

19 May 2023

Supermax Corporation

A Second Consecutive Quarterly Loss

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SUPERMX's 9MFY23 net loss came in within our expectation but was significantly wider than the consensus loss estimate. We expect the sector to continue to face a challenging and competitive business landscape ahead due to elevated costs, subdued selling prices and massive capacity leading to suppressed plant utilisation. With no reversal of fortunes in sight, we maintain our FY24F net loss, TP of RM0.70 and UNDERPERFORM call.

SUPERMX registered a net loss of RM142m for 9MFY23, against our full-year net loss forecast of RM172m and the full-year consensus net loss estimate of RM154m. We consider the result to be within our expectation but significantly wider than market expectation.

QoQ, 3QFY23 revenue fell 1%, which we believe was weighed down by a lower ASP but higher sales volumes. It plunged to a narrower loss of RM53m compared to RM83m in 2QFY23 at the EBITDA level due to: (i) unrealised forex gain (RM15m) from a loss (RM55m) in 2QFY23, (ii) margin erosion as costs remain elevated including natural gas and electricity tariff, and labour costs against falling selling prices, and (iii) reduced economies of scale, particularly, poor cost absorption, as its utilisation rate continued to remain weak. As a result, 3QFY23 register a loss of RM40m compared to RM108m in 2QFY23. A DPS of 3.5 sen was declared which came in above our expectation. YoY, 9MFY23 revenue fell 75% dragged down by lower ASP and volume sales. As a result, 9MFY23 registered a loss of RM142m.

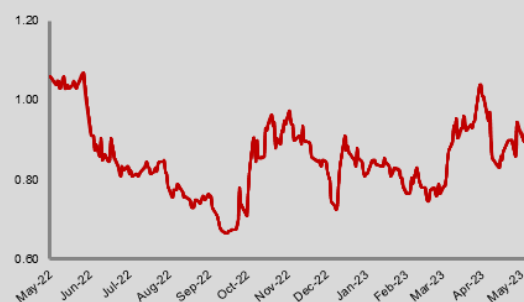
Outlook. MARGMA projects 12%-15% growth in the global demand for rubber gloves annually from 2023, following an estimated 19% contraction to 399b pieces in 2022. It believes the supply-demand equilibrium may return in 6-9 months. However, we beg to differ, expecting the overcapacity situation to persist at least over the next two years. 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. Still, capacity is seen to expand further in 2023. We project the demand for gloves to rise by 15% in 2023, which is consistent with MARGMA's forecast. However, this will do little to ease the overcapacity situation as the global glove production capacity will grow by 16% to 595b pieces during the year as more capacity planned by incumbent and new players during the pandemic years—enticed by super-fat margins that had evaporated—finally come on-line. This will result in the excess capacity rising by 22% to 137b pieces from 112b pieces in 2022. The expanded overcapacity means low prices and depressed plant utilisation will likely persist in 2023. Not helping the already dire situation is the reluctance of customers to commit to sizeable orders and hold substantial stocks on expectations of further decline in prices.

Reiterate UNDERPERFORM. Our TP remain unchanged at RM0.70 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. We impute a 5% discount on the TP to reflect its 2-star ESG rating as appraised by us (see page 4).

UNDERPERFORM ↔

Price: RM0.995
Target Price: RM0.70 ↔

Share Price Performance



KLCI	1,428.04
YTD KLCI chg	-4.5%
YTD stock price chg	14.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SUCB MK EQUITY
Market Cap (RM m)	2,563.2
Shares Outstanding	2,576.1
52-week range (H)	1.10
52-week range (L)	0.64
3-mth avg. daily vol:	15,324,890
Free Float	28%
Beta	1.0

Major Shareholders

Supermax Holdings SdnBhd	40.3%
Vanguard Group	2.4%

Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	2687.2	1307.3	1245.0
PBT / (LBT)	1070.3	-200.2	54.8
Net Profit / (loss)	732.4	-172.9	24.3
Core Net profit / (loss)	732.4	-172.9	24.3
Consensus NP	-	(154)	24
Earnings Revision	-	-	-
EPS (sen)	26.9	-6.4	0.9
EPS growth (%)	(80.8)	(123.6)	NM
NDPS (sen)	11.0	3.5	0.0
BVPS (RM)	1.78	1.68	1.69
PER (x)	3.7	-15.7	111.5
PBV (x)	0.6	0.6	0.6
Net Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	11.1	3.5	-

