INITIATE COVERAGE

Supermax Corporation (SUCB MK)

Shines Bright Like A Diamond

Against the backdrop of unmet burgeoning glove demand, Supermax is well positioned to be the best beneficiary of record high ASP hikes. Its OBM and distribution network are the envy of the industry. To top it all, this coincides with its timely yet aggressive multi-year expansion, outstripping its peers. With all these positives and consistent execution, Supermax should narrow its deep discount to comparable peers. Initiate coverage with BUY and target price of RM12.40.

- **Significantly superior earnings growth outlook.** Supermax Corporation's (Supermax) OBM and independent distribution network allow it to better maximise record high glove ASPs relative to peers. Furthermore, its timely yet aggressive capacity expansion of a 2-year CAGR (2019-21) of 22.5% outstrips our observable industry growth of 15.7%. With these, Supermax's earnings are supercharged, offering an incredible 2-year earnings CAGR (FY19-21) of 183.6%, almost double peers' average of 90%.
- **Healthy and consistent demand growth for gloves.** Sales volume of medical grade gloves have been growing progressively over the past two decades at a 19-year CAGR (2000-19) of 8.4%, contracting only once by 1.3% yoy in 2011. This was post the H1N1 pandemic that saw an inventory build-up in the preceding year. The Malaysian Rubber Glove Manufacturers Association expects global glove consumption to grow 8-10%, driven by developing populous nations where per capita usage is much lower than in developed countries.
- **Vaccine discovery for COVID-19.** The discovery of a vaccine and/or treatment could cause negative newsflow. However, scaling up global manufacturing to achieve herd immunity may take 12-18 months from the point of vaccine discovery. Boston Consulting Group estimates it would require up to 5b vaccine doses to cover more than 60% of the world's population. As such, earnings are unlikely to sharply contract immediately as demand still far outstrips new supply. But we do envision that ad hoc ASPs could be the first to normalise off their high base.
- **Initiate coverage with BUY and target price of RM12.40**, based on 15.0x FY21F PE. Its sizeable local peers (Hartalega, Top Glove and Kossan) are trading at an average of 34.4x FY21F PE, but we opine that Supermax should be pegged to +0.5 SD of its 5-year historical mean. While it is at a discount to peers, we are cognisant of the fact that valuations are based on the peak earnings cycle. However, our blue sky scenario entails Supermax potentially trading at 21.3x or +2SD of its 5-year mean upon a potential entry to the FBMKLCI Index. It implies a target price of RM17.60. Once earnings normalise, we believe Supermax should re-rate and narrow its valuation discount to sizeable local peers' due to its: a) downstream value creation, b) aggressive expansion ambitions, c) consistent execution, and d) potential inclusion in the FBMKLCI index.

KEY FINANCIALS

Year to 30 Jun (RMm)	2018	2019	2020F	2021F	2022F
Net Turnover	1,304	1,538	2,398	3,629	2,589
EBITDA	210	179	646	1,582	473
Operating Profit	168	134	594	1,522	403
Net Profit (Reported/Actual)	107	123	445	1,128	312
Net Profit (Adjusted)	107	123	445	1,128	312
EPS (sen)	7.8	9.1	32.7	83.0	22.9
PE (x)	120.0	104.0	28.7	11.3	41.0
P/B (x)	12.6	11.4	8.4	5.0	4.5
EV/EBITDA (x)	58.8	69.0	19.1	7.8	26.1
Dividend Yield (%)	0.4	0.3	0.3	0.9	0.2
Net Margin (%)	8.2	8.0	18.6	31.1	12.1
Net Debt/(Cash) to Equity (%)	28.7	19.4	11.5	(18.6)	(23.3)
Interest Cover (x)	15.0	9.1	34.6	84.8	25.4
ROE (%)	10.3	11.5	33.6	55.5	11.6
Consensus Net Profit	-	-	241	382	315
UOBKH/Consensus (x)	-	-	1.85	2.96	0.99

Source: Supermax, Bloomberg, UOB Kay Hian

BUY

Share Price	RM9.41
Target Price	RM12.40
Upside	+31.8%

COMPANY DESCRIPTION

Among the largest nitrile glove manufacturers in the world, Supermax differentiates itself with its OBM range and independent distribution network. Also produces latex, surgical gloves and contact lens.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker	SUCB MK
Shares issued (m)	1,291.4
Market cap (RMm)	12,152.3
Market cap (US$m)	2,834.5
3-mth avg daily t'over (US$m)	37.9

Price Performance (%)

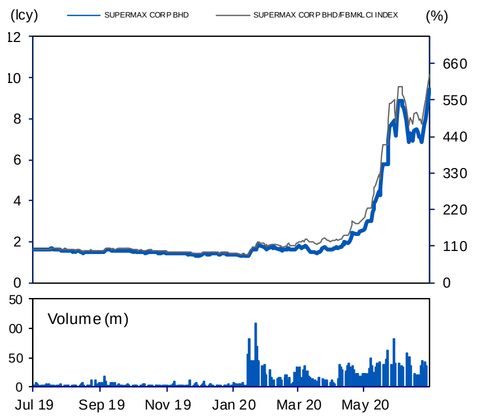
52-week high/low RM9.41/RM1.30

1mth	3mth	6mth	1yr	YTD
31.8	491.8	586.9	479.1	577.0

Major Shareholders	%
Stanley Thai	37.2
Vanguard	2.4
Norges Bank	2.4

FY20 NAV/Share (RM)	1.00
FY20 Net Cash/Share (RM)	0.25

PRICE CHART



Source: Bloomberg

ANALYST

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This report uses the closing prices of 3 July 20

