

Malaysia

ADD (no change)

Consensus ratings*: Buy 7 Hold 2 Sell 0

Current price:	RM4.59
Target price:	RM6.50
Previous target:	RM5.10
Up/downside:	41.6%
CGS-CIMB / Consensus:	100.8%
Reuters:	SUPM.KL
Bloomberg:	SUCB MK
Market cap:	US\$1,362m
	RM5,928m
Average daily turnover:	US\$10.21m
	RM45.37m
Current shares o/s:	1,360m
Free float:	62.5%

*Source: Bloomberg

Key changes in this note

- FY20-22F EPS raised by 13.3-15.8%.



Price performance	1M	3M	12M
Absolute (%)	136.6	192.4	185.1
Relative (%)	135	198.9	195.7

Major shareholders

	% held
Dato' Seri Thai Kim Sim, Stanley	20.7
Datin Seri Tan Bee Geok, Cheryl	15.3
Amanah Saham Nasional	1.5

Analyst(s)



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Supermax Corp

Windfall from OBM and distribution business

- We deem 9MFY6/20 core net profit of RM126.0m (+23.3% yoy) to be above expectations due to stronger-than-anticipated glove demand in 3QFY6/20.
- We expect SUCB to record sequentially stronger results in 4QFY20F, due to: i) ASP increases, ii) better sales volume, and iii) higher economies of scale.
- Reiterate Add, with a higher TP of RM6.50 (27x CY21 P/E).

3QFY20 net profit rose 105% yoy; beats expectations

3QFY6/20 core net profit came in at RM71.1m (+105% yoy), bringing 9MFY6/20 core net profit to RM126m (+23.3% yoy). We deem this to be above expectations at 63% of our and 85% of Bloomberg consensus' estimates, respectively. This is given our view of sequentially stronger results in 4QFY20 from the full impact of higher average selling prices (ASPs) and increase in sales volume.

3QFY20: A majestic quarter from robust global glove demand

3QFY20 revenue rose 23.8% qoq, on the back of Covid-19, resulting in: i) higher glove sales, especially original brand manufacturing (OBM) gloves sold via its distribution centres, and ii) rise in ASPs. The higher revenue led to a stronger-than-expected rise in 3QFY20 EBITDA margins to 24% (+8.5% pts qoq), further aided by: i) currency gains from weaker RM/US\$, ii) lower raw material prices (nitrile butadiene: -7.3% qoq, natural latex: -2.5% qoq) and iii) higher economies of scale. Hence, 3QFY20 core net profit rose to RM71.1m (+105% qoq), further buoyed by a lower tax rate of 24.1% (-4.2% pts qoq).

Expecting sequentially stronger results in 4QFY20F

Going into 4QFY20, we expect SUCB to record sequentially stronger results. This is on the back of: i) more aggressive increase in ASPs (expectations of a 10-15% rise monthly from Jun 20 onwards, post raising ASPs by 25-30% mom in Apr 20), ii) a surge in glove orders, and iii) better economies of scale. With 40-50% of its gloves sold under OBM, via its own distribution centres, we think SUCB can record higher ASP increases than its peers (5-10% rise quarterly), leading to better margins.

Raising FY20-22F EPS by 13.3-15.8%

With the stronger-than-expected 3QFY20 results, we raise our FY20-22F EPS by 13.3-15.8%. This is to account for: i) better-than-expected margin expansion from the distribution business, ii) increase in ASPs, and iii) higher economies of scale.

Reiterate Add, with a higher TP of RM6.50

In tandem with our EPS hike, our TP rises to RM6.50. We also peg SUCB to a higher CY21 P/E multiple of 27x, in line with +2 s.d. of its 5-year mean, from 24.5x previously. This is to reflect the current favourable operating environment (owing to Covid-19) and its distribution business, which garners better margins in these times. It continues to be a laggard play, trading at a 45% discount to the Malaysian glove sector average CY21F P/E of 35x, while it has the highest 3-year EPS CAGR of 21.2% (vs. average of 15.6%).

