



## Supermax (SUCB MK)

### Above

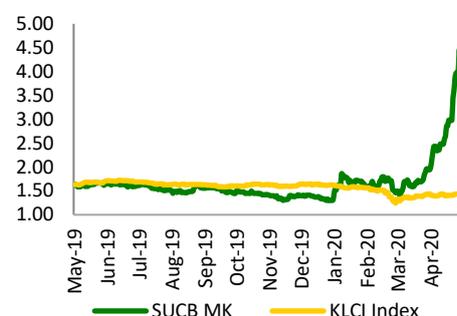
### BUY

Share Price RM4.59  
Target Price RM6.00 +30%

### Scoring on OBM strategy during pandemic

- Overview.** 3QFY20 revenue increased to RM447.2m (16% qoq, 24% yoy), while PATMI jumped to RM71.1m (136% qoq, 105% yoy). The excellent results were mainly due to i) exponential surge in demand due to Covid-19 together with new additional production capacity, ii) higher ASP, iii) lower overall production costs and iv) weak ringgit vs USD. Margin improve to 15.9% (8.1ppts qoq, 6.3ppts yoy).
- Key highlights.** Supermax current utilization rate is c.90% and order lead time increased to > 8 months (vs 2 months normally), fully booked until early next year. More than 50% of Supermax's products are sold under OBM (vs peers mostly OEM) and 7 own associates distribution centres (including US, UK, Hong Kong). We believe this gives better yield in ASP as gloves are sold to end customers at distribution price, hence increasing its margin. During H1N1, Supermax record a higher increase in net profit margin compared to peers (average Supermax: c.+5 ppts vs Peers: c.+2 to 4 ppts qoq).
- Against estimates: Above.** 9MFY20 PATMI of RM126m (+16% yoy) made up 90% and 85% of our and consensus full year forecast respectively. Results were above our estimate mainly due to higher ASP and margin than expected.
- Outlook.** A prolonged Covid-19 (which the outbreak duration is longer than our previous expectation) is positive for glove demand, hence outstripping supply and giving opportunity to increase ASP. This implies firmer-than-expected margins. As such, we raised our earnings forecast higher for FY20/21 by 40%/85% respectively as we increased sales and imputing higher ASP c.10-15% as well as lower tax rate. We now expect profit margin to hold at c.11.5%/14% in FY20/21. Long-term outlook remains promising due to higher global demand on greater healthcare awareness supported by capacity expansion of c.46% to 38.2bn pcs pa by end 2022.
- Our call.** Our TP is raised to RM6.00 based on higher PER of 27x (from 19.5x), which is c.30% discount to our glove sector forward PER and pegged on revised FY21 EPS. Despite its seemingly high valuation, we believe the stock deserved further re-rating to better reflect its strong prospect in anticipation of greater increase in ASP and earnings growth (+63%/+45% yoy in FY20/21) as well as constant evolution activities (e.g. automation and cost efficiency). Maintain BUY.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	136.6	192.4	189.5
vs FBM KLCI	133.0	212.7	223.8

#### Stock Data

Mkt Cap (RM)	5,927.6
Free float (%)	59.6
Issued shares (m)	1,291.4
52w H/L (RM)	1.93/ 1.29
3m avg daily volume (m)	20,402,850

#### Major Shareholders (%)

Thai Kim Sim	21.9
Tan Bee Geok	16.2
NORGES BANK	2.4

**Saffa Amanina**

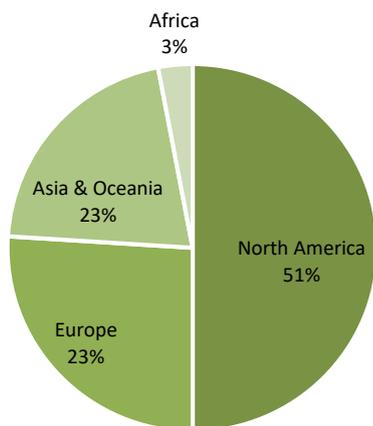
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Table 1: Quarterly figures

