

11 August 2020

Consumer Non-cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

Earnings Surge In 4QFY20; Stay BUY

Target Price (Return): MYR24.00 (13.2%)
 Price: MYR21.20
 Market Cap: USD6,524m
 Avg Daily Turnover (MYR/USD) 398m/93.3m

- **Stay BUY with higher DCF-derived MYR24.00 TP from MYR21.80, 13% upside and 1% yield.** 4QFY20 (Jun) earnings surged 26x YoY and beat expectations. Both sales and margins are at record highs. Still, we expect 1QFY21 net profit to be higher QoQ. We increase our earnings estimates and TP. Our new TP implies 18.5x FY21 forward P/E. This reflects a 30% discount against the sector's average forward P/E of 26.4x, which we believe is justified due to Supermax Corp's lower market cap/liquidity.
- **Earnings beat expectations.** SUCB's FY20 core net profit of MYR526m trumped expectations, as it makes up 126% and 132% of our and Street's estimates. The outperformance was caused by exceptional sales and EBITDA margin registered in 4QFY20. Note that sales have surged 108% QoQ (+147% YoY) to MYR929m on the upward spike in gloves demand. EBITDA margin has expanded QoQ and YoY to 60% due to higher ASPs.
- **4QFY20 core earnings surged 2,554% YoY.** In 4QFY20, SUCB's core net profit surged 2,554% YoY (+462% QoQ) to MYR400m. The superb earnings were fundamentally driven. Note that both sales and EBITDA margins are at record highs for the company.
- **The best is yet to come.** According to SUCB, the highest ASPs to date have not been reflected during the current quarter. The company was also optimistic that its own brand manufacturer cum distribution business model would exhibit even healthier performances in the coming quarters.
- **Earnings forecasts increased.** We have increased FY21F-22F earnings 6-12% to reflect higher ASPs. This is in line with industry trends.
- **Venturing into face mask manufacturing.** SUCB has invested MYR8m to venture into face mask manufacturing. Initial capacity: 8m pieces/month and target commercial production is 4Q20. We expect the earnings impact in FY21-22 from this business to be small.
- **BUY with a higher MYR24.00 TP.** The higher TP is in line with the better earnings estimates. In the near term, we expect SUCB to register a stronger set of results in 1QFY21 – in line with the industry's higher ASP trend. In the long run, SUCB is a beneficiary of the long-term uptrend in global gloves consumption.
- **Risks.** The biggest near-term risk is a faster-than-expected discovery of a safe and effective COVID-19 vaccine available globally. Our base case scenario is that ASPs should normalise in the long run once such vaccines are available (see page 3 for details). Other risks: Higher-than-expected supply from China, lower-than-expected sales volumes, and volatile currency movements/raw material prices.

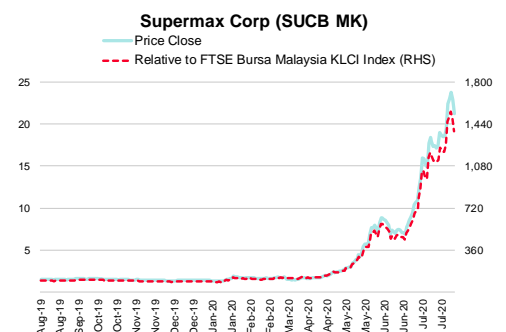
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1425.2	55.7	611.4	1132.6	1280.2
Relative	1426.3	57.0	597.7	1130.7	1282.9
52-wk Price low/high (MYR)					1.30 – 23.8



