Supermax Corporation Berhad

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

Cloudy outlook

***Downgrade* SELL**

(from Neutral)

***Revised* Target Price: RM0.65**

(previously RM0.88)

KEY INVESTMENT HIGHLIGHTS

- **Earnings meet expectations**
- **Lower revenue for 4QFY22 at RM300.2m (-84.0%yoy)**
- **Contraction of margin in FY22**
- **ESG concerns continue to dampen the Group's business**
- **Revised earnings forecast for FY22E/FY23F**
- **Downgrade to SELL (from NEUTRAL) with revised TP of RM0.65 (previously RM0.88)**

RETURN STATISTICS	
Price @ 22th August 2022	0.785
Expected share price return (%)	-16.7
Expected dividend yield (%)	2.7
Expected total return (%)	-13.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.5	-6.9
3 months	-11.4	-21.6
12 months	-72.8	-72.2

KEY STATISTICS	
FBM KLCI	1,487.37
Syariah compliant	Yes
Issue shares (m)	2704.89
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	31.90
Market Capitalisation (RM'm)	2,065.27
52-wk price range	RM0.74–RM3.08
Beta vs FBM KLCI (x)	0.92
Monthly velocity (%)	0.55
Monthly volatility (%)	27.25
3-mth average daily volume (m)	10.68
3-mth average daily value (RM'm)	9.28
Top Shareholders (%)	
SUPERMAX H SDN BHD	38.95
Thai Kim Sim	22.38
Vanguard Group Inc/The	2.24

Earnings meet expectations. Supermax's core PATANCI for FY22, which arrived at RM732.4 million, was within our and streets' expectations. It came at 105% of our full-year estimate and 103% of the consensus. The group proposed a final single-tier dividend of 3sen/share, which would make the total dividend for FY22 to 11sen. This is less than the dividend declared of 31.8sen/share for FY21.

Lower revenue for 4QFY22 at RM300.2m (-84.0%yoy) was mainly driven by the fall in demand and average selling prices (ASPs). This was further impacted by the issuance of a withhold release order (WRO) by US Customs and Border Protection (US CBP) and the withdrawal of an order by the Canadian government, which reduced the sales. The same trajectory can be seen in the core PATANCI, which decreases by -96.6%yoy to RM33.1m amid higher operational expenses brought on by rising utility bills and the minimum wage. Despite a revenue drop quarter-on-quarter, the operating profit margin increased by +6.3 ppt, supporting the growth in core PATANCI (+154.1%qoq).

Contraction of margin in FY22. The group's revenue dropped to RM2.69b (-62.5%yoy) in FY22, mostly due to lower demand and normalising ASPs. The core PATANCI is down -23.7%yoy to RM732.4m in line with a lower operating margin at 40.5% (vs. 65.6% in FY21) thanks to the increased input cost.

ESG concerns continue to dampen the Group's business. Sales have been negatively impacted by the WRO issued by USCBP in October 2021 and the Canadian government's ban on importing purchases and deliveries from Supermax. With WRO continuing in effect, we anticipate a further decline in sales volume moving forward. Recall that 9% of the overall revenue for FY21 came from Canada.

Revised earnings forecast for FY22E/FY23F. We reduced our earnings estimation for FY23F/24F by -18.4%/-11.3% to better reflect margin compression. This is after accounting for reduced blended ASPs of USD21.7/22.1 and utilisation rates of 41%/41.8% for FY23F/24F.

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Downgrade to SELL (from NEUTRAL) with revised TP of RM0.65 (previously RM0.88). Our TP is based on FY23F EPS of 7.9sen pegged to a revised PER of 8.2x (slightly above its 2-year historical average). The dividend yield is estimated at 3.5%. We turned cautious of Supermax's FY23F outlook due to: (i) normalising ASPs, which may have declined to pre-pandemic levels before the imbalanced demand-supply dynamics returned to normal; (ii) higher input costs, which could have further compressed the margin; and (iii) prolonged US CBP ban that decreased sales. Potential upside risk: (i) slower-than-anticipated decline in ASP; (ii) removal of the USCBP's WRO; and (iii) an increase in stockpiling activity.

