

22 May 2020

**Buy****Price**  
RM5.40**Target Price**  
RM6.06**Market Data**

Bloomberg Code	SUCB MK
No. of shares (m)	1,278.9
Market cap (RMm)	7,346
52-week high/low (RM)	5.49 / 1.29
Avg daily turnover (RMm)	45.6
KLCI (pts)	1,452.1

Source: Bloomberg, KAF

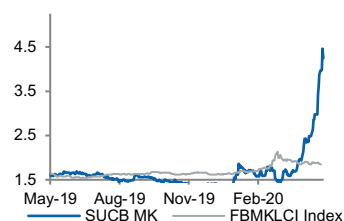
**Major Shareholder (%)**

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 (%)	192.4	223.7	189.5
Rel Market (%)	212.7	261.1	223.8



Source: Bloomberg, KAF

# Supermax

## Cutting out the middleman

We had previously underestimated Supermax's ability to benefit from the near-term price momentum driven by the rush to stock-pile gloves inventory in anticipation of a 2<sup>nd</sup> wave of Covid-19 pandemic. The management decision not to lock in capacity and prices with third-party distributors enables the group to sell at the open market at a high spot price. While future price may dwindle once stockpiling comes to an end, it will at least ensure that group's earnings deliverance will stay strong in the near term. All things considered, we upgrade the stock to a **BUY**

**Financial Highlights**

FYE June	2018	2019	2020F	2021F	2022F
Revenue (RMm)	1,304.5	1,538.2	1,944.8	2,355.7	2,069.6
Core net profit (RMm)	79.9	134.9	227.2	305.7	238.9
Core EPS (Sen)	6.1	10.3	17.4	23.4	18.3
EPS growth (%)	2.8	69.3	69.1	34.5	-21.9
DPS (Sen)	2.8	4.0	3.2	5.9	7.9
Core PE (x)	88.8	52.5	31.0	23.1	29.5
Div yield (%)	0.5	0.7	0.6	1.1	1.5
ROE (%)	10.3	11.5	18.7	21.5	14.9
Net Gearing (%)	28.7	19.4	32.8	27.3	20.9
PBV(x)	6.9	6.2	5.3	4.6	4.2

Source: Company, KAF

**Opted not to participate in pricing mechanism.** Following the management briefing yesterday, we gather that Supermax has chosen not to lock-in capacity and prices with third party distributors in order to take advantage of rising average selling price (ASP) induced by the short supply of gloves for immediate delivery. Consequently, sales to third party distributors has reduced to 5.0% of total sales volume since March 2020 (vs 30.0% previously).

**Selling at spot price.** Unlike its competitors which are predominantly OEM manufacturers, Supermax operates seven distribution centres worldwide to market its own brand. We gather that this approach yields the best return during the glove market upcycle. Such business model enables the group to supply directly to end consumers at spot price instead of at factory prices. Moreover, these distribution centres operate under a tax-friendly environment where tax rate can be as low as 12.5% of chargeable income.

**Margin expansion at both manufacturer and distributor level.** The exponential demand for gloves has given rise to reverse bidding where sellers can now dictate prices and capacity to offer to buyers. As buyers are desperate to pile up inventory in anticipation of a second wave of Covid-19, they are willing to accept a higher price as long as manufacturers are able to offer capacity allocation to be delivered within stipulated time period. The higher selling prices coupled with lower tax rate has amplified Supermax's earnings.

**Impact to earnings.** We are adjusting our earnings forecasts upwards for FY20F/FY21F/FY22F by 13.0%/30.0%/7.0% respectively to factor in a higher near-term selling price momentum and lower tax rate.

**Target price.** We are revising our target price to RM6.06 per share (previously RM4.66). Our TP is derived via pegging our FY21F EPS of 23.4sen to a target PER of 25.9x which is +3.0SD above its five-year historical average PER.

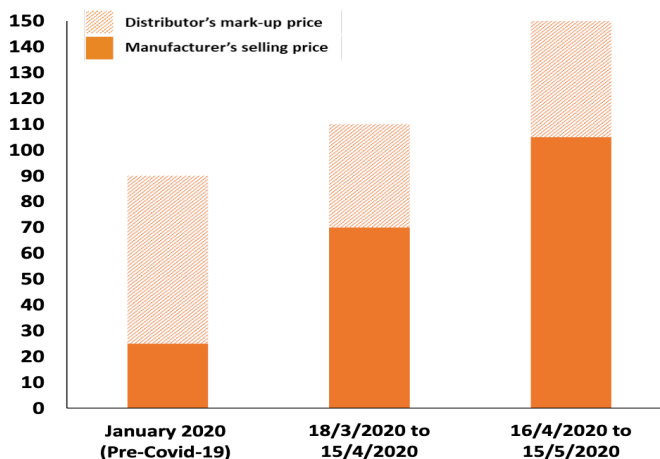
**Upgrade to Buy.** We had previously underestimated Supermax's ability to benefit from the near-term price momentum driven by the rush to stock-pile gloves inventory in anticipation of a 2<sup>nd</sup> wave of Covid-19 pandemic. The management decision not to lock in capacity and prices with third-party distributors enables the group to sell at a high spot price. While future price may dwindle once stockpiling comes to an end, it will at least ensure that earnings deliverance will stay strong in the near term. All things considered, we upgrade the stock to a **BUY**.