Investment Highlights

DOWNSTREAM VALUE CREATION BACKED BY AGGRESSIVE EXPANSION

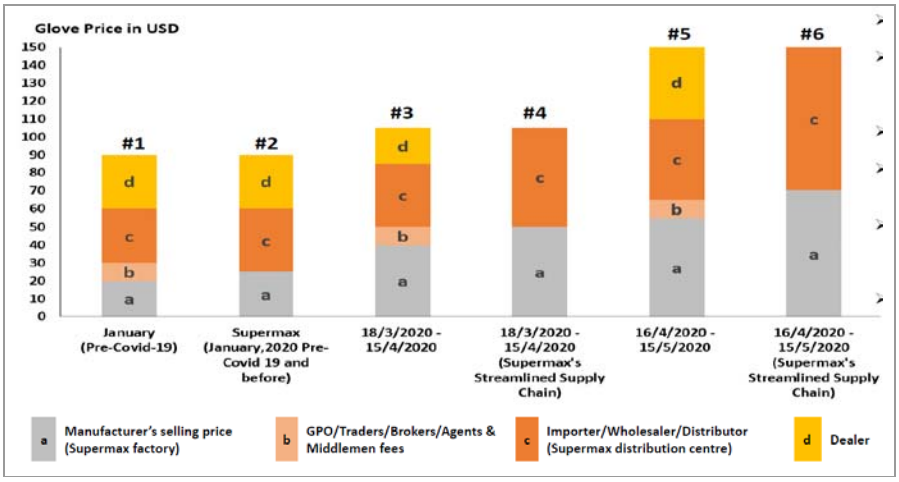
OBM two decades in the making. Since 2000, Supermax has toiled to establish its own brand, Aurelia Gloves. Establishing an own brand model (OBM) is unique in the industry. Supermax's peers – Hartalega, Top Glove and Kossan – are predominantly original equipment manufacturers (OEM). Among the advantages of OEM is the savings-cost pass-through pricing mechanism which allows glove manufacturers to pass on changes in cost, be it latex cost, nitrile butadiene cost or minimum wage. As a result, OEM glove manufacturers have more stable margins. The tradeoff is that OEM manufacturers command lower margins relative to OBM manufacturers.

Downstream presence coming to fruition. Supermax is more susceptible to swings in costs but commands higher margins for its OBM gloves. In Figure 1, column #1, OEM manufacturers generally command pricing up to 'a', or US$20/'000 pieces. An OBM manufacturer would be able to command 'a' and 'c' for itself. It is reflective of value enhancement tied to exploring downstream of the sale of medical grade gloves.

Previous teething issues mask benefits of OBM. Supermax was previously weighed down by teething operational issues (insufficient water supply and revamp of old production lines in FY15-17), resulting in sub-optimal utilisation rates and lower economies of scale. Nevertheless, its operating margins are similar to peers', thanks to its OBM and independent distribution network. Now that the teething operational issues have been resolved, we expect Supermax's OBM to reach scale and reflect superior margins. Sales mix pre-COVID-19 outbreak was OEM:OBM independent distributors:OBM own distribution ratio at 30%:30%:40% and has evolved to 5%:40%:55% respectively (Figure 2).

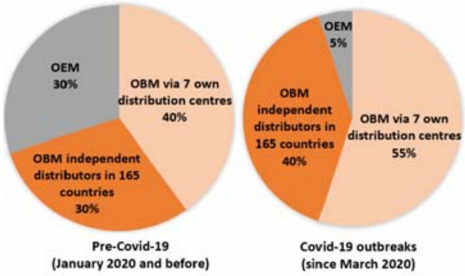
OBM allows for ASP hikes. Recently, glove demand has surged in tandem with demand for personal protective equipment (PPE) amid the COVID-19 outbreak. Consequently, ASPs have surged to unprecedented levels due to a supply shortage. Figure 1 shows how ASPs have trended since January and the breakdown of ASPs across the value chain. The pricing structure has now evolved to column #6. Based on this column, OEM gloves command US$70/'000 pieces while OBM players via Supermax's seven distribution centres command close to US$150/'000 pieces. Meanwhile, OBM players via independent distributors command ASPs of US$70-150/'000 pcs). Meanwhile, OEM producers such as Top Glove, Hartalega and Kossan are only realising ASPs of US$30-40/'000 pieces. Supermax's superior pricing power is due to its OBM and independent distribution network.

FIGURE 1: UNIQUE OPERATING MODEL ALLOWS SUPERMAX TO CAPTURE ASP GAINS



Source: Supermax

FIGURE 2: SALES MIX BY DISTRIBUTION MODEL



Source: Supermax

FIGURE 3: SUPERMAX'S OWN GLOBAL DISTRIBUTION CENTRES

Location	Tax Rate (%)	Ownership (%)
Hong Kong	16.5	100
Singapore	17.0	100
UK	19.0	100
Ireland	12.5	100
Canada	26.5	67
USA	21.0	100
Brazil	34.0	50

Source: Supermax

FIGURE 4: SUPERMAX'S MIX AND ASP BY DISTRIBUTION CHANNEL

	% of Volume Sales (%)	ASPs Currently Commanded (US$/'000 pcs)
OEM	5	80 - 95
OBM via Independent Distributors	40	80 - 160
OBM via Own Distribution Network	55	160 - 175

Source: Supermax

Supermax aims to expand capacity by 50% over FY19-21, or a 2-year CAGR of 22.5%. This outstrips our observable 2-year CAGR (2019-21) of 15.7% for the industry. Upon completion of its expansion, Supermax is due to overtake Kossan in terms of capacity by end-21. It would make it the fourth-largest glove producer with a 13% market share, only behind Top Glove, Hartalega and Sri Trang. This makes up for lost time as the previous teething operational issues (insufficient water supply and revamp of old production lines) had restrained Supermax's expansion.

Significantly superior earnings growth outlook. Due to its OBM, independent distribution network and timely capacity expansion, Supermax can fully maximise ASPs, unlike its peers. As a result, Supermax offers a 202.7% two-year earnings CAGR for FY19-21, almost double peers' average of 90.0%.