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	1,304	1,538	2,132	4,174	4,379
Recurring net profit (MYRm)	107	123	526	1,694	1,795
Recurring net profit growth (%)	-	15.5	326.6	222.3	6.0
Recurring P/E (x)	259.66	224.80	52.70	16.35	15.43
P/B (x)	27.3	24.6	18.4	10.3	7.0
P/CF (x)	156.30	117.82	35.80	13.50	14.61
Dividend Yield (%)	0.4	0.1	0.7	2.1	2.3
EV/EBITDA (x)	113.86	119.63	37.85	11.46	10.40
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	0.40	1.30	1.37
Consumer Non-cyclical	DPS	0.08	0.02	0.14	0.45	0.48
Supermax Corp	BVPS	0.78	0.86	1.15	2.06	3.03
SUCB MK						
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Recurring P/E (x)	259.66	224.80	52.70	16.35	15.43
	P/B (x)	27.3	24.6	18.4	10.3	7.0
	FCF Yield (%)	0.4	0.4	2.3	6.9	6.3
	Dividend Yield (%)	0.4	0.1	0.7	2.1	2.3
	EV/EBITDA (x)	113.86	119.63	37.85	11.46	10.40
	EV/EBIT (x)	137.36	148.53	42.33	11.94	10.85
	Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total turnover	1,304	1,538	2,132	4,174	4,379
	Gross profit	430	510	1,102	2,857	2,982
	EBITDA	244	232	720	2,256	2,366
	Depreciation and amortisation	(42)	(45)	(76)	(91)	(98)
	Operating profit	202	187	644	2,165	2,268
	Net interest	(14)	(20)	(17)	19	46
	Pre-tax profit	162	172	689	2,225	2,358
	Taxation	(52)	(49)	(153)	(523)	(554)
	Reported net profit	107	123	526	1,694	1,795
	Recurring net profit	107	123	526	1,694	1,795
	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	57	31	145	277	39
	Cash flow from operations	177	235	773	2,051	1,895
	Capex	(59)	(112)	(150)	(150)	(150)
	Cash flow from investing activities	(55)	(112)	(150)	(121)	(94)
	Dividends paid	(76)	(33)	(158)	(508)	(538)
	Cash flow from financing activities	(126)	(104)	(140)	(493)	(583)
	Cash at beginning of period	156	145	174	667	2,114
	Net change in cash	(4)	19	483	1,437	1,218
	Ending balance cash	145	174	667	2,114	3,342
	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	145	174	667	2,114	3,342
	Tangible fixed assets	900	969	1,018	1,068	1,121
	Total investments	197	208	208	208	208
	Total assets	1,700	1,843	2,420	4,163	5,450
	Short-term debt	374	331	294	336	327
	Total long-term debt	62	61	129	121	114
	Total liabilities	677	708	921	1,477	1,506
	Total equity	1,023	1,134	1,499	2,686	3,944
	Total liabilities & equity	1,700	1,843	2,420	4,163	5,450
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	17.9	38.6	95.8	4.9
	Recurrent EPS growth (%)	0.0	15.5	326.6	222.3	6.0
	Gross margin (%)	33.0	33.2	51.7	68.5	68.1
	Operating EBITDA margin (%)	18.7	15.1	33.8	54.0	54.0
	Net profit margin (%)	8.2	8.0	24.7	40.6	41.0
	Capex/sales (%)	4.5	7.3	7.0	3.6	3.4
	Interest cover (x)	14.5	9.5	37.6	202.1	229.5

Source: Company data, RHB

Figure 1: Results snapshot

FYE June (MYRm)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Revenue	376.0	447.2	929.1	107.7	147.1	1,538.2	2,131.8	38.6	Surge in gloves demand leads to higher ASPs.
EBITDA	32.0	107.3	548.4	411.0	1,615.2	230.2	763.6	231.7	Higher margins due to high OBM exposure.
EBITDA margin (%)	8.5	25.0	59.0			15.0	35.8		
Depreciation	(11.6)	(13.1)	(37.6)	187.3	223.5	(43.6)	(76.1)	74.3	
EBIT	20.4	94.2	510.8	442.0	2,409.9	186.6	687.5	268.5	
EBIT Margin (%)	5.4	12.1	12.1			12.1	32.3		
Interest expense	(5.9)	(3.5)	(4.8)	35.4	(19.2)	(19.7)	(17.1)	(13.1)	
Pre-tax profit	16.2	95.3	519.0	444.7	3,104.1	172.4	688.6	299.4	
Pre-tax margin (%)	4.3	21.3	55.9			11.2	32.3		
Tax	(2.2)	(22.9)	(110.7)	383.0	4,947.3	(49.3)	(153.0)	210.2	
Effective tax rate (%)	13.5	24.1	21.3			28.6	22.2		
Minority interest	(1.1)	1.3	8.7	nm	nm	0.0	(10.0)	n.m	
Net profit	15.1	71.1	399.6	462.4	2,553.7	123.1	525.6	326.9	Beat expectations.
Net margin (%)	4.0	15.9	43.0			8.0	24.7		
Core net profit	15.1	71.1	399.6	462.4	2,553.7	123.1	525.6	326.9	
Core net margin (%)	4.0	15.9	43.0			8.0	24.7		

