

30 August 2023

Consumer Cyclical | Rubber Products

Supermax Corp (SUCB MK)

Marginal Improvement; Still NEUTRAL

Neutral (Maintained)

Target Price (Return): MYR0.80 (2.4%)
Price (Market Cap): MYR0.79 (USD435m)
ESG score: 2.3 (out of 4)
Avg Daily Turnover (MYR/USD) 3.71m/0.80m

- **Still NEUTRAL, new MYR0.80 TP (DCF) from MYR0.83, 2% upside.** Supermax's 4QFY23 (Jun) core loss narrowed marginally QoQ to MYR30m from MYR32m, bringing the FY23 core loss to MYR142m – largely in line with our (MYR136m loss) but above Street's expectations (MYR161m loss). The sequential improvement was attributed to the stabilising ASP trend and better plant utilisation rates. SUCB is still dealing with the Withhold Release Order (WRO) imposed by the US Customs and Border Protection (USCBP).
- **Results overview.** SUCB reported a 4QFY23 core net loss of MYR30.2m after excluding a one-off unrealised FX gain of MYR23m. EBITDA turned positive during the quarter, as a result of better plant utilisation rates. Note that Supermax decommissioned three older production plants (bringing total decommissioned plants to four) during the previous quarter, resulting in its effective capacity declining by 5bn pieces pa to 21.2bn. No dividend was declared for the quarter.
- **Higher cost.** SUCB attributed its core loss to high gas tariffs, electricity costs, and the imposition of minimum wages. That said, we remain sanguine on the correction of natural gas prices (YTD: -40%), which should cushion against the impact of elevated electricity and labour costs in 2H23 (considering the 6-month lag from the correction in Brent prices in late 2022).
- **Outlook.** Competitive landscape remains largely unchanged. Cost pass-through initiatives appear challenging, given the attempt to raise prices were impeded by the easing raw material prices and concerns of price-sensitive customers. Industry blended ASPs stabilised at USD20-21 per 1,000 pieces. Demand recovery will likely happen by 2024, as we have yet to see consistent export figures. Our NEUTRAL call is premised on the favourable cost outlook for 2H23 (lower gas tariffs) in addition to SUCB's disciplined approach in scaling down obsolete production lines to contain cost pressure.
- **Earnings adjustments.** We lowered our FY24-25 core earnings by 88% and 37% after taking into account the lower effective capacity.
- **Our lower MYR0.80 TP** implies 0.8x FY24F P/BV, against its pre-pandemic historical mean of 1.3x. We stay NEUTRAL on SUCB as we have yet to see notable improvements in the competitive landscape. Our TP incorporates a 15% ESG discount as SUCB's 2.3 ESG score is below the country median.
- **Downside risks:** Higher-than-expected sales volumes, stronger-than-expected USD against the MYR, and lower-than-expected raw material prices. The opposite of these represent upside risks.

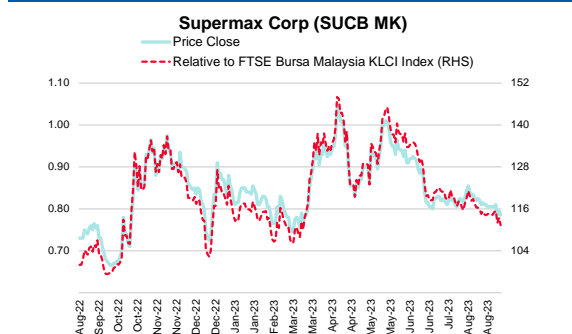
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.8)	(5.4)	(17.4)	4.0	4.7
Relative	(7.0)	(5.7)	(20.9)	4.0	7.8
52-wk Price low/high (MYR)				0.67	1.04



Source: Bloomberg

Overall ESG Score: 2.3 (out of 4)

E: GOOD

SUCB practices recycling of waste materials from its raw materials by products. The group will also evaluate its supplier performance via periodic audit to ensure adherence to its purchasing and quality requirements. Overall environmental disclosure lack of further clarity and future targets.

