

COMPANY UPDATE

Supermax Corporation (SUCB MK)

Outlook Remains Positive

Supermax's prospects are intact amid rising ASP and lengthening delivery lead time. Glove supply remains vastly inadequate, compounded in part by a shortage of NBR, of which Supermax has secured sufficient supply for its expansion. Meanwhile, it aims to expand production into the US and UK upon the invitation of the governments. This comes amid aims to localise some production of its critical personal protective equipment. Maintain BUY with revised target price of RM12.10 as we resume coverage on Supermax.

WHAT'S NEW

- Secures enough NBR supply for near-term expansion.** Despite the tight nitrile butadiene rubber (NBR) supply, Supermax Corporation (Supermax) has secured enough to fuel its expansion needs over the near term. Supermax expects to expand its annual capacity by 10.3b and 12.0b pieces in 2021-22 respectively (annual capacity of 48.4b pieces by end-22). That said, NBR cost is expected to peak to 3x pre-COVID-19 levels on demand-supply imbalance and Supermax's considerably lengthy capex cycle of two years. Beyond 2022, NBR cost is expected to ease as supply kicks in. For now, we believe the steep cost increase is not an issue as the cost pass-through to end-customers may be even used as a basis to further raise nitrile glove ASP.
- Rolling out glove production overseas.** Supermax is in the midst of identifying production sites in the US to manufacture gloves. The will cost US\$300m in the first phase and US\$250m in the second phase. In the long run, it is eyeing a 15b-piece annual capacity in the US, or 10% of its existing glove consumption. We gather that the US government agencies have offered lucrative incentives and tax breaks to attract Supermax. This is amid the government's intention to lower its dependence on imported gloves. Supermax is also looking to build a plant in the UK with a capex of GBP50m.
- Blended ASP continues to rise despite coming off a high base.** Demand remains robust as capacity has been sold up until end-21 while receiving deposits at 30-50% of contracted orders. Seeing that Supermax was among the earliest and most aggressive to reprice its gloves, blended ASP is due to increase further in the quarters ahead albeit at a slower rate.
- Vaccine discovery within expected timeline.** Pfizer and BioNtech announced that its COVID-19 vaccine candidate achieved 90% efficacy in its preliminary findings of its Phase 3 data. This is within our expectations and an additional 12-18 months to achieve global herd immunity. To reiterate, it does not fundamentally affect demand over 2021 as we believe supply is still in severe shortage with usage rate exceeding the glove production rate. Furthermore, it would take an additional 6 to 9 months to fully restock the entire supply chain. Based on previous recent sell-downs, there could be a 20-30% knee-jerk selling, which could be a meaningful entry given that the prospects are intact.

KEY FINANCIALS

Year to 31 Aug (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	1,538	2,132	6,938	5,409	4,783
EBITDA	179	693	4,891	2,595	1,602
Operating profit	134	631	4,830	2,525	1,524
Net profit (rep./act.)	123	525	3,557	1,879	1,148
Net profit (adj.)	123	525	3,557	1,879	1,148
EPS (sen)	4.5	19.3	130.8	69.1	42.2
PE (x)	204.6	48.0	7.1	13.4	22.0
P/B (x)	22.4	16.5	6.3	4.7	4.1
EV/EBITDA (x)	128.4	33.1	4.7	8.8	14.3
Dividend yield (%)	0.2	0.2	4.2	2.2	1.4
Net margin (%)	8.0	24.6	51.3	34.7	24.0
Net debt/(cash) to equity (%)	19.4	(56.4)	(44.7)	(57.8)	(60.9)
Interest cover (x)	9.1	40.6	515.6	734.5	453.6
ROE (%)	11.5	39.6	128.3	40.2	20.0
Consensus net profit	-	-	2,967	1,869	1,575
UOBKH/Consensus (x)	-	-	1.20	1.01	0.73

Source: Supermax, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM9.63
Target Price	RM12.10
Upside	+25.6%
(Previous TP	RM6.20)

COMPANY DESCRIPTION

Among the largest nitrile glove manufacturers in the world, Supermax differentiates itself with its OBM range and independent distribution network. It also produces latex, surgical gloves and contact lens.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	SUCB MK
Shares issued (m):	2,568.7
Market cap (RMm):	23,786.5
Market cap (US\$m):	5,731.4
3-mth avg daily t'over (US\$m):	116.2

Price Performance (%)

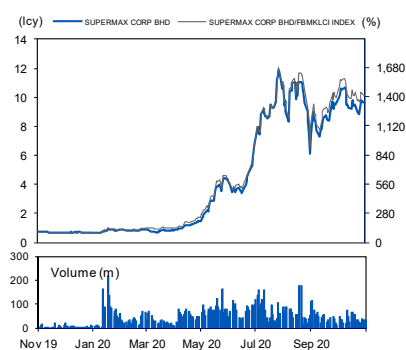
52-week high/low	RM11.89/RM0.650			
1mth	3mth	6mth	1yr	YTD
(4.6)	(19.5)	598.9	1162.1	1,232.4

