

23 February 2022

Supermax Corporation

1HFY22 Inline, Headwinds Ahead

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

1HFY22 PATAMI of RM686m (-63% YoY) came in within expectations at 58%/60% of our/consensus full-year forecast. However, earnings in subsequent quarters are expected to be impacted by: (i) potential revenue loss from US CBP WRO which accounts for 20% of sales, (ii) ASP normalising faster than expected, and (ii) impact from one-off prosperity tax in FY22. This prompted us to downgrade our FY22E/FY23E net profit by 33% each. Our TP is reduced from RM1.45 to RM0.90 based on 11x FY23E EPS. The PER is below historical 1-year forward pre-COVID mean after taking into consideration the downside risk to revenue from the CBP WRO as well as execution risk in its US venture. **Downgrade to UP from MP.**

Key results' highlights. QoQ, 2QFY22 revenue fell 64%, no thanks to lower ASP and we believe lower volume sales exacerbated by imposition of the WRO and freezing of orders from the Canadian government. EBITDA margin fell to 21% from 65% in 1QFY22 due to lower ASP which fell faster than a corresponding decline in input raw material cost. This brings 2QFY22 PATAMI to RM48m (-93%) due to higher effective tax rate of 38% compared to 28% in 1QFY22 as higher provision was made in view of the prosperity tax announced in the recent Budget 2022 compared to 18% in 4QFY21. No dividend was declared in this quarter which came in line with our expectation. **YoY, 1HFY22** PATAMI fell 63% dragged down by falling ASP and a higher effective tax rate of 29% vs. 23% in 1HFY21.

Outlook. Going forward, earnings in subsequent quarters are expected to be impacted by: (i) potential revenue loss from US CBP WRO which accounts for 20% of sales, (ii) ASP normalising faster than expected, and (ii) impact from one-off prosperity tax in FY22. We expect performance in subsequent quarters could also be impacted by logistic challenges caused by the global shipping container shortage of which we understand are unlikely to abate over the next two quarters. In the meantime, margins in subsequent quarters could be impacted as raw material cost is not adjusting as fast as falling ASP and hence earnings could be lower sequentially. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. Recall that CBP issued a Withhold Release Order (WRO) against Supermax which has identified 10 of the International Labour Organization's indicators of forced labour in manufacturing operations during its investigation. The group claimed that it had taken measures to meet the International Labour Organisation (ILO) standards on migrant workers since 2019. Note that the US accounts for approximately 20% of sales. The impact severity on earnings depends on: (i) how fast Supermax can replace loss of sales in the US, and (ii) how long it takes for the group to resolve the issue. Note that it took almost a year for TOPGLOV to be cleared of the ban.

Downgrade FY22E/23E net profit by 33% each. We downgrade FY22E net profit by 33% after taking into account: (i) cutting utilization to 68% from 90%, and (ii) reduced EBITDA margin to 35% from 39%. We also downgrade FY23E net profit by 33% after taking into account the following; lower ASP to USD25 from USD27 per 1,000 pieces, EBITDA margin to 18% from 19% and utilization rate to 68% from 74%.

Downgrade from MP to UP. We cut our TP from RM1.45 to RM0.90 based on 11x FY23E EPS (previously 12x) (at -0.5SD below 5-year pre-COVID forward historical mean). The PER is lower than the norm due to execution risk concerns in its US ambition. **Downgrade from MARKET PERFORM to UNDERPERFORM.**

Key risk to our call is stronger-than-expected ASP.

UNDERPERFORM ↓

Price: **RM1.09**
Target Price: **RM0.90** ↓

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,576.96 |
| YTD KLCI chg | 0.6% |
| YTD stock price chg | -25.9% |

Stock Information

| | |
|-----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SUCB MK Equity |
| Market Cap (RM m) | 2,948.3 |
| Shares Outstanding | 2,704.9 |
| 52-week range (H) | 5.81 |
| 52-week range (L) | 1.08 |
| 3-mth avg. daily vol: | 23,605,930 |
| Free Float | 33% |
| Beta | 1.7 |

Major Shareholders

| | |
|---------------------------|-------|
| Supermax Holdings Sdn Bhd | 38.4% |
| Vanguard Group | 1.9% |

