Jefferies
Jefferies Hong Kong Limited

Equity | Malaysia | Manufacturing (Gloves)

27 October 2020

Supermax

Building plants overseas

Buy

Price
RM9.78

Target Price
RM12.42 (previously RM12.98)

Market Data

Bloomberg Code	SUCB MK
No. of shares (m)	2,721.0
Market cap (RMm)	25,220.1
52-week high/low (RM)	12.22 / 0.65
Avg daily turnover (RMm)	485.2
KLCI (pts)	1,500.35

Source: Bloomberg, KAF

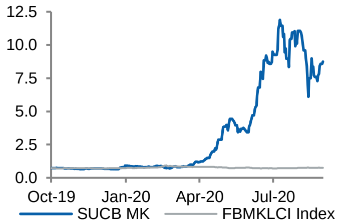
Major Shareholder (%)

Dato' Seri Stanley Thai	(21.9%)
Datin Seri Tan Bee Geok, Cheryl	(16.3%)
Norges Bank	(2.4%)
Free Float	58.0

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	7.5	658.0	1,146.9
Rel Market (%)	14.3	594.7	1,209.8



Source: Bloomberg, KAF

We reiterate our Buy recommendation on Supermax with a revised TP of RM12.42 (previously RM12.98). 1QFY21 core earnings came in above our and consensus' forecast. Better than expected earnings were driven by continued improvement in ASP, despite already being very high (the highest price quoted for nitrile gloves is now USD220/k), while operating costs declined. In addition, the group plans to build glove manufacturing plants in the US and UK in response to invitations from the two countries as they work toward ensuring self-sufficiency in PPE production.

Financial Highlights

FYE June	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,538	2,132	9,150	7,587	5,706
Core net profit (RMm)	135	526	3,476	2,433	1,545
Core EPS (Sen)	10	19	128	89	57
EPS growth (%)	69	88	561	-30	-36
DPS (Sen)	4	3	1	38	27
Core PE (x)	93	49	7	11	17
Div yield (%)	0	0	0	4	3
ROE (%)	12	39	105	42	23
Net Gearing (%)	19	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	11	16	5	4	4

Source: Company, KAF

Above expectations. Supermax's 1QFY21 core earnings came in at RM780.7m (QoQ:+121%;YoY:+3485%), exceeding our and consensus' full-year FY21 earnings estimates at 48% and 44%, respectively. The better than expected earnings were driven by continued improvement in ASP, despite already being very high (highest price quoted for nitrile gloves is now USD220/k), while operating costs fell. We expect stronger earnings in coming quarters as ASP increments continue. Hence, we think the highest ASP has yet to be reflected in earnings.

OBM *cum* distribution business model yields highest return. The supernormal earnings were achieved on the back of significant margin expansion. 1QFY21 EBITDA margin expanded to 79% (highest among the top four glove makers) from 49% last quarter. This was driven by: (i) an increase in capacity sold to end customers via own distribution centres and via independent distributors; (ii) a decision not to lock in glove prices with the big five giant distributors from the US and Germany.

Stronger balance sheet. As of end-1QFY21, the group reported a net cash position, with a cash balance of RM2.3bn, mainly on customers paying 30-50% deposits to secure supply.

Building plants overseas. In addition to the five upcoming glove plants in Klang (which will more than double its capacity to 48.42b pcs pa by end-2022), the group also plans to build plants in the US and UK (two of its largest markets). This is in response to invitations from the two countries as they work toward ensuring self-sufficiency in PPE production. A total CAPEX of USD550m and GBP50m is allocated to the US and UK projects, respectively. Both projects are to be kickstarted in 1HCY21, with commissioning in stages starting in 1HCY22.

Dual listing on SGX. Supermax is looking at the possibility of a dual listing on the Singapore Exchange to widen the shareholder base, which includes foreign-based institutional investors, to take up future fund raising and future business expansion globally. The group aims to complete the exercise within six months from the date an investment bank is appointed.