STRUCTURALLY FAVOURABLE DEMAND

Healthy and consistent demand growth for gloves. Sale volume of medical-grade gloves has been growing progressively over the past two decades. The FY2000-19 CAGR trended at a healthy 8.4%, contracting only once by 1.3% yoy in FY11. This was post the H1N1 pandemic that saw an inventory build-up in the preceding year. Medical-grade gloves are a protective barrier for medical staff and are indispensable in the healthcare sector, even in developing markets. This translates into inelastic demand.

Consumption laggards to underpin robust structural demand growth. Going forward, the Malaysian Rubber Glove Manufacturers Association (MARGMA) expects global glove consumption to grow 8-10% over the mid to long term, driven by developing nations where per capita usage is significantly lower than in developed countries. Populous emerging countries such as Brazil, China, India and Indonesia use only 24, 6, 4 and 2 pieces of gloves per capita respectively, lagging significantly behind countries such as the US and Europe which consume 150 and 100 pieces of gloves per capita.

VACCINE DISCOVERY FOR COVID-19

Potentially negative sentiment and newsflow for the sector. The discovery of a vaccine and/or treatment could cause negative sentiment and newsflow for the glove sector. However, scaling up global manufacturing to achieve herd immunity may take 12-18 months from the point of vaccine discovery. Boston Consulting Group estimates it would require up to 5b vaccine doses to cover more than 60% of the world's population. Furthermore, based on previous outbreaks, glove awareness and adoption will increase. Demand, as highlighted, has been consistent. As such, earnings are unlikely to sharply contract immediately. But ad hoc ASPs could be the first to normalise off their high base.

FIGURE 5: SUPERMAX'S EXPANSION

	Capacity(b pcs/year)
End FY18	21.8
Plant 12	2.2
End FY20	24.0
Plant 12	2.2
Plant 13	0.9
End FY21	27.1
Plant 13	2.8
Plant 14	3.0
Plant 16	4.1
Plant 17	4.1
End FY22	41.2

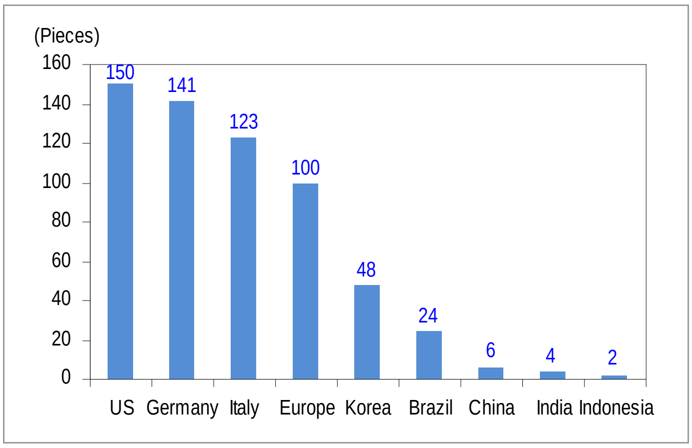
Source: Supermax

FIGURE 6: FURTHER GROWTH POTENTIAL FROM EMERGING MARKETS (2017)

	% of World Population	% of Global Glove Consumption
Developed Countries	20	70
Other Regions	80	30

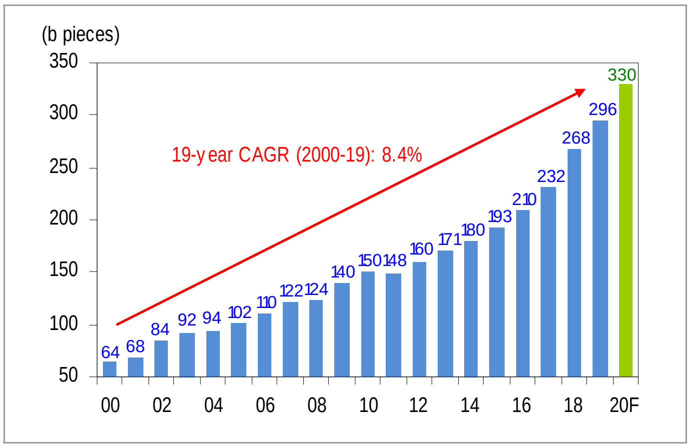
Source: MARGMA, International Trade Centre

FIGURE 7: GLOVE CONSUMPTION PER CAPITA (PIECES) (2018)



Source: Malaysian Rubber Glove Manufacturers Association (MARGMA)

FIGURE 8: HEALTHY AND CONSISTENT GROWTH IN GLOBAL GLOVE CONSUMPTION



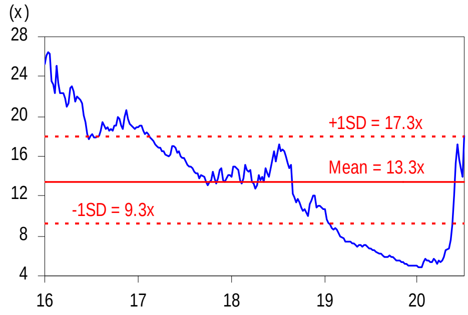
Source: MARGMA

Valuation

Initiate coverage with a BUY and target price of RM12.40, pegged to 15.0x FY21F PE. While its peers are trading at an average of 34.7x FY21F PE, Supermax should be pegged to +0.5SD of its 5-year historical mean. While this is still a discount to peers, valuations are based on the peak earnings cycle. However, our blue sky scenario entails Supermax potentially trading at 21.3x or +2SD of its 5-year mean on a potential entry to the FBMKLCI Index. It implies a target price of RM17.60. Once earnings normalise, Supermax should re-rate from its 5-year historical mean and narrow its valuation discount to Hartalega, Top Glove and Kossan for the following reasons:

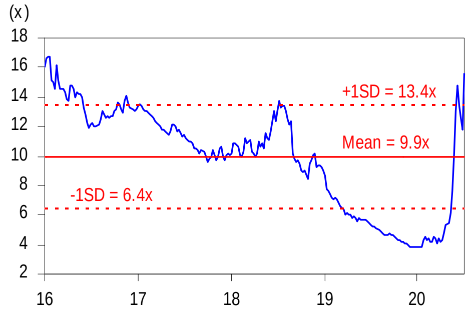
- **Significantly superior earnings growth outlook.** As a result of its OBM and independent distribution network, Supermax can fully maximise ASPs, unlike peers. Thus, Supermax offers a 202.7% two-year earnings CAGR for FY19-21, almost double peers' average of 90.0%.
- **Dividend yields of 0.2-0.9% for FY20-22 but dividend-in-kind kicker.** The company does not have a dividend policy, but it has averaged a 17.7% payout over the last three years. We assume a 10% payout going forward. This translates into dividend yields of 0.3%, 0.9% and 0.2% for FY20-22 respectively. Apart from that, Supermax may distribute its treasury shares as a dividend-in-kind. This potentially translates into a 5% yield.
- **OBM leads the way.** Supermax has its own distribution network to further establish its OBM, thus creating downstream value. This should translate into better operational margins even when earnings normalise. The distribution network was previously plagued by teething operational issues which crimped margins with suboptimal utilisation rates. Apart from superior margins, demand arising for Supermax's branded gloves could be more resilient as gloves are largely a commoditised product.
- **Aggressive expansion ambitions.** Supermax is among the largest nitrile glove producers in the world. With its aggressive expansion, it is due to catch up with its peers after years of teething operational issues, which have since been resolved. Its capacity expansion growth of 22.5% is expected to outstrip our observable industry growth of 15.7%. Once the expansion kicks in, Supermax would surpass Kossan in terms of capacity to be the third-largest glove producer in Malaysia.
- **Inclusion in FBMKLCI?** Market cap stood at RM12.8b as of 3 Jul 20. Should it attain our target price of RM12.40, it would command a market capitalisation of RM16.9b. It could be included in the FBMKLCI Index as a constituent component if it reaches the 25th-largest market capitalisation, a potential threshold of RM16b-17b. This could further lead to a re-rating as seen for Hartalega and Top Glove.

FIGURE 9: 5-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

FIGURE 10: 5-YEAR FORWARD EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

FIGURE 11: PEER COMPARISON

Company	Ticker	Rec	Share Price 3 Jul 20 (local currency)	Target Price	Market Cap (US$m)	PE 2020F (x)	PE 2021F (x)	EV/EBITDA 2020F (x)	EV/EBITDA 2021F (x)	P/B 2020F (x)	Div Yield 2020F (%)
Hartalega	HART MK	HOLD	RM16.00	RM12.95	12,643.9	55.6	62.2	38.8	42.2	18.2	1.0
Top Glove	TOPG MK	BUY	RM18.46	RM21.90	11,599.9	39.4	13.5	28.1	10.3	17.0	1.5
Kossan Rubber	KRI MK	BUY	RM9.33	RM10.95	2,783.2	19.6	17.6	13.5	12.1	7.0	2.6
Sri Trang	STA TB	BUY	BATH 30.75	BATH39.90	1,517.0	10.4	9.8	11.0	10.4	1.7	2.3
Riverstone	RSTON SP	BUY	S$2.77	S$3.15	1,471.4	20.3	19.6	13.7	13.7	6.0	1.0
Comfort Glove	CG MK	NOT RATED	RM3.39	n.a.	460.9	49.1	27.1	25.0	16.4	25.0	0.5
Rubberex	RBRX MK	NOT RATED	RM3.30	n.a.	213.5	66.0	47.1	28.6	23.3	28.6	0.6
UG Healthcare	UGHC SP	NOT RATED	S$1.33	n.a.	187.1	23.1	20.5	17.1	14.8	17.1	1.2
Average					3,859.6	35.4	27.2	22.0	17.9	15.1	1.3
Supermax	SUCB MK	BUY	RM9.41	RM12.40	2,834.4	28.7	11.3	19.1	7.8	8.4	0.3

Source: Bloomberg, UOB Kay Hian

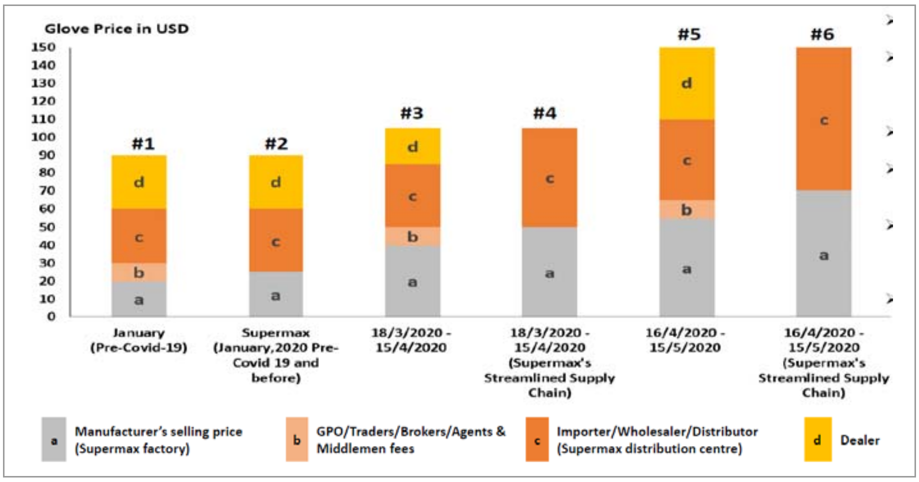
Business Outlook

COVID-19-led demand spurt. MARGMA projects global demand for rubber gloves to grow 15% yoy from the 298b pieces in 2019. These projections appear to be supply-capped. This is an upward revision from the previous projection of 8-10%. According to MARGMA, during the H1N1 pandemic, glove volumes surged 17% yoy in 2010. Pent-up demand has translated into unprecedented delivery lead times (time between order placed and order received by customer) across the sector, which have stretched to >420 days from the usual 30-60 days.

