Supermax Corporation Berhad

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

Maintain SELL

Low demand; margin compressed

***Revised* Target Price: RM0.31**

(previously RM0.65)

KEY INVESTMENT HIGHLIGHTS

- **Disappointed earnings**
- **Lower 1QFY23's operating profit margin at 3.8% (from 10.6% in 4QFY22)**
- **Allocated a total capital expenditure (CAPEX) of RM1.39b for FY23**
- **Slashed earnings forecast for FY23F/FY24F and introduced FY25F**
- **Maintain SELL with revised TP of RM0.31 (previously RM0.65)**

Disappointed earnings. Supermax's 3MFY23 core PATANCI of RM5.7m came in well below our and streets' expectations. It accounted for only 3% of ours and 5% of the consensus full-year FY23 estimation. The negative variance was mainly due to the weaker-than-expected average selling prices (ASP) and sales volume coupled with greater-than-expected production costs. No dividend was declared for the quarter.

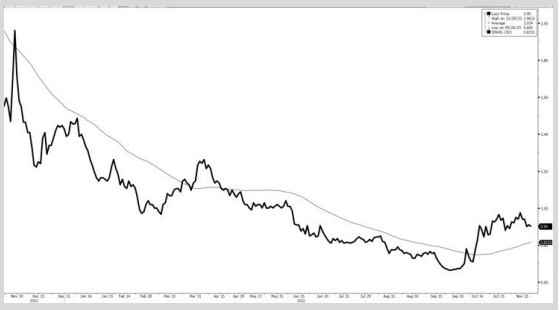
Lower 1QFY23's operating profit margin at 3.8% (from 10.6% in 4QFY22), in line with lower core earnings of RM5.7m (-82.7%qoq). The poor performance was mostly caused by higher production costs coupled with pre-operating cost for the new plant in US. Meanwhile, revenue declined by -17.4%qoq to RM248m due to lower ASPs and lower sales volume amid the continued Withold release order (WRO) imposed by the US Customs and Border Protection (USCBP). On yearly basis, the revenue declined -83%yoy was largely due to lower ASP and sales volume on the back of intense competition in the industry and continued WRO banned by the USCBP. Similarly, core PATANCI plunged to RM5.7m from RM638.5m in 1QFY22. This was due to increased gas and labor costs and pre-operating expenses for new plant in US. Correspondingly, core PATANCI margin reduced from 43.9% in 1QFY22 to 2.3%.

Allocated a total capital expenditure (CAPEX) of RM1.39b for FY23. This includes the CAPEX for the construction of 5 new Nitrile glove manufacturing plants in Malaysia and the installation of plant and equipment at its various factories in Malaysia. For Phase 1 of the US Plant, the group budgeted USD350m in CAPEX. The construction of the US Plant has started, and the main civil and structural works are expected to complete in CY23. We view that the group's current net cash of RM2.74b is sufficient to fund the targeted CAPEX for FY23.

Slashed earnings forecast for FY23F/FY24F and introduced FY25F. We cut our earnings estimation for FY23F/24F by -90.3%/-80.5% to better reflect lower revenue and margin compression due to the oversupply of the glove in the market. This is after accounting for reduced blended ASPs and utilization rates.

RETURN STATISTICS	
Price @ 22nd November 2022	0.91
Expected share price return (%)	-66.3
Expected dividend yield (%)	0.2
Expected total return (%)	-66.09

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.3	6.0
3 months	33.3	20.2
12 months	-45.3	-41.9

KEY STATISTICS	
FBM KLCI	1,441.29
Syariah compliant	Yes
Issue shares (m)	2664.86
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	29.80
Market Capitalisation (RM'm)	2,380.38
52-wk price range	RM0.64 - RM2.30
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	14.89
Monthly volatility (%)	12.57
3-mth average daily volume (m)	
3-mth average daily value (RM'm)	39.25
Top Shareholders (%)	22.55
SUPERMAX H SDN BHD	1.88
Thai Kim Sim	29.80
Vanguard Group Inc/The	2,380.38

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Maintain SELL with revised TP of RM0.31 (previously RM0.65). Our TP is based on FY24F EPS of 2sen pegged to a revised PER of 15.3x (from 8.2x). We changed our PER from 2-year historical mean PE to 3-year historical mean PE to better reflect the medium-to-long-term outlook. We remained cautious about Supermax's FY23F outlook due to: (i) ASP will remain at the current low level in the near term due to the intense competition in the industry; (ii) lower sales volume due to weaker demand coupled with prolonged US CBP ban, and (iii) production cost remain high that continue to compress the margin. **Potential upside risks** are (1) supply-demand equilibrium with small players leaving the market or existing players ceasing some production lines; (2) removal of the USCBP's WRO; and (3) an increase in stockpiling activity.

