AFFIN HWANG CAPITAL

Out think. Out perform.

# Not max-ed out yet; upgrade to Buy

**Supermax (SUCB) reported a strong set of results - 9MFY20 PATAMI of RM126m (+21% yoy) is above both our and consensus estimates, delivering 91% and 85% of our respective forecasts. The stronger-than-expected performance was mainly driven by higher selling prices due to the shortage of rubber gloves, in our view. As there is limited new capacity coming on stream for the next few quarters, we believe that SUCB still has room to raise selling prices. As such, we are raising our EPS forecasts by 27%-61% for FY20-21E, and raising our TP to RM5.40. Upgrade to BUY from HOLD.**

### COVID-19 helped drive profit

SUCB was able to deliver a strong earnings growth for 3QFY20, as PATAMI for the quarter grew by >100% both qoq and yoy. We believe that the strong performance is mainly driven by higher ASPs, as the shortage of gloves has given SUCB the flexibility to increase selling prices. EBIT margin improved to 21.1% in 3QFY20 from 14.5% in 3QFY19. SUCB also benefited from a higher distribution margin; unlike its peers which mainly sell to distributors, SUCB also deals directly with healthcare providers, for which we had previously underestimated the margin enhancement.

### Just the beginning

We believe that there is still room to raise selling prices, as we are only expecting the overall sector to increase capacity by around 10% for 2020. Given that the outbreak has only become a serious problem starting from 2Q20, demand is likely to remain robust in the coming quarters. Hence the current margin is no doubt sustainable, in our opinion. Apart from benefiting from the price increases, SUCB would also benefit from the full contribution of Plant #12A, which was fully commissioned recently. Plant #12A has added around 2.2bn capacity (~10%) to its existing 22bn capacity.

### Upgrading to BUY with higher TP of RM5.40

We are increasing our EPS forecasts by 27%-61% for FY20-22E, to factor in a higher margin assumption (and selling price). We are also raising our TP to RM5.40, based on an unchanged 33x CY21 PER on the back of the earnings upgrade. Apart from the price increases, SUCB would also benefit from a weaker Ringgit. Key downside risk to our call: 1) sharp movement in raw-material prices, and 2) sudden movement of US$ against MYR.

### Earnings & Valuation Summary

| FYE 30 June | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Revenue (RMm) | 1,304.5 | 1,489.3 | 2,212.9 | 2,289.9 | 2,392.8 |
| EBITDA (RMm) | 210.6 | 230.6 | 351.7 | 387.2 | 312.6 |
| Pretax profit (RMm) | 161.9 | 172.6 | 311.8 | 347.3 | 273.0 |
| Net profit (RMm) | 106.7 | 123.8 | 223.5 | 249.1 | 197.1 |
| EPS (sen) | 7.8 | 9.1 | 16.4 | 18.3 | 14.5 |
| PER (x) | 58.5 | 50.5 | 27.9 | 25.1 | 31.7 |
| Core net profit (RMm) | 106.7 | 123.8 | 223.5 | 249.1 | 197.1 |
| Core EPS (sen) | 7.8 | 9.1 | 16.4 | 18.3 | 14.5 |
| Core EPS growth (%) | 58.7 | 16.0 | 80.6 | 11.5 | (20.9) |
| Core PER (x) | 58.5 | 50.5 | 27.9 | 25.1 | 31.7 |
| Net DPS (sen) | 3.9 | 4.5 | 7.4 | 8.3 | 6.5 |
| Dividend Yield (%) | 0.8 | 1.0 | 1.6 | 1.8 | 1.4 |
| EV/EBITDA (x) | 31.0 | 28.0 | 19.4 | 17.5 | 21.5 |
| | | | | | |
| Chg in EPS (%) | | | 61.0 | 26.9 | 29.5 |
| Affin/Consensus (x) | | | 1.5 | 1.3 | 1.1 |

