

Supermax Corporation Berhad

(7106 | SUCB MK) | Health Care | Health Care Equipment & Services

Maintain BUY

Growing global ambition

KEY INVESTMENT HIGHLIGHTS

- **1QFY21 earnings beat expectations**
- **1QFY21 net profit up by 98.3%qoq to RM793.5m**
- **Still room for ASP growth**
- **Plans to build plants overseas**
- **Eyeing dual listing in Singapore**
- **Maintain BUY with an unchanged TP RM13.83**

1QFY21 earnings beat expectations. Supermax's 1QFY21 core net earnings of RM793.5m came in above our and consensus' expectations, making up 37.7% and 40.9% of our and consensus' full year estimates respectively. The positive deviation can be attributed to its better than expected margin.

1QFY21 net profit swelled by 1345.1%yoy to RM793.5m as revenue jumped by 79%yoy to RM1,352.5m. The surge in net profit can be attributed in its OBM model, which allows it to command higher margins through its own distribution channels. The model enables it to sell directly to end users and more so during the pandemic, hence making the higher profit margin. Other than selling medical gloves, the company also distributes other personal protective equipment (PPE) such as face masks and protective gowns, which had also garnered good margins. Income contribution from manufacturing is 65% while the remaining 35% is from distribution. For the product mix during the quarter, 68% is nitrile glove, 25% latex powder-free glove, 5% powder latex glove and 2% surgical glove.

Sequentially, 1QFY21 net profit almost double compared to 4QFY20 thanks to higher quarter-on-quarter average selling prices (ASPs) and even more lucrative margins due to better production efficiency and distribution margins for other PPE products. This was also boosted by additional capacity from its Block A lines in Plant 12, which added 2.2 billion pieces p.a. to its volume. The completion of Block B in Plant 12 is expected to add another 2.2 billion pieces p.a. by 4QCY20. In 1QFY21, it exports 58% of production under its own brand (versus 55% in 4QFY20 and 40% prior to the pandemic). Sales through independent distributors are 40% (vs 30% pre-pandemic) while OEM only accounted for 2% of sales compared to 5% in 4QFY20 and 30% pre-pandemic. This results in PATANCI margin expanding further by 15.7ppt to 58.7% in 1QFY21.

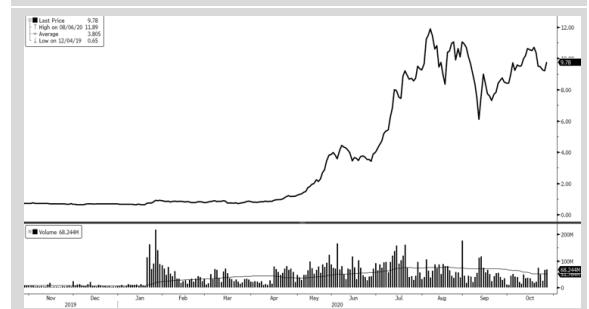
Still room for ASP growth. During the briefing post-results, management guided that the company is still in an oversold position and that there is still room for ASPs to increase in the coming quarters, albeit at a smaller percentage. The demand is also seen in capacity been taken up until end of 2021 compared to about mid of 2021 guided previously. It continues to receive 30% to 50% for deposits for the orders.

Unchanged Target Price: RM13.83

RETURN STATISTICS

Price @ 27 th October 2020 (RM)	9.78
Expected share price return (%)	+41.5
Expected dividend yield (%)	+3.1
Expected total return (%)	+44.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	13.9	14.5
3 months	16.2	19.0
12 months	1224.1	1285.5

KEY STATISTICS


FBM KLCI	1,500.35
Syariah compliant	Yes
Issue shares (m)	2582.84
Estimated free float (%)	58.01
Market Capitalisation (RM'm)	25,122.19
52-wk price range	RM0.64 - RM12.2
Beta vs FBM KLCI (x)	1.89
Monthly volatility (%)	16.48
3-mth average daily volume (m)	52.16
3-mth average daily value (RM'm)	492.75
Top Shareholders (%)	
Kim Sim Thai	21.98
Tan Bee Geok	16.27
Norges Bank	2.38

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Capex of RM1.3b for 5 new plants in Malaysia and another USD550m (RM2.3b) for plants in US. The company has earmarked RM1.3b for Plant 13, 14, 15, 16 and 17 in Klang. The progress of the 5 new plants is at various stages with commissioning plans from 2021 to 2022. Currently, construction works are on-going at Plant 13 and 14. It targets to bring its capacity to 48.4 billion pieces by end of 2022 with the new plants. Meanwhile, it is also working with government agencies in the US to build factories there for the US market. It plans to allocate USD300m for the first phase and USD250m for the second phase. In the long-run, it targets to build a capacity of ~15 billion pieces of gloves for the US market, specifically supplying to the US government agencies and hospitals initially. Ultimately, its ambition is to capture ~10% of US market with US-made gloves from its production capacity there. The company is at the stage of identifying suitable sites for the plant in the US. Other than the US, it is also eyeing to build a plant in the UK with a budget of GBP50m (RM271.5m) and a targeted capacity of 220 million pieces of gloves per year. Meanwhile, it has started the commissioning of its Canadian face mask production and delivered a few million pieces to the Canadian government. We believe that its expansion plans can be supported by its strong balance sheet as net cash stood at RM2.1b as of end-September.

