

Outthink. Outperform.

## ASP still increasing

We hosted a conference call with Supermax's management with more than 20 investors and came back feeling optimistic about the outlook for the company and the sector. We believe that Supermax will benefit from the surge of COVID-19 cases in the American market, as close to 50% of its sales are catered towards the region. Margins for its own distributed gloves are also superior, as the company eliminates the middle man and benefits from current market prices. We upgrade our EPS forecast by 28%-73% for FY21-22E and raise our TP to RM13.90 from RM9.00. Reiterate BUY.

### Benefiting from the resurgence of COVID-19 in US

We believe that Supermax could benefit from the resurgence of COVID-19 in the US, as 50% of its sales are catered towards the region. As 95% of SUCB products are sold through its own distribution channels or independent distributors, the company is not constrained by pricing agreements and is able to sell its product at current market rates. In addition, SUCB is also able to generate higher margins, as it sells directly to the end users. With new COVID-19 cases still on the rise, we expect selling prices to increase by another 20-25% from June until end of the year, supporting earnings growth.

### Too early to worry about overcapacity

We are not overly concerned over demand for rubber gloves post COVID-19, as we believe most of the current orders are for genuine consumption rather than inventory building given current robust spot orders. Although there are also some players which recently announced aggressive expansion plans, we believe these players would start to act rationally again when selling prices normalise. We believe that overall demand for rubber gloves would increase post COVID-19 relative to 2019, as we are expecting a change in consumption patterns, as medical practitioners start to consume more medical gloves to reduce risk of contamination.

### Maintain BUY with higher TP of RM13.90

We raise our EPS forecast by 28%-73% for FY21E-22E, to factor in a higher margin assumption (due to the higher selling price). We have also lifted our TP to RM13.90, based on an unchanged 33x CY21E PER on the back of the earnings upgrade. Key downside risk: 1) sharp movement in raw-material prices, and 2) sudden movement of US\$ against RM.

### Earnings & Valuation Summary

FYE 30 June	2018	2019	2020E	2021E	2022E
Revenue (RMm)	1,304.5	1,489.3	2,234.3	3,282.5	2,762.1
EBITDA (RMm)	210.6	230.6	373.1	1,071.4	604.2
Pretax profit (RMm)	161.9	172.6	333.1	1,031.6	564.6
Net profit (RMm)	106.7	123.8	238.9	741.7	407.0
EPS (sen)	7.8	9.1	17.6	54.5	29.9
PER (x)	138.5	119.4	61.8	19.9	36.3
Core net profit (RMm)	106.7	123.8	238.9	741.7	407.0
Core EPS (sen)	7.8	9.1	17.6	54.5	29.9
Core EPS growth (%)	58.7	16.0	93.0	210.5	(45.1)
Core PER (x)	138.5	119.4	61.8	19.9	36.3
Net DPS (sen)	3.9	4.5	7.9	24.6	13.4
Dividend Yield (%)	0.4	0.4	0.7	2.3	1.2
EV/EBITDA (x)	71.5	65.0	41.2	14.2	24.7
Chg in EPS (%)			0.0	+73.2	+28.2
Affin/Consensus (x)			0.8	1.4	1.2

Source: Company, Bloomberg, Affin Hwang forecast

## Company Update

# Supermax

SUCB MK  
Sector: Rubber Products

**RM10.86 @ 8 July 2020**

**BUY (maintain)**

Upside: 28%

**Price Target: RM13.90**

Previous Target: RM9.00



## Price Performance

	1M	3M	12M
Absolute	22.3%	554.2	568.3%
Rel to KLCI	20.2%	462.5	608.0%

## Stock Data

Issued shares (m)	1,291.4
Mkt cap (RMm)/(US\$m)	14024.8/3282.6
Avg daily vol - 6mth (m)	26.1
52-wk range (RM)	1.29-11
Est free float	58.2%
BV per share (RM)	0.94
P/BV (x)	11.54
Net cash/ (debt) (RMm)	(254.33)
ROE (2020E)	19%
Derivatives	No
Shariah Compliant	Yes

