Supermax Corporation

Weak ASP and Sales Volume

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UNDERPERFORM ↔

Price: **RM0.91**

Target Price: **RM0.70** ↑

SUPERMX's 1QFY23 net profit came in below expectations on a double-whammy of weak ASP and sales volume. The earnings undertone is expected to remain weak in subsequent quarters given depressed utilisation rate of only 50% across the industry. We cut our FY23-24F net profit forecasts by 37-32%, but raise our TP by 13% to RM0.70 (from 0.62) for house-keeping purpose. Reiterate UNDERPERFORM.

SUPERMX's 1QFY23 net profit of RM5.7m (-69% QoQ; -99% YoY) came in below expectations at only 4% and 5% of our full-year forecast and the full-year consensus estimates, respectively. The variance against our forecast came largely from a weaker-than-expected sales volume and utilisation rate.

QoQ, 1QFY23 net profit fell 69% due to: (i) lower revenue (-17%) emanating from lower sales volume and ASP, and (ii) EBITDA margin decreasing by 3ppt from 14% in 4QFY22 to 11% in 1QFY23 due to lower-than-expected plant utilisation rate and higher operating cost, indicating lower absorption cost per unit.

YoY, 1QFY23 revenue fell 83%, weighed down by a lower ASP and sales volumes. Not helping either were the imposition of the Withhold Release Order (WRO) by US Customs and Border Protection (USCBP) and freezing of orders from the Canadian government. Net profit fell by a larger 99% due to: (i) the sale of high-priced inventory at falling market prices which could well mean that certain shipments were sold at a loss, and (ii) EBITDA margin decreasing from 65% in 1QFY22 to 11% in 1QFY23 due to lower-than-expected plant utilisation rate, ASP and higher operating cost, indicating lower absorption cost per unit. No dividend was declared in this quarter which is within our expectation.

Outlook. As a result of the massive capacity expansion by incumbent players as well as new players jumping onto the bandwagon during the pandemic years — enticed by the then super fat margins that had eventually evaporated — we estimate that the global glove manufacturing capacity has jumped by 22% to 511b pieces in 2022 (see chart on the following page). On the other hand, as more countries come out the other end of the pandemic, we project the global demand for gloves to ease by 10% in 2022 to 387b pieces (partly also due to the destocking activities along the distribution network). This will result in an excess supply of 124b pieces (assuming, hypothetically, capacity utilisation is maximised). In 2023, we estimate that the global glove manufacturing capacity will surge by another 16% to 595b pieces (as more capacity planned during the pandemic years finally comes on-line) while the global demand for gloves shall resume its organic growth of 15% annually (taking our cue from MARGMA's projection of 10-15% growth in global glove demand yearly), resulting in the excess supply ballooning further to 150b pieces. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in 2025 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness.

FY23F/FY24F net profit is downgraded by 37%/32% as we reduce: (i) utilisation to 55%/65% from 66%/69%, and (ii) ASP per 1,000 pieces from USD24/USD24 to USD21/USD20.

Share Price Performance

KLCI	1,441.29
YTD KLCI chg	-8.1%
YTD stock price chg	-38.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	2,406.8
Shares Outstanding	2,644.9
52-week range (H)	2.30
52-week range (L)	0.64
3-mth avg. daily vol:	14,887,910
Free Float	30%
Beta	1.0

Major Shareholders

Supermax Holdings SdnBhd	39.3%
Vanguard Group	1.9%

Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	2687.2	1438.0	1618.5
PBT	1070.3	140.6	145.4
Net Profit (NP)	732.4	87.6	88.7
Core NP (CNP)	732.4	87.6	88.7
Consensus NP		117.0	150.8
Earnings Revision	-	-37%	-32%
EPS (sen)	26.9	5.1	4.8
EPS growth (%)	(80.8)	(88.0)	1.3
NDPS (sen)	11.0	1.0	1.0
BVPS (RM)	1.78	1.80	1.82
PER (x)	3.4	28.3	27.9
PBV (x)	0.5	0.5	0.5
Net Gearing (%)	Net Cash	Net Cash	Net Cash
Dividend Yield (%)	12.1	1.1	1.1

Reiterate UNDERPERFORM. We rationalise our valuation basis to asset-based (from earnings-based previously) as we believe its earnings will remain depressed at least over the next 12-18 months. Our TP is RM0.70 (from 0.62) based on 0.4x FY24F BVPS, at a steep discount to the sector's average of 1.7x charted during previous downturns in 2008-2011 and 2014-2015 as we believe the current downturn could be one of the deepest ever.The TP is after imputing a 5% discount to reflect its 2-star ESG rating as appraised by us. We are cautious on the stock due to: (i) the expected oversupply situation in the sector over the next two years as a result of massive capacity expansion by incumbent as well as new players during the pandemic years amplified by industry low utilisation rate averaging 40-50%, implying weakening demand, and (ii) ASP that have yet to bottom out.

