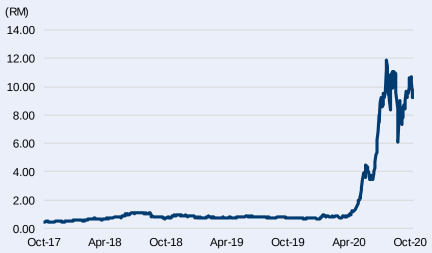
Results Note

RM9.78 @ 27 October 2020

"Results are above both our and street expectations"

Share price performance



	1M	3M	12M
Absolute (%)	13.9	12.2	1224.1
Rel KLCI (%)	14.5	18.9	1285.3

	BUY	HOLD	SELL
Consensus	11	-	-

Source: Bloomberg

Stock Data

Sector	Rubber Products
Issued shares (m)	2,568.7
Mkt cap (RMm)/(US$m)	25122.2/6030.3
Avg daily vol - 6mth (m)	63.0
52-wk range (RM)	0.65-12.22
Est free float	58.0%
Stock Beta	1.89
Net cash/(debt)	(254.33)
ROE (FY21E)	91%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Thai Kim Sim	22.0%
Tan Bee Geok	16.3%

Source: Affin Hwang, Bloomberg

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Fig 2: Results Comparison

Supermax (SUCB MK)

BUY (maintain)
Up/Downside: +67.7%

Price Target: RM16.40
Previous Target (Rating): RM16.50 (BUY)

There is still more to it

- **Supermax reported a strong set of numbers, with 1Q FY21 PATAMI of RM789.5m (+>30x) above both our and consensus expectations, comprising 42% and 41% of respective full-year forecasts**
- **The increase was driven by the strong ASPs in the quarter, which boosted SUCB's PBT margin to 77.6% from 8.8% a year ago**
- **Given that the current COVID-19 is still on a rising trend, we are increasing our ASP assumptions and hence our FY21-23E EPS by 50.4-61.7%. Our TP however remains relatively unchanged as we are lowering our target PER multiple**

Business is still good

Management guided that the current quarter earnings is not their best quarter yet, as ASP for the upcoming quarter is still higher than the current quarter. Although management did not provide a clear guidance on ASPs, we believe that blended ASPs can continue to increase by 4-5% mom in FY21E, before remaining stagnant in FY22E. As Plant 12B is already near completion, this would add another 4-5% of additional capacity by the end of 1Q FY21E. The new capacity will focus on nitrile gloves, but we believe that not all the capacity will be able to produce nitrile gloves, given the current shortage of raw materials. However, there should be limited impact to margins, as there has been a likewise recent surge in ASPs for powdered-free latex gloves.

Leveraging on its current network

Interestingly, management has unveiled its ambition to venture into glove manufacturing in both the US and UK, as they try to leverage on the client base they acquired recently. While the scale of the expansion is still small relative to its Malaysian operations, SUCB is earmarking a total investment of around USD650m for the new plants. The new plants will supply directly to government agencies, similar to the business strategy SUCB has for its face-mask manufacturing in Canada. Management believes that demand for those glove manufactured in those countries will be stable, as those governments would want to reduce dependency from foreign imports and maintain a strategic reserve.

Reaffirming our BUY call with a slightly lower TP of RM16.40

We are raising our FY21-23E EPS by 50-62% to factor in our higher ASP assumption, due to the ASP achieved in current quarter. However, we are trimming our 12-month TP to RM16.40 (previously RM16.50) based on a lower PER of 21x (+1SD of pre-COVID-19 historical mean) from 33x applied to our CY21E EPS, as we believe that sentiment in the sector could be weaker due to news flow on the availability of vaccines. Downside risks: a shortage of raw material and unexpected disruption of its manufacturing facilities.

Earnings & Valuation Summary

FYE 30 June	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,489.3	2,131.8	6,325.4	4,205.2	3,638.0
EBITDA (RMm)	224.1	763.6	4,268.0	1,805.8	1,517.8
Pretax profit (RMm)	172.6	688.6	4,230.1	1,768.2	1,480.6
Net profit (RMm)	123.8	525.6	2,988.7	1,249.3	1,205.9
EPS (sen)	4.5	19.3	109.9	45.9	44.3
PER (x)	215.0	50.6	8.9	21.3	22.1
Core net profit (RMm)	117.3	525.6	2,988.7	1,249.3	1,205.9
Core EPS (sen)	4.3	19.3	109.9	45.9	44.3
Core EPS growth (%)	9.9	348.2	468.6	(58.2)	(3.5)
Core PER (x)	226.9	50.6	8.9	21.3	22.1
Net DPS (sen)	4.5	4.7	50.4	21.1	18.1
Dividend Yield (%)	0.5	0.5	5.2	2.2	1.8
EV/EBITDA (x)	119.7	33.7	5.8	13.2	15.2
Chg in EPS (%)			59.6	50.4	61.7
Affin/Consensus (x)			1.5	1.0	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

FYE June (RMm)	1Q FY20	4Q FY20	1Q FY21	QoQ % chg	YoY % chg	Comments
Revenue	369.9	929.1	1,352.5	45.6	265.6	The improvement QoQ is mainly driven by higher ASPs
Op costs	(321.6)	(380.8)	(299.4)	(21.4)	(6.9)	
EBITDA	**48.4**	**548.4**	**1,053.1**	**92.0**	**2,077.4**	
EBITDA margin (%)	*13.1*	*59.0*	*77.9*	*+18.8 ppts*	*+64.8 ppts*	Higher margin qoq and yoy due to the margin-led price hike
Depn and amort	(12.5)	(37.6)	(14.0)	(62.6)	12.0	
EBIT	**35.8**	**510.8**	**1,039.0**	**103.4**	**2,800.5**	
EBIT margin (%)	*9.7*	*55.0*	*76.8*	*+21.8 ppts*	*+67.1 ppts*	
Int expense	(4.2)	(4.8)	(2.4)	(49.5)	(42.4)	
Int and other inc	0.8	13.0	12.6	(3.2)	1,458.2	
EI	-	-	-	n.m	n.m	
Pretax profit	**32.4**	**519.0**	**1,049.2**	**102.2**	**3,134.1**	
Tax	(7.5)	(110.7)	(236.8)	113.8	3,063.9	
Tax rate (%)	*23.1*	*21.3*	*22.6*	*+1.2 ppts*	*-0.5 ppts*	
MI	(0.2)	(8.7)	(23.0)	165.5	10,683.6	
PATAMI	**24.7**	**399.6**	**789.5**	**97.6**	**3,090.4**	
EPS (sen)	1.8	29.4	58.0	97.6	3,090.4	
Core net profit	**24.7**	**399.6**	**789.5**	**97.6**	**3,090.4**	Above both our and street expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst’s coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst’s coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst’s coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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