Tied-up capacity allows for premium spot prices. Due to the lengthy delivery time, urgent glove demand has forced customers to pay a premium for ad hoc delivery. Sector capacity is largely tied up as capacity was already committed. Only incoming new supply would be able to gradually meet ad hoc demand. Top Glove, Hartalega and Kossan are expected to command ad hoc sales of close to 10-15% of the overall mix.

Fortunately, Supermax has excess capacity and high proportion of OBM sales. This allows Supermax to seize the premium commanded by ad hoc demand. Figure 12 charts how ASPs have trended since the COVID-19 outbreak.

FIGURE 12: SUPERMAX'S UNIQUE OPERATING MODEL ALLOWS IT TO CAPTURE ASP GAINS

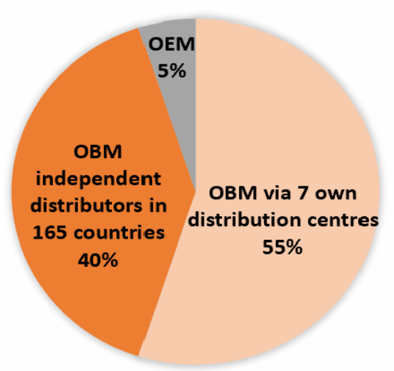


Source: Supermax

Ad hoc ASPs now at US$175/'000 pieces. Ad hoc sales through Supermax's own distribution centre currently command ASPs of up to US$175/'000 pieces vs US$150 in May and US$90 in the pre-COVID period. We gather there is limited upside to current ASPs as various government agencies have implemented redirecting of PPE supplies (nationalisation of glove prices) of close to US$175/'000 pieces. That said, Supermax does receive urgent ad hoc orders in the range of US$190/'000 pieces. Meanwhile, ad hoc sales through independent distributors command ASPs of US$95-175/'000 pieces while OEMs command US$95/'000 pieces (Figure 13).

Assume ASPs to be sustained before moderating in FY21. We expect Supermax's ASPs to grow 13.8% yoy in FY20. This is relatively muted, given Supermax's June year-end and it only benefitted from higher ASPs from March. Heading into FY21, we expect a step change in ASPs of 30.8% yoy as we factor in surging ASPs, but are also taking a conservative stance, assuming ASPs would gradually moderate in 2HFY21. This results in our FY22 ASP contraction of 29.4% yoy.

FIGURE 13: CURRENT SALES MIX BY DISTRIBUTION CHANNEL



Source: Supermax

Timely expansion sees 2-year CAGR (FY19-21) of 22.5% for capacity. Our observable 2-year CAGR (2019-21) for industry capacity addition is 15.7%, or a total of 34.0% over FY19-21 (Figure 15). Against this backdrop, Supermax aims to expand capacity by 50% over FY19-21, or a 2-year CAGR of 22.4%, outstripping industry growth. Upon completion of its expansion to 32.7b pieces/year, Supermax is due to overtake Kossan in terms of capacity by end-21. This would make it the fourth-largest glove producer with 13% market share, only behind Top Glove, Hartalega and Sri Trang. This makes up for lost time as the previous teething operational issues (insufficient water supply and revamp of old production lines) have restrained Supermax's expansion, but also represents a timely expansion to seize unprecedented ASP gains.

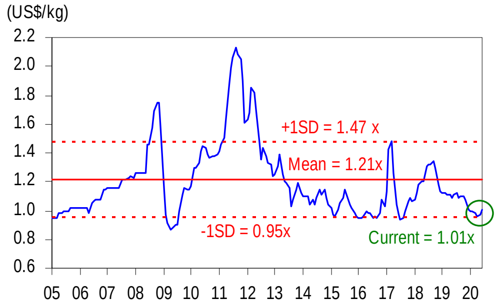
Influx of China capacity not a concern. Based on media reports, Chinese glove manufacturers Blue Sail Medical (002382 CH) and Intco Medical (300677 CH) aim to add a combined 89.6b pieces to nitrile glove capacity by end-23. This represents a 4-year CAGR of 25.7% to the existing nitrile glove production. We are not too concerned as: a) the addition would only coincide with the tail-end of the windfall earnings window, b) glove producers adjust capacity to meet demand-supply imbalances, therefore capacity could be deferred; c) Malaysian glove producers are more efficient; and d) the new capacity is largely aimed at domestic consumption as glove application is underpenetrated in China.

Likely depressed nitrile prices over the near term. We expect nitrile prices to trade sluggishly in the coming 1-2 quarters as the COVID-19 outbreak disrupts demand for acrylonitrile and butadiene. We also expect nitrile to trade within US$1.00-1.10/kg (June: US$1.01/kg) as demand sees a gradual recovery.

Minimum wage hike in Budget 2021? Malaysia's aim to be a high-income nation by 2024 only suggests a continuous revision of the minimum wage. That said, we have factored in a RM50 hike every year, or RM1,250 and RM1,300 for 2021-22 respectively. For every RM50 deviation from our forecast, Supermax's earnings could be impacted by up to -0.6% and -3.6% for FY21 and FY22 respectively.

Up to 4.9% increase in earnings for every 1% depreciation of RM against US$. We have a forex assumption of RM4.30/US$ up to FY22. Our calculations show that every 1% depreciation of the ringgit vs the US dollar could beef up Supermax's earnings by 3.3%, 2.0% and 4.9% for FY20-22 respectively.

