

Supermax Corporation Berhad

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

Maintain NEUTRAL

Lofty valuation

Revised Target Price: RM4.09
(Previously RM1.75)


KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings above expectations**
- **Strong earnings in 3QFY20 due to strong demand for gloves**
- **Earnings forecast revised upwards**
- **Maintain Neutral with a revised TP of RM4.09**

9MFY20 earnings above expectations. Supermax's 9MFY20 core net earnings of RM123.9m came in above our and consensus expectations, making up 102% and 84% of our and consensus full year estimates respectively. The positive deviation could be attributed to the stronger than expected average selling price (ASP) of gloves and better than expected margin.

Strong earnings in 3QFY20. On sequential basis, 3QFY20 core net profit surged to RM78.5m (+293.3%qoq) mainly due to exponential rise in demand for gloves as a result of the Covid-19 outbreak. That has led to higher sales volume and higher ASP of gloves. On yearly basis, 3QFY20 core net profit grew 170.6%yoy, bringing 9MFY20 cumulative earnings to RM123.9m (+22.1%yoy). Note that we have excluded forex gain in our core net income calculations. The earnings growth in 9MFY20 was underpinned by higher sales volume and higher ASP of gloves. Besides, lower raw material prices have also helped in earnings growth which has resulted core PBT margin to expand to 13.9% in 9MFY20 from 13.4% in 9MFY19.

Earnings forecasts revised upwards. We revise our FY20/21/22F earnings forecasts by +67%/+54.2%/+40.3% as we factor in lower raw material prices and higher sales from gloves as a result of strong demand for gloves. Meanwhile, Supermax is expanding its production capacity with 3 plants under construction. The 3 plants would increase Supermax's installed capacity by 12billion pieces from 26.18billion gloves to 38.18billion gloves by CY2022.

Maintain Neutral with a revised TP of RM4.09. Post our earnings upward adjustments, we are revising our target price to **RM4.09** (previously RM1.75). Our TP is derived via pegging the FY21F EPS of 16.14sen to target PER of 21.1x which equates to +2SD of its 3-year historical mean. We think that the above mean valuation is justified at this juncture given the robust demand for gloves in the near to medium term. We maintain our Neutral call on Supermax. 

RETURN STATISTICS

Price @ 20 th May 2020 (RM)	4.59
Expected share price return (%)	-10.9
Expected dividend yield (%)	+1.1
Expected total return (%)	-9.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	129.5	121.0
3 months	171.6	208.0
12 months	180.8	213.7

KEY STATISTICS

FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	1326.60
Estimated free float (%)	58.27
Market Capitalisation (RM'm)	5927.63
52-wk price range	RM1.29 - RM4.62
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	0.00
Monthly volatility (%)	16.48
3-mth average daily volume (m)	20.60
3-mth average daily value (RM'm)	47.21
Top Shareholders (%)	
Thai Kim Sim	21.86
Tan Bee Geok	16.18
Norges Bank	2.37

Analyst(s)

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INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	1,304.5	1,538.2	1,965.3	2,110.8	2,334.9
Cost of goods sold	(1,134.6)	(1,351.6)	(1,655.9)	(1,784.8)	(2,004.7)
Gross profit	169.9	186.6	309.4	326.0	330.2
Finance costs	(14.0)	(19.7)	(25.2)	(27.0)	(29.9)
PBT	161.9	172.4	292.9	308.3	310.6
Taxation	(51.8)	(49.3)	(87.9)	(92.5)	(93.2)
PATANCI	106.7	123.1	202.4	213.0	214.3
PBT Margin (%)	12.4	11.2	14.9	14.6	13.3
PATANCI Margin (%)	8.2	8.0	10.3	10.1	9.2
EPS (sen)	8.1	9.4	15.4	16.2	16.4
EPS Growth (%)	58.7	15.4	64.4	5.2	0.6
PER (x)	56.4	48.9	29.7	28.2	28.1
Dividend (sen)	4.0	1.5	5.0	5.0	5.0
Dividend yield (%)	0.9	0.3	1.1	1.1	1.1

Source: Company, MIDFR

* Final dividend via share dividend distribution

SUPERMAX CORPORATION BERHAD: 3QFY20 RESULTS SUMMARY

FYE June(RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	447.2	23.8%	16.0%	1202.7	8.0%
Operating expenses	-353.0	14.3%	4.2%	-1025.9	8.4%
Finance costs	-3.5	N/A	-23.7%	-12.3	N/A
Profit Before Tax	95.3	92.8%	127.8%	169.5	8.4%
Taxation	-22.9	N/A	94.2%	-42.2	N/A
Profit After Tax	72.3	106.9%	141.0%	127.3	16.1%
PATANCI	71.1	105.3%	135.6%	126.0	15.9%
Core PATANCI	78.5	170.6%	293.3%	123.9	22.1%
Basic EPS (sen)	5.4	105.3%	135.6%	9.6	18.8%
Core EPS	6.0	170.6%	293.3%	9.5	25.3%

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.