Financial Summary

	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue (RMm)	1,304	1,489	2,072	2,576	2,676
Operating EBITDA (RMm)	211.7	230.6	402.0	579.7	527.6
Net Profit (RMm)	106.7	123.8	233.0	347.8	301.2
Core EPS (RM)	0.08	0.09	0.17	0.26	0.22
Core EPS Growth	58.7%	9.9%	98.7%	49.3%	(13.4%)
FD Core P/E (x)	58.54	53.25	26.80	17.95	20.73
DPS (RM)	0.04	0.04	0.08	0.12	0.10
Dividend Yield	0.87%	0.85%	1.68%	2.51%	2.17%
EV/EBITDA (x)	29.98	27.15	16.09	11.30	12.49
P/FCFE (x)	38.08	91.49	84.07	39.32	34.33
Net Gearing	28.5%	19.4%	33.9%	34.7%	33.3%
P/BV (x)	6.17	5.54	4.97	4.32	3.87
ROE	10.3%	11.0%	19.6%	25.7%	19.7%
% Change In Core EPS Estimates			15.6%	15.8%	13.3%
CGS-CIMB/Consensus EPS (x)			1.57	1.79	1.54

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Windfall from OBM and distribution business

Figure 1: Results comparison

FYE Jun	3Q	3Q	yoy %	qoq %	3QFY20	3QFY19	yoy %	Prev.	Comments
(RM m)	FY20	FY19	chg	chg	Cum	Cum	chg	FY20F	
Revenue	447.2	361.2	23.8	16.0	1,203	1,113	8.0	2,048	3QFY20: Qoq increase in ASPs and sales volume
Operating costs	(339.9)	(298.6)	13.9	4.3	(987.4)	(921.3)	7.2	(1,685)	
EBITDA	107.3	62.6	71.3	80.2	215.3	192.1	12.1	363.2	
EBITDA margin (%)	24.0	17.3	6.7	8.5	17.9	17.3	0.6	17.7	3QFY20: Margin expansion from higher ASPs, lower raw material
Deprn & amort.	(13.1)	(10.4)	26.3	(0.2)	(38.5)	(32.0)	20.2	(48.3)	costs and higher economies of scale.
EBIT	94.2	52.3	80.2	47.5	176.8	160.1	10.4	314.9	
Interest expense	(3.5)	(4.5)	(22.3)	(23.7)	(12.3)	(13.8)	(10.7)	(27.3)	Net borrowings stand at RM254.3m as at end-3QFY20
Interest & invt inc	-	-	-	-	-	-	-	-	
Associates' contrib	4.6	1.7	(>100)	(>100)	5.1	3.6	40.0	4.0	Higher contribution from associate companies (part of distribution
Exceptionals	-	-	-	-	-	6.5	-	-	business)
Pretax profit	95.3	49.4	92.8	>100	169.5	156.4	8.4	291.6	its glove factories in Sungai Buloh, Selangor in 1QFY19.
Tax	(22.9)	(14.5)	58.6	94.2	(42.2)	(46.8)	(9.7)	(87.5)	
Tax rate (%)	24.1	29.2	(5.2)	(4.2)	24.9	29.9	(5.0)	30.0	Lower tax rate in tandem with improved profitability of overseas
Minority interests	(1.3)	(0.3)	274	(1,004)	(1.4)	(1.0)	42	(2.5)	subsidiaries
Net profit	71.1	34.6	105.3	135.6	126.0	108.7	15.9	201.6	We deem above expectations at 62.5% of our and 85% of
Core net profit	71.1	34.6	105.3	135.6	126.0	102.2	23.3	201.6	Bloomberg consensus FY20 estimates.
EPS (sen)	5.2	2.5	105.3	135.6	9.3	8.0	15.9	14.8	
Core EPS (sen)	5.2	2.5	105.3	135.6	9.3	7.5	23.3	14.8	Based on 1360m total outstanding shares

SOURCES: CGS-CIMB, COMPANY REPORTS

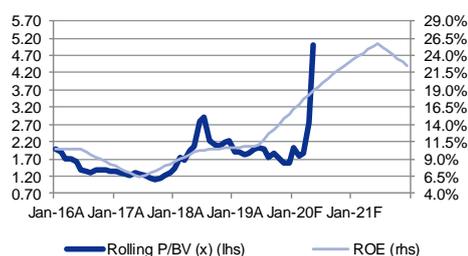
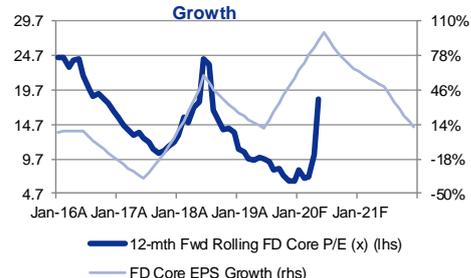
Re-rating catalysts and downside risks ►

Potential re-rating catalysts include better-than-expected demand for gloves and higher-than-expected increase in selling prices. Downside risks: discovery of a cure/vaccine for Covid-19, stiff pricing competition, and a spike in raw material prices.