Earnings revision. We raise our earnings forecasts for FY21F/FY22F/FY23F by 117%/145%/104%, respectively, to take into account our expectation of further expansion in profit margins in the coming quarters. We also think that the higher ASP will be sustained throughout FY21 as the supply-demand imbalance persists. Post-pandemic, ASP is expected to normalise gradually but to settle at higher level than pre-pandemic given a structural shift in glove demand resulting from increased hygiene awareness and regulation.

Nabil Zainoodin, CFA*
+603-2171 0415
nabil@kaf.com.my

*** KAF Equities**

Maintain Buy. Following the revision to our earnings forecasts, we are revising our TP to RM12.42 per share (previously RM12.98) as we roll forward our base year to CY22. The TP is derived from CY22F EPS of 73.1sen pegged to PER of 17x. The PER is +1.0SD above the five-year mean forward PER to reflect the changed dynamic of the glove industry post pandemic that has led to a structural shift in pricing.

Exhibit 1: Results summary

FYE June	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	%qoq	%yoy	FY21F	3M/F
Revenue	**376.0**	**369.9**	**385.5**	**447.2**	**929.1**	**1352.5**	**45.6**	**265.6**	**4890.7**	**28**
Operating costs	-330.8	-326.7	-337.8	-332.5	-474.2	-286.0	-25.1	-6.2		
EBITDA	**45.2**	**43.2**	**47.7**	**114.7**	**454.9**	**1066.6**	**134.4**	**2368.3**	**2187.5**	**49**
EBITDA margin (%)	12	12	12	26	49	79			45	
Depreciation	-11.6	-12.5	-12.8	-13.1	-37.6	-14.1	-62.6	12.0	-80.3	17
Operating profit	**33.6**	**30.7**	**34.9**	**101.6**	**417.3**	**1052.5**	**152.2**	**3331.7**	**2107.2**	**50**
Net finance costs	-5.9	-4.2	-4.6	-3.5	-4.8	-2.4	-49.5	-42.4	-15.8	15
Associates	1.8	0.8	-0.3	4.6	13.0	12.6	-3.2	1458.2		
Exceptionals	0.7	3.0	9.7	-9.3	46.4	0.0	-100.0	-100.0		
Pretax profit	**31.7**	**32.4**	**40.2**	**95.3**	**519.0**	**1049.2**	**102.2**	**3134.1**	**2152.2**	**49**
Tax	-2.2	-7.5	-11.8	-22.9	-110.7	-236.8	113.8	3063.9	-538.1	44
Minority interest	1.1	-0.2	0.1	-1.3	-8.7	-23.0	165.5	10683.6	-10.0	229
Net profit	**30.5**	**24.7**	**28.5**	**71.1**	**399.6**	**780.7**	**95.4**	**3054.6**	**525.6**	**100**
Net profit margin (%)	8	7	7	16	43	58			11	
Normalised net profit	**29.9**	**21.8**	**18.8**	**80.3**	**353.2**	**780.7**	**121.0**	**3484.7**	**1604.2**	**48.7**
Normalised net margin (%)	8	6	5	18	38	**58**			**33**	

Source: Company, KAF

Income Statement

FYE June (RMm)	2019	2020	2021F	2022F	2023F
Revenue	**1,538.2**	**2,131.8**	**9,150.1**	**7,587.2**	**5,705.5**
EBITDA	**221.3**	**720.9**	**4,683.9**	**3,308.4**	**2,142.9**
Depreciation/Amortisation	-45.1	-76.1	-80.3	-96.6	-111.6
Operating income (EBIT)	176.2	644.9	4,603.6	3,211.8	2,031.2
Other income & associates	26.8	18.1	18.1	18.1	18.1
Net interest	-18.9	-17.1	-15.8	-15.8	-18.2
Exceptional items	11.8	0.0	0.0	0.0	1.0
Pretax profit	**172.4**	**688.6**	**4,648.6**	**3,256.8**	**2,073.9**
Taxation	-49.3	-153.0	-1,162.2	-814.2	-518.5
Minorities/pref dividends	0.0	0.0	0.0	0.0	1.0
Net profit	**123.1**	**525.6**	**3,476.4**	**2,432.6**	**1,545.4**
Core net profit	**134.9**	**525.6**	**3,476.4**	**2,432.6**	**1,545.4**