FIGURE 14: DEPRESSED DEMAND FOR BUTADIENE MAY WEIGH ON NITRILE PRICES GOING FORWARD



Source: Top Glove

FIGURE 15: INSTALLED CAPACITY EXPANSION PLANS OF NOTABLE GLOVE PRODUCERS

	2019 (b pieces)	2020F (b pieces)	2021F (b pieces)	% of Production Market Share (2018) (%)	% of Production Market Share (2021) (%)
Top Glove	70.1	86.4	100.4	36%	38%
yoy growth (%)	16%	23%	16%		
Hartalega	32.9	35.2	39.2	17%	15%
yoy growth (%)	13%	7%	11%		
Kossan Rubber	29.0	32.0	32.0	16%	12%
yoy growth (%)	9%	10%	0%		
Supermax	21.8	26.2	32.7	13%	13%
yoy growth (%)	0%	20%	29%		
Sri Trang	25.0	33.0	35.0	10%	13%
yoy growth (%)	47%	32%	6%		
Riverstone	9.0	10.4	11.8	5%	5%
yoy growth (%)	0%	16%	19%		
Others*	6.2	7.9	8.9	3%	3%
yoy growth (%)	15%	28%	13%		
Total Industry Capacity (Beginning Year)	169.3	193.9	231.8		
Additional Industry Installed Capacity	24.6	37.2	28.8		
yoy growth (%)	15%	19%	12%		
Total Industry Capacity (Year End)	193.9	231.1	259.9		

** Rubberex and Comfort Glove*
Source: Respective companies, UOB Kay Hian

Earnings Outlook

Forecasting revenue CAGR of 53.6% for FY19-21. We estimate Supermax would see explosive revenue growth, underpinned by: a) the unprecedented surge in ASPs, b) additional capacity, and c) higher utilisation rates over FY20-21. Thus, we expect ASPs to moderate gradually in 2HFY21. Although we expect industry capacity to grow 19% in 2020, we believe the market remains in demand surplus for gloves. This is reflected in the extended delivery lead times of >420 days (from the usual 30-60 days). Going into FY22, we expect ASPs to fall 29.4% yoy, off FY21's high base against a relatively unchanged volume growth.

Step change in gross margins. Gross margins are expected to see a step change over the next two years (FY20-21), thanks to higher ASPs and economies of scale. As such, we expect Supermax's gross margins to improve by 1060bp and 1260bp yoy to 44.0% and 56.6% in FY20-21 respectively. Subsequent to that, we expect gross margins to normalise to 36.4%, following the moderating ASPs heading into FY22.

Managing calculated downside risks to gross margins... Any significant deviation from our gross margin assumptions would primarily arise from Supermax's ASP trend over FY20-21. However, given the extended delivery lead time and gradual incoming supply, we think ad hoc ASPs are unlikely to see a sharp reversion even amid a vaccine discovery for COVID-19. Meanwhile, on the cost structure, we have conservatively factored in a 10% yoy rise in raw material costs despite nitrile cost being likely to remain depressed for FY21. Apart from that, a US$ weakening against the RM could be a contributing factor to potential margin dilution.

…and net profit CAGR of 36.3%. We expect net profit CAGR of 36.3% in FY19-22 to outstrip revenue growth of 18.9%. Margins are expected to improve on the back of more favourable ASPs and higher economies of scale (a function of both higher utilisation rates and resolved teething operational issues). However, on a 2-year CAGR basis (FY19-21), earnings are expected to grow by an incredible 202.7%, thanks to the company's optimised business model to fully capture market ASPs for itself.

Muted dividend yields as cash goes to fund expansion. Supermax does not have a dividend policy. However, its payout ratios have ranged between 34% and 54% over the last five years. Going forward, we assume a 10% payout ratio as it utilises its supercycle earnings to fund its ambitious expansion to seize this window of opportunity. This translates into muted dividend yields of 1.4%, 3.8% and 1.0% for FY20-22 respectively.

RM715m expansion capex for next three years. Supermax's ambitious expansion involves a capex of RM715m over the next three years (FY20-22). Figure 15 outlines its expansion in detail. The capex is being funded internally. Subsequent to FY22, capex may moderate slightly as we anticipate some oversupply imbalance. Following this, capex should accelerate in tandem with the high base effect on Supermax's capacity.

Highly robust balance sheet. Despite Supermax's accelerated expansion, its net gearing is expected to peak at a manageable 0.11x in FY20. Subsequent to that, its supercycle earnings would pare borrowings and turn net cash in FY21.

FIGURE 16: REVENUE DRIVER ASSUMPTIONS

	FY20F	FY21F	FY22F
Revenue (RMm)	2398	3629	2589
growth yoy (%)	56	51	-29
Utilisation Rate (%)	95.0	95.0	72.0
Output (b pcs/annum)	21.4	24.8	25.1
growth yoy (%)	29	16	1
ASP growth yoy (%)	13.8	30.8	-29.4
Forex	4.30	4.30	4.30

Source: UOB Kay Hian

FIGURE 17: GROWTH AND MARGIN OUTLOOK

	FY19	FY20F	FY21F	FY22F
Revenue (RMm)	1,538	2,398	3,629	2,589
growth yoy (%)	17.9	55.9	51.3	-28.7
PAT (RMm)	123	445	1,128	312
growth yoy (%)	12	262	153	-72
3-year CAGR (%)	9	88	120	36
GP Margin (%)	33	44	57	36
PAT Margin (%)	8	19	31	12