Figure 2: Sector comparisons (CGS-CIMB's Malaysia glove sector coverage)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY20F	CY21F		CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Hartalega Holdings	HART MK	Add	9.42	10.80	7,325	43.9	40.2	14.9%	11.4	10.3	28.0%	25.8%	29.6	28.2	1.4%	1.4%
Kossan Rubber Industries	KRI MK	Add	7.70	6.40	2,262	35.0	33.1	9.8%	6.2	5.5	19.3%	17.7%	21.7	21.2	1.2%	1.2%
Supermax Corp	SUCB MK	Add	4.59	6.50	1,362	21.4	19.3	21.2%	4.6	4.1	23.2%	22.5%	13.1	11.9	2.1%	2.3%
Top Glove Corporation	TOPG MK	Add	10.80	10.40	6,368	34.0	32.9	17.4%	9.3	8.1	29.6%	26.3%	22.9	22.0	1.4%	1.5%
Weighted average						37.3	35.0	15.6%	9.4	8.4	27.1%	24.7%	24.8	23.7	1.4%	1.5%

SOURCES: CGS-CIMB, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(RMm)	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Total Net Revenues	1,304	1,489	2,072	2,576	2,676
Gross Profit	439	466	732	990	956
Operating EBITDA	212	231	402	580	528
Depreciation And Amortisation	(42)	(44)	(48)	(56)	(64)
Operating EBIT	170	187	354	523	463
Financial Income/(Expense)	(14)	(20)	(27)	(30)	(32)
Pretax Income/(Loss) from Assoc.	6	5	10	9	5
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	162	173	336	503	436
Exceptional Items	0	0	0	0	0
Pre-tax Profit	162	173	336	503	436
Taxation	(52)	(49)	(101)	(151)	(131)
Exceptional Income - post-tax					
Profit After Tax	110	124	235	352	305
Minority Interests	(3)	0	(3)	(4)	(4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	107	124	233	348	301
Recurring Net Profit	107	117	233	348	301
Fully Diluted Recurring Net Profit	107	117	233	348	301

Cash Flow

(RMm)	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
EBITDA	211.7	230.6	402.0	579.7	527.6
Cash Flow from Inv. & Assoc.					
Change In Working Capital	56.8	0.0	(136.8)	(79.1)	(19.9)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	(13.2)	66.3	37.3	38.8	37.3
Net Interest (Paid)/Received	(14.0)	(19.7)	(27.3)	(29.8)	(32.3)
Tax Paid	(64.1)	(49.0)	(100.9)	(150.8)	(130.8)
Cashflow From Operations	177.2	228.2	174.3	358.8	381.9
Capex	(58.9)	(115.7)	(250.0)	(250.0)	(250.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(58.9)	(115.7)	(250.0)	(250.0)	(250.0)
Debt Raised/(repaid)	45.7	(44.3)	150.0	50.0	50.0
Proceeds From Issue Of Shares					
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(75.7)	(32.8)	(104.8)	(156.5)	(135.5)
Preferred Dividends					
Other Financing Cashflow	(14.0)	(19.7)	(27.3)	(29.8)	(32.3)
Cash Flow From Financing	(44.0)	(96.8)	17.9	(136.3)	(117.8)
Total Cash Generated	74.3	15.7	(57.9)	(27.5)	14.1
Free Cashflow To Equity	164.0	68.2	74.3	158.8	181.9
Free Cashflow To Firm	132.3	132.2	(48.5)	138.6	164.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Total Cash And Equivalents	145	174	116	88	103
Total Debtors	203	197	274	341	354
Inventories	188	183	297	351	381
Total Other Current Assets	36	77	175	176	177
Total Current Assets	572	631	862	957	1,015
Fixed Assets	896	972	1,074	1,268	1,453
Total Investments	197	202	202	202	202
Intangible Assets	29	29	29	29	29
Total Other Non-Current Assets	2	1	1	1	1
Total Non-current Assets	1,123	1,204	1,306	1,500	1,686
Short-term Debt	374	350	450	450	450
Current Portion of Long-Term Debt					
Total Creditors	192	229	283	325	348
Other Current Liabilities		49	49	49	49
Total Current Liabilities	566	627	781	823	846
Total Long-term Debt	62	42	92	142	192
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	62	42	92	142	192
Total Provisions	49	40	40	40	40
Total Liabilities	677	709	913	1,005	1,078
Shareholders' Equity	1,013	1,127	1,255	1,446	1,612
Minority Interests	10	0	0	5	10
Total Equity	1,023	1,127	1,255	1,452	1,622

