

# Supermax Corporation Berhad

(7106 | SUCB MK) | Health Care | Health Care Equipment & Services

## Reining superior margins

### KEY INVESTMENT HIGHLIGHTS

- **FY20 earnings above expectations**
- **4QFY20 net profit ballooned by more than five times due to the surge in ASP and lucrative margins**
- **Coming quarters expected to remain strong**
- **Earnings forecast revised upwards to account for higher margins and volume**
- **Upgrade to BUY with a revised TP of RM24.85**

**FY20 earnings above expectations.** Supermax's FY20 core net earnings of RM525.6m came in above our and consensus expectations, making up 136% and 131% of our and consensus full year estimates respectively. The positive deviation can be attributed to the stronger than expected average selling price (ASP) of gloves and better than expected margin. The company has announced a share dividend of one treasury share for every 45 shares held pursuant to the propose bonus issue.

**4QFY20 net profit ballooned by more than five times due to the surge in ASP and lucrative margins.** The core net profit of RM400.2m for the quarter represents an increase of 2562.6%yoy as revenue rose by 147.1%yoy to RM929.1m. The surge in top and bottom line can be attributed to the sharp rise in demand for gloves in the backdrop of the Covid-19 pandemic. In respond to the demand, the company has increased its production capacity at its plant 12 block A lines. On top of that, ASP has increase steeply since March for its manufacturing and distribution divisions. Notably, Supermax has been able to increase sales to end users including sales to governments and government agencies in the 165 countries where it has its footprints. It now exports 55% of production under its own and 40% through independent distributors. Only 5% was allocated for OEM production. We opine that it is able to leverage on its own distribution to build direct relationship with the end users so that they will remain sticky and continue to purchase through Supermax's own distribution channel even post pandemic

**On sequential basis, 4QFY20 core net profit spiked by 462.4%qoq on revenue that leaped by 107.7%qoq.** Note that we have excluded forex loss of RM0.6m in our core net income calculations. In this quarter, it produces 2.2 billion more gloves compared to the preceding quarter due to the capacity increment at plant 12 Block A. It was also able to record better profitability due to the higher proportion of OBM products. This resulted in PAT margin increasing by 27.7ppt to 43.9%.

## Upgrade to BUY

(Previously NEUTRAL)

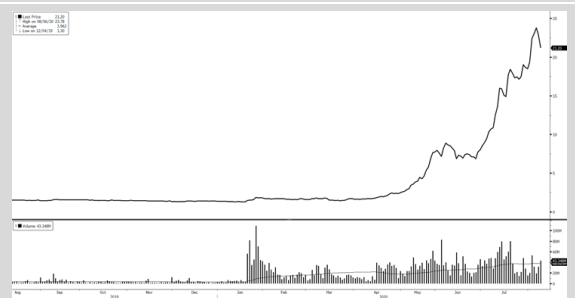
**Revised Target Price: RM24.85**

(Previously RM16.80)

### RETURN STATISTICS

Price @ 10 <sup>th</sup> August 2020 (RM)	21.20
Expected share price return (%)	+17.21
Expected dividend yield (%)	+0.24
<b>Expected total return (%)</b>	<b>+17.45</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	55.7	57.7
3 months	165.0	525.7
12 months	1279.9	1318.0


### KEY STATISTICS

FBM KLCI	1,571.66
Syariah compliant	Yes
Issue shares (m)	1291.42
Estimated free float (%)	58.24
Market Capitalisation (RM'm)	27,378.14
52-wk price range	RM1.29 - RM24.4
Beta vs FBM KLCI (x)	1.87
Monthly velocity (%)	11.00
Monthly volatility (%)	16.48
3-mth average daily volume (m)	37.90
3-mth average daily value (RM'm)	424.18
Top Shareholders (%)	
Kim Sim Thai	21.39
Tan Bee Geok	16.18
Norges Bank	2.37

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**Coming quarters expected to remain strong.** We expect Supermax to log in stronger subsequent quarters based on: 1. Higher ASPs, 2. High profit margins due to its high OBM proportion, 3. Its own distribution network, which allows it to have a better control of product mix and 4. Net cash of RM825.6m, which allows it to further expand its capacity and/or enhance its distribution network. Its cashflow is expected to remain strong as customers has been paying deposits in the range of up to 50% in advance to secure supply. Due to its own distribution, we believe that it will have an advantage in managing its selling prices going forward since it has established relationships with its end users.

