



Supermax (SUCB MK)

Above

BUY

Share Price **RM9.78**
Target Price **RM14.50** **48.3%**

A stellar start

• **Overview.** 1QFY21 revenue increased to RM1.4bn (45.6% qoq, 265.6% yoy), while PATMI jumped to RM789.5m (97.6% qoq, 3,090% yoy). The record breaking results were mainly due to i) exponential surge in demand due to Covid-19 together with 100% fully commissioning of plant #12 Block A, ii) higher ASP, and iii) better production efficiency. Profit margin improved to 58.4% (+15.4ppts qoq, +51.7ppts yoy) the highest in the industry.

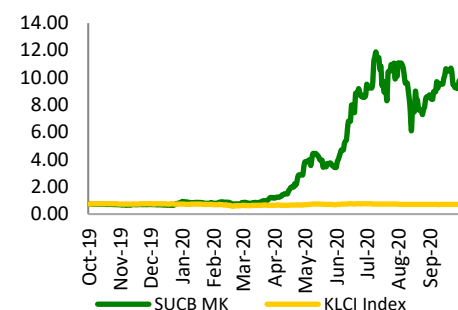
• **Key highlights.** Supermax recorded higher yields from its c.98% OBM distribution business model with ASPs expected to continue to rise until at least 1QCY21F (previously estimate end-CY20F). On its expansion strategy, Supermax plans to build 5 glove manufacturing plants with additional production capacity of 22.25bn pcs p.a. making a total of 48.42bn pcs p.a. by end-2022 (refer table 2). Additionally, Supermax is planning to build new glove manufacturing plants in US and UK and expected to kick start the projects in 1HCY21 with commissioning stage starting 1HCY22.

• **Against estimates: Above.** Supermax's 1QFY21 earnings was above our and consensus full year forecast at 40% and 41% respectively. The variance was due to the higher-than-expected ASP and margin.

• **Outlook.** We expect Supermax to record sequentially stellar performance in the coming quarters as they could still continue to surprise on the upside, given the continued surge in glove demand and ASPs on rising Covid-19 resurgence cases with no effective vaccine approved as yet as well as no specific timeline. Long-term demand post-Covid-19 is expected to remain higher >c.12% p.a due to structural change in glove usage globally and greater hygiene awareness.

• **Earnings revision and recommendation.** We increased our FY21/FY22 earnings forecast by 98/96% as we pencil in stronger glove sales, higher ASPs and margin. However, our TP remains at RM14.50, implying a lower PER of 17x (from 20x previously) pegged on FY22 EPS as we rolled over our valuation year. The lower implied PER is due to supernormal earnings in FY21 and to reflect a moderation in earnings growth towards more sustainable levels beyond that. We like Supermax due to i) higher yield from OBM distribution business model vs its peers, and ii) constant evolution activities. Maintain BUY.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	13.9	12.2	1,224.1
vs FBM KLCI	14.5	19.0	1,285.5

Stock Data

Mkt Cap (RM)	26,601.6
Free float (%)	59.4
Issued shares (m)	2,720
52w H/L (RM)	12.22/ 0.65
3m avg daily volume (m)	52,159,610

Major Shareholders (%)

Thai Kim Sim	22.0
Tan Bee Geok	16.3
NORGES BANK	2.4

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Table 1: Quarterly figures

Supermax Bhd FYE 31 June (RM m)	Quarterly			Change (%)		Cumulative			BIMB	
	1Q20	4Q20	1Q21	QoQ	YoY	1Q20	1Q21	%	2020F*	3M/F
Revenue	369.9	929.1	1352.5	45.6%	265.6%	369.9	1352.5	265.6%	4,840.5	28%
EBIT	35.8	510.8	1039.0	103.4%	2800.5%	35.8	1039.0	2800.5%	2,708.0	38%
Pretax profit	32.4	519.0	1049.2	102.2%	3134.1%	32.4	1049.2	3134.1%	2,671.8	39%
Taxation	(7.5)	(110.7)	(236.8)	113.8%	3063.9%	(7.5)	(236.8)	3063.9%	(694.7)	34%
PATMI	24.7	399.6	789.5	97.6%	3090.4%	24.7	789.5	3090.4%	1,972.1	40%
EPS (sen)	0.9	14.7	29.0	97.6%	3090.4%	0.9	29.0	3090.4%	72.5	40%
Net gearing (x)	0.2	0.2	net cash			0.2	net cash			
				chg (ppts)				chg (ppts)		
EBIT margin (%)	9.7%	55.0%	76.8%	21.8	67.1	9.7%	76.8%	67.1	55.9%	
PBT margin (%)	8.8%	55.9%	77.6%	21.7	68.8	8.8%	77.6%	68.8	55.2%	
PATMI margin (%)	6.7%	43.0%	58.4%	15.4	51.7	6.7%	58.4%	51.7	40.7%	
Effective tax rate (%)	23.1%	21.3%	22.6%	1.3	-0.5	23.1%	22.6%	-0.5	26.0%	

*Forecast before adjustment

Source: BIMB Securities, Company

Conference call key highlights

A buoyant mood was prevalent at the presentation of Supermax 1QFY21 results on 27th October 2020. Key takeaways are as follows:-

Global demand

- Management remarked that global demand for gloves will remain strong for the next 1.5 – 2 years in view of ongoing surge in Covid-19 and current global supply shortage.
- Current orderbook visibility extended to end-2021 from 1H2021 previously.
- We understand that large volume buyers (including government and non-government agencies) are willing to pay deposits of 30-50% to secure their orders.

