

26 February 2020

Consumer Non-cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

COVID-19-Driven Demand Beneficiary

Target Price (Return): MYR1.86 (+13%)
 Price: MYR1.65
 Market Cap: USD515m
 Avg Daily Turnover (MYR/USD): 23.5m/5.68m

- Maintain BUY and DCF-derived MYR1.86 TP, 13% upside plus c.2% yield.** Our TP implies 19.4x FY20 (Jun) forward P/E, or +1.02SD from its 5-year forward P/E. 1HFY20 earnings were in line. QoQ, 2QFY20 earnings improved 22% on higher revenue and better margins. Looking ahead, Supermax should benefit from COVID-19, as we expect a structural rise in gloves demand.
- Earnings deemed in line, as we expect a stronger 2HFY20.** Supermax's 1HFY20 core net profit of MYR76m was within expectations. Although it only makes up 42% and 43% of consensus and our estimates, we are expecting a strong 2HFY20. This is on a demand surge for gloves, in view of the COVID-19 outbreak. We understand the lead time has increased to four months, vis-a-vis the normal range of 60-75 days. We believe demand has likely surged >20% in 2HFY20 when compared to 1HFY20.
- EBITDA margins improved QoQ but declined YoY.** 2QFY20 earnings improved 22% QoQ on sales increases and margins expansion. Note that revenue improved 4% QoQ to MYR385m, while EBITDA margins increased to 15.4% vs 1QFY20's 13.3%. We gather the commissioning of five lines at Plant 12's Block A – with capacity of 1.4bn pieces pa (ppa) – has helped to improve efficiency due to the better facilities installed. However, the margins are still lower YoY when compared to 2QFY19's 18.2%. This is due to strong competition in the latex gloves segment. For the contact lens division, it is likely to still be in the red in 2QFY20, but its EBITDA has improved QoQ.
- FY20 set to be a growth year.** Supermax stated that glove demand has been boosted following the COVID-19 outbreak in China. We gather that orders from there and other countries in the region has increased. To cater for the sudden surge in demand, Supermax is expediting the commissioning of new lines at Plant 12's Block A in Meru, Klang. We expect the company's capacity to increase by 0.8bn ppa, or 3%, after completing the remaining three lines at Block A in March. In view of the high expansion needed in the short term, Supermax did not declare any dividends in 2QFY20. In the near term, a weaker MYR benefits the company, as close to 100% of its gloves are exported, with 50-60% of costs in USD.
- We keep our call and TP.** Our FY20F-22F earnings remain unchanged. The current share price of MYR1.65 reflects 17x forward P/E, or +0.39SD above its 5-year average – this is undervalued, in our view. Note that COVID-19 cases are still increasing, and this should lead to a structural increase in gloves demand. Risks: Increasing competition in the industry, lower-than-expected USD/MYR, higher-than-expected raw material prices, and worse-than-expected performance from the contact lens division.

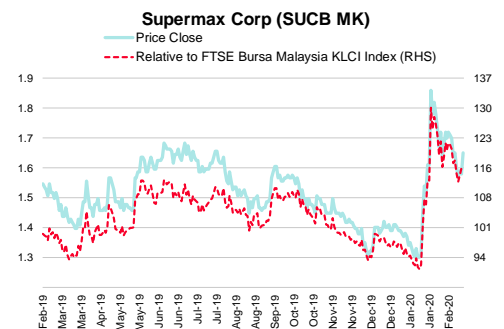
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.7	2.5	18.0	11.0	6.7
Relative	24.9	7.9	24.4	18.4	20.3
52-wk Price low/high (MYR)	1.30 – 1.86				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	1,304	1,538	1,606	1,823	1,930
Recurring net profit (MYRm)	86	107	127	132	136
Recurring net profit growth (%)	-	25.4	18.0	4.6	2.6
Recurring P/E (x)	25.19	20.09	17.03	16.28	15.87
P/B (x)	2.1	1.9	1.8	1.6	1.5
P/CF (x)	12.16	9.17	8.12	8.11	8.53
Dividend Yield (%)	4.8	0.9	2.1	2.2	2.3
EV/EBITDA (x)	9.25	9.39	8.79	7.94	7.41
Return on average equity (%)	-	11.5	10.9	10.7	10.3
Net debt to equity (%)	28.5	19.2	10.1	3.1	(1.4)

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Regional	Recurring EPS	0.07	0.08	0.10	0.10	0.10
Consumer Non-cyclical	DPS	0.08	0.02	0.03	0.04	0.04
Supermax Corp	BVPS	0.78	0.86	0.93	1.00	1.08
SUCB MK	Return on average equity (%)	-	11.5	10.9	10.7	10.3
Buy						
Valuation basis	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
We use DCF-FCFE valuation.	Recurring P/E (x)	25.19	20.09	17.03	16.28	15.87
	P/B (x)	2.1	1.9	1.8	1.6	1.5
	FCF Yield (%)	5.5	5.7	5.4	5.4	4.8
	Dividend Yield (%)	4.8	0.9	2.1	2.2	2.3
	EV/EBITDA (x)	9.25	9.39	8.79	7.94	7.41
	EV/EBIT (x)	11.16	11.66	13.28	12.41	11.86
Key drivers	Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Our earnings forecasts are most sensitive to nitrile and latex glove volumes, USD/MYR, and raw material prices.	Total turnover	1,304	1,538	1,606	1,823	1,930
	Gross profit	430	510	322	354	368
	EBITDA	244	232	237	252	262
	Depreciation and amortisation	(42)	(45)	(80)	(91)	(98)
	Operating profit	202	187	157	161	164
	Net interest	(14)	(20)	(5)	(2)	0
	Pre-tax profit	162	172	167	177	183
	Taxation	(52)	(49)	(39)	(42)	(43)
	Reported net profit	107	123	127	135	140
	Recurring net profit	86	107	127	132	136
Key risks	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Downside risks include:	Change in working capital	57	31	52	37	15
i. Lower-than-expected volumes;	Cash flow from operations	177	235	266	266	253
ii. Volatile currency movements;	Capex	(59)	(112)	(150)	(150)	(150)
iii. Volatile raw material prices.	Cash flow from investing activities	(55)	(112)	(144)	(141)	(140)
	Dividends paid	(76)	(33)	(38)	(40)	(42)
	Cash flow from financing activities	(126)	(104)	(6)	(18)	(78)
	Cash at beginning of period	156	145	174	299	416
	Net change in cash	(4)	19	116	107	35
	Ending balance cash	145	174	299	416	460
Company Profile	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Supermax is one of the world's Big 4 glove makers. It produces both latex and nitrile gloves.	Total cash and equivalents	145	174	299	416	460
	Tangible fixed assets	900	969	1,018	1,068	1,121
	Total investments	197	208	208	208	208
	Total assets	1,700	1,843	2,025	2,223	2,330
	Short-term debt	374	331	294	336	327
	Total long-term debt	62	61	129	121	114
	Total liabilities	677	708	800	902	910
	Total equity	1,023	1,134	1,225	1,321	1,420
	Total liabilities & equity	1,700	1,843	2,025	2,223	2,330
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	17.9	4.4	13.5	5.9
	Recurrent EPS growth (%)	0.0	25.4	18.0	4.6	2.6
	Gross margin (%)	33.0	33.2	20.1	19.4	19.1
	Operating EBITDA margin (%)	18.7	15.1	14.8	13.8	13.6
	Net profit margin (%)	8.2	8.0	7.9	7.4	7.2
	Capex/sales (%)	4.5	7.3	9.3	8.2	7.8
	Interest cover (x)	14.5	9.5	13.6	15.1	16.6

Source: Company data, RHB

Figure 1: Results snapshot

FYE June (MYRm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	6MFY19	6MFY20	YoY (%)	Comments
Revenue	385.1	369.9	385.5	4.2	0.1	752.2	755.4	0.4	Increased capacity output due to commissioning of new lines.
EBITDA	70.2	49.2	59.3	20.6	(15.6)	137.9	108.5	(21.4)	Higher latex prices have affected margins.
<i>EBITDA margin (%)</i>	<i>18.2</i>	<i>13.3</i>	<i>15.4</i>			18.3	14.4		
Depreciation	(11.3)	(12.5)	(12.8)	2.4	14.1	(21.6)	(25.4)	17.3	
EBIT	59.0	36.6	46.5	26.8	(21.2)	116.3	83.1	(28.5)	
<i>EBIT Margin (%)</i>	<i>15.3</i>	<i>9.9</i>	<i>12.1</i>			15.5	11.0		
Interest expense	(4.7)	(4.2)	(4.6)	10.4	(0.7)	(9.3)	(8.8)	(5.0)	
Pretax profit	54.3	32.4	41.8	28.9	(23.0)	107.0	74.3	(30.6)	
<i>Pretax margin (%)</i>	<i>14.1</i>	<i>8.8</i>	<i>10.9</i>			14.2	9.8		
Tax	(15.6)	(7.5)	(11.8)	57.8	(24.3)	(32.3)	(19.3)	(40.3)	
<i>Effective tax rate (%)</i>	<i>28.7</i>	<i>23.1</i>	<i>28.2</i>			30.2	26.0		
Minority interest	0.6	(0.2)	(0.1)	nm	nm	0.6	0.1	nm	
Net profit	38.1	24.7	30.2	21.9	(20.9)	74.1	54.9	(25.9)	Within expectations. 42% and 43% of consensus and our estimates.
<i>Net margin (%)</i>	<i>9.9</i>	<i>6.7</i>	<i>7.8</i>			9.8	7.3		
Core net profit	38.1	24.7	30.2	21.9	(20.9)	67.6	54.9	(18.7)	Excludes MYR6.5m insurance claim in 1HFY19.
<i>Core net margin (%)</i>	<i>9.9</i>	<i>6.7</i>	<i>7.8</i>			9.0	7.3		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-23	Buy	1.86	1.52
2019-11-29	Neutral	1.50	1.34
2019-09-03	Neutral	1.61	1.46
2019-07-19	Buy	1.88	1.62
2019-05-15	Buy	1.88	1.57
2019-02-13	Buy	1.85	1.61
2019-01-08	Neutral	1.85	1.62
2018-08-30	Neutral	4.15	1.66
2018-07-23	Buy	5.20	2.18

Source: RHB, Bloomberg

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