

Malaysia

ADD (no change)

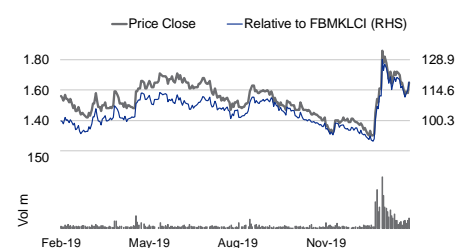
Consensus ratings*: Buy 9 Hold 0 Sell 0

Current price:	RM1.65
Target price:	RM2.00
Previous target:	RM2.00
Up/downside:	21.0%
CGS-CIMB / Consensus:	3.4%
Reuters:	SUPM.KL
Bloomberg:	SUCB MK
Market cap:	US\$514.5m
	RM2,178m
Average daily turnover:	US\$5.70m
	RM23.42m
Current shares o/s:	1,360m
Free float:	62.5%

*Source: Bloomberg

Key changes in this note

► FY20-22F EPS lowered by 0.2-5.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.5	16.2	5.1
Relative (%)	7.1	21.9	18.1

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

Better days ahead

- 1HFY6/20 net profit of RM54.9m was below our expectations. We attribute this to: i) higher labour-related costs, and ii) lower associates' contribution.
- SUCB should record sequentially stronger quarters ahead, backed by favourable supply-demand dynamics and commissioning of new capacity.
- Reiterate Add, with an unchanged TP of RM2.00 (+1 s.d. from 5-year mean).

1HFY6/20 net profit was below expectation; declined 25.9% yoy

1HFY6/20 revenue was flattish at RM755.4m (+0.4% yoy) as higher glove sales were offset by lower average selling prices (ASPs). The latter was due to a more competitive pricing environment. Thus, 1HFY20 EBITDA margins waned by 2.9% pts yoy, which was further intensified by higher operating expenses, including labour-related costs to be compliant with ESG requirements. As a result, 1HFY20 core net profit fell to RM54.9m (-18.7% yoy), which we deem to be below our expectations (45% of our full-year forecast).

Stronger qoq results in 2QFY20, driven by higher production output

2QFY6/20 revenue rose 4.2% qoq on the back of higher glove sales as SUCB began commissioning new production lines at its latest Plant 12. 2QFY6/20 EBITDA margins also expanded 2.4% pts qoq to 15.5% from higher economies of scale and better operating efficiencies. Consequently, 2QFY20 net profit rose 21.9% yoy to RM30.2m despite incurring a higher tax rate of 28.2% (+5.2% pts qoq) and negative associates' contribution of RM0.3m (<100% qoq) from positive contribution of RM0.8m in 1QFY20.

Ongoing commissioning of new lines in Plant 12

SUCB is in the midst of commissioning new production lines at its latest plant, Plant 12. For Stage 1 (+2.2bn pieces p.a.), SUCB has commissioned 5 out of the 8 lines with the remaining lines to be completed by end-3QFY20. Stage 2 (+2.2bn pieces p.a.) is slated to be completed by end-1HFY21. Upon completion of both stages of Plant 12, we expect its total production capacity to rise by 25.8% by end-2020F. Also, SUCB has begun land clearing works for the construction of Plant 13 (+4.4bn pieces p.a.).

Lowering our FY20-22F EPS by 0.2-5.2%

With 1HFY20 falling short of our expectations, we lower our FY20-22F EPS by 0.2-5.2%. This is to account for higher labour costs and decline in associates' contribution in FY20. Still, we expect SUCB to record sequentially stronger results in the quarters ahead. This will mainly be driven by: i) higher demand for gloves leading to more favourable margins, ii) higher production output, and iii) better operating efficiencies from its new plant.

Reiterate Add, with an unchanged TP of RM2.00

Our Add call and TP of RM2.00 are unchanged. Our TP is based on 18.8x CY21F P/E (+1 s.d. from its 5-year mean). At this juncture, we view SUCB as a laggard play as it is still trading at an attractive 15x CY20F P/E, i.e. a 50% discount to the sector's CY20 P/E of 30.6x.