## Key Shareholders

Thai Kim Sim	21.9%
Tan Bee Geok	16.2%

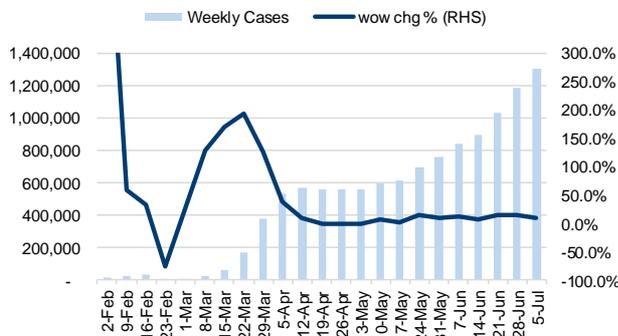
Source: Affin Hwang, Bloomberg

Ng Chi Hoong  
(603) 2146 7470  
chihoong.ng@affinhwang.com

**COVID-19 cases is still on the rise**

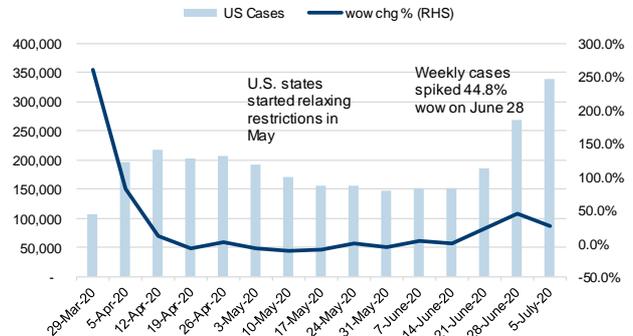
We believe that the increase in selling prices for rubber gloves can sustain, as new cases of COVID-19 continue to be on the rise, with some countries already confirming a second wave. Given that the resurgences of new cases are also happening in developed countries, we believe it will also drive higher demand for spot orders, given that the current delivery lead time for normal orders is currently more than 14 months. The spot order prices are usually 2-3x higher at least, compared to normal orders. Although Supermax only allocated 5% of its capacity to spot orders, the allocation is likely to increase in August with more new capacity from Plant 12B coming on stream.

