

29 May 2024

# Supermax Corporation

## Losses Narrowed, but Not Good Enough

By Raymond Choo Ping Khoo | [pkchoo@kenanga.com.my](mailto:pkchoo@kenanga.com.my)

**SUPERMX** disappointed with a wider-than-expected 9MFY24 net loss on a weak sales volume and margins. Nonetheless, its 9MFY24 net loss narrowed YoY. We widen our FY24F net loss forecast to RM50m (from RM5m) but fine-tune down our TP to RM0.83 (from RM0.84). Downgrade to **UNDERPERFORM** from **MARKET PERFORM** after the recent unjustified run-up in its share price.

SUPERMX disappointed with a huge 9MFY24 net loss of RM47m, compared to our full-year net loss forecast of RM5.2m and the full-year consensus net loss estimate of RM2.2m. The variance against our forecast came largely from a lower-than-expected sales volume and margins.

QoQ, its 3QFY24 revenue fell 2% due to, we believe, a slightly lower sales volume and ASP. It returned into EBITDA positive of RM10m compared to a loss of RM40m in 2QFY24 thanks to: (i) depleting high-cost inventory, and (ii) lower cost base following the decommissioning of certain inefficient production capacity. As a result, its 3QFY24 net loss narrowed to RM0.7m compared to a loss of RM44m in 2QFY24.

YoY, its 9MFY24 topline fell 22% due to a lower ASP and sales volume. At the net level, its 9MFY24 losses narrowed to RM47m compared to RM142m in 9MFY23 due to depleting high-cost inventory and on a lower cost base following the decommissioning of certain inefficient production capacity.

**Outlook.** It guided for no significant improvement in performance in 2024 due to the high volume of high-priced stocks at its overseas distribution centres. Overall, it expects the current challenging operating environment to persist and only expect a likelihood of a meaningful recovery to take place only sometime in 2025. We expect the operating environment to remain challenging in subsequent quarters, plagued by massive oversupply. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in CY26 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. MARGMA projects 12%–15% growth in the global demand for rubber gloves annually from CY23, following an estimated 25% contraction to 300b pieces in CY23. We project the demand for gloves to rise by 30% in CY24 to 390b pieces (due to a low base effect in CY23) and resume its organic growth of 15% thereafter. This will result in an excess capacity of 212b pieces in CY24. The overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in CY24.

**Forecasts.** We now forecast a net loss of RM50m in FY24 (from a RM5m loss) as we reduce our utilisation rate assumption to 38% from 43% and EBITDA margin to 1% from 5%. We maintain our FY25F numbers.

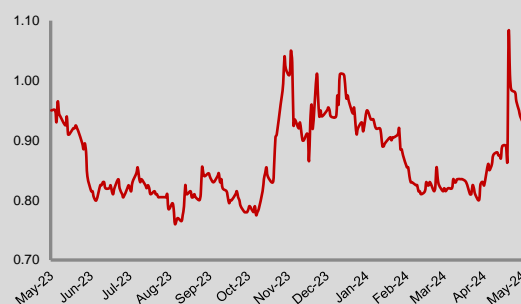
**Valuations.** We fine-tune down our TP to RM0.83 (from RM0.84) based on 0.5x FY24F BVPS, at 70% discount to the sector's average of 1.7x charted during previous downturns in 2008–2011 and 2014–2015. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see Page 3). Downgrade to **UNDERPERFORM** from **MARKET PERFORM** after the recent unjustified run-up in its share price.

**Key risks to our recommendation include:** (i) stronger-than-expected organic growth in global demand for gloves, (ii) oversupply situation eases on significant industry consolidation, and (iii) benign labour and energy costs.

## UNDERPERFORM ↓

Price: **RM0.92**  
Target Price: **RM0.83** ↓

### Share Price Performance



KLCI	1,615.82
YTD KLCI chg	11.1%
YTD stock price chg	-2.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SUCB MK
Market Cap (RM m)	2,357.6
Shares Outstanding	2,562.6
52-week range (H)	1.09
52-week range (L)	0.76
3-mth avg. daily vol.	13,120,350
Free Float	27%
Beta	1.1