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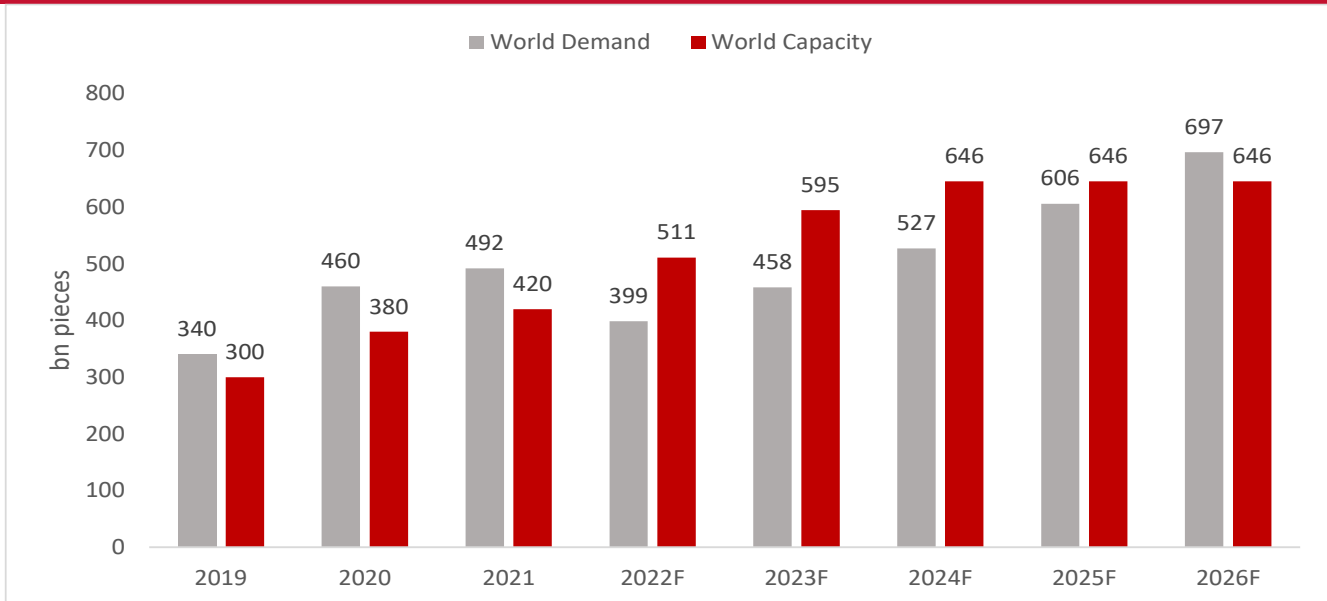
Key risks to our recommendation include: (i) the industry turning the corner sooner on stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, (ii) industry consolidation reducing competition among players, and (iii) epidemic and pandemic occurrences.

Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Jun (RM m)	FY23	FY23	Chg %	FY22	Chg%	FY22	FY23	Chg %
Turnover	175.7	174.8	0.5	407.8	(56.9)	2,387.0	598.5	(74.9)
EBITDA / (LBITDA)	(53.1)	(82.9)	(35.9)	34.5	(254.1)	1,097.2	(108.3)	(109.9)
PBT / (LBT)	(75.0)	(104.8)	(28.5)	18.3	(510.2)	1,041.1	(173.7)	(116.7)
Net Profit / (loss)	(39.9)	(108.1)	(63.1)	13.0	(406.8)	699.4	(142.3)	(120.3)
EPS / (LPS) (sen)	(1.5)	(4.1)	(63.1)	0.5	(413.6)	25.7	(5.4)	(120.8)
EBITDA margin (%)	NM	NM		8.5		46.0	NM	
PBT margin (%)	NM	NM		4.5		43.6	NM	
Effective tax rate (%)	41.6	NM		13.5		29.0	13.8	

Source: Bursa Malaysia, Kenanga Research

Estimated Global Demand/Supply - Excess Supply over CY22-CY24



Source: Kenanga Research

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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	2.68	1.30	-51%	9,186	Y	03/2023	(2.4)	0.8	-138%	-68%	NM	348	2.0	-1.8%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	1.52	0.850	-44%	3,888	Y	12/2023	(3.0)	0.9	-149%	-71%	NM	174	1.0	-2.0%	0.0	0.0%
SUPERMAX CORP BHD	UP	0.995	0.700	-30%	2,707	Y	06/2023	(6.4)	0.9	-124%	NM	NM	111	0.6	-3.7%	4.0	4.0%
TOP GLOVE CORP BHD	UP	1.17	0.580	-50%	9,603	Y	08/2023	(5.5)	0.5	-291%	-91%	NM	232	1.8	-8.3%	0.0	0.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	☆
	Community Investment	★	★	★
	Workers Safety & Wellbeing	★	★	
	Corporate Governance	★	★	☆
	Anti-Corruption Policy	★	★	★
	Emissions Management	★	★	☆
SPECIFIC	Product Quality & Safety	★	★	☆
	Effluent/Waste Management	★	★	☆
	Automation & Innovation	★	★	★
	Energy Efficiency	★	★	★
	Supply Chain Management	★	★	★
	Legal & Regulatory Compliance	★		
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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