Summary Earnings Table

| FY Jun (RM m) | 2021A | 2022E | 2023E |
|----------------------|--------|--------|--------|
| Turnover | 7164.2 | 3239.7 | 2116.5 |
| PBT | 5019.4 | 1096.0 | 330.9 |
| Net Profit (NP) | 3812.9 | 788.4 | 221.4 |
| Core NP (CNP) | 3812.9 | 788.4 | 221.4 |
| Consensus NP | | 1102.3 | 359.0 |
| Earnings Revision | | -33% | -33% |
| EPS (sen) | 140.2 | 29.0 | 8.1 |
| EPS growth (%) | 248.7 | (79.3) | (71.9) |
| NDPS (sen) | 31.8 | 9.6 | 2.1 |
| BVPS (RM) | 1.75 | 1.94 | 2.00 |
| PER (x) | 0.8 | 3.8 | 13.4 |
| PBV (x) | 0.6 | 0.6 | 0.5 |
| Net Gearing (%) | Net | Net | Net |
| | Cash | Cash | Cash |
| Dividend Yield (%) | 29.2 | 8.8 | 1.9 |

23 February 2022

Result Highlight

| | 2Q | 1Q | QoQ | 2Q | YoY | 6M | 6M | YoY |
|------------------------|-------|---------|--------|---------|--------|---------|---------|--------|
| FY Jun (RM m) | FY22 | FY22 | Chg % | FY21 | Chg % | FY21 | FY22 | Chg % |
| Turnover | 523.5 | 1,455.7 | (64.0) | 1,998.6 | (73.8) | 3,351.2 | 1,979.2 | (40.9) |
| EBITDA | 110.8 | 951.9 | (88.4) | 1,414.7 | (92.2) | 2,480.4 | 1,062.7 | (57.2) |
| PBT | 91.9 | 930.9 | (90.1) | 1,397.2 | (93.4) | 2,446.5 | 1,022.8 | (58.2) |
| Net Profit (NP) | 47.8 | 638.5 | (92.5) | 1,059.5 | (95.5) | 1,849.0 | 686.4 | (62.9) |
| EPS (sen) | 1.8 | 23.5 | (92.5) | 39.0 | (95.5) | 68.0 | 25.2 | (62.9) |
| EBITDA margin (%) | 21.2 | 65.4 | | 70.8 | | 74.0 | 53.7 | |
| PBT margin (%) | 17.6 | 63.9 | | 69.9 | | 73.0 | 51.7 | |
| Effective tax rate (%) | 38.4 | 28.4 | | 22.7 | | 22.7 | 29.3 | |

Source: Bursa Malaysia, Kenanga Research

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23 February 2022

Peer Comparison

| Name | Last Price (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net DivYld (%) | Target Price (RM) | Rating |
|-----------------------------|-----------------|-------------------|-------------------|-------------|----------------|------------|----------------------|------------|-------------------------|------------|------------|---------|------------|------------|----------------|-------------------|--------|
| | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | | |
| <u>RUBBER GLOVES</u> | | | | | | | | | | | | | | | | | |
| HARTALEGA HOLDINGS BHD | 4.75 | 16,233 | Y | 03/2022 | 45% | -51% | 21% | -80% | 1.1 | 4.6 | 23.2 | 0.7 | 2.5 | 62% | 13% | 7.00 | OP |
| KOSSAN RUBBER INDUSTRIES | 1.74 | 4,440 | Y | 12/2022 | -56% | -4% | -89% | 1% | 1.5 | 13.9 | 13.8 | 1.1 | 1.1 | 8% | 3% | 1.65 | MP |
| SUPERMAX CORP BHD | 1.09 | 2,948 | Y | 06/2022 | -55% | -35% | -79% | -72% | 0.8 | 3.8 | 13.4 | 0.6 | 0.6 | 16% | 9% | 0.900 | UP |
| TOP GLOVE CORP BHD | 2.02 | 16,174 | Y | 08/2022 | -46% | 1% | -88% | 0% | 2.1 | 17.9 | 17.9 | 2.7 | 2.8 | 15% | 3% | 2.05 | MP |

Source: Bloomberg, Kenanga Research

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23 February 2022

Stock Ratings are defined as follows:**Stock Recommendations**

| | |
|----------------|--|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

Sector Recommendations***

| | |
|-------------|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my