S: GOOD

SUCB has established an independent grievance reporting channel (SUARA KAMI) that is administered by an independent party. Workers facilities at its dormitories are in accordance with Malaysia's Employees' Minimum Standards of Housing, Accommodations and Amenities Act 1990 (Act 446).

G: MODERATE

50% of its board members are independent. 25% of its directors are female – still below the Malaysian Code on Corporate Governance requirement of 30%. Additionally, SUCB provides full disclosure on its directors' remunerations, including salaries and bonuses.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	2,687	822	1,052	1,227	1,432
Recurring net profit (MYRm)	724	(142)	3	64	114
Recurring net profit growth (%)	(80.8)	(119.6)	-	1,922.4	77.6
Recurring P/E (x)	2.87	na	654.47	32.36	18.22
P/B (x)	0.4	0.5	0.5	0.4	0.4
P/CF (x)	6.04	na	19.89	11.58	9.54
Dividend Yield (%)	31.8	4.5	0.0	0.6	1.1
EV/EBITDA (x)	(0.66)	na	1.10	0.57	0.26
Return on average equity (%)	14.3	(3.1)	0.1	1.3	2.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.27	(0.05)	0.00	0.02	0.04
Consumer Cyclical	DPS	0.25	0.04	0.00	0.00	0.01
Supermax Corp	BVPS	1.84	1.73	1.73	1.75	1.78
SUCB MK	Return on average equity (%)	14.3	(3.1)	0.1	1.3	2.3
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Recurring P/E (x)	2.87	na	654.47	32.36	18.22
	P/B (x)	0.4	0.5	0.5	0.4	0.4
	FCF Yield (%)	(5.1)	(34.0)	(9.4)	1.4	3.2
	Dividend Yield (%)	31.8	4.5	0.0	0.6	1.1
	EV/EBITDA (x)	(0.66)	na	1.10	0.57	0.26
	EV/EBIT (x)	(0.71)	na	14.71	1.30	0.47
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total turnover	2,687	822	1,052	1,227	1,432
	Gross profit	1,551	(0)	278	384	478
	EBITDA	1,151	(100)	112	195	261
	Depreciation and amortisation	(74)	(90)	(103)	(110)	(113)
	Operating profit	1,077	(190)	8	85	148
	Net interest	(6)	(6)	(4)	(4)	(4)
	Pre-tax profit	1,060	(197)	4	82	146
	Taxation	(302)	17	(1)	(17)	(31)
	Reported net profit	719	(149)	3	64	114
	Recurring net profit	724	(142)	3	64	114
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	(87)	105	(7)	2	(13)
	Cash flow from operations	344	(135)	104	179	217
	Capex	(449)	(571)	(300)	(150)	(150)
	Cash flow from investing activities	(449)	(593)	(300)	(150)	(150)
	Dividends paid	(659)	(93)	(1)	(13)	(23)
	Cash flow from financing activities	(765)	(298)	(10)	(22)	(27)
	Cash at beginning of period	3,776	3,029	2,147	1,942	1,949
	Net change in cash	(870)	(1,027)	(206)	7	41
	Ending balance cash	3,029	2,144	1,938	1,945	1,986
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	3,029	2,147	1,942	1,949	1,989
	Tangible fixed assets	1,728	2,181	2,377	2,417	2,454
	Total investments	208	200	201	202	205
	Total assets	5,957	5,147	5,165	5,246	5,378
	Short-term debt	180	86	81	76	76
	Total long-term debt	53	19	19	19	19
	Total liabilities	925	374	389	418	457
	Total equity	5,032	4,774	4,776	4,829	4,921
	Total liabilities & equity	5,957	5,147	5,165	5,246	5,378
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	(62.5)	(69.4)	28.0	16.7	16.7
	Recurrent EPS growth (%)	(81.1)	(119.6)	0.0	1922.4	77.6
	Gross margin (%)	57.7	(0.0)	26.4	31.3	33.4
	Operating EBITDA margin (%)	42.8	(12.2)	10.6	15.9	18.2
	Net profit margin (%)	26.8	(18.2)	0.3	5.2	8.0
	Dividend payout ratio (%)	91.7	(61.9)	20.0	20.0	20.0
	Capex/sales (%)	16.7	69.5	28.5	12.2	10.5
	Interest cover (x)	189	(30)	2	20	35