**Earnings forecast revised upwards.** We revise our FY21E/22F earnings forecast by +439.3%/+291.0% as we factor in higher margins due to its own distribution as well as well higher volume from the additional production capacity. Supermax's planned capacity expansion has also been increased by 26.7% to 48.4 billion pieces of gloves by end of CY2022 from 38.2 billion pieces previously.

**Upgrade to BUY revised TP of RM24.85 (previously NEUTRAL with TP of RM16.80).** Post our positive earnings revision, we upgrade the stock to **BUY** due to bright outlook in the coming quarters. Topping that is a strong balance sheet and better control of distribution, which is expected to allow it to have more room to manage its selling prices going forward. Our **TP of RM24.85** is based on FY22F EPS of 83.4 sen pegged to PER of 29.0x, which is +1SD of its 5-year historical mean. We believe that above mean valuation is justified given the robust demand for gloves in the near to medium term. 

## INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2018A	2019A	2020A	2021E	2022F
<b>Revenue</b>	<b>1,304.5</b>	<b>1,538.2</b>	<b>2,131.8</b>	<b>4,415.8</b>	<b>4,345.8</b>
Cost of goods sold	(1,134.6)	(1,351.6)	(1,444.3)	(1,966.4)	(2,761.0)
<b>Gross profit</b>	<b>169.9</b>	<b>186.6</b>	<b>687.5</b>	<b>2,449.3</b>	<b>1,584.8</b>
Finance costs	(14.0)	(19.7)	(17.1)	(35.3)	(34.8)
<b>PBT</b>	<b>161.9</b>	<b>172.4</b>	<b>688.6</b>	<b>2,433.5</b>	<b>1,569.3</b>
Taxation	(51.8)	(49.3)	(153.0)	(730.1)	(470.8)
<b>PATANCI</b>	<b>106.7</b>	<b>123.1</b>	<b>535.6</b>	<b>1,697.6</b>	<b>1,092.7</b>
PBT Margin (%)	12.4	11.2	32.3	55.1	36.1
PATANCI Margin (%)	8.2	8.0	25.1	38.4	25.1
EPS (sen)	8.1	9.4	40.2	129.5	83.4
EPS Growth (%)	58.7	15.4	328.2	222.0	(35.6)
PER (x)	260.5	225.7	52.7	16.4	25.4
Dividend (sen)	4.0	1.5	5.0	5.0	5.0
Dividend yield (%)	0.2	0.1	0.2	0.2	0.2

Source: Company, MIDFR

\* Final dividend via share dividend distribution

**SUPERMAX CORPORATION BERHAD: 4QFY20 RESULTS SUMMARY**

FYE June(RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	<b>929.1</b>	147.1	107.7	<b>2,131.8</b>	43.1
Operating expenses	(418.4)	17.6	18.5	(1,444.3)	10.9
Finance costs	(4.8)	(19.1)	35.5	(17.1)	(13.2)
Profit Before Tax	<b>519.0</b>	3,104.0	444.7	<b>688.5</b>	298.9
Taxation	(110.7)	4,947.4	383.0	(153.0)	212.5
Profit After Tax	<b>408.2</b>	2,815.2	464.3	<b>535.6</b>	333.1
Minority interest	8.7	nm	569.0	10.0	(10,422.7)
PATANCI	<b>399.6</b>	2,553.5	462.4	<b>525.6</b>	324.7
Basic EPS (sen)	30.6	2,562.6	464.3	40.2	335.2

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.