Balance Sheet

FYE June (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	965.2	1085.6	1305.3	1508.7	1697.1
Intangible assets	28.7	28.7	28.7	28.7	28.7
Other long-term assets	5.5	226.8	245.0	263.1	281.2
Total non-current assets	**1207.0**	**1341.2**	**1579.0**	**1800.5**	**2007.0**
Cash & equivalent	173.8	1180.8	2556.6	4233.9	5331.4
Stock	181.9	252.8	1378.8	1143.3	875.4
Trade debtors	173.8	247.4	1654.5	1371.9	1047.3
Other current assets	106.1	229.3	229.3	229.3	230.3
Total current assets	**635.7**	**1910.4**	**5819.3**	**6978.4**	**7484.4**
Trade creditors	217.5	175.7	866.2	797.1	633.0
Short-term borrowings	330.5	226.1	226.1	226.1	226.1
Other current liabilities	53.9	131.9	1075.6	1967.0	1802.9
Total current liabilities	**601.9**	**1477.5**	**2167.9**	**2098.9**	**1934.8**
Long-term borrowings	61.0	102.1	102.1	152.1	202.1
Other long-term liabilities	45.6	63.7	63.7	63.7	63.7
Total long-term liabilities	**106.6**	**165.7**	**165.7**	**215.7**	**265.7**
Shareholders' funds	**1123.7**	**1586.3**	**5032.5**	**6422.2**	**7238.8**
Minority interests	10.5	22.1	32.1	42.2	52.2

Cash flow Statement

FYE June (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	172.4	688.6	4648.6	3256.8	2073.9
Depreciation/Amortisation	45.1	76.1	80.3	96.6	111.6
Net change in working capital	30.5	636.7	-1842.6	449.1	428.4
Others	-13.0	-1.0	-2.4	-2.4	0.0
Cash flow from operations	**235.1**	**1338.5**	**1721.8**	**2986.0**	**2095.5**
Capital expenditure	-112.2	-192.0	-300.0	-300.0	-300.0
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	**-112.2**	**-192.0**	**-300.0**	**-300.0**	**-300.0**
Debt raised/(repaid)	-44.6	-63.4	0.0	50.0	50.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	1.0
Dividends paid	-32.8	0.0	-30.2	-1042.9	-729.8
Others	-18.9	-17.1	-15.8	-15.8	-18.2
Cash flow from financing	**-104.0**	**-80.5**	**-46.0**	**-1008.7**	**-697.9**
Net cash flow	**18.8**	**1066.0**	**1375.8**	**1677.3**	**1097.5**
Cash b/f	**145.2**	**173.8**	**1180.8**	**2556.6**	**4233.9**
Cash c/f	**173.8**	**1289.8**	**2556.6**	**4233.9**	**5331.4**

Key Ratios

FYE June	2019	2020	2021F	2022F	2023F
Revenue growth (%)	17.9	38.6	nm	-17.1	-24.8
EBITDA growth (%)	16.3	nm	nm	-29.4	-35.2
Pretax margins (%)	11.2	32.3	50.8	42.9	36.3
Net profit margins (%)	8.0	24.7	38.0	32.1	27.1
Interest cover (x)	9.3	37.7	292.3	203.9	111.9
Effective tax rate (%)	28.6	22.2	25.0	25.0	25.0
Net dividend payout (%)	33.8	5.8	30.0	30.0	30.0
Debtors turnover (days)	43.0	36.1	37.9	72.8	77.4
Stock turnover (days)	44.0	36.1	37.9	72.8	77.4
Creditors turnover (days)	48.0	33.7	20.8	40.0	45.7

Source: Bloomberg, KAF

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.

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

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