**Analyst**

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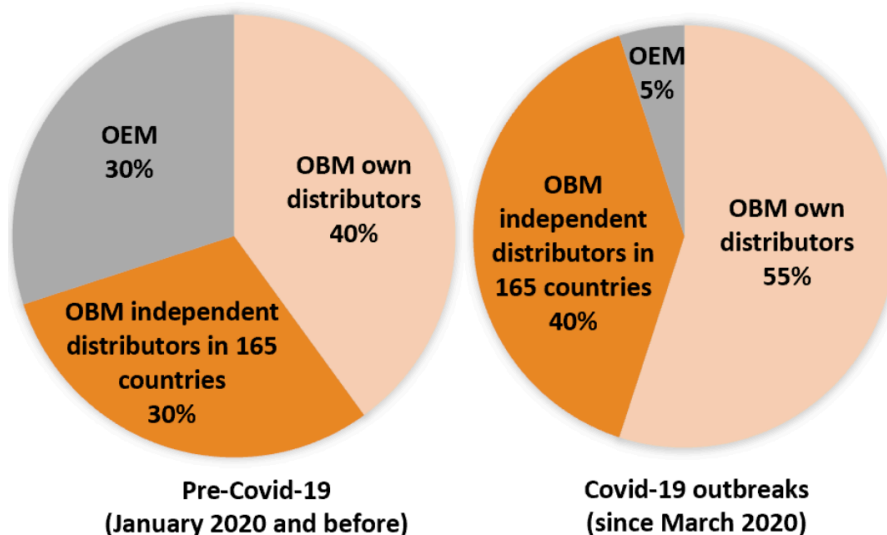
**Exhibit 1: Glove selling price at distributor and manufacturer level**

**Glove Price in USD**



Source: Company, KAF

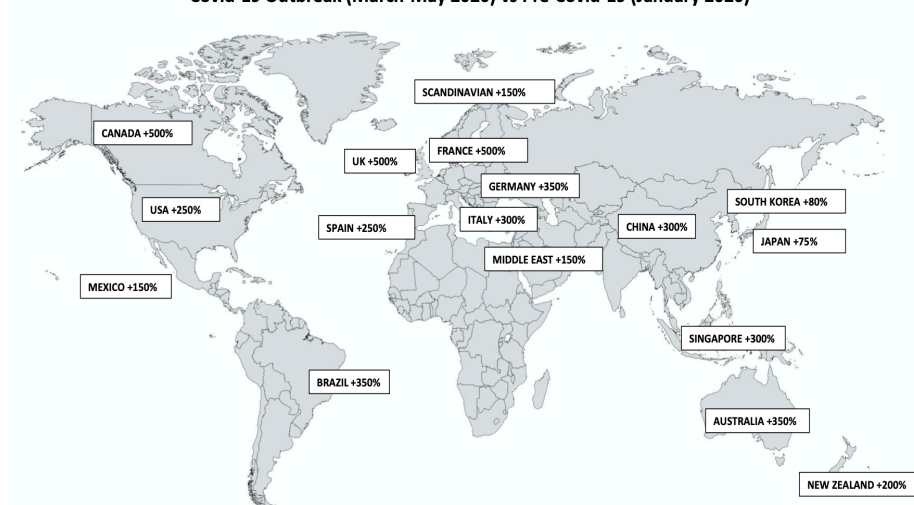
**Exhibit 2: OEM vs OBM sales volume mix**



Source: Company, KAF

**Exhibit 3: Demand growth from various countries**

**Covid-19 Outbreak (March-May 2020) vs Pre-Covid-19 (January 2020)**



Source: Company, KAF

**Income Statement**

<b>FYE June (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	<b>1,304.5</b>	<b>1,538.2</b>	<b>1,944.8</b>	<b>2,355.7</b>	<b>2,069.6</b>
<b>EBITDA</b>	<b>190.4</b>	<b>221.3</b>	<b>365.3</b>	<b>477.6</b>	<b>395.5</b>
Depreciation/Amortisation	-41.8	-45.1	-60.8	-69.6	-77.8
Operating income (EBIT)	148.5	176.2	304.4	407.9	317.6
Other income & associates	0.2	26.8	5.5	5.5	5.5
Net interest	-13.5	-18.9	-15.7	-21.7	-21.7
Exceptional items	-26.7	11.8	0.0	0.0	0.0
<b>Pretax profit</b>	<b>161.9</b>	<b>172.4</b>	<b>315.6</b>	<b>413.1</b>	<b>322.8</b>
Taxation	-51.8	-49.3	-88.4	-107.4	-83.9
Minorities/pref dividends	-3.5	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>106.7</b>	<b>123.1</b>	<b>227.2</b>	<b>305.7</b>	<b>238.9</b>
<b>Core net profit</b>	<b>79.9</b>	<b>134.9</b>	<b>227.2</b>	<b>305.7</b>	<b>238.9</b>