**Fig 1: Global confirmed cases are still rising**



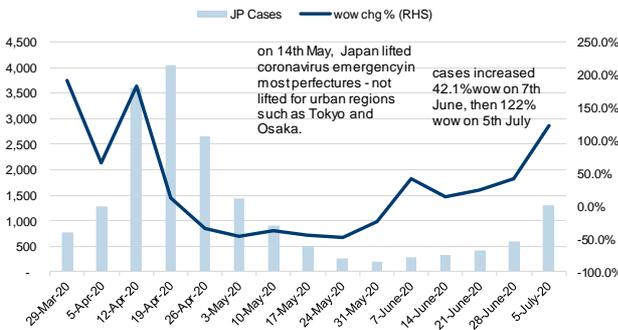
Source: Bloomberg and sources

**Fig 2: US's weekly confirmed cases has risen**



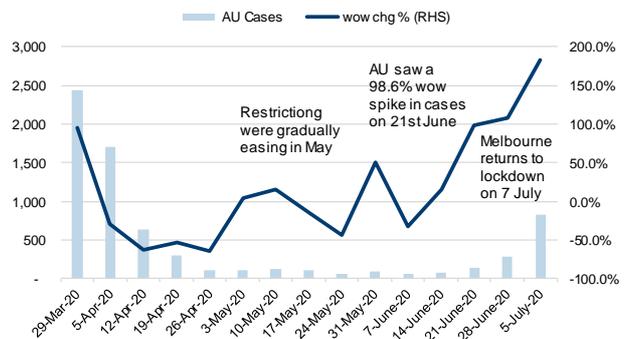
Source: Bloomberg and sources

**Fig 3: Japan's weekly confirmed cases higher but moderate**



Source: Bloomberg and sources

**Fig 4: Australia's weekly confirmed cases have spiked**



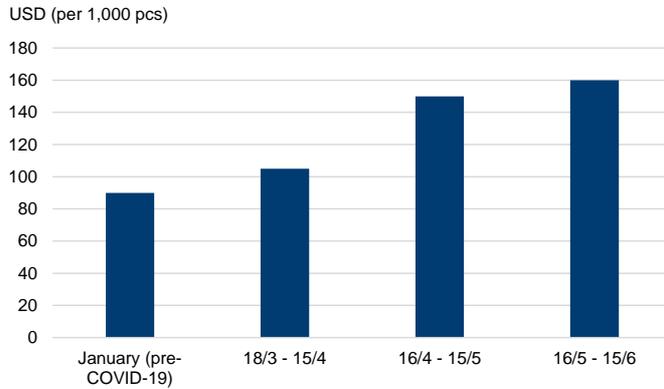
Source: Bloomberg and sources

**Selling prices continue to increase**

Supermax's management also guided that their selling prices (manufacturing) have increased by 35%-45% mom in April-June and believe that selling prices will continue to increase, albeit at a slower pace. We are currently assuming that prices can increase by another 20-25% from current levels (June) until the end of the year. Although there are talks about entrance of new players, we believe that the new capacity would only be available by 2H21, hence there should be limited impact on the current selling prices. Furthermore, we are not convinced that all the announced new capacity would materialize, while the new players would react rationally when selling prices start to normalise, in our view.

Outthink. Outperform.

**Fig 5: SUCB's glove selling prices is still on the rise**

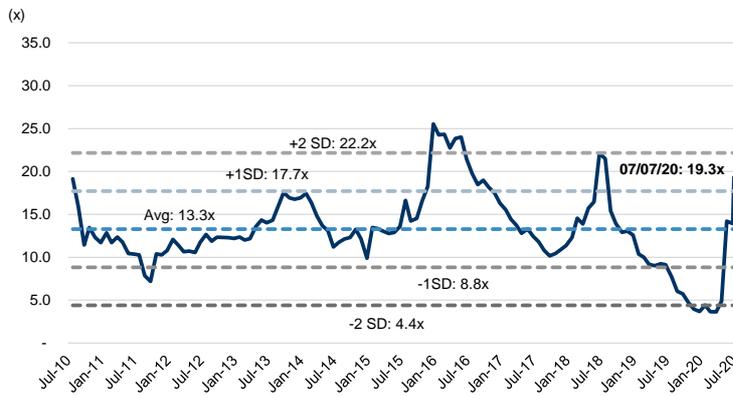


Source: Company Data

**We are still chasing earnings**

We do not think that Supermax's current valuation is overly stretched at above +1SD mean PE, as we believe that there could be more upside risk to earnings as selling prices continue to surprise the market and us on the upside. Current capacity growth of 15% for 2020E is not sufficient to meet current demand and we expect demand to maintain at elevated levels even for countries which have successfully controlled the spread of COVID-19, due to a change in consumption patterns. Medical glove imports into China are still up by ~70% in May, despite being able to contain the spread of COVID-19 in March.

**Fig 6: We don't think SUCB valuation is overly stretched yet, despite trading at above +1SD**



Source: Bloomberg, AffinHwang estimates

Out think. Out perform.