Major Shareholders

	%
Stanley Thai	37.2
Vanguard	2.4
Norges Bank	2.4

FY21 NAV/Share (RM)	1.48
FY21 Net Cash/Share (RM)	0.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

Philip Wong
 +603 2147 1996
 philipwong@uobkayhian.com

STOCK IMPACT

- Big 4 contributions rest windfall tax fears.** In the recently tabled Budget 2021 on 6 Nov 20, it was announced that the Big 4 glove producers have committed to donate a cumulative RM400m to help ease the government's burden for vaccine and health equipment expenses. Supermax will be contributing RM75m, or 1.5% of its FY21F PBT. We are positive over the development as this rests rumours of a potential windfall tax.
- Capacity arising from new entrants not a concern for now.** Companies from other sectors have entered the glove manufacturing industry. Based on preliminary information from listed companies that have disclosed their capacity expansion plans, we should reasonably expect up to 29.4b pieces annually from these new entrants. This excludes Kanger International, Titijaya Land, HLT Global and Inix Technologies which have not disclosed their capacity expansion plans. However, we think the new entrants will likely struggle to secure already-tight NBR supply - an issue plaguing glove producers. Furthermore, it may take up to 1.5 years to complete the glove manufacturing facilities. Lastly, by 2022, supply from new entrants which is estimated at a blue-sky capacity of 29.4b pieces annually represents 6% of global glove demand (485b pieces). Given the above factors, we think additional supply from these new entrants is not a concern for now.
- Dual listing for expansion plans.** Amid the significant capex outlay for its expansion in Malaysia (RM1.3b), the US (US\$550m or RM2.3b) and the UK (RM270m), Supermax is looking to list on the Singapore stock exchange as well. Apart from raising funds for its expansion plans, it would be able to have a wider base of shareholders which would improve market efficiency of Supermax's shares. Supermax is looking for an investment bank to execute the listing and aims to complete the listing six months after this.

EARNINGS REVISION/RISK

- We raise our FY21-22 net profit forecasts by 216% and 505% respectively as we update our ASP, output and cost assumptions. Key risks are: a) vaccine newsflow but the gradual ramp-up in global manufacturing of vaccine would mean ASPs are unlikely to fall sharply immediately; b) the strengthening of the ringgit against US dollar; and c) a potential windfall tax.

VALUATION/RECOMMENDATION

- Maintain BUY with higher target price of RM12.10** as we resume coverage on Supermax. Our target price is peg to 11.0x 2021F PE, a 10% premium to our PE peg on Kossan or -0.5SD of its 5-year historical mean. This is below the normalised mean PE peg of 14.0x as we believe it is tied to windfall peak earnings. Once earnings normalise, Supermax should rerate from its 5-year historical mean and narrow its valuation discount to Hartalega, Top Glove and Kossan for the following reasons: a) proven original brand manufacturing (OBM) model creating downstream value; b) aggressive expansion ambitions; and c) teething operational issues being resolved.

SHARE PRICE CATALYST

- On track for inclusion into FBMKLCI.** Supermax's market cap stood at RM26.2b as of 9 Nov 20. Simply based on this, it is the 20th-largest market capitalised company, surpassing the 25th-largest market capitalisation threshold for an inclusion into the FBMKLCI. The cut-off date is the last Friday of November, or 27 Nov 20. This could lead to a rerating as seen for Hartalega and Top Glove.

ASSUMPTION CHANGES

	Old		New		
(RMm)	FY21F	FY22F	FY21F	FY22F	FY23F
Revenue	3629	2589	6938	5409	4911
yoy % chg	70	-29	225	-22	-9
Core net profit	1128	312	3567	1889	1188
yoy % chg	115	-72	567	-47	-37
ASP (US\$/'000 pcs)					
ASP growth (%)	30.8	-29.4	150	-42	-21
Volume growth (%)	16	1	16	33	15
Net margin (%)	31	12	51	35	24

Source: UOB Kay Hian

REVENUE DRIVERS ASSUMPTIONS

	FY21F	FY22F	FY23F
Revenue (RMm)	6938	5409	4783
- yoy % chg	189	-22	-12
Utilisation rate (%)	95.0	95.0	95.0
Output (b pcs/year)	24.8	33.1	37.1
- yoy % chg	16	33	12
ASP - yoy % chg	150.0	-41.5	-21.1
RM/US\$	4.30	4.30	4.30

