21 Sep 2020

Buy

Price
RM7.60

Target Price
RM12.98

Bloomberg code
SUCB MK

Equity | Malaysia | Manufacturing (Gloves)

Flashnote

Supermax

Land acquisition for new HQ

Financial Highlights

FYE June	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,538	2,132	4,891	4,055	3,954
Core net profit (RMm)	135	526	1,604	994	757
Core EPS (Sen)	10.3	19.3	59.0	36.5	27.8
EPS growth (%)	69.3	87.7	nm	(38.0)	(23.9)
DPS (Sen)	3.2	1.1	17.7	11.0	0.0
Core PE (x)	73.8	39.3	12.9	20.8	27.3
Div yield (%)	0.4	0.1	2.3	1.4	0.0
ROE (%)	11.5	38.8	67.6	29.1	19.4
Net Gearing (%)	19.4	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	9.1	12.9	6.5	5.6	4.9

Source: Company, KAF

- Supermax Corporation Berhad (Supermax) announced that it has entered into a sales and purchase agreement to acquire two pieces of freehold land located in Bukit Raja, Selangor.
- The land is Supermax's fourth land acquisition since July 2019. Previously, the group purchased 6.5 hectares (July 2019), 1.7 hectares (March 2020) and 2 hectares (June 2020) of land and industrial buildings in Meru amounting to RM107m.
- The latest acquisition entails a total land area of about 1.99ha (approximately 4.962 acres or 216,142sqf) for RM73.5m i.e. RM340/psf.
- The purpose of the acquisition is to build a new operational headquarters for Supermax's wholly-owned subsidiary, Maxter Glove Manufacturing Berhad Sdn Bhd. Currently, its office is located in Meru, Klang.
- The acquisition works out to be about 6% cheaper than market rate of RM362/psf as per the valuation report prepared by Jones Lang Wootton.
- Coupled with the attractive offer price, we think it is timely for Supermax to upgrade to a bigger headquarters given they plan aggressive capacity expansion in the near term.
- On completion of the ongoing capacity expansion Supermax's production capacity will stand at 48.4b pieces of gloves pa by the end of 2022 (approximately 85% addition to current capacity).
- The acquisition should not have any material impact on the group's financial position given its net cash position with cash balance amounting to RM1.2b as per the latest disclosure.
- We maintain our earnings forecasts as this acquisition will not affect future production capacity.
- Supermax's business model yields the best return during the glove market upcycle. Its business model enables the group to supply directly to end customers at retail prices in comparison to its close competitors who are mainly OEM manufactures and hence, they are selling at ex-factory prices.
- Therefore, we expect the group to announce another quarter of industry leading profit margins and QoQ and YoY earnings growth for its next reporting quarter i.e. 1QFY21 (3QCY20).
- Premised on this, we maintain our Buy recommendation on Supermax with an unchanged TP of RM12.98.

Analyst

Nabil Zainoodin, CFA, CA
(603) 2171 0415
nabil@kaf.com.my

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.

Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)