Financial Summary

	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue (RMm)	1,304	1,489	1,721	1,975	2,231
Operating EBITDA (RMm)	211.7	230.6	247.1	278.2	310.2
Net Profit (RMm)	106.7	123.8	116.7	135.7	153.3
Core EPS (RM)	0.08	0.09	0.09	0.10	0.11
Core EPS Growth	58.7%	9.9%	(0.5%)	16.3%	13.0%
FD Core P/E (x)	21.04	19.14	19.24	16.54	14.64
DPS (RM)	0.040	0.039	0.039	0.045	0.032
Dividend Yield	2.42%	2.35%	2.34%	2.72%	1.91%
EV/EBITDA (x)	11.09	9.80	9.64	8.76	7.90
P/FCFE (x)	13.7	32.9	420.4	28.1	21.5
Net Gearing	28.5%	19.4%	28.0%	30.3%	28.6%
P/BV (x)	2.22	1.99	1.88	1.77	1.63
ROE	10.3%	11.0%	10.1%	11.0%	11.6%
% Change In Core EPS Estimates			(5.19%)	(0.24%)	(0.22%)
CGS-CIMB/Consensus EPS (x)			0.86	0.91	0.91

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results Comparison

FYE Jun (RM m)	2Q		2Q yoy %		2QFY20		2QFY19		yoy %	Prev. FY20F	Comments
	FY20	FY19	chg	chg	Cum	Cum	chg	FY20F			
Revenue	385.5	385.1	0.1	4.2	755.4	752.2	0.4	1,489			Higher glove sales were offset by decline in average selling prices
Operating costs	(325.9)	(315.3)	3.4	1.4	(647.5)	(622.7)	4.0	(1,289)			
EBITDA	59.6	69.8	(14.6)	23.2	107.9	129.4	(16.6)	217.7			
EBITDA margin (%)	15.5	18.1	(2.7)	2.4	14.3	17.2	(2.9)	14.5			Due to higher raw material prices, stiffer pricing competition and increase
Depn & amort.	(12.8)	(11.3)	14.1	(0.3)	(25.4)	(21.6)	17.3	(49.8)			in overall operating costs
EBIT	46.7	58.5	(20.1)	10.9	82.6	107.8	(23.4)	200.0			
Interest expense	(4.6)	(4.7)	(0.7)	10.4	(8.8)	(9.3)	(5.0)	(17.0)			Net borrowings stand at RM265.9m as at end-2QFY20
Interest & invt inc	-	-	-	-	-	-	-	-			
Associates' contrib	(0.3)	0.5	(<100)	(<100)	0.5	2.0	(73.0)	4.0			Lower contribution recorded from associate companies
Exceptionals	-	-	-	-	-	6.5	-	-			- One-off gain of RM6.5m in 1QFY19 from insurance claim for fire that hit one of
Pretax profit	41.8	54.3	(23.0)	28.9	74.3	107.0	(30.6)	187.0			its glove factories in Sungai Buloh, Selangor in 1QFY19.
Tax	(11.8)	(15.6)	(24.3)	57.8	(19.3)	(32.3)	(40.3)	(55.0)			
Tax rate (%)	28.2	28.7	(0.5)	5.2	26.0	30.2	(4.2)	29.4			
Minority interests	0.1	(0.6)	(124)	(167)	(0.1)	(0.6)	(89)	0.1			
Net profit	30.2	38.1	(20.9)	21.9	54.9	74.1	(25.9)	123.1			Below expectations at 45% of our and 42% of Bloomberg consensus FY19
Core net profit	30.2	38.1	(20.9)	21.9	54.9	67.6	(18.7)	123.1			estimates
EPS (sen)	2.2	2.8	(20.9)	21.9	4.0	5.4	(25.9)	9.1			
Core EPS (sen)	2.2	2.8	(20.9)	21.9	4.0	5.0	(18.7)	9.1			Based on 1360m total outstanding shares

SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 2: Earnings revision

RM m	2019A	2020F			2021F			2022F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	1,489	1,743	1,721	-1%	2,000	1,975	-1%	2,286	2,231	-2%
EBITDA	231	254	247	-3%	277	278	0%	309	310	0%
Core pretax profit	164	182	172	-5%	200	200	0%	225	225	0%
Core net profit	117	123	117	-5%	136	136	0%	154	153	0%
Core EPS (sen)	9	9	9	-5%	10	10	0%	11	11	0%

SOURCES: CIMB, COMPANY REPORTS

Re-rating catalysts are stronger-than-expected earnings delivery from the glove segment, and lower raw material prices.

