

14 July 2020

Buy

Price
 RM15.98

Target Price
 RM19.22 (Previously RM9.58)

Market Data

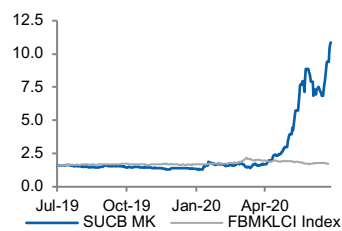
Bloomberg Code	SUCB MK
No. of shares (m)	1,278.9
Market cap (RMm)	18,527.42
52-week high/low (RM)	15.98 / 1.29
Avg daily turnover (RMm)	1,060
KLCI (pts)	1,606.43
Source: Bloomberg, KAF	

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 (%)	623.3	821.5	665.5
Rel Market (%)	525.7	828.7	713.7



Source: Bloomberg, KAF

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Supermax

Solid capacity growth

Reiterate Buy with a higher TP of RM19.22 (previously RM9.58). Management has revealed a plan to add a new plant, i.e., Plant 15 with a capacity of 3.75b pieces pa. This will add about 15.6% to existing capacity. Capex of RM250m has been allocated for the project and expected completion is by 4QCY21. We are positive on this development as it implies the management is confident of a continued strong demand for glove post COVID-19.

Financial Highlights

FYE June	2018	2019	2020F	2021F	2022F
Revenue (RMm)	1,304.5	1,538.2	2,370.0	4,890.7	4,055.3
Core net profit (RMm)	79.9	134.9	450.5	1,141.4	820.5
Core EPS (Sen)	6.1	10.3	34.5	87.4	62.8
EPS growth (%)	2.8	69.3	235.3	153.4	-28.1
DPS (Sen)	2.8	4.0	3.2	11.7	29.6
Core PE (x)	262.8	155.3	46.3	18.3	25.4
Div yield (%)	0.2	0.2	0.2	0.7	1.8
ROE (%)	10.3	11.5	33.9	56.3	30.0
Net Gearing (%)	28.7	19.4	21.5	2.3	Net Cash
PBV(x)	20.5	18.5	13.5	8.2	7.0

Source: Company, KAF

Latest plant addition revealed. Management has revealed a plan to add a new plant, i.e., Plant 15 with a capacity of 3.75b pieces pa for the production of nitrile powder-free gloves. This will add about 15.6% to existing capacity which currently at 24b pieces pa. Capex of RM250m has been allocated for the project and expected completion is by 4QCY21.

Committed towards future growth. Along with Plant 15, the group has previously planned to add four new plants throughout 2021 and 2022. Total capex of RM1.2b for this expansion plan, underlining the group's commitment towards future growth. On completion of the ongoing capacity expansion by the end of 2022, Supermax's production capacity will stand at 48.4b pieces pa, surpassing some of its close competitors.

Exhibit 1: Summary of expansion plan

	Installed Annual Capacity As of 31.12.2018 (Million pcs/lines)	New Expansion (Million pcs/lines)	Installed Annual Capacity As of 31.12.2020 (Million pcs/lines)	New Expansion (Million pcs/lines)	Installed Annual Capacity As of 31.12.2021 (Million pcs/lines)	New Expansion (Million pcs/lines)	Installed Annual Capacity As of 31.12.2022 (Million pcs/lines)
Supermax Group	21,751 (174)		26,175 (206)		36,426 (286)		48,425 (376)
Added Capacity from:							
- New lines from Plant 12		+4,424 (32)					
- New lines from Plant 13				+2,750 (22)		+1,000 (8)	
- New lines from Plant 14				+1,000 (8)		+2,750 (22)	
- New lines from Plant 15				+3,750 (30)			
- New lines from Plant 16				+1,375 (10)		+4,125 (30)	
- New lines from Plant 17				+1,375 (10)		+4,125 (30)	
Total	21,751 (174)	+4,424 (32)	26,175 (206)	+10,250 (80)	36,426 (286)	+12,000 (90)	48,425 (376)

Source: Company, KAF

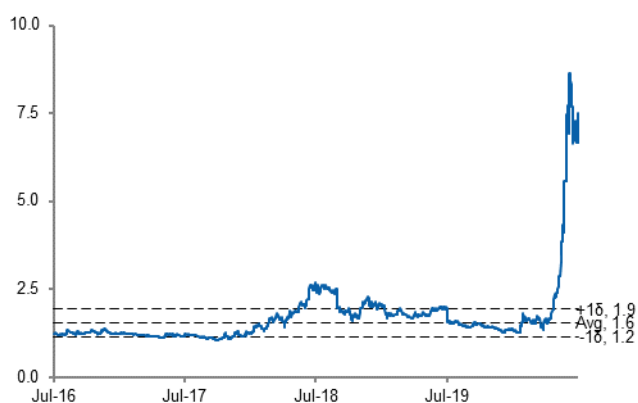
Main beneficiary of the near-term surge in glove selling price. The group stands to be the main beneficiary of the expected near-term surge in glove selling price. Unlike its competitors which are predominantly OEM manufacturers, Supermax operates seven distribution centres worldwide (about 55.0% of total sales volume) which allow the group to sell direct to end customers. Taking a cue from the latest guidance in average selling price (ASP) of fellow competitors, we expect the group to announce supernormal earnings starting from 4QFY20 (tentative result announcement mid of August).