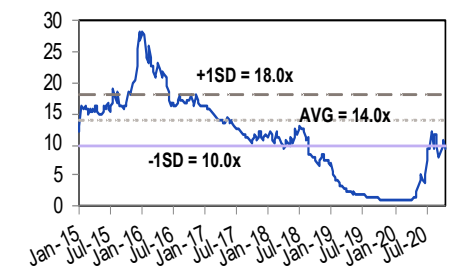
Source: UOB Kay Hian

NEW ENTRANTS INTO GLOVE MANUFACTURING INDUSTRY

Company	Targeted capacity by 2022	Existing nature of operations
Mah Sing	7.4b	Property
Aspen	7.1b	Property
AT Systematization	3.2b	Precision engineering
Green Ocean	2.0b	Palm oil
Vizione	1.0b	Construction
MSCM	1.5b	IT solutions
Iconic Worldwide	3.1b	Property
GPA	3.6b	Automotive
Karex	0.5b	Condom producer
	29.4b	

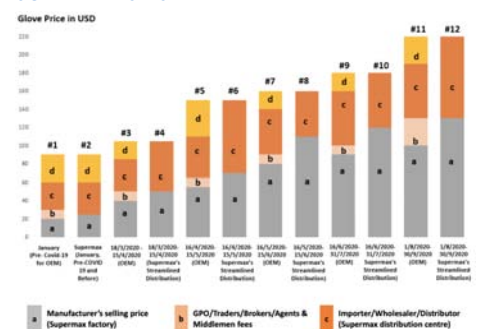
Source: Respective companies, The Star

SUPERMAX: 5-YEAR HISTORICAL FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

SUPERMAX'S ASP TREND



Source: Supermax

PROFIT & LOSS

Year to 31 Aug (RMm)	2020	2021F	2022F	2023F
Net turnover	2,132	6,938	5,409	4,783
EBITDA	693	4,891	2,595	1,602
Deprec. & amort.	62	60	69	78
EBIT	631	4,830	2,525	1,524
Total other non-operating income	48	48	48	48
Associate contributions	18	18	18	18
Net interest income/(expense)	(17)	(9)	(4)	(4)
Pre-tax profit	680	4,887	2,588	1,586
Tax	(145)	(1,319)	(699)	(428)
Minorities	(10)	(10)	(10)	(10)
Net profit	525	3,557	1,879	1,148
Net profit (adj.)	525	3,557	1,879	1,148

CASH FLOW

Year to 31 Aug (RMm)	2020	2021F	2022F	2023F
Operating	1,304	2,294	2,133	1,300
Pre-tax profit	680	4,887	2,588	1,586
Tax	(62)	(1,319)	(699)	(428)
Deprec. & amort.	62	60	69	78
Associates	(18)	(18)	(18)	(18)
Working capital changes	658	(1,325)	189	78
Non-cash items	(31)	0	0	0
Other operating cashflows	16	9	4	4
Investing	(191)	(280)	(280)	(295)
Capex (growth)	(191)	(280)	(280)	(295)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(150)	(1,330)	(570)	(351)
Dividend payments	0	(1,070)	(567)	(347)
Proceeds from borrowings	(91)	(250)	0	0
Loan repayment	25	0	0	0
Others/interest paid	(84)	(9)	(4)	(4)
Net cash inflow (outflow)	963	684	1,283	654
Beginning cash & cash equivalent	174	1,186	1,870	3,153
Changes due to forex impact	50	0	0	0
Ending cash & cash equivalent	1,186	1,870	3,153	3,807

BALANCE SHEET

Year to 31 Aug (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,082	1,414	1,624	1,841
Other LT assets	209	209	209	209
Cash/ST investment	1,186	1,870	3,153	3,807
Other current assets	728	1,233	1,162	1,140
Total assets	3,204	4,726	6,148	6,997
ST debt	224	24	24	24
Other current liabilities	1,283	575	693	750
LT debt	100	50	50	50
Other LT liabilities	47	47	47	47
Shareholders' equity	1,529	4,016	5,328	6,129
Minority interest	21	13	5	(3)
Total liabilities & equity	3,204	4,726	6,148	6,997

KEY METRICS

Year to 31 Aug (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	32.5	70.5	48.0	33.5
Pre-tax margin	31.9	70.4	47.8	33.2
Net margin	24.6	51.3	34.7	24.0
ROA	20.8	89.7	34.6	17.5
ROE	39.6	128.3	40.2	20.0
Growth				
Turnover	38.6	225.4	(22.0)	(11.6)
EBITDA	287.9	605.6	(46.9)	(38.2)
Pre-tax profit	294.5	618.5	(47.0)	(38.7)
Net profit	326.3	577.9	(47.2)	(38.9)
Net profit (adj.)	326.3	577.9	(47.2)	(38.9)
EPS	326.3	577.9	(47.2)	(38.9)
Leverage				
Debt to total capital	17.3	1.8	1.4	1.2
Debt to equity	21.2	1.8	1.4	1.2
Net debt/(cash) to equity	(56.4)	(44.7)	(57.8)	(60.9)
Interest cover (x)	40.6	515.6	734.5	453.6

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