INVESTMENT STATISTICS

FYE JUN (RM'm)	2021A	2022A	2023E	2024E	2025E
Revenue	7,164.2	2,687.2	835.7	989.8	1,026.2
Operating expenses	(2,080.3)	(1,473.2)	(777.1)	(867.6)	(844.5)
EBITDA	5,083.9	1,214.0	58.6	122.3	181.8
EBIT	**635.2**	**(78.4)**	**(96.8)**	**130.3**	**68.7**
Net finance (expenses)/income:	(8.1)	(5.7)	(6.4)	(6.5)	(6.6)
Profit before Associates & JV	4,984.9	1,070.9	27.8	72.2	126.2
Profit before tax (PBT)	**5,020.0**	**1,059.5**	**27.8**	**72.2**	**126.2**
Income tax expense	(1,090.0)	(302.4)	(7.2)	(18.8)	(32.8)
Profit After tax (PAT)	**3,929.9**	**757.1**	**20.6**	**53.4**	**93.4**
PATANCI	3,816.7	718.9	20.6	53.4	93.4
Core PATANCI	**3,829.1**	**715.4**	**20.6**	**53.4**	**93.4**
Basic EPS (sen)	147.0	27.2	0.8	2.0	3.5
Core EPS (sen)	145.9	28.3	0.8	2.0	3.5
DPS (sen)	3.7	3.0	0.2	0.5	0.8
Growth & Margin					
Revenue Growth (%)	236.1	(62.5)	(68.9)	18.5	3.7
Core PATANCI Growth (%)	676.1	(81.3)	(97.1)	159.8	74.8
PBT Margin (%)	54.9	28.2	2.5	5.4	9.1
Core PATANCI Margin (%)	53.4	26.6	2.5	5.4	9.1
Ratios & Valuation					
Effective tax rate (%)	21.7	28.5	26.0	26.0	26.0
Dividend Yield (%)	4.0	3.3	0.2	0.5	0.9
PER (x)	0.6	3.3	117.9	45.4	26.0
Cash/Market Capitalisation (%)	153.4	124.9	128.6	132.5	136.5
Price to Book Value (P/B)	0.5	0.5	0.5	0.5	0.5

Source: Company, MIDFR

Table 1: Supermax's 1QFY23 earnings review

FYE JUN (RM'm)	Quarterly results					Cumulatively results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY22	3MFY21	YoY (%)
Revenue	248.0	300.2	1,455.7	(83.0)	(17.4)	248.0	1,455.7	(83.0)
Operating expenses	(238.5)	(268.4)	(518.6)	(54.0)	(11.1)	(238.5)	(518.6)	(54.0)
Operating Profit	**9.4**	**31.8**	**937.1**	**(99.0)**	**(70.4)**	**9.4**	**937.1**	**(99.0)**
Net finance income/(cost):	(1.4)	(1.6)	(2.5)	(45.7)	(14.0)	(1.4)	(2.5)	(45.7)
Profit before tax (PBT)	**6.1**	**29.2**	**930.9**	**(99.3)**	**(79.1)**	**6.1**	**930.9**	**(99.3)**
Income tax expense	(1.6)	3.1	(264.5)	(99.4)	(150.7)	(1.6)	(264.5)	(99.4)
Profit After tax (PAT)	**4.5**	**32.3**	**666.3**	**(99.3)**	**(86.0)**	**4.5**	**666.3**	**(99.3)**
Non-controlling interest	(1.2)	(0.8)	27.8	(104.3)	52.9	(1.2)	27.8	(104.3)
Core PATANCI	**5.7**	**33.1**	**638.5**	**(99.1)**	**(82.7)**	**5.7**	**638.5**	**(99.1)**
Basic EPS (sen)	0.2	1.3	23.6	(99.1)	(83.2)	0.2	23.6	(99.1)
Core EPS (sen)	0.2	1.2	23.6	(99.1)	(82.7)	0.2	23.6	(99.1)
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	(17.4)	(26.4)	(22.4)	5.0	9.0	(90.8)	(79.7)	(11.1)
Operating Profit Growth	(70.4)	80.3	(23.8)	(46.6)	(150.7)	(99.1)	(81.2)	(17.9)
Core PATANCI Growth	(82.7)	154.1	(33.4)	(49.3)	(236.8)	(99.2)	(83.3)	(16.0)
Operating Profit Margin	3.8	10.6	64.4	(60.6)	(6.8)	3.8	64.4	(60.6)
PBT Margin	2.5	9.7	63.9	(61.5)	(7.3)	2.5	63.9	(61.5)
Core PATANCI Margin	2.3	11.0	43.9	(41.6)	(8.7)	2.3	43.9	(41.6)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	113.1	115.3	129.5	(16.4)	(2.2)	113.1	129.5	(16.4)
Net cash per share (sen)	(1.5)	12.2	5.6	(127.4)	(112.5)	(1.5)	5.6	(127.4)
Effective tax rate (%)	25.8	(10.6)	28.4	(2.6)	36.5	25.8	28.4	(2.6)
Inventories (Days)	354.2	363.8	278.8	27.0	(2.7)	354.2	278.8	27.0

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