Eyeing dual listing in Singapore. The company is in the midst of appointing an investment bank (IB) for its plans to list on the Singapore stock exchange. It aims to raise funds for its future expansion plans, to widen its shareholders base and to expose its name to the global financial market. It expects to share more details after the announcement of the appointment of the IB. It targets to complete the exercise in 6 months upon the appointment.

Earnings forecast revised upwards. We revise our FY21F earnings forecast by +44.3% as we factor in higher margins due to its higher own-brand sales and higher sales from its distribution business. We maintain our FY22F earnings estimates for now.

Maintain BUY with an unchanged TP of RM13.83. We reiterate our **BUY** recommendation on **Supermax** as we believe that its prospects are still positive due to the high demand in gloves and potentially higher ASPs in the coming quarters. Its profit margins are also superior while operating cash flow is expected to remain strong. We also believe that it is a strong contender to be included in the KLCI in the upcoming review. Our **TP of RM13.83** is based on 18.0x FY22F EPS of 13.3 sen. The 18.0x PER is based on its 10-year average. 

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2020A	2021E	2022F	2023F	2024F
Revenue	2,131.8	6,700.3	7,209.6	7,001.9	6,971.9
Cost of goods sold	(1,444.3)	(2,313.7)	(4,292.0)	(4,518.4)	(4,499.1)
Gross profit	687.5	4,386.6	2,917.6	2,483.4	2,472.8
Finance costs	(17.1)	(53.6)	(57.7)	(56.0)	(55.8)
PBT	688.5	4,362.6	2,891.8	2,458.3	2,447.8
Taxation	(153.0)	(1,308.8)	(867.5)	(712.9)	(685.4)
PATANCI	535.5	3,044.9	2,014.6	1,736.1	1,753.1
PBT Margin (%)	32.3	65.1	40.1	35.1	35.1
PATANCI Margin (%)	25.1	45.4	27.9	24.8	25.1
EPS (sen)	40.2	116.2	76.9	66.2	66.9
EPS Growth (%)	756.0	188.9	(33.8)	(13.8)	1.0
PER (x)	24.3	8.4	12.7	14.8	14.6
Dividend (sen)	23.6*	46.5	30.7	20.5	21.4
Dividend Yield (%)	2.4	4.8	3.1	2.1	2.2

*Dividend paid in treasury shares

Source: Company, MIDFR

SUPERMAX CORPORATION BERHAD: 4QFY20 RESULTS SUMMARY

FYE June (RM'm)	Quarterly results					Cumulative results		
	1QFY21	4QFY20	1QFY20	YoY (%)	QoQ (%)	3MFY21	3MFY20	YoY (%)
Revenue	1,352.5	929.1	755.4	79.0	45.6	1,352.5	755.4	79.0
Operating expenses	(313.5)	(418.4)	(672.9)	(53.4)	(25.1)	(313.5)	(672.9)	(53.4)
Finance costs	(2.4)	(4.8)	(8.8)	(72.7)	(49.6)	(2.4)	(8.8)	(72.7)
Share of profit of associated companies	12.6	13.0	0.5	2,268.4	(3.1)	12.6	0.5	2,268.4
Profit Before Tax	1,049.2	519.0	74.3	1,312.7	102.2	1,049.2	74.3	1,312.7
Taxation	(232.8)	(110.7)	(19.3)	1,106.6	110.2	(232.8)	(19.3)	1,106.6
Profit After Tax	816.5	408.2	55.0	1,385.0	100.0	816.5	55.0	1,385.0
Minority interest	23.0	8.7	0.1	nm	165.5	23.0	0.1	32,714.3
PATANCI	793.5	399.6	54.9	1,345.1	98.6	793.5	54.9	1,345.1
Core PATANCI	793.5	400.2	54.9	1,345.1	98.3	793.5	54.9	1,345.1
Basic EPS (sen)	30.3	15.2	2.1	1,345.1	98.6	30.3	2.1	1,345.1
				(+/-) ppts				(+/-) ppts
PBT margin(%)	77.6	55.9	9.8	67.7	21.7	77.6	9.8	67.7
PAT margin (%)	60.4	43.9	7.3	53.1	16.4	60.4	7.3	53.1
PATANCI margin(%)	58.7	43.0	7.3	51.4	15.7	58.7	7.3	51.4
Tax rate (%)	22.2	21.3	26.0	(3.8)	(3.8)	22.2	26.0	(3.8)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.