### Major Shareholders

Supermax Holdings SdnBhd	40.5%
Hong Leong Company Malaysia	3.0%

### Summary Earnings Table

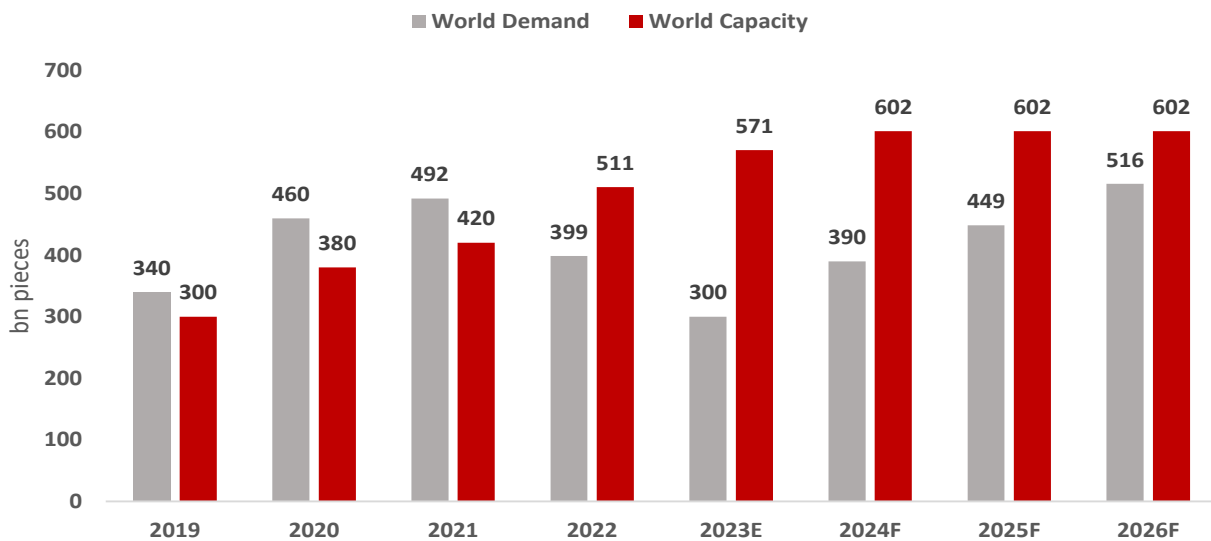
FY Jun (RM m)	2023A	2024F	2025F
Turnover	821.9	827.9	1220.1
PBT / (LBT)	-196.7	-80.5	5.7
Net Profit / (Loss)	-149.4	-50.4	19.0
<b>Core Net Profit / (Loss)</b>	-149.4	-50.4	19.0
Consensus NP	-	2.3	52
Earnings Revision	-	->100%	-
EPS (sen)	-5.5	-1.9	0.7
EPS Growth (%)	(120.4)	(66.3)	(137.7)
NDPS (sen)	3.5	0.0	0.0
BVPS (RM)	1.68	1.66	1.67
PER (x)	-16.7	-49.7	131.8
PBV (x)	0.5	0.6	0.6
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.8	-	-

**Result Highlight**

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Jun (RM m)	FY24	FY24	Chg %	FY23	Chg%	FY23	FY24	Chg %
Turnover	143.0	145.6	(1.7)	175.7	(18.6)	598.5	466.5	(22.0)
EBITDA / (LBITDA)	9.9	(40.0)	(124.8)	(51.9)	(119.2)	(108.3)	(6.0)	(94.5)
Depreciation	(6.0)	(18.9)	(68.2)	(20.2)	(70.2)	(60.7)	(43.7)	(27.9)
EBIT (LBIT)	3.9	(59.0)	(106.7)	(72.1)	(105.5)	(162.8)	(49.8)	(69.4)
Interest expense	(1.2)	(1.2)	(4.7)	(1.7)	(30.0)	(4.6)	(2.8)	(39.9)
Associates	0.2	(3.0)	(106.3)	(1.2)	(115.7)	(6.2)	(4.6)	(25.6)
PBT / (LBT)	3.0	(63.2)	(104.7)	(75.0)	(103.9)	(173.7)	(57.1)	(67.1)
Taxation	(2.8)	13.0	(121.3)	31.2	(108.9)	24.0	5.7	(76.4)
Minorities	(0.9)	5.9	(114.7)	3.9	(122.4)	7.4	4.4	(40.6)
Net Profit / (loss)	(0.7)	(44.4)	(98.5)	(39.9)	(98.3)	(142.3)	(47.1)	(66.9)
EPS / (LPS) (sen)	(0.0)	(1.7)	(98.3)	(1.5)	(98.0)	(5.4)	(1.8)	(65.9)
EBITDA margin (%)	7.0	NM		NM		NM	(1.3%)	
PBT margin (%)	2.1	NM		NM		(29.0)	(12.2)	
Effective tax rate (%)	93.8	20.5		41.6		13.8	9.9	

Source: Bursa Malaysia, Kenanga Research

**Estimated Global Demand/Supply - Excess Supply over CY22-CY25**



Source: Kenanga Research

29 May 2024

### 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.
<b>Stocks Under Coverage</b>																	
HARTALEGA HOLDINGS BHD	UP	3.29	2.33	-29%	11,277	Y	03/2024	1.5	1.5	297%	4%	221.9	213.9	2.4	1.1%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	2.24	1.48	-34%	5,730	Y	12/2024	4.7	4.9	140%	5%	48.1	45.8	1.5	3.1%	2.0	0.9%
SUPERMAX CORP BHD	UP	0.920	0.830	-10%	2,503	N	06/2024	(1.9)	0.7	-134%	-62%	N.A.	131.7	0.6	-1.1%	0.0	0.0%
TOP GLOVE CORP BHD	UP	1.09	0.750	-31%	8,948	Y	08/2024	(1.6)	0.8	-114%	-49%	N.A.	136.7	1.9	-2.7%	0.0	0.0%

Source: Kenanga Research

The rest of the page is intentionally left blank

**Stock ESG Ratings:**

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

☆ 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