Source: Company data, RHB

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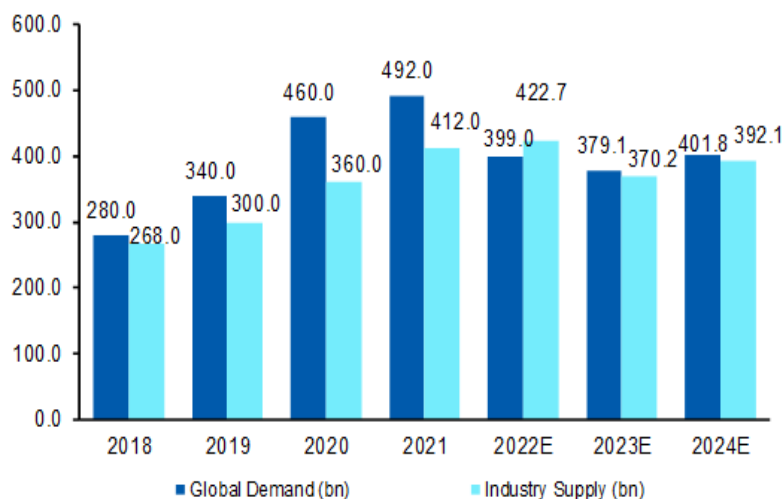
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Figure 1: Results snapshot

FYE June (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	300.2	175.7	223.4	27.1	(25.6)	2,687.2	821.9	(69.4)	Revenue improved QoQ, driven by stabilising ASPs
EBITDA	52.8	(53.1)	4.3	(108.2)	(91.8)	1,149.9	(104.0)	(109.0)	Margins were better QoQ thanks to improving plant utilisation rates.
EBITDA Margin (%)	17.6	(30.2)	1.9			42.8	(12.7)		
Depreciation	(32.7)	(20.2)	(25.6)	26.7	(21.9)	(84.7)	(86.3)	1.9	
EBIT	20.0	(73.3)	(21.2)	(71.1)	(206.0)	1,065.2	(190.3)	(117.9)	
EBIT Margin (%)	6.7	(41.7)	(9.5)			39.6	(23.2)		
Interest expense	(1.6)	(1.7)	(1.8)	8.1	13.6	(5.7)	(6.4)	12.9	
Pretax profit	18.4	(75.0)	(23.0)	(69.3)	(225.0)	1,059.5	(196.7)	(118.6)	
Pretax Margin (%)	6.1	(42.7)	(10.3)			39.4	(23.9)		
Tax	(0.1)	31.2	(7.0)	(122.6)	7,163.9	(302.4)	17.0	(105.6)	
Effective tax rate (%)	(0.5)	(41.6)	30.6			(28.5)	(8.6)		
Minority Interest	1.2	3.9	22.9	nm	nm	(38.2)	30.3	n.m	
Net Profit	19.5	(39.9)	(7.2)	(82.0)	(136.7)	718.9	(149.4)	(120.8)	In line with our but below Street's expectations
Core Net Profit	(10.5)	(31.9)	(30.2)	(5.5)	187.7	701.3	(142.0)	(120.2)	
Net Margin (%)	-3.5	(18.2)	(13.5)			26.1	(17.3)		

Source: Company data, RHB

Figure 2: Global demand and supply overview



Source: MARGMA, RHB

Figure 3: Key assumptions

	FY23F	FY24F	FY25F
Blended (ASP, USD per 1,000)	20.2	21.3	22.0
Total production (per million pieces)	10,470	11,223	12,705
Utilisation	40.0%	53.0%	60.0%

