

**Malaysia**

February 2, 2021 - 7:03 PM

**ADD** (no change)

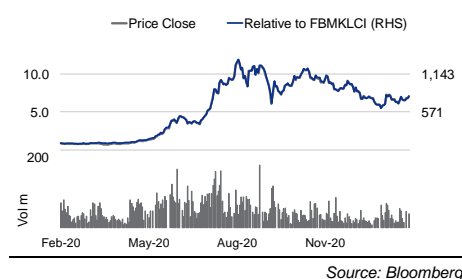
Consensus ratings\*: Buy 11 Hold 0 Sell 0

Current price:	RM7.08
Target price:	RM11.80
Previous target:	RM11.80
Up/downside:	66.7%
CGS-CIMB / Consensus:	9.8%
Reuters:	SUPM.KL
Bloomberg:	SUCB MK
Market cap:	US\$4,587m
	RM18,533m
Average daily turnover:	US\$51.57m
	RM208.0m
Current shares o/s	2,721m
Free float:	62.5%

\*Source: Bloomberg

**Key financial forecasts**

	Jun-21F	Jun-22F	Jun-23F
Net Profit (RMm)	4,453	2,703	1,607
Core EPS (RM)	1.64	0.99	0.59
Core EPS Growth	747%	(39%)	(41%)
FD Core P/E (x)	4.33	7.13	11.98
Recurring ROE	150%	52%	25%
P/BV (x)	4.42	3.22	2.77
DPS (RM)	0.65	0.40	0.24
Dividend Yield	9.25%	5.61%	3.34%



Price performance	1M	3M	12M
Absolute (%)	17.8	-20.5	695.5
Relative (%)	20.7	-28.3	692.3

**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

## Quarterly earnings have not yet peaked

- We remain positive on SUCB post its 2QFY6/21 results briefing, thanks to: i) a further rise in ASPs, and ii) continuous strong global glove demand.
- SUCB is confident of raising ASPs further, backed by its strong order backlog (until end-1HFY22). This allows it to pass on rising raw material costs.
- We reiterate our Add call, with a TP of RM11.80, based on 15x CY22F P/E.

### 2QFY6/21: Qoq decline in EBITDA margin due to higher costs

- Despite the 34.2% qoq growth in its 2QFY6/21 core net profit, Supermax Corp's (SUCB) 2QFY21 EBITDA margin declined by 6.5% pts qoq to 71.4%. This was attributed to: i) higher raw material costs (packaging, nitrile butadiene costs, etc.) and ii) an increase in operating expenses (Covid-19-related and staff bonuses).
- Also, we understand that SUCB was unable to fully pass on higher raw material costs for certain orders (e.g. to government agencies) in the quarter. This is given that ASPs for these orders are typically locked in for a period of time (average 6 months), resulting in a margin squeeze. According to SUCB, ASPs for these orders will be revised higher from 3QFY21 onwards to pass on the higher raw material prices.

### Expecting stronger results in quarters ahead

- SUCB is confident of recording stronger results in upcoming quarters. This is backed by: i) a further rise in ASPs, and ii) higher sales volume. We understand that SUCB continues to expect its ASPs to rise by 2.5-6.8% mom up until end-FY6/21F. Also, it recently completed the commissioning of all production lines in Block B (2.2bn pieces p.a.) of Plant 12 (4.4bn pieces p.a.) at end-2QFY21. This raised its total production capacity by 9.2% to 26.2bn pieces p.a.

### Global glove demand remains robust, in SUCB's view

- SUCB expects the current robust global glove demand to be sustained for at least the next one year, as it continues to witness strong demand from its customers. We understand that most of SUCB's customers are mainly purchasing gloves for medical usage. SUCB highlighted that the global glove shortage has resulted in limited availability of gloves for non-priority use (i.e. in non-medical sectors). In addition to increased glove use in the medical field, SUCB is of the view that long-term demand for gloves will also be driven by increased usage from non-medical sectors, with higher hygiene awareness by consumers.

### SUCB expects ASPs to remain on the uptrend until end-1HFY22F

- SUCB expects ASPs to remain on the uptrend, at least until end-1HFY22F (end-CY21F). Its optimism is backed by the ongoing global glove shortage, as well as its ability to pass on rising raw material costs (particularly nitrile butadiene costs, which have risen 138% yoy in Jan 21). We gather that SUCB is not overly concerned about the incoming new capacity, especially from new entrants to the glove sector, given the potential operational headwinds, such as shortage of foreign labour and raw material supply, as well as delays in construction of new glove factories.