INVESTMENT STATISTICS

FYE DEC (RM'm)	FY2020	FY2021	FY2022A	FY2023F	FY2024F
Revenue	**2,131.8**	**7,164.2**	**2,687.2**	**2,024.6**	**2,295.2**
Cost of Sales	(1,452.7)	(2,171.1)	(1,009.5)	(1,760.6)	(1,955.1)
Operating Profit	**679.1**	**4,993.1**	**1,677.7**	**264.0**	**340.1**
Profit Before Tax (PBT)	680.2	5,020.0	1,070.3	279.8	359.3
Income Tax Expenses	(145.4)	(1,090.0)	(299.2)	(66.9)	(85.9)
PAT	**534.8**	**3,929.9**	**771.1**	**213.0**	**273.5**
Core PATANCI	**524.8**	**3,816.7**	**732.4**	**213.0**	**273.5**
EPS (sen)	19.2	141.1	27.1	7.9	10.1
Dividend per share (sen)	0.0	3.7	2.7	0.8	1.0
Dividend yield (%)	0.0	4.7	3.1	0.9	1.1
Growth & Valuation (%)					
Revenue Growth	38.6	236.1	(62.5)	(24.7)	13.4
Core PATANCI Growth	326.3	627.3	(80.8)	(70.9)	28.4
Operating Profit Margin	31.9	69.7	62.4	13.0	14.8
PBT Margin	31.9	70.1	39.8	13.8	15.7
Core PATANCI Margin	24.6	53.3	27.3	10.5	11.9
Effective tax rate	21.4	21.7	28.0	23.9	23.9
Ratios & Valuation					
PER (x)	4.0	0.5	2.9	9.8	7.7
Net debt/Total Equity (%)	NET CASH	NET CASH	NET CASH	NET CASH	NET CASH
Cash/Mkt Cap (x)	40.5	167.8	133.5	134.3	135.1

Source: Company, MIDFR

Table 1: Supermax's 4QFY22 earnings review

FYE MAR (RM'm)	Quarterly results					Cumulatively results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	300.2	407.8	1,875.5	(84.0)	(26.4)	2,687.2	7,164.2	(62.5)
Operating expenses	(268.4)	(390.2)	(645.3)	(58.4)	(31.2)	(1,599.8)	(2,171.7)	(26.3)
Operating Profit	**31.8**	**17.6**	**1,230.2**	(97.4)	80.3	**1,087.4**	**4,992.5**	(78.2)
Finance costs	(1.6)	(0.7)	(2.1)	(23.1)	122.8	(5.7)	(8.2)	(30.5)
Profit Before Tax	**29.2**	**18.3**	**1,230.6**	(97.6)	59.6	**1,070.3**	**5,019.4**	**(78.7)**
Taxation	3.1	(2.5)	(219.0)	(101.4)	(225.8)	(299.2)	(1,093.3)	(72.6)
Profit After Tax	**32.3**	**15.8**	**1,011.6**	(96.8)	104.2	**771.1**	**3,926.1**	**(80.4)**
Minority interest	(0.8)	2.8	52.9	(101.5)	(127.6)	38.6	113.2	(65.9)
PATANCI	**33.1**	**13.0**	**958.7**	(96.6)	154.1	**732.4**	**3,812.9**	**(80.8)**
One-off items	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Core PATANCI	**33.1**	**13.0**	**958.7**	(96.6)	154.1	**732.4**	**3,812.9**	(80.8)
Basic EPS (sen)	1.3	0.5	35.4	(96.5)	156.2	27.7	140.7	(80.3)
Dividend per share (sen)	**0.0**	**0.0**	**0.0**	n.m.	n.m.	**8.0**	**31.8**	**(74.8)**
Dividend yield	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Revenue Growth	(26.4)	(22.1)	(3.2)	(23.2)	(4.3)	12.6	35.5	(22.9)
Operating Profit Growth	80.3	(82.5)	(7.3)	87.6	162.8	3.0	32.7	(29.7)
Core Patanci Growth	154.1	(72.8)	(4.6)	158.7	226.9	4.7	33.6	(28.9)
Operating Profit Margin	10.6	4.3	65.6	(55.0)	6.3	40.5	69.7	(29.2)
PBT Margin	9.7	4.5	65.6	(55.9)	5.2	39.8	70.1	(30.2)
Core PATANCI Margin	11.0	3.2	51.1	(40.1)	7.8	27.3	53.2	(26.0)
Effective Tax rate (%)	(10.6)	13.5	17.8	(28.4)	(24.2)	28.0	21.8	6.2
Ratio & Valuation				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
PER (x)	62.0	158.8	2.2	59.8	(96.8)	2.8	0.6	2.2
Net debt/Total Equity (%)	NET CASH	NET CASH	NET CASH	n.m.	n.m.	NET CASH	NET CASH	n.m.
Cash/Mkt Cap (%)	148.0	143.8	180.1	(32.2)	4.2	148.0	180.1	(32.2)

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology