

11 Aug 2020

## Buy

**Price**  
 RM21.20

**Target Price**  
 RM27.06 (Previously RM19.22)

### Market Data

Bloomberg Code	SUCB MK
No. of shares (m)	1,306.8
Market cap (RMm)	28,839.0
52-week high/low (RM)	24.44 / 1.29
Avg daily turnover (RMm)	424.2
KLCI (pts)	1,571.7

Source: Bloomberg, KAF

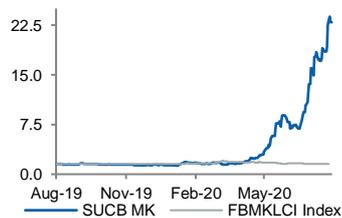
### Major Shareholder (%)

Dato' Seri Stanley Thai	(21.9%)
Datin Seri Tan Bee Geok, Cheryl	(16.2%)
Vanguard Group	(2.4%)
Free Float	58.3

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	611.4	1,132.6	1,279.9
Rel Market (%)	525.7	1,109.9	1,318.0



Source: Bloomberg, KAF

### Analyst

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# Supermax

## Explosive margin

We reiterate our Buy recommendation on Supermax with a revised TP of RM27.06 (previously RM19.22). FY20 core earnings within ours but above consensus forecast. EBITDA margin expanded by more than threefold compared to pre-COVID level as its OBM business model enable the group to sell at distributor's price instead of factory price. Nonetheless, the highest ASP has not been reflected in the quarter under review. We expect a further expansion in margins and stronger earnings next quarter.

### Financial Highlights

FYE June	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,538.2	2,131.8	4,890.7	4,055.3	3,953.8
Core net profit (RMm)	134.9	525.6	1,604.2	994.3	757.1
Core EPS (Sen)	10.3	40.3	122.9	76.2	58.0
EPS growth (%)	69.3	291.1	205.2	-38.0	-23.9
DPS (Sen)	4.0	3.2	1.1	36.9	22.8
Core PE (x)	206.0	52.7	17.3	27.8	36.6
Div yield (%)	0.2	0.1	0.1	1.7	1.1
ROE (%)	11.5	38.8	67.4	29.0	19.3
Net Gearing (%)	19.4	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	24.5	17.2	8.6	7.4	6.6

Source: Company, KAF

**Strong end to FY20.** Supermax's 4QFY20 headline earnings came in at RM399.6m. After adjusting for unrealised gain on foreign exchange, core earnings came in at RM353.2m (QoQ:+340%;YoY:+1083%). This brings its full year FY20 core earnings to RM474.1m (YoY:+218.5%) which met ours but above consensus' full-year FY20 earnings estimates at 105.2% and 118.3% respectively. A final dividend via share dividend distribution on the basis of 1 treasury share for every 45 ordinary shares held in respect of FY20 was declared.

**Higher revenue backed by new capacity addition and rise in ASP.** 4QFY20 revenue grew more than doubled to RM929.1m compared to the previous quarter. This is attributed to the full commissioning of Block A of Plant 12 with installed capacity of 2.2b pcs pa and rapid rise in average selling prices (ASP).

**Significant margin expansion.** 4QFY20 EBITDA margin expanded by +23.0%ppts qoq to 49.0%. A significant jump to Pre-COVID level of average 13%. This is mainly due to the higher earnings contribution from Supermax's own brand manufacturing (OBM). Note that the group is currently exporting 55% (vs 40.0% before January 2020) of production under OBM via its distribution centres worldwide and 40% % (vs 30.0% before January 2020) through independent distributors. Such business model enables the group to sell at distributor's price instead of factory price.

**Stronger balance sheet.** Supermax's financial position has strengthened dramatically. As of the end of FY20, the group reported a net cash position with cash balance amounting to RM1.2b compared to RM173.8m recorded in FY19. The increase is mainly due to customers paying between 30% to 50% deposits in advance to secure supply.

**Earnings revision.** We are revising our FY21F and FY22F upward by +41.0% and +21.0% respectively to take into account the expectation of further expansion in profit margins in the subsequent quarters. Note that the highest ASP have not been reflected in the quarter under review. Hence, we expect a stronger earnings next quarter.

**Target price.** We revise our TP to RM27.06 (previously RM19.22) per share. Our valuation is premised on FY21 EPS of 123sen pegged to a PE of 22.0x. This is based on 2.0SD above the company's five-year historical average forward PE, given the company's strong earnings visibility and future earnings growth.