### Retain Add, with our TP based on 15x CY22F P/E

- We retain our Add call on SUCB, with a TP of RM11.80. This is based on 15x CY22F P/E, which is in line with the overall glove sector's 5-year mean P/E. We continue to view SUCB as an attractive play, backed by: i) strong global glove demand owing to Covid-19, ii) higher-than-average margins in the sector (due to its original brand manufacturing model), and iii) solid dividend yields of 4.0-9.0% (FY21-23F).
- Potential re-rating catalysts: higher-than-expected rise in ASPs and faster-than-expected commissioning of new capacity. Downside risks: i) a sharp decline in ASPs and sales volume, and ii) Covid-19 outbreaks among SUCB's workers.

Figure 1: Sector comparison (CGS-CIMB's rubber product sector coverage)

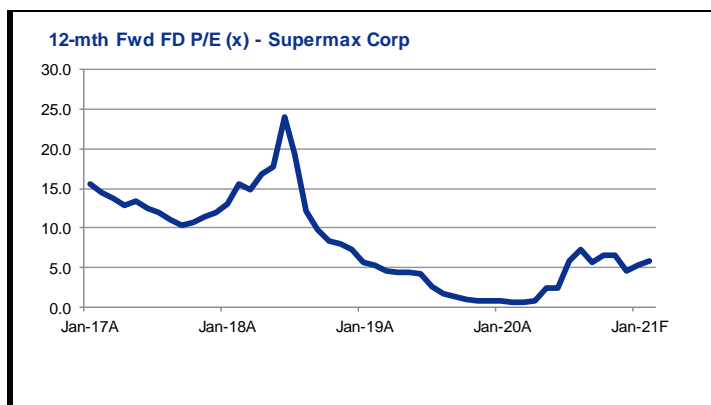
Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY21F	CY22F		CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
<b>Malaysia-listed glove makers</b>																
Hartalega Holdings	HART MK	Add	13.30	21.80	11,284	11.7	16.2	71.6%	8.8	7.2	87.8%	48.9%	8.8	11.7	5.1%	3.7%
Kossan Rubber Industries	KRI MK	Add	4.40	7.64	2,781	4.8	8.6	82.6%	3.2	2.6	84.3%	33.6%	3.6	5.8	8.3%	4.6%
<b>Supermax Corp</b>	<b>SUCB MK</b>	<b>Add</b>	<b>7.08</b>	<b>11.80</b>	<b>4,587</b>	<b>5.4</b>	<b>9.0</b>	<b>82.3%</b>	<b>3.7</b>	<b>3.0</b>	<b>86.2%</b>	<b>36.9%</b>	<b>3.2</b>	<b>4.8</b>	<b>7.3%</b>	<b>4.5%</b>
Top Glove Corporation	TOPG MK	Add	7.05	8.90	14,001	6.7	12.7	74.5%	6.3	5.4	111.9%	45.8%	5.1	9.1	9.7%	5.1%
<b>Weighted average</b>						<b>8.1</b>	<b>13.0</b>	<b>75.3%</b>	<b>6.5</b>	<b>5.4</b>	<b>97.6%</b>	<b>44.6%</b>	<b>2.6</b>	<b>4.0</b>	<b>7.7%</b>	<b>4.5%</b>
<b>Singapore-listed glove makers</b>																
Riverstone Holdings	RSTON SP	Add	1.52	2.50	1,691	6.1	10.6	71.1%	3.2	2.9	65.0%	28.7%	3.8	5.9	6.5%	3.8%
UG Healthcare Corp Ltd	UGHC SP	Add	0.77	1.70	356	4.5	6.0	139.4%	2.2	1.7	65.2%	31.9%	0.4	-0.1	2.2%	1.7%
<b>Weighted average</b>						<b>5.8</b>	<b>9.8</b>	<b>79.5%</b>	<b>3.0</b>	<b>2.7</b>	<b>65.0%</b>	<b>29.3%</b>	<b>3.2</b>	<b>4.9</b>	<b>5.8%</b>	<b>3.4%</b>
<b>Weighted Average</b>						<b>7.9</b>	<b>12.8</b>	<b>75.7%</b>	<b>6.3</b>	<b>2.2</b>	<b>53.7%</b>	<b>24.2%</b>	<b>2.6</b>	<b>4.0</b>	<b>4.8%</b>	<b>2.8%</b>
<b>Simple Average</b>						<b>6.5</b>	<b>10.5</b>	<b>86.9%</b>	<b>4.6</b>	<b>3.8</b>	<b>83.4%</b>	<b>37.7%</b>	<b>4.1</b>	<b>6.2</b>	<b>6.5%</b>	<b>3.9%</b>