Source: Supermax, UOB Kay Hian

Financial Statement

FIGURE 18: PROFIT & LOSS

Year to 30 Jun (RMm)	2018	2019	2020F	2021F	2022F
Revenue, Net	1,304	1,538	2,398	3,629	2,589
Operating Expenses	(1,137)	(1,405)	(1,803)	(2,107)	(2,186)
EBIT	168	134	594	1,522	403
Other Non-operating Income	2	53	35	35	35
Associate Contributions	6	6	8	8	8
Net Interest Income/(Expense)	(14)	(20)	(19)	(19)	(19)
Pre-tax Profit	162	172	618	1,546	428
Tax	(52)	(49)	(173)	(417)	(115)
Minorities	(3)	0	0	0	0
Net Profit(Reported/Actual)	107	123	445	1,128	312
Net Profit (Adjusted)	107	123	445	1,128	312
Depreciation & Amortisation	42	45	51	60	69
EBITDA	210	179	646	1,582	473
Per Share Data (sen)					
EPS - Diluted	7.8	9.1	32.7	83.0	22.9
Reported EPS - Diluted	7.8	9.1	32.7	83.0	22.9
Book Value Per Share (BVPS)	74.4	82.6	112.1	186.7	207.4
Dividend Per Share (DPS)	3.9	3.1	3.3	8.3	2.3

Source: Supermax, UOB Kay Hian

FIGURE 19: BALANCE SHEET

Year to 30 Jun (RMm)	2018	2019	2020F	2021F	2022F
Cash/Near Cash Equivalent	145	174	216	863	1,049
Accounts Receivable/Debtors	188	174	282	427	305
Stocks	188	182	242	284	297
Other Current Assets	51	106	106	106	106
Current Assets	572	636	847	1,680	1,757
Fixed Assets	895	965	1,194	1,414	1,624
Investments	197	208	208	208	208
Other Financial Assets	35	34	34	34	34
Total Non-current Assets	1,128	1,207	1,436	1,655	1,866
Total Assets	1,700	1,843	2,282	3,336	3,623
Accounts Payable/Creditors	185	217	264	309	324
Short-term Debt/Borrowings	374	331	331	331	331
Other Current Liabilities	6	54	54	54	54
Current Liabilities	566	602	648	694	708
Long-term Debt	62	61	61	61	61
Deferred Tax Liability	49	46	46	46	46
Other Non-current Liabilities	0	0	0	0	0
Total Non-current Liabilities	111	107	107	107	107
Total Liabilities	677	708	755	800	815
Minority Interest - Accumulated	10	11	3	(5)	(12)
Shareholders' Equity	1,013	1,124	1,524	2,540	2,821
Liabilities & Shareholders' Funds	1,700	1,843	2,282	3,336	3,623

Source: Supermax, UOB Kay Hian

FIGURE 20: CASH FLOW

Year to 30 Jun (RMm)	2018	2019	2020F	2021F	2022F
Operating Cashflows	177	235	386	1,059	516
Pre-tax Profit	162	172	618	1,546	428
Tax	(64)	(38)	(173)	(417)	(115)
Depreciation & Amortisation	42	45	51	60	69
Associates	(6)	(6)	(8)	(8)	(8)
Working Capital Changes	57	31	(122)	(141)	123
Non-cash Items	(28)	10	0	0	0
Others	14	21	19	19	19
Cash from Investing Activities	(55)	(112)	(280)	(280)	(280)
Capex (Growth)	(59)	(112)	(280)	(280)	(280)
Proceeds from Sale of Assets	0	0	0	0	0
Others	4	0	0	0	0
Cash from Financing Activities	(126)	(104)	(63)	(131)	(50)
Dividend Payments	(76)	(33)	(45)	(113)	(31)
Proceeds from Borrowings	0	0	0	0	0
Loan Repayment	(60)	(22)	0	0	0
Others/Interest Paid	9	(49)	(19)	(19)	(19)
Net Increase/(Decrease) in Cash	(4)	19	42	647	186
Beginning Cash	156	145	174	216	863
Changes Due to Forex Impact	(7)	10	0	0	0
End Cash	145	174	216	863	1,049

Source: Supermax, UOB Kay Hian

FIGURE 21: KEY METRICS

Year to 30 Jun (%)	2018	2019	2020F	2021F	2022F
Profitability					
Turnover	15.8	17.9	55.9	51.3	(28.7)
EBITDA	95.4	(14.8)	261.4	145.0	(70.1)
Pre-tax Profit	50.0	6.5	258.7	149.9	(72.3)
Net Profit	58.7	15.4	261.7	153.4	(72.3)
Net Profit (Adjusted)	n.a.	15.4	261.7	153.4	(72.3)
EPS	58.7	15.4	261.7	153.4	(72.3)
Profitability					
EBITDA Margin	16.1	11.6	26.9	43.6	18.3
EBIT Margin	12.9	8.7	24.8	41.9	15.6
Gross Margin	33.7	33.4	44.0	56.6	36.4
Pre-tax Margin	12.4	11.2	25.8	42.6	16.5
Net Margin	8.2	8.0	18.6	31.1	12.1
ROE	10.3	11.5	33.6	55.5	11.6
ROA	6.1	7.0	21.6	40.2	9.0
ROIC	7.8	5.6	22.0	50.4	11.2
RONTA	9.1	7.0	20.7	46.3	12.1
Leverage					
Interest Cover (x)	15.0	9.1	34.6	84.8	25.4
Debt to Total Capital	29.9	25.7	20.4	13.4	12.2
Debt to Equity	43.1	34.8	25.7	15.4	13.9
Net Debt/(Cash) to Equity	28.7	19.4	11.5	(18.6)	(23.3)
Current Ratio (x)	1.0	1.1	1.3	2.4	2.5

Source: Supermax, UOB Kay Hian

Appendix I: Risk Factors

More variability in operating margins, with higher proportion of OBM sales. Over the longer term, its low OEM sales proportion would mean that Supermax would be more susceptible to fluctuations in raw material costs. This is due to the absence of a savings-cost pass-through pricing mechanism with its OBM sales. This could also coincide with latex and nitrile butadiene costs recovering off their current lows alongside a broad economic recovery. Based on our sensitivity analysis, a +1% deviation to our latex and nitrile butadiene assumptions could impact FY22 earnings by -2.1%.