Supermax Bhd FYE 31 June (RM m)	Quarterly			Change (%)		Cumulative			BIMB	
	3Q19	2Q20	3Q20	QoQ	YoY	9MFY19	9MFY20	%	2020F	9M/F
Revenue	361.2	385.5	447.2	16.0%	23.8%	1113.4	1202.7	8.0%	1,613.3	75%
EBIT	52.2	46.7	94.2	101.6%	80.5%	160.0	176.8	10.5%	232.5	76%
<b>Pretax profit</b>	<b>49.4</b>	<b>41.8</b>	<b>95.3</b>	<b>127.8%</b>	<b>92.8%</b>	<b>156.4</b>	<b>169.5</b>	<b>8.4%</b>	<b>207.9</b>	<b>82%</b>
Taxation	(14.5)	(11.8)	(22.9)	94.2%	58.6%	(46.8)	(42.2)	-9.7%	(62.8)	67%
<b>PATMI</b>	<b>34.6</b>	<b>30.2</b>	<b>71.1</b>	<b>135.6%</b>	<b>105.3%</b>	<b>108.7</b>	<b>126.0</b>	<b>15.9%</b>	<b>140.6</b>	<b>90%</b>
EPS (sen)	2.7	2.3	5.5	135.6%	105.3%	8.4	9.8	15.9%	10.9	90%
Net gearing (x)	0.2	0.2	0.2			0.2	0.2		0.3	
				<b>chg (ppts)</b>				<b>chg (ppts)</b>		
EBIT margin (%)	14.5%	12.1%	21.1%	+9.0	+6.6	14.4%	14.7%	+0.3	14.4%	
PBT margin (%)	13.7%	10.9%	21.3%	+10.4	+7.6	14.0%	14.1%	+0.1	12.9%	
PATMI margin (%)	9.6%	7.8%	15.9%	+8.1	+6.3	9.8%	10.5%	+0.7	8.7%	
Effective tax rate (%)	29.2%	28.2%	24.1%	-4.1	-5.1	29.9%	24.9%	-5.0	30.2%	

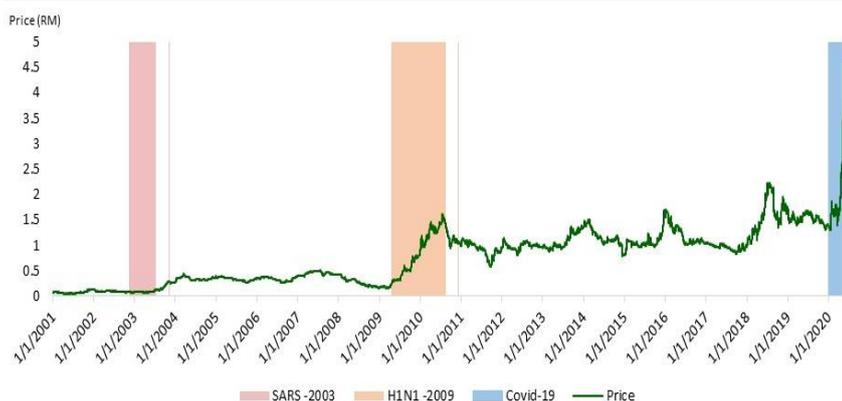
Source: BIMB Securities, Company

Chart 1: Supermax sales breakdown by region



Source: BIMB Securities, Supermax

Chart 3: Supermax price performance



	SARS	H1N1	Covid-19
<b>Outbreak period</b>	Nov 2002- July 2003	Apr 2009 - Aug 2010	Dec 2019- current
<b>During outbreak period</b>	43.9%	586.0%	230.2%
<b>3 months after outbreak contained</b>	140.7%	-28.1%	NA

Source: BIMB Securities, WHO, Bloomberg

Table 2: Earnings forecast

FYE June (RMm)	FY17	FY18	FY19	FY20F	FY21F
Turnover	1,126.9	1,304.5	1,538.2	1,737.7	2,111.3
EBITDA	149.0	211.7	225.2	344.8	472.1
EBIT	107.7	169.9	180.1	294.9	417.6
Pretax Profit	107.9	161.9	172.4	272.8	393.2
<b>PATMI</b>	<b>67.2</b>	<b>106.7</b>	<b>123.1</b>	<b>200.1</b>	<b>290.1</b>
Consensus NP				147.4	195.8
EPS (sen)	5.2	8.3	9.5	15.5	22.4
PER (x)	88.2	55.6	48.1	29.6	20.4
DPS (sen)	3.0	4.0	4.0	6.5	9.5
D. Yield (%)	0.7%	0.9%	0.9%	1.4%	2.1%
<b>Key Ratios (%)</b>					
ROE	6.4%	10.3%	10.9%	16.9%	21.9%
EBITDA margin	13.2%	16.2%	14.6%	19.8%	22.4%
EBIT margin	9.6%	13.0%	11.7%	17.0%	19.8%
Pretax margin	9.6%	12.4%	11.2%	15.7%	18.6%
PATMI margin	6.0%	8.2%	8.0%	11.5%	14.0%

Source: Bloomberg, BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>HOLD</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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