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

## BY THE NUMBERS

Profit & Loss				
(RMm)	Jun-20A	Jun-21F	Jun-22F	Jun-23F
<b>Total Net Revenues</b>	<b>2,132</b>	<b>8,527</b>	<b>7,052</b>	<b>5,478</b>
<b>Gross Profit</b>	<b>1,092</b>	<b>6,753</b>	<b>4,515</b>	<b>2,900</b>
<b>Operating EBITDA</b>	<b>764</b>	<b>6,242</b>	<b>3,954</b>	<b>2,331</b>
Depreciation And Amortisation	(76)	(89)	(116)	(142)
<b>Operating EBIT</b>	<b>688</b>	<b>6,153</b>	<b>3,838</b>	<b>2,189</b>
Financial Income/(Expense)	(17)	29	32	46
Pretax Income/(Loss) from Assoc.	18	30	20	15
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>689</b>	<b>6,212</b>	<b>3,889</b>	<b>2,250</b>
Exceptional Items	0	0	0	0
<b>Pre-tax Profit</b>	<b>689</b>	<b>6,212</b>	<b>3,889</b>	<b>2,250</b>
Taxation	(153)	(1,739)	(1,167)	(630)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>536</b>	<b>4,473</b>	<b>2,723</b>	<b>1,620</b>
Minority Interests	(10)	(20)	(20)	(13)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>526</b>	<b>4,453</b>	<b>2,703</b>	<b>1,607</b>
Recurring Net Profit	526	4,453	2,703	1,607
<b>Fully Diluted Recurring Net Profit</b>	<b>526</b>	<b>4,453</b>	<b>2,703</b>	<b>1,607</b>

Cash Flow				
(RMm)	Jun-20A	Jun-21F	Jun-22F	Jun-23F
<b>EBITDA</b>	<b>763.6</b>	<b>6,242.5</b>	<b>3,953.7</b>	<b>2,331.0</b>
Cash Flow from Inv. & Assoc.				
Change In Working Capital	639.1	(661.0)	185.8	205.3
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0
Other Operating Cashflow	(27.0)	80.3	68.1	77.5
Net Interest (Paid)/Received	(17.1)	(10.5)	(8.2)	(8.2)
Tax Paid	(61.9)	(1,739.5)	(1,166.8)	(629.9)
<b>Cashflow From Operations</b>	<b>1,296.8</b>	<b>3,911.8</b>	<b>3,032.6</b>	<b>1,975.7</b>
Capex	(192.0)	(600.0)	(600.0)	(600.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow				
<b>Cash Flow From Investing</b>	<b>(192.0)</b>	<b>(600.0)</b>	<b>(600.0)</b>	<b>(600.0)</b>
Debt Raised/(repaid)	(63.4)	0.0	0.0	0.0
Proceeds From Issue Of Shares				
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	0.0	(1,781.2)	(1,081.1)	(642.9)
Preferred Dividends				
Other Financing Cashflow	(17.1)	(10.5)	(8.2)	(8.2)
<b>Cash Flow From Financing</b>	<b>(80.5)</b>	<b>(1,791.7)</b>	<b>(1,089.3)</b>	<b>(651.1)</b>
Total Cash Generated	1,024.3	1,520.1	1,343.3	724.6
<b>Free Cashflow To Equity</b>	<b>1,041.4</b>	<b>3,311.8</b>	<b>2,432.6</b>	<b>1,375.7</b>
<b>Free Cashflow To Firm</b>	<b>1,121.9</b>	<b>3,322.3</b>	<b>2,440.8</b>	<b>1,383.9</b>



Balance Sheet				
(RMm)	Jun-20A	Jun-21F	Jun-22F	Jun-23F
<b>Total Cash And Equivalents</b>	<b>1,181</b>	<b>2,651</b>	<b>3,994</b>	<b>4,719</b>
<b>Total Debtors</b>	<b>392</b>	<b>1,114</b>	<b>921</b>	<b>715</b>
<b>Inventories</b>	<b>253</b>	<b>309</b>	<b>442</b>	<b>449</b>
<b>Total Other Current Assets</b>	<b>85</b>	<b>176</b>	<b>177</b>	<b>178</b>
<b>Total Current Assets</b>	<b>1,910</b>	<b>4,250</b>	<b>5,534</b>	<b>6,061</b>
<b>Fixed Assets</b>	<b>1,086</b>	<b>1,620</b>	<b>2,093</b>	<b>2,542</b>
<b>Total Investments</b>	<b>225</b>	<b>225</b>	<b>225</b>	<b>225</b>
<b>Intangible Assets</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>
<b>Total Other Non-Current Assets</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total Non-current Assets</b>	<b>1,341</b>	<b>1,875</b>	<b>2,349</b>	<b>2,798</b>
<b>Short-term Debt</b>	<b>226</b>	<b>226</b>	<b>226</b>	<b>226</b>
<b>Current Portion of Long-Term Debt</b>				
<b>Total Creditors</b>	<b>308</b>	<b>425</b>	<b>551</b>	<b>557</b>
<b>Other Current Liabilities</b>	<b>944</b>	<b>944</b>	<b>944</b>	<b>944</b>
<b>Total Current Liabilities</b>	<b>1,477</b>	<b>1,594</b>	<b>1,720</b>	<b>1,727</b>
<b>Total Long-term Debt</b>	<b>102</b>	<b>102</b>	<b>102</b>	<b>102</b>
<b>Hybrid Debt - Debt Component</b>				
<b>Total Other Non-Current Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Non-current Liabilities</b>	<b>102</b>	<b>102</b>	<b>102</b>	<b>102</b>
<b>Total Provisions</b>	<b>64</b>	<b>64</b>	<b>64</b>	<b>64</b>
<b>Total Liabilities</b>	<b>1,643</b>	<b>1,760</b>	<b>1,886</b>	<b>1,893</b>
<b>Shareholders' Equity</b>	<b>1,586</b>	<b>4,360</b>	<b>5,982</b>	<b>6,946</b>
<b>Minority Interests</b>	<b>22</b>	<b>5</b>	<b>10</b>	<b>15</b>
<b>Total Equity</b>	<b>1,608</b>	<b>4,365</b>	<b>5,992</b>	<b>6,961</b>