## Supermax – Financial Summary

### Profit & Loss Statement

FYE 30 June (RMm)	2018A	2019A	2020E	2021E	2022E
Revenue	1,304.5	1,489.3	2,234.3	3,282.5	2,762.1
Operating expenses	(1,093.8)	(1,258.8)	(1,861.2)	(2,211.1)	(2,157.8)
<b>EBITDA</b>	<b>210.6</b>	<b>230.6</b>	<b>373.1</b>	<b>1,071.4</b>	<b>604.2</b>
Depreciation	(40.8)	(43.6)	(41.5)	(42.7)	(43.9)
EBIT	169.9	186.9	331.7	1,028.8	560.4
Net interest income/(expense)	(9.4)	(11.1)	(14.0)	(19.7)	(11.8)
Associates' contribution	6.0	5.4	13.2	14.6	16.0
EI	-	-	-	-	-
<b>Pretax profit</b>	<b>161.9</b>	<b>172.6</b>	<b>333.1</b>	<b>1,031.6</b>	<b>564.6</b>
Tax	(51.8)	(49.0)	(93.3)	(288.8)	(158.1)
Minority interest	(3.5)	0.1	(1.0)	(1.0)	0.5
<b>Net profit</b>	<b>106.7</b>	<b>123.8</b>	<b>238.9</b>	<b>741.7</b>	<b>407.0</b>

### Balance Sheet Statement

FYE 30 June (RMm)	2018A	2019A	2020E	2021E	2022E
PPE	900.1	972.1	1,032.2	1,079.6	1,125.7
Other non-current assets	227.5	232.3	232.3	232.3	232.3
<b>Total non-current assets</b>	<b>1,127.6</b>	<b>1,204.5</b>	<b>1,264.5</b>	<b>1,311.9</b>	<b>1,358.0</b>
Cash and equivalents	145.2	173.8	(190.6)	(78.4)	211.1
Inventory	187.8	183.1	382.4	454.3	443.4
Trade receivables	151.1	149.9	459.1	674.5	567.5
Other current assets	88.0	124.5	124.5	124.5	124.5
<b>Total current assets</b>	<b>572.1</b>	<b>631.4</b>	<b>775.4</b>	<b>1,174.9</b>	<b>1,346.5</b>
Trade payables	125.2	144.0	204.0	242.3	236.5
Short term borrowings	374.5	349.9	349.9	349.9	349.9
Other current liabilities	66.6	133.4	133.4	133.4	133.4
<b>Total current liabilities</b>	<b>566.2</b>	<b>627.2</b>	<b>687.2</b>	<b>725.5</b>	<b>719.7</b>
Long term borrowings	61.7	42.0	42.0	42.0	42.0
Other long term liabilities	49.0	39.6	39.6	39.6	39.6
<b>Total long term liabilities</b>	<b>110.7</b>	<b>81.6</b>	<b>81.6</b>	<b>81.6</b>	<b>81.6</b>
<b>Shareholders' Funds</b>	<b>1,012.7</b>	<b>1,119.2</b>	<b>1,250.1</b>	<b>1,657.6</b>	<b>1,881.7</b>

### Cash Flow Statement

FYE 30 June (RMm)	2018A	2019A	2020E	2021E	2022E
PAT	110.1	123.7	239.9	742.7	406.5
Depreciation & amortisation	40.8	43.6	41.5	42.7	43.9
Working capital changes	(7.4)	(5.8)	(448.5)	(248.9)	112.0
Others	34.1	66.8	-	-	-
<b>Cashflow from operations</b>	<b>177.6</b>	<b>228.2</b>	<b>(167.2)</b>	<b>536.4</b>	<b>562.4</b>
Capex	(58.9)	(115.7)	(90.0)	(90.0)	(90.0)
Others	3.8	-	-	-	-
<b>Cash flow from investing</b>	<b>(55.1)</b>	<b>(115.7)</b>	<b>(90.0)</b>	<b>(90.0)</b>	<b>(90.0)</b>
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(75.7)	(32.8)	(107.9)	(334.2)	(182.9)
Others	51.1	71.7	-	-	-
<b>Cash flow from financing</b>	<b>(126.8)</b>	<b>(104.5)</b>	<b>(107.9)</b>	<b>(334.2)</b>	<b>(182.9)</b>
<b>Free Cash Flow</b>	<b>118.7</b>	<b>112.5</b>	<b>(257.2)</b>	<b>446.4</b>	<b>472.4</b>

