Key downside risks to our rating are: fluctuations in raw-material prices and USD/MYR rate, as well as potential development of a COVID-19 vaccine, could impact demand for gloves in the long term.

Year-end 30 Jun	FY20	FY21F		FY22F		FY23F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	2,132	4,403	5,199	4,028	4,957		5,316
Reported net profit (mn)	523	1,557	1,876	1,120	1,401		1,475
Normalised net profit (mn)	526	1,557	1,876	1,120	1,401		1,475
FD normalised EPS	40.10c	1.19	1.43	85.42c	1.07		1.13
FD norm. EPS growth (%)	289.6	182.4	256.9	-28.1	-25.3		5.3
FD normalised P/E (x)	52.9	–	14.8	–	19.8	–	18.8
EV/EBITDA (x)	37.9	–	10.6	–	13.7	–	12.7
Price/book (x)	17.5	–	11.1	–	8.7	–	7.1
Dividend yield (%)	1.0	–	3.4	–	2.6	–	2.7
ROE (%)	38.6	87.1	91.7	45.5	49.2		41.5
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash		net cash

Source: Company data, Nomura estimates

Rating Remains	Buy
Target price Increased from MYR 20.42	MYR 25.00
Closing price 10 August 2020	MYR 21.20
Implied upside	+17.9%
Market Cap (USD mn)	6,877.8
ADT (USD mn)	100.0

Research Analysts

Malaysia Health Care & Pharmaceuticals

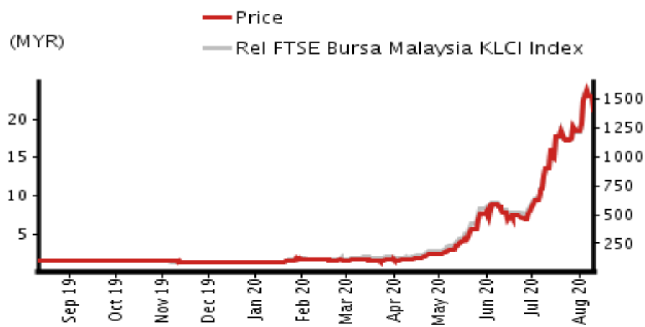
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Key Data on Supermax Corporation Berhad

Relative Performance Chart



Source: Thomson Reuters, Nomura

Performance

(%)	1M	3M	12M		
Absolute (MYR)	55.7	611.4	1,279.9	M cap (USDm)	6,877.8
Absolute (USD)	58.3	634.8	1,276.6	Free float (%)	60.2
Rel to FTSE Bursa Malaysia KLCI Index	56.5	597.2	1,282.2	3-mth ADT (USDm)	100.0

Income statement (MYRmn)

Year-end 30 Jun	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,538	2,132	5,199	4,957	5,316
Cost of goods sold	-1,070	-1,094	-1,927	-2,318	-2,535
Gross profit	468	1,038	3,271	2,639	2,781
SG&A	-323	-392	-753	-758	-794
Employee share expense	0	0	0	0	0
Operating profit	145	646	2,518	1,882	1,987
EBITDA	190	722	2,581	1,956	2,072
Depreciation	-45	-76	-63	-75	-86
Amortisation	0	0	0	0	0
EBIT	145	646	2,518	1,882	1,987
Net interest expense	-20	-17	-20	-29	-37
Associates & JCEs	6	18	9	9	9
Other income	53	42	42	42	45
Earnings before tax	184	689	2,548	1,904	2,004
Income tax	-49	-153	-637	-476	-501
Net profit after tax	135	536	1,911	1,428	1,503
Minority interests	0	-10	-36	-27	-28
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	135	526	1,876	1,401	1,475
Extraordinary items	-12	-3	0	0	0
Reported NPAT	123	523	1,876	1,401	1,475
Dividends	-20	-268	-956	-714	-752
Transfer to reserves	103	255	920	687	723

Valuations and ratios

Reported P/E (x)	225.7	53.1	14.8	19.8	18.8
Normalised P/E (x)	206.0	52.9	14.8	19.8	18.8
FD normalised P/E (x)	206.0	52.9	14.8	19.8	18.8
Dividend yield (%)	0.1	1.0	3.4	2.6	2.7
Price/cashflow (x)	129.0	21.4	15.5	18.3	18.1
Price/book (x)	24.7	17.5	11.1	8.7	7.1
EV/EBITDA (x)	148.3	37.9	10.6	13.7	12.7
EV/EBIT (x)	192.6	42.2	10.9	14.3	13.2
Gross margin (%)	30.4	48.7	62.9	53.2	52.3
EBITDA margin (%)	12.4	33.8	49.6	39.5	39.0
EBIT margin (%)	9.5	30.3	48.4	38.0	37.4
Net margin (%)	8.0	24.5	36.1	28.3	27.7
Effective tax rate (%)	26.8	22.2	25.0	25.0	25.0
Dividend payout (%)	16.0	51.2	51.0	51.0	51.0
ROE (%)	11.5	38.6	91.7	49.2	41.5
ROA (pretax %)	9.4	35.5	110.9	71.3	68.6
Growth (%)					
Revenue	17.9	38.6	143.9	-4.6	7.2
EBITDA	26.6	278.9	257.7	-24.2	5.9
Normalised EPS	75.1	289.6	256.9	-25.3	5.3
Normalised FDEPS	75.1	289.6	256.9	-25.3	5.3