Key Ratios

	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue Growth	15.8%	14.2%	39.1%	24.3%	3.9%
Operating EBITDA Growth	42.1%	8.9%	74.4%	44.2%	(9.0%)
Operating EBITDA Margin	16.2%	15.5%	19.4%	22.5%	19.7%
Net Cash Per Share (RM)	(0.21)	(0.16)	(0.31)	(0.37)	(0.40)
BVPS (RM)	0.74	0.83	0.92	1.06	1.19
Gross Interest Cover	12.15	9.48	12.97	17.57	14.34
Effective Tax Rate	32.0%	28.4%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	34.3%	30.6%	31.4%	31.4%	31.4%
Accounts Receivables Days	59.64	41.41	31.65	33.14	36.05
Inventory Days	79.63	66.14	65.54	74.61	77.73
Accounts Payables Days	81.54	64.24	55.17	57.56	59.97
ROIC (%)	14.6%	16.1%	29.9%	34.5%	25.8%
ROCE (%)	11.1%	12.2%	20.8%	26.7%	21.1%
Return On Average Assets	10.1%	10.9%	18.2%	23.0%	18.2%

Key Drivers

	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
ASP (% chg, main prod./serv.)	0.0%	13.7%	28.7%	26.1%	15.2%
Unit sales grth (% , main prod./serv.)	2.8%	-8.2%	87.0%	101.6%	45.8%
Util. rate (% , main prod./serv.)	79.0%	79.0%	85.0%	87.0%	78.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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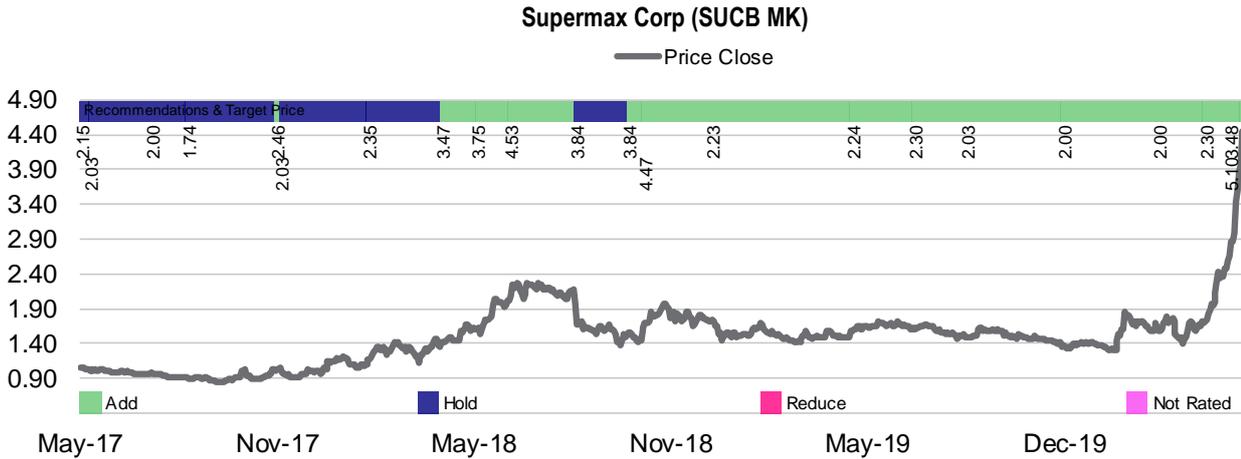
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	Rating Distribution (%)	Investment Banking clients (%)
Add	60.8%	0.1%
Hold	27.6%	0.0%
Reduce	11.6%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** - Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TNR** – Very Good, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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Definition:

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