Source: Company data, RHB

Our base case assumption for a COVID-19 vaccine development. Our base case scenario is that a safe and effective vaccine will be available in 1H21 under an Emergency Use Authorisation. Eventually this should lead to lower gloves demand in 2H21, assuming new COVID-19 cases decline by then. As 85% of gloves demand comes from the medical segment, lower COVID-19 cases should lead to decreased demand from this sector.

However, it is impossible to determine if any of the vaccine candidates currently under trial will work, as even the most promising Phase 2 results can still end up as failures under Phase 3 testing, as denoted by the [US Food & Drug Administration](#). We will be monitoring the progress of such vaccine developments closely, as this is one potential leading indicator for future lower new COVID-19 cases.

The biggest risk is for the vaccine to be readily available in September, although the possibility looks low at this juncture. Five leading vaccine players are in Stages 2 or 3, and we think it is possible that the first dose will be available in 1H21. The vaccine players are Sinovac Biotech, Sinopharm, AstraZeneca, Moderna, and Pfizer.

Based on Citeline data, we gather that these five companies aim to deliver the first doses of COVID-19 vaccine with different targets, ranging between September and December. Out of the five – which are in or about to enter Phase 3 trials – AstraZeneca aims to roll out its vaccine in September. This is the earliest roll out vis-à-vis its peers. AstraZeneca CEO Pascal Soriot noted that the pharmaceutical giant is on track to begin rolling out up to 2bn doses of a coronavirus vaccine in September if ongoing trials prove successful.

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Valuation. In our DCF valuation we have increased FCFF assumptions in line with the better earnings prospects. This is driven by a higher ASP outlook. Our DCF-derived TP of MYR24.00 reflects a forward P/E of 18.5x. This reflects a 30% discount against the sector average forward P/E of 26.4x, which we believe is justified, given SUCB's lower market cap/liquidity.

Figure 2: DCF valuation

FYE Dec (MYR m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
CFO	1,895	1,901	2,020	2,119	2,106	2,191	2,280	2,309	2,378	2,450	
+ Interest (1 - Tax Rate)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(3)	
- capex	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(155)	(159)	
FCFF	1,738	1,744	1,864	1,963	1,951	2,037	2,126	2,156	2,221	2,287	44,847
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	1,606	1,479	1,450	1,401	1,278	1,224	1,172	1,090	1,030	974	19,088
Risk-free	4.0%										
Beta	0.86										
Cost of equity	9.2%										
WACC	8.3%										
Terminal growth	3.0%										
Enterprise value (MYR m)	31,790										
Cash	1,181										
- Debt	(328)										
Equity value (MYR m)	32,643										
Number of shares (m)	1360										
Fair value (MYR)	24.00										

Source: RHB

Figure 3: Key assumptions

Key assumptions	FY20F	FY21F	FY22F
Installed capacity (m ppa)	26,200	31,100	38,200
ASP change YoY	29%	105%	0%
Average USD/MYR	4.225	4.025	4.025
Utilisation rate	80%	90%	90%

Source: RHB

Figure 4: TP sensitivity to terminal growth assumptions

Key assumptions	TP (MYR)
Base case: Terminal growth 3%	24.00
Base case: Terminal growth 2%	21.60
Base case: Terminal growth 1%	19.90

Source: RHB

Sensitivity of earnings to ASP change. For every 1% in ASP change in FY21, we expect a similar direction of earnings to be affected by 1.2%.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-21	Buy	21.8	17.9
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

Source: RHB, Bloomberg

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