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 30 Jun	FY19	FY20	FY21F	FY22F	FY23F
EBITDA	190	722	2,581	1,956	2,072
Change in working capital	31	712	-170	27	-41
Other operating cashflow	-6	-137	-615	-463	-492
Cashflow from operations	215	1,297	1,796	1,521	1,539
Capital expenditure	-112	-192	-210	-360	-185
Free cashflow	103	1,105	1,586	1,161	1,354
Reduction in investments	0	0	0	0	0
Net acquisitions	0	0	0	0	0
Dec in other LT assets	0	0	0	0	0
Inc in other LT liabilities	0	0	0	0	0
Adjustments	1	0	0	0	0
CF after investing acts	104	1,105	1,586	1,161	1,354
Cash dividends	-33	0	-956	-714	-752
Equity issue	0	0	0	0	0
Debt issue	-45	-63	147	180	93
Convertible debt issue	0	0	0	0	0
Others	2	-34	0	0	0
CF from financial acts	-75	-98	-809	-534	-659
Net cashflow	29	1,007	777	627	695
Beginning cash	145	174	1,181	1,958	2,585
Ending cash	174	1,181	1,958	2,585	3,280
Ending net debt	218	-853	-1,483	-1,930	-2,532

Balance sheet (MYRmn)

As at 30 Jun	FY19	FY20	FY21F	FY22F	FY23F
Cash & equivalents	174	1,181	1,958	2,585	3,280
Marketable securities	0	0	0	0	0
Accounts receivable	174	392	587	560	601
Inventories	182	253	317	381	417
Other current assets	106	85	85	85	85
Total current assets	636	1,910	2,947	3,611	4,383
LT investments	208	225	234	243	252
Fixed assets	965	1,086	1,232	1,518	1,617
Goodwill	29	29	29	29	29
Other intangible assets	0	0	0	0	0
Other LT assets	6	2	2	2	2
Total assets	1,843	3,252	4,444	5,402	6,282
Short-term debt	331	226	327	451	515
Accounts payable	217	227	317	381	417
Other current liabilities	54	1,024	1,024	1,024	1,024
Total current liabilities	602	1,477	1,669	1,857	1,956
Long-term debt	61	102	148	204	233
Convertible debt	0	0	0	0	0
Other LT liabilities	46	64	64	64	64
Total liabilities	708	1,643	1,880	2,124	2,252
Minority interest	11	22	58	85	113
Preferred stock	0	0	0	0	0
Common stock	340	340	340	340	340
Retained earnings	784	1,348	2,268	2,955	3,679
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	-102	-102	-102	-102
Total shareholders' equity	1,124	1,586	2,506	3,193	3,917
Total equity & liabilities	1,843	3,252	4,444	5,402	6,282

Liquidity (x)

Current ratio	1.06	1.29	1.77	1.94	2.24
Interest cover	7.4	37.7	125.2	65.2	54.4

Leverage

Net debt/EBITDA (x)	1.14	net cash	net cash	net cash	net cash
Net debt/equity (%)	19.4	net cash	net cash	net cash	net cash

Per share

Reported EPS (MYR)	9.39c	39.91c	1.43	1.07	1.13
Norm EPS (MYR)	10.29c	40.10c	1.43	1.07	1.13
FD norm EPS (MYR)	10.29c	40.10c	1.43	1.07	1.13
BVPS (MYR)	0.86	1.21	1.91	2.44	2.99
DPS (MYR)	0.02	0.20	0.73	0.54	0.57

Activity (days)

Days receivable	43.1	48.5	34.4	42.2	39.9
Days inventory	63.2	72.7	53.9	54.9	57.4
Days payable	68.9	74.3	51.5	54.9	57.4
Cash cycle	37.4	46.9	36.8	42.2	39.9