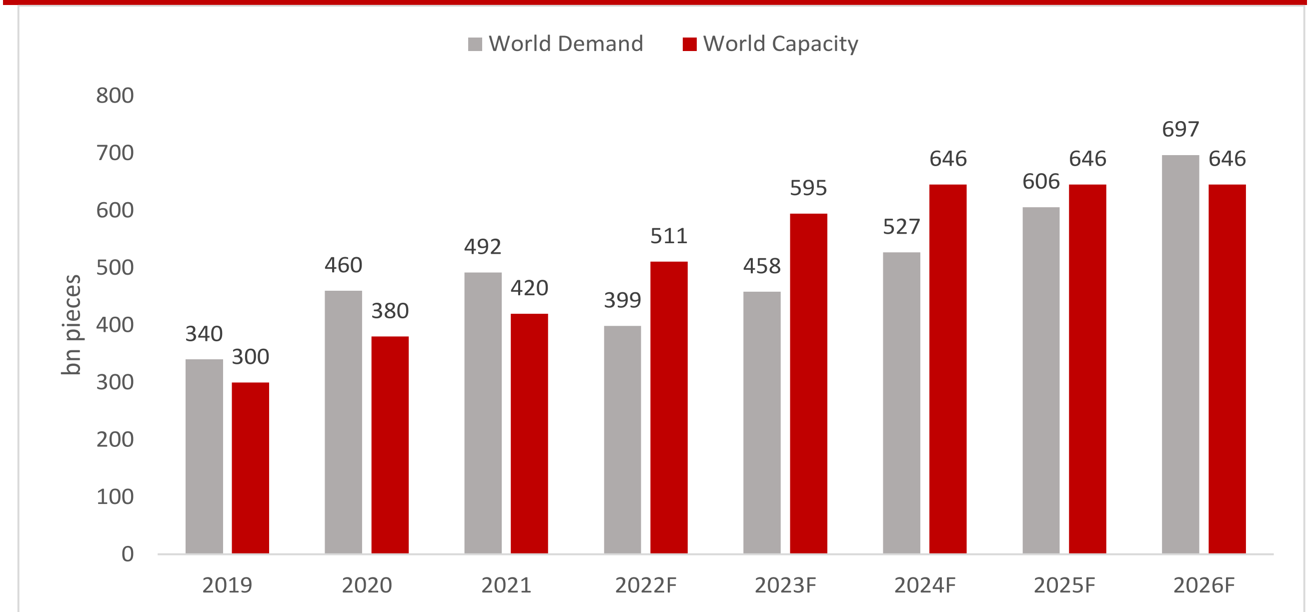
Key risks to our recommendation include: (i) the industry turning the corner sooner on stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, (ii) industry consolidation reducing competition among players, and (iii) epidemic and pandemic occurrences.

Result Highlight

FY Jun (RM m)	1Q FY22	4Q FY22	1Q FY23	QoQ Chg %	YoY Chg %
Turnover	1,455.7	300.2	248.0	(17.4)	(83.0)
EBITDA	951.9	41.9	27.7	(33.9)	(97.1)
PBT	930.9	18.4	6.1	(66.9)	(99.3)
Net Profit (NP)	638.5	18.3	5.7	(68.8)	(99.1)
EPS (sen)	23.5	0.7	0.2	(68.8)	(99.1)
EBITDA margin (%)	65.4	14.0	11.2		
PBT margin (%)	63.9	6.1	2.5		
Effective tax rate (%)	28.4	NM	25.8		

Source: BursaMalaysia, Kenanga Research

Estimated Global demand/supply - excess supply over CY22-CY24



Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	UP	1.80	1.55	-13.9%	6,151	Y	03/2023	5.0	5.9	-95%	18%	35.7	30.4	1.2	3.3%	3.0	1.7%
KOSSAN RUBBER INDUSTRIES	UP	1.08	0.850	-21.3%	2,756	Y	12/2022	6.4	6.6	-94%	4%	17.0	16.3	0.7	4.0%	3.0	2.8%
SUPERMAX CORP BHD	UP	0.910	0.700	-23.1%	2,407	Y	06/2023	3.2	3.3	-88%	1%	28.3	27.9	0.5	1.8%	1.0	1.1%
TOP GLOVE CORP BHD	UP	0.910	0.600	-34.1%	7,287	Y	08/2023	2.2	2.2	-25%	2%	42.1	41.2	1.3	3.1%	1.1	1.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Migrant Worker Welfare	★	★			
	Pollution Control/Waste Management	★	★	☆		
	Automation/Industry 4.0	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
	Set-off for Single-Use Product	★				
	OVERALL	★	★			

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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