

18 November 2021

Supermax Corporation

1QFY22 Above, But Headwinds Ahead

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1QFY22 PATAMI of RM639m (-33% QoQ; -19% YoY) came in at 60%/50% of our/consensus full-year forecast, slightly above our expectation which prompts us to raise our FY22E net profit by 12%. However, we caution that earnings in subsequent quarters are expected to be impacted by: (i) potential revenue loss from US CBP WRO which accounts for 20% of sales, (ii) ASP normalising faster-than-expected, and (iii) impact from one-off prosperity tax in FY22 from the recently announced Budget 2022. We cut our TP from RM2.15 to RM1.95 based on 10x FY23E EPS. The PER is lowered from 11x to 10x taking into consideration the downside risk to revenue from the CBP WRO. Reiterate MP.

Key results' highlights. QoQ, 1QFY22 revenue fell 22%, no thanks to lower ASP and we believe on lower volume sales as well due to temporary closure of the Group's entire manufacturing operations during the Enhanced Movement Control Order (EMCO) imposed in July 2021. EBITDA margin fell 2.0ppt to 65% from 67% due to lower ASP which fell faster than a corresponding decline in input raw material cost. This brings 1QFY22 PATAMI to RM638m (-33%) due to higher effective tax rate of 28% as higher provision was made in view of the prosperity tax announced in the recent Budget 2022 compared to 18% in 4QFY21. A 1st interim DPS of 5.0 sen was declared which came in line with our expectation. YoY, 1QFY22 PATAMI fell 19% dragged down by higher effective tax rate of 28% vs. 23% in 1QFY21.

Outlook. Recall that CBP issued a Withhold Release Order (WRO) against Supermax which has identified 10 of the International Labour Organization's indicators of forced labour in manufacturing operations during its investigation. The group claimed that it had taken measures to meet the International Labour Organisation (ILO) standards on migrant workers since 2019. The group highlighted that it had on 11 October 2021 commissioned an independent international consulting firm to conduct an audit into the status of foreign workers in the Supermax Group's manufacturing facilities. Note that the US accounts for approximately 20% of sales. The impact severity on earnings depends on: (i) how fast Supermax can replace loss of sales in the US, and (ii) how long it takes for the group to resolve the issue. Note that it took almost a year for TOPGLOV to be cleared of the ban. Separately, the group clarified that only exports of gloves to the Federal Government of Canada is on hold pending the submission of the audit report from an independent auditor. Currently, a US-based independent auditor is conducting the site audit and the report would be available for submission sometime in the 4th week of Nov 2021. The Canadian market represents approximately 9% of the group's total market and the market share fluctuates based on successful tender awards for each year. The recent round of reporting season for glove makers suggested that the ASP trend is expected to soften faster than expected in subsequent quarters. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. We believe this signals acceleration in overall market ASP normalization. We are unable to quantify as to how low ASP will fall to; however, glove manufacturers are of the view that ASP is unlikely to go below pre-COVID pricing considering that the cost structure has risen amongst others including social compliance costs and the high nitrile feedstock cost compared to pre-COVID era.

Maintain MP. We cut our TP from RM2.15 to RM1.95 based on 10x FY23E EPS (at -1.0 SD below 5-year pre-COVID forward historical mean of 15x). The PER is lowered from 11x to 10x taking into consideration of downside risk to revenue from the CBP WRO.

Key risks to our call include lower-than-expected margins

MARKET PERFORM ↔

Price: **RM1.82**
Target Price: **RM1.95** ↓

Share Price Performance



KLCI 1,525.13
YTD KLCI chg -6.3%
YTD stock price chg -67.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SUCB MK Equity
Market Cap (RM m) 4,764.1
Shares Outstanding 2,617.6
52-week range (H) 8.31
52-week range (L) 1.71
3-mth avg. daily vol: 14,260,550
Free Float 33%
Beta 1.6

Major Shareholders

Supermax Holdings SdnBhd 38.4%
Black Rock 2.3%

Summary Earnings Table

FY Jun (RM m)	2021A	2022E	2023E
Turnover	7164.2	4287.8	3160.6
PBT	5019.4	1639.5	754.1
Net Profit (NP)	3812.9	1188.1	530.7
Core NP (CNP)	3812.9	1188.1	530.7
Consensus NP	-	1294	597
Earnings Revision	-	+12%	-
EPS (sen)	140.2	43.7	19.5
EPS growth (%)	248.7	(68.8)	(55.3)
NDPS (sen)	31.8	14.4	5.0
BVPS (RM)	1.75	2.04	2.19
PER (x)	1.3	4.2	9.3
PBV (x)	1.0	0.9	0.8
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	17.5	7.9	2.7

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Result Highlight

FY Jun (RM m)	4Q FY21	1Q FY21	1Q FY22	QoQ Chg %	YoY Chg %
Turnover	1,875.5	1,352.5	1,455.7	(22.4)	7.6
EBITDA	1,252.2	1,065.7	951.9	(24.0)	(10.7)
PBT	1,230.6	1,049.2	930.9	(24.4)	(11.3)
Net Profit (NP)	958.7	789.5	638.5	(33.4)	(19.1)
EPS (sen)	35.2	29.0	23.5	(33.4)	(19.1)
EBITDA margin (%)	66.8	78.8	65.4		
PBT margin (%)	65.6	77.6	63.9		
Effective tax rate (%)	17.8	22.6	28.4		

Source: Bursa Malaysia, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net DivYld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<u>RUBBER GLOVES</u>																	
HARTALEGA HOLDINGS BHD	5.45	18,625	Y	03/2022	45%	-43%	29%	-67%	6.4	5.0	15.2	3.7	2.9	65%	12%	8.70	OP
KOSSAN RUBBER INDUSTRIES	2.07	5,282	Y	12/2021	91%	-55%	186%	-83%	4.9	1.7	10.2	2.2	1.2	91%	19%	2.45	MP
SUPERMAX CORP BHD	1.82	4,764	Y	06/2022	-40%	-26%	-69%	-55%	1.3	4.2	9.3	1.0	0.9	23%	8%	1.95	MP
TOP GLOVE CORP BHD	2.51	20,098	Y	08/2022	-34%	-2%	-74%	-15%	2.6	9.9	11.7	3.4	3.1	33%	5%	3.60	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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