**Balance Sheet**

<b>FYE June (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Fixed assets	895.5	965.2	1,104.4	1,234.7	1,356.9
Intangible assets	28.7	28.7	28.7	28.7	28.7
Other long-term assets	6.2	5.5	5.5	5.5	5.5
<b>Total non-current assets</b>	<b>1,127.6</b>	<b>1,207.0</b>	<b>1,351.7</b>	<b>1,487.5</b>	<b>1,615.2</b>
Cash & equivalent	145.2	173.8	81.4	101.2	165.5
Stock	187.8	181.9	302.5	305.4	308.2
Trade debtors	188.1	173.8	363.0	366.5	369.8
Other current assets	51.0	106.1	106.1	106.1	106.1
<b>Total current assets</b>	<b>572.1</b>	<b>635.7</b>	<b>853.1</b>	<b>879.3</b>	<b>949.7</b>
Trade creditors	185.3	217.5	270.1	265.4	270.1
Short-term borrowings	374.5	330.5	330.5	330.5	330.5
Other current liabilities	6.4	53.9	53.9	53.9	53.9
<b>Total current liabilities</b>	<b>566.2</b>	<b>601.9</b>	<b>654.5</b>	<b>649.8</b>	<b>654.5</b>
Long-term borrowings	61.7	61.0	211.0	211.0	261.0
Other long-term liabilities	49.0	45.6	45.6	45.6	45.6
<b>Total long-term liabilities</b>	<b>110.7</b>	<b>106.6</b>	<b>256.6</b>	<b>256.6</b>	<b>306.6</b>
<b>Shareholders' funds</b>	<b>1,012.7</b>	<b>1,123.7</b>	<b>1,283.2</b>	<b>1,450.0</b>	<b>1,593.3</b>
Minority interests	10.0	10.5	10.5	10.5	10.5

**Cash flow Statement**

<b>FYE June (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Pretax profit	161.9	172.4	315.6	413.1	322.8
Depreciation/Amortisation	41.8	45.1	60.8	69.6	77.8
Net change in working capital	56.8	30.5	-252.0	-84.6	62.2
Others	-83.3	-13.0	10.2	16.2	16.2
<b>Cash flow from operations</b>	<b>177.2</b>	<b>235.1</b>	<b>46.2</b>	<b>306.8</b>	<b>395.0</b>
Capital expenditure	-58.9	-112.2	-200.0	-200.0	-200.0
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	3.8	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>-55.1</b>	<b>-112.2</b>	<b>-200.0</b>	<b>-200.0</b>	<b>-200.0</b>
Debt raised/(repaid)	-14.4	-44.6	150.0	0.0	50.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	-75.7	-32.8	-41.6	-76.8	-103.3
Others	-13.5	-18.9	-15.7	-21.7	-21.7
<b>Cash flow from financing</b>	<b>-126.4</b>	<b>-104.0</b>	<b>92.7</b>	<b>-98.5</b>	<b>-75.0</b>
<b>Net cash flow</b>	<b>-4.3</b>	<b>18.8</b>	<b>-61.1</b>	<b>8.4</b>	<b>120.0</b>
<b>Cash b/f</b>	<b>156.1</b>	<b>145.2</b>	<b>173.8</b>	<b>112.7</b>	<b>121.1</b>
<b>Cash c/f</b>	<b>145.2</b>	<b>173.8</b>	<b>112.7</b>	<b>121.1</b>	<b>241.1</b>

**Key Ratios**

<b>FYE June</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue growth (%)	15.8	17.9	26.4	21.1	-12.1
EBITDA growth (%)	72.2	16.3	65.1	30.7	-17.2
Pretax margins (%)	12.4	11.2	16.2	17.5	15.6
Net profit margins (%)	8.2	8.0	11.7	13.0	11.5
Interest cover (x)	11.0	9.3	19.4	18.8	14.7
Effective tax rate (%)	32.0	28.6	28.0	26.0	26.0
Net dividend payout (%)	49.2	33.8	33.8	33.8	33.8
Debtors turnover (days)	59.0	43.0	49.3	60.2	70.6
Stock turnover (days)	53.0	44.0	49.3	60.2	70.6
Creditors turnover (days)	42.0	48.0	44.3	43.4	51.1

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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