

10 June 2020

Consumer Non-cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (Maintained)

Buying Land For Expansion; Keep BUY

Target Price (Return): MYR10.50 (21.4%)
 Price: MYR8.65
 Market Cap: USD2,612m
 Avg Daily Turnover (MYR/USD) 92.4m/21.4m

- Stay BUY and DCF-derived MYR10.50 TP, 21% upside and c.1% yield.** Our TP implies 31.2x FY21 (Jun) forward P/E – a 20% discount to the sector average. This is justified due to Supermax’s lower market cap/liquidity. The group has acquired a piece of land in Meru, Klang, for future expansion purposes. We retain our call, as we expect its 4QFY20 net profit to surge 61% QoQ. In the long run, Supermax is a beneficiary of the 8-10% annual global uptrend in gloves consumption.
- Supermax announced the acquisition of freehold land** (Lot 6060) in Meru, Klang, for MYR21.78m cash from Goh Chee Seong and Lee Ah Mooi. The land size is 2.02ha (5 acres) and valuation works out to MYR100.00/sq ft. This is lower than its recently completed land purchase of Lot 6062 (at MYR111.00/sq ft) on 27 May. Note that Lots 6060 and 6062 are located close to each other.
- Preparing for future expansion.** Supermax said the proposed acquisition is for future expansion of the group’s manufacturing capacity. The land’s location is strategic – nearby its existing cluster of manufacturing plants – and this should lead to better operational synergies and efficiency.
- Paying a premium.** The land’s purchase price of MYR21.78m is higher than the valuation provided by TA Valuers (TAV). Note that TAV valued it at MYR17.40m for unconverted land and MYR19.7m if converted into industrial land. The higher price came about after taking into consideration the synergies and efficiencies to be gained from an integrated manufacturing complex.
- Gloves demand-supply remains very tight.** The group’s orders are secured up to Jun 2021 and its lead time remains high at 12 months. Supermax’s utilisation rate is now almost full at 90-95% as compared to 80-85% before COVID-19.
- Our FY20F-22F earnings remain unchanged,** pending detailed expansion plans by management. In the near term, we expect Supermax’s 4QFY20 net profit to surge 61% QoQ. Over the long term, the group is a beneficiary of the uptrend in global gloves consumption at 8-10% annually, even in the absence of COVID-19.
- Risks include increasing competition in the industry, lower-than-expected USD/MYR, higher-than-expected raw material prices, and a worse-than-expected performance from its contact lens division.**

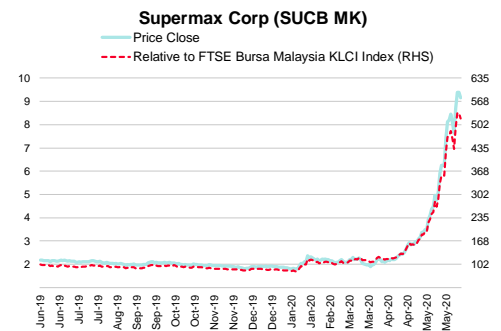
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	522.3	190.3	408.8	545.5	429.1
Relative	523.2	176.3	398.2	544.7	433.6
52-wk Price low/high (MYR)					1.30 – 8.88