Impact to earnings. We revise our earnings forecast upwards for FY20F/FY21F/FY22F by 80%/226%/210%, respectively, as we take into account a more aggressive near-term ASP hike and the latest capacity addition.

Target price. We revise our TP to RM19.22 (previously RM9.58) per share. Our valuation is premised on FY21 EPS of 87.4sen pegged to a PE of 22.0x. This is based on 2.0SD above the company's five-year historical average forward PE, given the company's strong earnings visibility and future earnings growth.

Reiterate Buy. Supermax's business model yields the best return during the glove market upcycle. This business model enables the group to supply directly to end customers at distributor's price instead of at factory prices. Due to the rush to stockpile gloves in preparation of a second wave, customers are willing to pay high prices as long as manufacturers are able to offer capacity allocation. All things considered, we reiterate our Buy recommendation on the stock.

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



Source: Company, KAF, Bloomberg

Supermax

Income Statement

FYE June (RMm)	2018	2019	2020F	2021F	2022F
Revenue	1,304.5	1,538.2	2,370.0	4,890.7	4,055.3
EBITDA	190.4	221.3	650.4	1,586.4	1,166.7
Depreciation/Amortisation	-41.8	-45.1	-60.8	-69.6	-77.8
Operating income (EBIT)	148.5	176.2	589.5	1,516.7	1,088.9
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
Pretax profit	161.9	172.4	600.7	1,521.9	1,094.0
Taxation	-51.8	-49.3	-150.2	-380.5	-273.5
Minorities/pref dividends	-3.5	0.0	0.0	0.0	0.0
Net profit	106.7	123.1	450.5	1,141.4	820.5
Core net profit	79.9	134.9	450.5	1,141.4	820.5

Balance Sheet

FYE June (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	895.5	965.2	1104.4	1234.7	1356.9
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
Total non-current assets	1127.6	1207.0	1351.7	1487.5	1615.2
Cash & equivalent	145.2	173.8	212.4	482.7	1054.8
Stock	187.8	181.9	357.1	736.9	611.1
Trade debtors	188.1	173.8	428.5	884.3	733.3
Other current assets	51.0	106.1	106.1	106.1	106.1
Total current assets	572.1	635.7	1104.3	2210.2	2505.3
Trade creditors	185.3	217.5	271.8	524.5	462.6
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
Total current liabilities	566.2	601.9	656.2	908.9	847.0
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
Total long-term liabilities	110.7	106.6	256.6	256.6	306.6
Shareholders' funds	1012.7	1123.7	1532.6	2521.8	2956.5
Minority interests	10.0	10.5	10.5	10.5	10.5

Cash flow Statement

FYE June (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	161.9	172.4	600.7	1521.9	1094.0
Depreciation/Amortisation	41.8	45.1	60.8	69.6	77.8
Net change in working capital	56.8	30.5	-375.6	-582.9	215.0
Others	-83.3	-13.0	10.2	16.2	16.2
Cash flow from operations	177.2	235.1	145.9	644.3	1129.6
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
Cash flow from investing	-55.1	-112.2	-200.0	-200.0	-200.0
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	-152.3	-385.8
Others	-13.5	-18.9	-15.7	-21.7	-21.7
Cash flow from financing	-126.4	-104.0	92.7	-174.0	-357.5
Net cash flow	-4.3	18.8	38.6	270.3	572.1
Cash b/f	156.1	145.2	173.8	212.4	482.7
Cash c/f	145.2	173.8	212.4	482.7	1054.8

Key Ratios

FYE June	2018	2019	2020F	2021F	2022F
Revenue growth (%)	15.8	17.9	54.1	106.4	-17.1
EBITDA growth (%)	72.2	16.3	193.9	143.9	-26.5
Pretax margins (%)	12.4	11.2	25.3	31.1	27.0
Net profit margins (%)	8.2	8.0	19.0	23.3	20.2
Interest cover (x)	11.0	9.3	37.6	70.0	50.3
Effective tax rate (%)	32.0	28.6	25.0	25.0	25.0
Net dividend payout (%)	49.2	33.8	33.8	33.8	33.8
Debtors turnover (days)	59.0	43.0	46.4	49.0	72.8
Stock turnover (days)	53.0	44.0	46.4	49.0	72.8
Creditors turnover (days)	42.0	48.0	37.7	29.7	44.4

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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