Average selling price

- Blended ASPs at manufacturing side are already at the highest level of USD130/ 1k pcs compared to its peers which is about USD80-100/ 1k pcs. For manufacturing side, the incremental increase in ASP is expected to continue about 3-5% mom for next few months (up to 1QCY21F). The slower ASP growth on a mom basis due to high base effect.
- As for end-consumer side, price varies averaging USD200-220/ 1k pcs with some orders from government agencies even willing to pay higher.

Capacity expansion

- Capitalizing on the growing global demand, Supermax plans to build 5 glove manufacturing plants with additional production capacity of 22.25bn pcs p.a. making a total of 48.42bn pcs p.a. by end-2022 (refer table 2). Total balance capex for construction of Plants and purchase of machinery is about RM1.3bn.

Investing in glove manufacturing in the US and UK

- Concerns regarding vulnerability of distribution of supply chain from over dependence on imports are the driving force for these countries to open channels of discussion with Supermax to set up glove manufacturing facilities in their countries.
- US glove manufacturing.
 - Supermax is in discussion with certain US State Governors for locating their glove manufacturing plants.
 - An allocation of US\$550 million is targeted for the manufacturing of the US glove plant (Plant 18), phase 1 and 2 of which the funds are to come from earnings from distribution centres where Supermax operates.
 - Long term strategy, Supermax expects to capture at least 10% of the total domestic US glove market.
- UK glove manufacturing.
 - An allocation of GBP£50 million is targeted for its UK manufacturing plant (Plant 19) which is for the supply to the UK government agencies and certain Europe countries.
- Both projects (Plant 18 and Plant 19) would kick-start in 1H2021 and target to commission in stages starting 1H2022.

Face mask manufacturing

- Malaysia face masks manufacturing.
 - A new division name Supervision Optimax SB will undertake face masks manufacturing in Malaysia with an initial capital of RM8m. The commercial production is with an initial capacity of 8m pcs/month.
 - Current target sale is for the local market to fight the Covid-19 pandemic at the moment until Covid-19 is contained & until the ban of the Export Sales is lifted.
- Canada face masks manufacturing.
 - Supermax's face mask manufacturing in Canada started operation in September 2020.
 - Production targeted at 8m pcs/ month with installed capacity of up to 120m pcs p.a.
 - Management also advised that they recently obtained a contract for the supply of 200m pcs of face mask.

Dual listing in Singapore Exchange (SGX)

- Supermax has announced that it is in the process of appointing an Investment Banker (IB) to seek dual listing in SGX.
- Objective of the dual listing are to i) raise funds for future business expansion, ii) widen shareholders base and iii) expose Supermax globally in the financial markets.
- Target completion date is 6 months after the appointment of IB. Further details to be announced later.

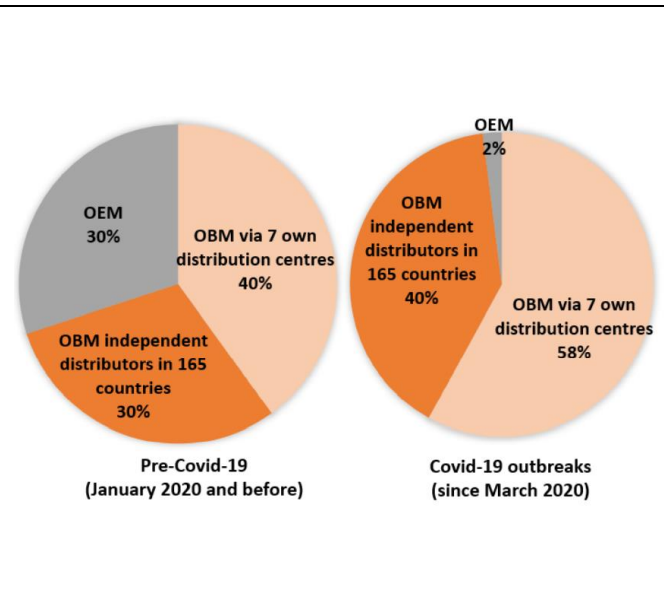
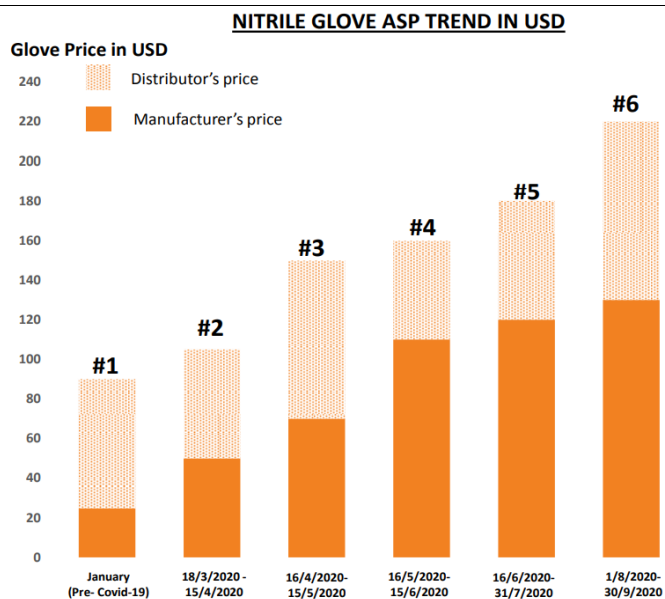
Table 2: Supermax expansion plans summary (2020-2022)