Source: Company, Affin Hwang estimates

### Key Financial Ratios and Margins

FYE 30 June (RMm)	2018A	2019A	2020E	2021E	2022E
<b>Growth</b>					
Revenue (%)	15.8	14.2	50.0	46.9	(15.9)
EBITDA (%)	43.8	9.5	61.8	187.1	(43.6)
Core net profit (%)	58.7	16.0	93.0	210.5	(45.1)
<b>Profitability</b>					
EBITDA margin (%)	16.1	15.5	16.7	32.6	21.9
PBT margin (%)	12.4	11.6	14.9	31.4	20.4
Net profit margin (%)	8.4	8.3	10.7	22.6	14.7
Effective tax rate (%)	32.0	28.4	28.0	28.0	28.0
ROA (%)	6.3	6.7	11.7	29.8	15.0
Core ROE (%)	10.4	11.0	19.0	44.5	21.5
ROCE (%)	7.1	7.9	14.1	35.3	17.5
Dividend payout ratio (%)	49.2	49.5	45.0	45.0	45.0
<b>Liquidity</b>					
Current ratio (x)	1.0	1.0	1.1	1.6	1.9
Op. cash flow (RMm)	177.6	228.2	(167.2)	536.4	562.4
Free cashflow (RMm)	118.7	112.5	(257.2)	446.4	472.4
FCF/share (sen)	8.7	8.3	(18.9)	32.8	34.7
<b>Asset management</b>					
Inventory turnover (days)	62.7	53.1	75.0	75.0	75.0
Receivables turnover (days)	42.3	36.7	75.0	75.0	75.0
Payables turnover (days)	41.8	41.8	40.0	40.0	40.0
<b>Capital structure</b>					
Net Gearing (%)	0.3	0.2	0.5	0.3	0.1
Interest Cover (x)	12.1	9.5	28.2	87.5	47.7

### Quarterly Profit & Loss

FYE 30 June (RMm)	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
<b>Revenue</b>	<b>361.2</b>	<b>376.0</b>	<b>369.9</b>	<b>385.5</b>	<b>447.2</b>
Op costs	(298.6)	(344.0)	(321.6)	(325.9)	(339.9)
<b>EBITDA</b>	<b>62.6</b>	<b>32.0</b>	<b>48.4</b>	<b>59.6</b>	<b>107.3</b>
Depn and amort	(10.4)	(11.6)	(12.5)	(12.8)	(13.1)
EBIT	52.3	20.4	35.8	46.7	94.2
Net int income/(exp)	(4.5)	(5.9)	(4.2)	(4.6)	(3.5)
EI	-	-	-	-	-
JV & Associates	1.7	1.8	0.8	(0.3)	4.6
<b>Pretax profit</b>	<b>49.4</b>	<b>16.2</b>	<b>32.4</b>	<b>41.8</b>	<b>95.3</b>
Tax	(14.5)	(2.2)	(7.5)	(11.8)	(22.9)
MI	(0.3)	1.1	(0.2)	0.1	(1.3)
<b>Net profit</b>	<b>34.6</b>	<b>15.1</b>	<b>24.7</b>	<b>30.2</b>	<b>71.1</b>
Core net profit	34.6	15.1	24.7	30.2	71.1
<b>Margins (%)</b>					
EBITDA	17.3	8.5	13.1	15.5	24.0
PBT	13.7	4.3	8.8	10.9	21.3
PAT	9.6	4.0	6.7	7.8	15.9

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:  
 Affin Hwang Investment Bank Berhad (14389-U)  
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
 69, Jalan Raja Chulan,  
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700  
 F : + 603 2146 7630  
 research@affinhwang.com

www.affinhwang.com