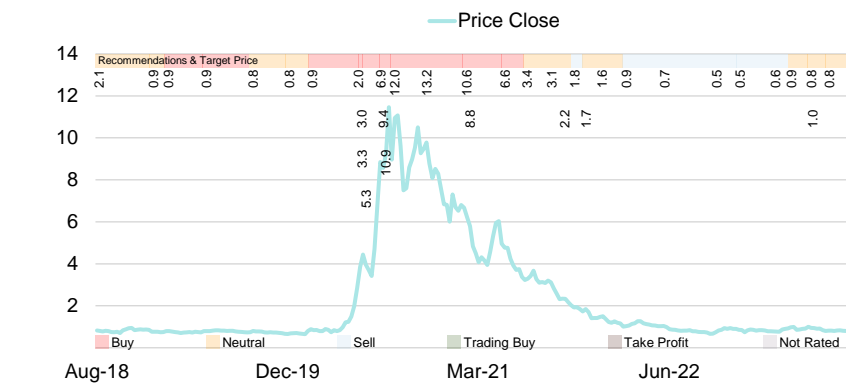
Source: Company data, RHB

Figure 4: DCF valuation

FYE 30 Jun (MYR m)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal
NOPAT	(0)	59	106	118	119	115	110	109	108	105	
+ D&A	103	110	113	117	121	124	127	131	134	137	
- Change in NWC	(7)	2	(13)	(13)	(4)	(0)	(0)	0	0	0	
- CAPEX	(300)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	
Free cash flow to firm (FCFF)	(203)	20	57	73	86	89	87	90	92	93	1,119
Discount factor	0.83	0.75	0.68	0.62	0.56	0.51	0.46	0.42	0.38	0.34	0.34
PV of FCFF	(169)	15	39	45	48	45	40	37	35	32	381
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Risk-free	4%										
WACC	10%										
Terminal growth	2%										
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Enterprise Value (MYR m)	548										
- Minority	(90)										
Cash	2,147										
- Debt	(104)										
Equity Value (MYR m)	2,499										
No of shares (m)	2,644										
Intrinsic value (MYR)	0.95										
ESG premium/discount	-0.14										
TP	0.80										

Source: RHB

Recommendation Chart

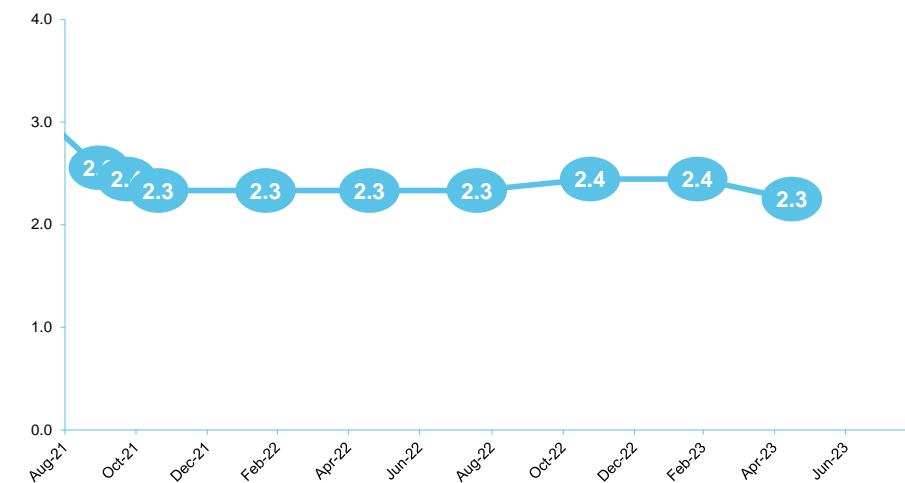


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-06-28	Neutral	0.8	0.8
2023-05-19	Neutral	1.0	1.0
2023-05-15	Neutral	0.8	0.9
2023-03-27	Neutral	0.9	0.9
2023-02-17	Sell	0.6	0.8
2022-11-23	Sell	0.5	0.9
2022-09-27	Sell	0.5	0.7
2022-05-26	Sell	0.7	1.0
2022-02-23	Sell	0.9	1.0
2021-12-26	Neutral	1.6	1.4
2021-11-18	Neutral	1.7	1.7
2021-10-22	Sell	1.8	2.0
2021-09-27	Neutral	2.2	2.2
2021-08-27	Neutral	3.1	3.2
2021-06-28	Neutral	3.4	3.3

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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