	Installed Annual Capacity as of 31.12.2018 (Mil pcs/Lines)	New Expansion (Mil pcs/ Lines)	Installed Annual Capacity as of 31.12.2020 (Mil pcs/ Lines)	New Expansion (Mil pcs/ Lines)	Installed Annual Capacity as of 31.12.2021 (Mil pcs/ Lines)	New Expansion (Mil pcs/ Lines)	Installed Annual Capacity as of 31.12.2022 (Mil pcs/ Lines)
SUPERMAX GROUP	21,751 (174)		26,175 (206)		36,426 (286)		48,426 (346)
Additional capacity from:							
- New lines from Plant #12 (Lot 6061)		+4,424 (32)					
- New lines from Plant #13 (Lots 6072 & 6073)				+2,750 (22)		+1,000 (8)	
- New lines from Plant #14 (Lots 6072 & 6073)				+1,000 (8)		+2,750 (22)	
- New lines from Plant #15 (Lots 6072 & 6073)				+3,750 (30)			
- New lines from Plant #16 (Lot 6062)				+1,375 (10)		+4,125 (30)	
- New lines from Plant #17 (Lot 6060)				+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)	48,426 (346)

Source: Supermax, BIMB Securities

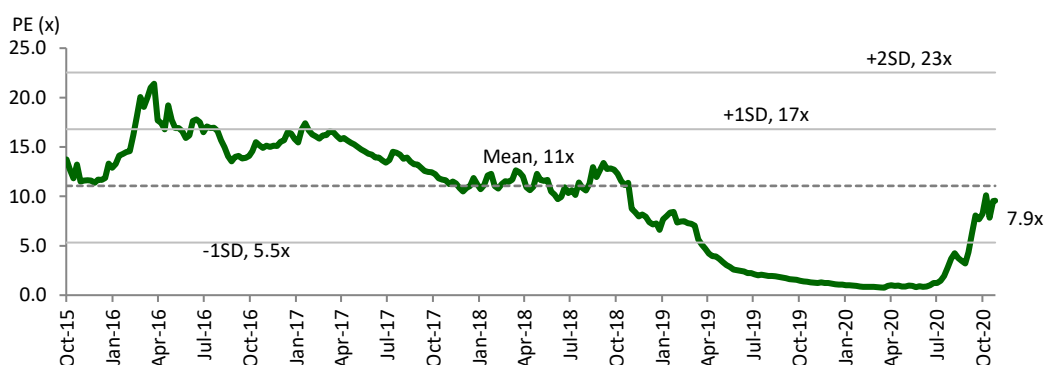
Chart 3: Supermax glove selling prices

Chart 4: Pre- and post-Covid-19 total sales contribution



Source: Supermax, BIMB Securities

Chart 1: Supermax 5-years forward PE (12-mth rolling)



Source: BIMB Securities, Company, Bloomberg

Table 3: Earnings forecast

FYE June (RMm)	2018	2019	2020E	2021F	2022F
Turnover	1,304.5	1,538.2	2,131.8	6,775.9	6,130.8
EBITDA	211.7	225.2	763.6	5,244.5	3,172.1
EBIT	169.9	180.1	687.5	5,190.1	3,109.8
Pretax Profit	161.9	172.4	688.6	5,138.4	3,063.2
PATMI	106.7	123.1	525.6	3,900.2	2,320.5
Consensus NP				1,939.7	1,298.8
EPS (sen)	3.9	4.5	19.3	143.4	85.3
PER (x)	249.4	216.1	50.6	6.8	11.5
DPS (sen)	2.0	2.0	7.5	57.0	34.0
D. Yield (%)	0.2%	0.2%	0.8%	5.8%	3.5%
Key Ratios (%)					
ROE	10.3%	10.9%	38.8%	136.4%	54.3%
EBITDA margin	16.2%	14.6%	35.8%	77.4%	51.7%
EBIT margin	13.0%	11.7%	32.3%	76.6%	50.7%
Pretax margin	12.4%	11.2%	32.3%	75.8%	50.0%
PATMI margin	8.2%	8.0%	24.7%	57.6%	37.9%

Source: Bloomberg, BIMB Securities
*Full Year unaudited

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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