**Reiterate Buy.** Supermax's business model yields the best return during the glove market upcycle. This business model enables the group to supply directly to end customers at distributor's price instead of at factory prices. Consequently, the group achieved industry leading profit margins. All things considered, we reiterate our Buy recommendation on the stock.

**Exhibit 1: Results Summary (RM mil)**

FYE June	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	%qoq	%yoy	FY19	FY20	%chg
<b>Revenue</b>	<b>376.0</b>	<b>369.9</b>	<b>385.5</b>	<b>447.2</b>	<b>929.1</b>	<b>107.7</b>	<b>147.1</b>	<b>1489.3</b>	<b>2131.8</b>	<b>43.1</b>
Operating costs	-330.8	-326.7	-337.8	-332.5	-474.2	18.5	17.6	<b>-1302.4</b>	<b>-1444.3</b>	10.9
<b>EBITDA</b>	<b>45.2</b>	<b>43.2</b>	<b>47.7</b>	<b>114.7</b>	<b>454.9</b>	<b>296.6</b>	<b>906.9</b>	<b>244.3</b>	<b>660.6</b>	<b>170.4</b>
EBITDA margin (%)	12	12	12	26	49			16	31	
Depreciation	-11.6	-12.5	-12.8	-13.1	-37.6	187.3	223.5	-45.2	-76.1	68.3
<b>Operating profit</b>	<b>33.6</b>	<b>30.7</b>	<b>34.9</b>	<b>101.6</b>	<b>417.3</b>	<b>310.6</b>	<b>1143.6</b>	<b>199.1</b>	<b>584.6</b>	<b>193.6</b>
Net finance costs	-5.9	-4.2	-4.6	-3.5	-4.8	35.4	-19.2	-19.7	-17.1	-13.2
Associates	1.8	0.8	-0.3	4.6	13.0	184.6	641.1	5.4	18.1	235.5
Exceptionals	0.7	3.0	9.7	-9.3	46.4	-601.2	6667.8	-13.7	49.8	0.0
<b>Pretax profit</b>	<b>31.7</b>	<b>32.4</b>	<b>40.2</b>	<b>95.3</b>	<b>519.0</b>	<b>444.7</b>	<b>1538.4</b>	<b>184.0</b>	<b>686.9</b>	<b>273.3</b>
Tax	-2.2	-7.5	-11.8	-22.9	-110.7	383.0	4947.3	-49.0	-153.0	212.5
Minority interest	1.1	-0.2	0.1	-1.3	-8.7	569.1	-920.1	0.1	-10.0	-10424.7
<b>Net profit</b>	<b>30.5</b>	<b>24.7</b>	<b>28.5</b>	<b>71.1</b>	<b>399.6</b>	<b>462.4</b>	<b>1208.5</b>	<b>135.2</b>	<b>524.0</b>	<b>287.7</b>
Net profit margin (%)	8	7	7	16	43					
<b>Normalised net profit</b>	<b>29.9</b>	<b>21.8</b>	<b>18.8</b>	<b>80.3</b>	<b>353.2</b>	<b>339.7</b>	<b>1083.1</b>	<b>148.9</b>	<b>474.1</b>	<b>218.5</b>
Normalised net margin (%)	8	6	5	18	38			10	22	

Source: Company, KAF

# Supermax

## Income Statement

FYE June (RMm)	2019	2020	2021F	2022F	2023F
<b>Revenue</b>	<b>1,538.2</b>	<b>2,131.8</b>	<b>4,890.7</b>	<b>4,055.3</b>	<b>3,953.8</b>
<b>EBITDA</b>	<b>221.3</b>	<b>720.9</b>	<b>2,187.5</b>	<b>1,390.7</b>	<b>1,091.8</b>
Depreciation/Amortisation	-45.1	-76.1	-80.3	-96.6	-111.6
Operating income (EBIT)	176.2	644.9	2,107.2	1,294.1	980.2
Other income & associates	26.8	18.1	18.1	18.1	18.1
Net interest	-18.9	-17.1	-15.8	-15.8	-18.2
Exceptional items	11.8	0.0	0.0	0.0	1.0
<b>Pretax profit</b>	<b>172.4</b>	<b>688.6</b>	<b>2,152.2</b>	<b>1,339.1</b>	<b>1,022.8</b>
Taxation	-49.3	-153.0	-538.1	-334.8	-255.7
Minorities/pref dividends	0.0	0.0	0.0	0.0	1.0
<b>Net profit</b>	<b>123.1</b>	<b>525.6</b>	<b>1,604.2</b>	<b>994.3</b>	<b>757.1</b>
<b>Core net profit</b>	<b>134.9</b>	<b>525.6</b>	<b>1,604.2</b>	<b>994.3</b>	<b>757.1</b>