Source: Company data, Nomura estimates

Fig. 1: SUCB: 4QFY20 results snapshot

FYE June (MYR mn)	4QFY19	3QFY20	4QFY20	q-q (%)	y-y (%)	FY19	FY20	y-y (%)
Revenue	376.0	447.2	929.1	107.7	147.1	1,538.2	2,131.8	38.6
EBITDA	46.5	125.5	547.7	336.4	1,078.2	252.9	767.3	203.3
<i>EBITDA Margin (%)</i>	<i>12.4</i>	<i>28.1</i>	<i>59.0</i>			<i>16.4</i>	<i>36.0</i>	
Depreciation & amortization	-11.6	-13.1	-37.6	187.3	223.5	-43.6	-76.1	74.3
El/Others	-7.6	-9.3	0.0	Nm	Nm	-11.8	-2.5	Nm
EBIT	27.3	103.2	510.1	394.5	1,771.4	197.5	688.7	248.7
<i>EBIT Margin (%)</i>	<i>7.3</i>	<i>23.1</i>	<i>54.9</i>			<i>12.8</i>	<i>32.3</i>	
Interest expense	-5.9	-3.5	-4.8	35.4	-19.2	-19.7	-17.1	-13.1
Interest income	0.7	0.3	0.6	Nm	Nm	0.9	1.3	Nm
Associates	1.8	4.6	13.0	Nm	Nm	5.5	18.1	227.9
Pretax profit	16.2	95.3	519.0	444.7	3,104.1	172.4	688.6	299.4
<i>Pretax Margin (%)</i>	<i>4.3</i>	<i>21.3</i>	<i>55.9</i>			<i>11.2</i>	<i>32.3</i>	
Tax	-2.2	-22.9	-110.7	383.0	Nm	-49.3	-153.0	210.2
<i>Effective tax rate (%)</i>	<i>13.5</i>	<i>24.1</i>	<i>21.3</i>			<i>28.6</i>	<i>22.2</i>	
Minority Interest	1.1	-1.3	-8.7	Nm	Nm	0.0	-10.0	Nm
Net Profit	15.1	71.1	399.6	462.4	2,553.7	123.1	525.6	326.9
Core Profit	22.7	80.3	399.6	397.5	1,662.9	134.9	528.1	291.5
<i>Net Margin (%)</i>	<i>6.0</i>	<i>18.0</i>	<i>43.0</i>			<i>8.8</i>	<i>24.8</i>	

Source: Company data, Nomura research

Appendix A-1

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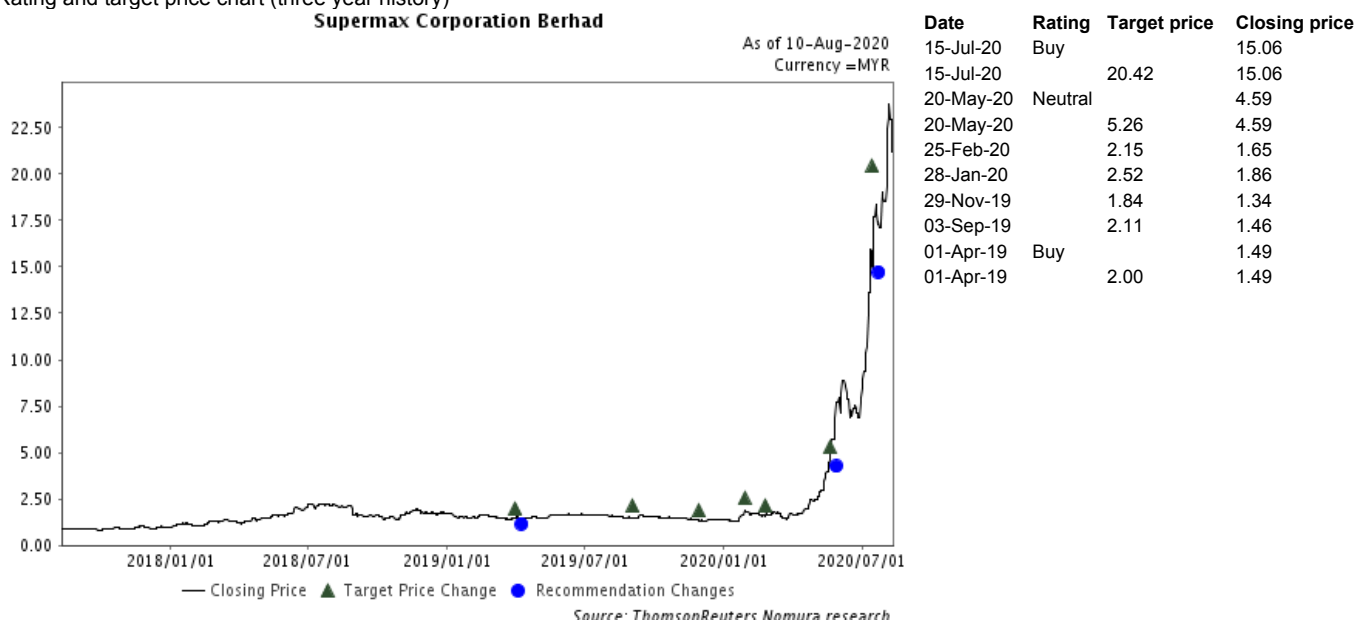
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Supermax Corporation Berhad	SUCB MK	MYR 21.20	10-Aug-2020	Buy	N/A	

Supermax Corporation Berhad (SUCB MK) MYR 21.20 (10-Aug-2020) Buy (Sector rating: N/A)

Rating and target price chart (three year history)

Supermax Corporation Berhad



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

Valuation Methodology Our TP of MYR25.00 is derived from ascribing a target 2021F P/E of 20x. 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 30 June 2020.

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