Key Ratios				
	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue Growth	39%	300%	(17%)	(22%)
Operating EBITDA Growth	232%	717%	(37%)	(41%)
Operating EBITDA Margin	35.8%	73.2%	56.1%	42.6%
Net Cash Per Share (RM)	0.31	0.85	1.35	1.61
BVPS (RM)	0.58	1.60	2.20	2.55
Gross Interest Cover	40.2	585.9	467.8	266.8
Effective Tax Rate	22.2%	28.0%	30.0%	28.0%
Net Dividend Payout Ratio	31.0%	28.8%	27.9%	28.7%
Accounts Receivables Days	34.11	23.55	40.32	41.75
Inventory Days	76.75	57.77	53.95	63.01
Accounts Payables Days	61.74	48.19	51.16	59.75
ROIC (%)	58%	1036%	204%	101%
ROCE (%)	39%	183%	70%	33%
Return On Average Assets	28%	132%	55%	26%

Key Drivers				
	Jun-20A	Jun-21F	Jun-22F	Jun-23F
MYR/USD	4.3	4.2	4.1	4.1
ASP (USD/000)	26.2	31.3	42.4	48.4
Average annual utilisation	0.9	0.8	0.7	0.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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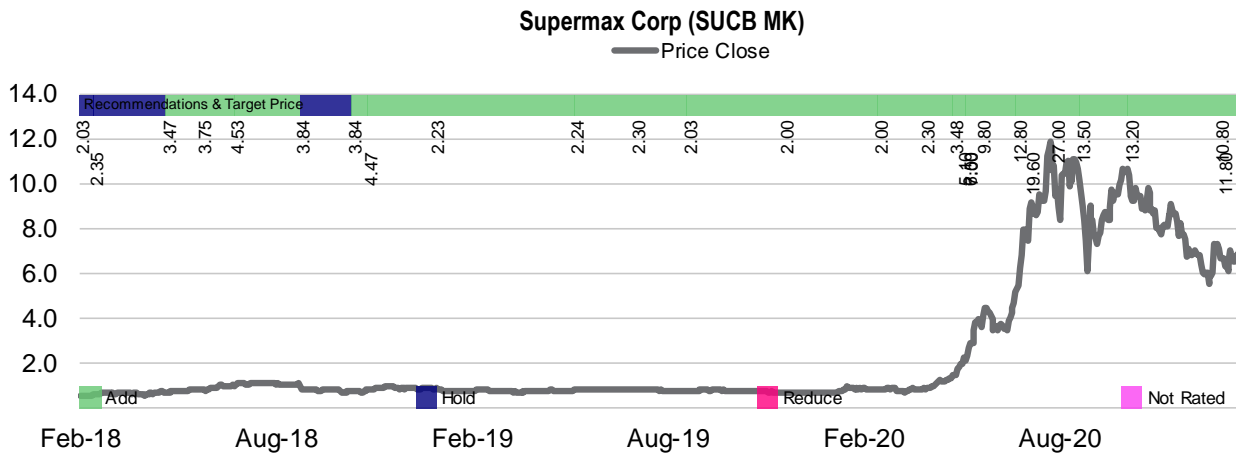
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Spitzer Chart for stock being researched ( 2 year data )



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020**

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1 CG Score 2020 from Thai Institute of Directors Association (IOD)

2 AGM Level 2019 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 June 24, 2019) 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 2019" 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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**Recommendation Framework****Stock Ratings**

Definition:

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

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- 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.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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