*Source: Company, Bloomberg, Affin Hwang forecast*

### Results Note

# Supermax

SUCB MK
Sector: Rubber Products

### RM4.59 @ 20 May 2020

### BUY (upgrade)

Upside: 18%

### Price Target: RM5.40

Previous Target: RM4.20


### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 136.6% | 192.4 | 189.5% |
| Rel to KLCI | 133.0% | 212.7 | 223.8% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 1,291.4 |
| Mkt cap | 5927.6/1361.3 |
| Avg daily vol - 6mth (m) | 17.2 |
| 52-wk range (RM) | 1.29-4.62 |
| Est free float | 58.3% |
| BV per share (RM) | 0.88 |
| P/BV (x) | 5.19 |
| Net cash/ (debt) (RMm) | (265.91) |
| ROE (2021E) | 18% |
| Derivatives | No |
| Shariah Compliant | Yes |

### Key Shareholders

| | |
|---|---|
| Thai Kim Sim | 21.9% |
| Tan Bee Geok | 16.2% |

*Source: Affin Hwang, Bloomberg*

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**Fig 1: Results Comparison**

| FYE 30 June (RMm) | 3Q FY19 | 2Q FY20 | 3Q FY20 | Qoq % chg | Yoy % chg | 9M FY19 | 9M FY20 | Yoy % chg | Comments |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | **361.2** | **385.5** | **447.2** | 16.0 | 23.8 | **1,113.4** | **1,202.7** | 8.0 | The increase qoq was due to both higher selling prices and higher sales volume |
| Op costs | (298.6) | (325.9) | (339.9) | 4.3 | 13.9 | (921.3) | (987.4) | 7.2 | The increase qoq was mainly due to higher sales volume |
| EBITDA | **62.6** | **59.6** | **107.3** | 80.2 | 71.3 | **192.1** | **215.3** | 12.1 | |
| *EBITDA margin (%)* | *17.3* | *15.5* | *24.0* | *+8.5ppt* | *+6.7ppt* | *17.3* | *17.9* | *+0.6ppt* | Improvement qoq is mainly due to the price increases |
| Depn and amort | (10.4) | (12.8) | (13.1) | 1.9 | 26.3 | (32.0) | (38.5) | 20.2 | Higher depreciation yoy due to the new lines |
| EBIT | **52.3** | **46.7** | **94.2** | 101.6 | 80.2 | **160.1** | **176.8** | 10.4 | |
| *EBIT margin (%)* | *14.5* | *12.1* | *21.1* | *+8.9ppt* | *+6.6ppt* | *14.4* | *14.7* | *+0.3ppt* | |
| Int expense | (4.5) | (4.6) | (3.5) | (23.7) | (22.3) | (13.8) | (12.3) | (10.7) | |
| JV & Associates | 1.7 | (0.3) | 4.6 | >100 | 173.1 | 3.6 | 5.1 | 40.0 | |
| EI | - | - | - | n.m | n.m | 6.5 | - | (100.0) | |
| **Pretax profit** | **49.4** | **41.8** | **95.3** | 127.8 | 92.8 | **156.4** | **169.5** | 8.4 | Flow through from EBITDA |
| Tax | (14.5) | (11.8) | (22.9) | 94.2 | 58.6 | (46.8) | (42.2) | (9.7) | |
| *Tax rate (%)* | *29.2* | *28.2* | *24.1* | *-4.2ppt* | *-5.2ppt* | *31.7* | *23.1* | *-8.7ppt* | |
| MI | (0.3) | 0.1 | (1.3) | na | 273.7 | (1.0) | (1.4) | 42.3 | |
| **Net profit** | **34.6** | **30.2** | **71.1** | 135.6 | 105.3 | **108.7** | **126.0** | 15.9 | |
| EPS (sen) | 2.5 | 2.2 | 5.2 | 135.6 | 105.3 | 8.0 | 9.3 | 15.9 | |
| **Core net profit** | **34.6** | **30.2** | **71.1** | 135.6 | 105.3 | **104.3** | **126.0** | 20.8 | Above our and consensus expectations |

*Source: Affin Hwang, Company*

## Important Disclosures and Disclaimer

**Equity Rating Structure and Definitions**

| | |
|---|---|
| **BUY** | Total return is expected to exceed +10% over a 12-month period |
| **HOLD** | Total return is expected to be between -5% and +10% over a 12-month period |
| **SELL** | Total return is expected to be below -5% over a 12-month period |
| **NOT RATED** | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

| | |
|---|---|
| **OVERWEIGHT** | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| **NEUTRAL** | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| **UNDERWEIGHT** | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |



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