## Balance Sheet

FYE June (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	965.2	1085.6	1305.3	1508.7	1697.1
Intangible assets	28.7	28.7	28.7	28.7	28.7
Other long-term assets	5.5	226.8	245.0	263.1	281.2
<b>Total non-current assets</b>	<b>1207.0</b>	<b>1341.2</b>	<b>1579.0</b>	<b>1800.5</b>	<b>2007.0</b>
Cash & equivalent	173.8	1180.8	1767.8	2370.9	2709.6
Stock	181.9	252.8	736.9	611.1	606.6
Trade debtors	173.8	247.4	884.3	733.3	725.8
Other current assets	106.1	229.3	229.3	229.3	230.3
<b>Total current assets</b>	<b>635.7</b>	<b>1910.4</b>	<b>3618.4</b>	<b>3944.5</b>	<b>4272.3</b>
Trade creditors	217.5	175.7	521.8	496.4	510.8
Short-term borrowings	330.5	226.1	226.1	226.1	226.1
Other current liabilities	53.9	131.9	1075.6	1666.3	1680.7
<b>Total current liabilities</b>	<b>601.9</b>	<b>1477.5</b>	<b>1823.6</b>	<b>1798.2</b>	<b>1812.6</b>
Long-term borrowings	61.0	102.1	102.1	152.1	202.1
Other long-term liabilities	45.6	63.7	63.7	63.7	63.7
<b>Total long-term liabilities</b>	<b>106.6</b>	<b>165.7</b>	<b>165.7</b>	<b>215.7</b>	<b>265.7</b>
<b>Shareholders' funds</b>	<b>1123.7</b>	<b>1586.3</b>	<b>3175.9</b>	<b>3689.0</b>	<b>4148.8</b>
Minority interests	10.5	22.1	32.1	42.2	52.2

## Cash flow Statement

FYE June (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	172.4	688.6	2152.2	1339.1	1022.8
Depreciation/Amortisation	45.1	76.1	80.3	96.6	111.6
Net change in working capital	30.5	636.7	-774.9	251.5	26.4
Others	-13.0	-1.0	-2.4	-2.4	0.0
<b>Cash flow from operations</b>	<b>235.1</b>	<b>1338.5</b>	<b>917.2</b>	<b>1350.1</b>	<b>905.2</b>
Capital expenditure	-112.2	-192.0	-300.0	-300.0	-300.0
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>-112.2</b>	<b>-192.0</b>	<b>-300.0</b>	<b>-300.0</b>	<b>-300.0</b>
Debt raised/(repaid)	-44.6	-63.4	0.0	50.0	50.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	1.0
Dividends paid	-32.8	0.0	-14.5	-481.2	-298.3
Others	-18.9	-17.1	-15.8	-15.8	-18.2
<b>Cash flow from financing</b>	<b>-104.0</b>	<b>-80.5</b>	<b>-30.3</b>	<b>-447.0</b>	<b>-266.4</b>
<b>Net cash flow</b>	<b>18.8</b>	<b>1066.0</b>	<b>587.0</b>	<b>603.1</b>	<b>338.7</b>
<b>Cash b/f</b>	<b>145.2</b>	<b>173.8</b>	<b>1180.8</b>	<b>1767.8</b>	<b>2370.9</b>
<b>Cash c/f</b>	<b>173.8</b>	<b>1289.8</b>	<b>1767.8</b>	<b>2370.9</b>	<b>2709.6</b>

## Key Ratios

FYE June	2019	2020	2021F	2022F	2023F
Revenue growth (%)	17.9	38.6	129.4	-17.1	-2.5
EBITDA growth (%)	16.3	nm	nm	-36.4	-21.5
Pretax margins (%)	11.2	32.3	44.0	33.0	25.9
Net profit margins (%)	8.0	24.7	32.8	24.5	19.1
Interest cover (x)	9.3	37.7	133.8	82.2	54.0
Effective tax rate (%)	28.6	22.2	25.0	25.0	25.0
Net dividend payout (%)	33.8	2.8	30.0	30.0	0.0
Debtors turnover (days)	43.0	36.1	42.2	72.8	67.3
Stock turnover (days)	44.0	36.1	42.2	72.8	67.3
Creditors turnover (days)	48.0	33.7	26.0	45.8	46.5

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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