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	1,304	1,538	1,757	2,297	2,590
Recurring net profit (MYRm)	107	123	240	440	584
Recurring net profit growth (%)	-	15.5	94.5	83.7	32.8
Recurring P/E (x)	105.94	91.72	47.16	25.68	19.34
P/B (x)	11.2	10.1	8.7	7.0	5.6
P/CF (x)	63.77	48.07	26.33	18.63	15.76
Dividend Yield (%)	0.9	0.2	0.7	1.4	1.8
EV/EBITDA (x)	46.71	48.86	29.09	16.74	12.51
Return on average equity (%)	-	11.5	19.8	30.4	32.3
Net debt to equity (%)	28.5	19.2	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Malaysia	Recurring EPS	0.08	0.09	0.18	0.34	0.45
Consumer Non-cyclical	DPS	0.08	0.02	0.06	0.12	0.16
Supermax Corp	BVPS	0.78	0.86	0.99	1.23	1.54
SUCB MK	Return on average equity (%)	-	11.5	19.8	30.4	32.3
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Recurring P/E (x)	105.94	91.72	47.16	25.68	19.34
	P/B (x)	11.2	10.1	8.7	7.0	5.6
	FCF Yield (%)	1.0	1.1	2.5	4.0	5.0
	Dividend Yield (%)	0.9	0.2	0.7	1.4	1.8
	EV/EBITDA (x)	46.71	48.86	29.09	16.74	12.51
	EV/EBIT (x)	56.35	60.67	36.83	19.49	14.19
	Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total turnover	1,304	1,538	1,757	2,297	2,590
	Gross profit	430	510	732	1,046	1,255
	EBITDA	244	232	381	643	829
	Depreciation and amortisation	(42)	(45)	(80)	(91)	(98)
	Operating profit	202	187	301	552	730
	Net interest	(14)	(20)	(4)	3	11
	Pre-tax profit	162	172	315	578	768
	Taxation	(52)	(49)	(74)	(136)	(180)
	Reported net profit	107	123	240	440	584
	Recurring net profit	107	123	240	440	584
	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	57	31	104	77	43
	Cash flow from operations	177	235	429	607	717
	Capex	(59)	(112)	(150)	(150)	(150)
	Cash flow from investing activities	(55)	(112)	(143)	(136)	(129)
	Dividends paid	(76)	(33)	(72)	(132)	(175)
	Cash flow from financing activities	(126)	(104)	(40)	(111)	(214)
	Cash at beginning of period	156	145	174	430	799
	Net change in cash	(4)	19	246	360	374
	Ending balance cash	145	174	430	799	1,184
	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	145	174	430	799	1,184
	Tangible fixed assets	900	969	1,018	1,068	1,121
	Total investments	197	208	208	208	208
	Total assets	1,700	1,843	2,138	2,631	3,094
	Short-term debt	374	331	294	336	327
	Total long-term debt	62	61	129	121	114
	Total liabilities	677	708	835	1,018	1,071
	Total equity	1,023	1,134	1,303	1,613	2,023
	Total liabilities & equity	1,700	1,843	2,138	2,631	3,094
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	17.9	14.2	30.7	12.8
	Recurrent EPS growth (%)	0.0	15.5	94.5	83.7	32.8
	Gross margin (%)	33.0	33.2	41.7	45.5	48.5
	Operating EBITDA margin (%)	18.7	15.1	21.7	28.0	32.0
	Net profit margin (%)	8.2	8.0	13.6	19.2	22.6
	Capex/sales (%)	4.5	7.3	8.5	6.5	5.8
	Interest cover (x)	14.5	9.5	26.1	51.5	73.9

Source: Company data, RHB

Valuation

DCF valuation details. Key parameters are WACC of 8% and terminal growth of 4%. Our DCF-derived TP of MYR10.50 reflects a forward P/E of 31.2x. This is at a 20% discount against the sector average, which we think is justified due to lower market cap/liquidity.

Figure 1: DCF valuation

FYE Dec (MYRm)	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	Terminal
CFO	605	717	681	763	821	838	891	953	991	1,021	
+ Interest (1 - Tax Rate)	(8)	(8)	(7)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	
- capital expenditure	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	
Free cash flow to firm (FCFF)	447	559	524	606	665	683	737	799	838	868	22,615
Discount factor	0.92	0.85	0.78	0.72	0.66	0.61	0.56	0.51	0.47	0.43	0.43
PV of FCFF	411	473	408	435	438	414	411	411	396	377	9,832
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Risk-free	4.0%										
Beta	0.81										
Cost of Equity	8.9%										
WACC	8.0%										
Terminal growth	4.0%										
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Enterprise Value (MYRm)	14,008										
Cash	218										
- Debt	(473)										
Equity Value (MYRm)	13,754										
No of shares (m)	1309.90										
Fair Value (MYR)	10.50										

Source: RHB

Key Assumptions

Figure 2: Key assumptions

Key Assumptions	FY20F	FY21F	FY22F
Installed capacity (m pieces pa)	26,000	29,000	32,000
Average USD/MYR	4.28	4.28	4.28
Utilisation rate	80%	90%	90%

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-02	Buy	10.5	7.6
2020-05-22	Buy	6.7	5.8
2020-05-21	Buy	6.1	5.4
2020-05-13	Buy	3.9	3.6
2020-03-15	Buy	1.9	1.7
2019-11-29	Neutral	1.5	1.3
2019-09-03	Neutral	1.6	1.5
2019-07-19	Buy	1.9	1.6
2019-01-08	Neutral	1.9	1.6
2018-08-30	Neutral	4.2	1.7
2018-07-23	Buy	5.2	2.2

Source: RHB, Bloomberg

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