Windfall tax? There have been rumours of a windfall tax being implemented on glove producers, given the sector's windfall earnings. These rumours have been circulating for a while now but the recent Malaysia Economic Recovery plan released on 5 June did not unveil any. Our channel checks suggest there is no such proposal in the government's pipeline at this juncture. Based on our sensitivity, at a +1% marginal windfall tax above the existing corporate tax rate, the government could generate up to RM75m from the Big 4 (Hartalega, Top Glove, Kossan and Supermax). This could translate into RM100m-120m for the rubber glove industry, assuming it has similar profitability levels as the Big 4. Based on UOB Economics team estimates, Malaysia's fiscal deficit is estimated at 5.8-6.0% of GDP. This translates into close to RM90b, at the upper end of the range. Thus, a windfall tax on the glove sector may not significantly alleviate Malaysia's widening fiscal deficit.

Foreign exchange risk. About <1% of group sales are in RM. It is hedged by 50% of total purchases in US$ and ~95% of its borrowings are in US$. This translates into a natural hedge of at least 50% for FY21. Based on our sensitivity analysis, a 1% deviation from our assumption of RM4.30/US$ impacts FY20-22 EPS by 2.0-4.9%.

Appendix II: Management

MANAGEMENT TEAM

Name	Position	Description
Albert Saychuan Cheok	Chairman, Independent Non-Executive Director	He holds a Bachelor of Economics Degree 1st Class Honours from the University of Adelaide as well as a Masters in Business Administration and Public Administration from the Australian Government School of Management. He is also an Associate of the Australian Society of Accountants. Between May 79 and Feb 82, Mr Cheok was an advisor to the Australian Government. He was the Chief Manager at the Reserve Bank of Australia from Oct 88 to Sep 89 before becoming the Deputy Commissioner of Banking of Hong Kong for 3½ years. He was subsequently appointed as the Executive Director in charge of Banking Supervision at the Hong Kong Monetary Authority from Apr 93 to May 95. Mr Cheok was the Chairman of Bangkok Bank in Malaysia from Sep 95 to Nov 05. He is presently Chairman of Amplefield, listed in Singapore. He is also a Director of and Chairman of the Nomination Committee at China Aircraft Leasing Group Holdings. Apart from that he holds board positions in 5G Networks Group, Peppermint Innovation and the Malaysian Institute of Corporate Governance.
Cecile Jaclyn Thai	Executive Director	She graduated from Northwestern University in Illinois, USA in 2010 with a Bachelor of Arts degree in Economics. Subsequently, she spent four years at Mercer Investments. She also has a Master of Business Administration from the University of Chicago Booth School of Business. Currently, Ms Thai is the Chief Executive Officer of Aveo Vision, a division of Supermax Inc. In this role, Ms Thai leads all aspects of the US contact lens business, including strategy, operations, finance, marketing, people, partnerships, and customer success.
Tan Chee Keong	Executive Director	He graduated from University of Staffordshire, UK with a Bachelor of Computing & Information Systems. Mr Tan was appointed as the Executive Vice President of Aurelia Gloves, a division of Supermax Healthcare Inc, in 2010. Having more than 19 years of experience in the US healthcare glove market, Mr Tan is currently the Chief Executive Officer of Supermax Healthcare Inc. Apart from the day-to-day operations, Mr Tan's portfolio includes the execution of the company's long-term business growth and development.
Dato' Ting Heng Peng	Independent Non-Executive Director	He graduated from University of Windsor, Ontario, Canada with a Bachelor of Commerce degree. Upon graduation, he pursued law at the University of Essex. Following Dato' Ting's admission as a barrister by Lincoln's Inn, London in 1986, he came back to Malaysia and was called to the Malaysian Bar in 1987. He is currently the managing partner of Ting Asiah & Co. He currently chairs Supermax's Nomination Committee and Risk Management Committee, and is also a member of the Audit Committee and Remuneration Committee. Dato' Ting is also an Independent Non-Executive Director of Mercury Industries.
Dato' Tan Geok Swee	Independent Non-Executive Director	He is a member of Supermax's Nomination Committee and Risk Management Committee. He worked in a public-listed company as senior manager for more than 10 years before he started his own business in the 1980s. He has good experience in international marketing and promotion and is now the Managing Director of TGS Holdings.
Gong Wooi Teik	Independent Non-Executive Director	He is a Fellow Member of The Institute of Chartered Accountants in England & Wales, member of the Malaysian Institute of Accountants and Fellow Member of the Chartered Tax Institute of Malaysia. He previously worked for 2 of the big 4 International Accounting Firms before starting his own accounting firm in 1980. He is currently the Managing Partner of GEP Associates. Mr Gong is Supermax's Chairman of the Audit Committee and also a member of the Nomination Committee and Risk Management Committee. Presently, he is also Independent and Non-Executive Director of Box Pak (Malaysia), Cheetah Holdings and Dancomech Holdings which are listed on Bursa Malaysia.
Dr Rashid Bin Bakar	Independent Non-Executive Director	He obtained his Diploma in Public Administration in 1991 from Institut Teknologi Mara and later in 1998 he graduated with a Bachelor of Law (Hons). In 2003, he graduated with a Masters in Law (LL.M) from University Kebangsaan Malaysia and in 2015 completed his Ph.D (Law) at the same university. His business occupation is Advocates & Solicitors. Dr Rashid chairs the Remuneration Committee and is a member of the Audit Committee.
Eisen Ng Keng Lim	Independent Non-Executive Director	He graduated from the National University of Singapore with a Bachelor of Architecture. He has been a practising architect for 35 years and is a Registered Architect of the Board of Architects Malaysia and also a Corporate Architect of the Malaysian Institute of Architects. His previous working experience covered the Malaysian Associate Architects and Bandaraya Kuala Lumpur, before starting his own practice, Akistudio Architects and Arkitek Studio.

Source: Supermax

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