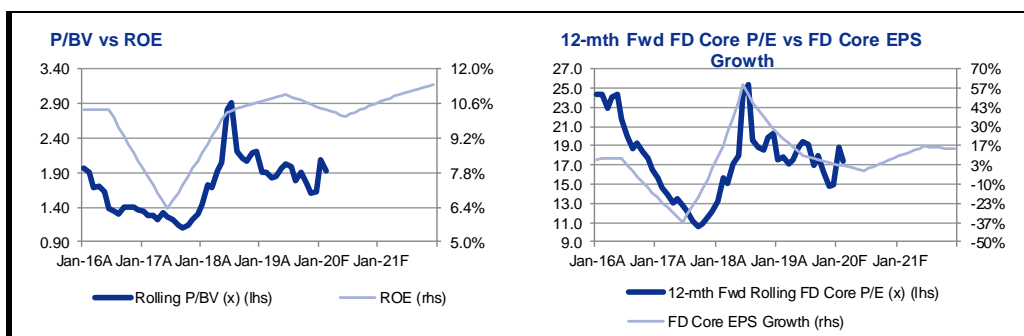
Downside risks: stiffer-than-expected pricing competition and/or sharp increase in raw material prices.

Figure 3: Sector comparisons (CGS-CIMB's Malaysia glove 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 (%)	
						CY19F	CY20F		CY19F	CY20F	CY19F	CY20F	CY19F	CY20F	CY19F	CY20F
Hartalega Holdings	HART MK	Add	6.05	6.80	4,829	45.9	42.5	6.5%	8.5	7.9	19.5%	19.4%	28.8	26.4	1.3%	1.4%
Kossan Rubber Industries	KRI MK	Add	4.78	5.23	1,444	27.2	23.5	8.8%	4.3	3.9	16.2%	17.5%	16.7	14.8	1.5%	1.7%
Supermax Corp	SUCB MK	Add	1.65	2.00	515	19.2	17.8	3.2%	1.9	1.8	10.5%	10.7%	9.6	9.1	2.4%	2.5%
Top Glove Corporation	TOPG MK	Add	5.62	5.22	3,400	36.8	31.9	5.9%	5.8	5.3	16.1%	17.2%	22.3	19.5	1.4%	1.5%
Weighted average						38.9	35.0	6.5%	6.7	6.1	17.5%	17.9%	23.9	21.6	1.4%	1.6%

SOURCES: CGS-CIMB, BLOOMBERG (AS AT 2 JUL 2019)

BY THE NUMBERS



Profit & Loss

(RMm)	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Total Net Revenues	1,304	1,489	1,721	1,975	2,231
Gross Profit	439	466	516	584	656
Operating EBITDA	212	231	247	278	310
Depreciation And Amortisation	(42)	(44)	(58)	(62)	(67)
Operating EBIT	170	187	190	216	243
Financial Income/(Expense)	(14)	(20)	(20)	(20)	(22)
Pretax Income/(Loss) from Assoc.	6	5	3	4	4
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	162	173	172	200	225
Exceptional Items	0	0	0	0	0
Pre-tax Profit	162	173	172	200	225
Taxation	(52)	(49)	(52)	(60)	(67)
Exceptional Income - post-tax					
Profit After Tax	110	124	121	140	157
Minority Interests	(3)	0	(4)	(4)	(4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	107	124	117	136	153
Recurring Net Profit	107	117	117	136	153
Fully Diluted Recurring Net Profit	107	117	117	136	153

Cash Flow

(RMm)	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
EBITDA	211.7	230.6	247.1	278.2	310.2
Cash Flow from Inv. & Assoc.					
Change In Working Capital	56.8	0.0	(92.8)	(44.0)	(44.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	(13.2)	66.3	22.4	25.6	27.9
Net Interest (Paid)/Received	(14.0)	(19.7)	(19.7)	(19.9)	(22.1)
Tax Paid	(64.1)	(49.0)	(51.7)	(59.9)	(67.4)
Cashflow From Operations	177.2	228.2	105.3	180.0	204.3
Capex	(58.9)	(115.7)	(150.0)	(150.0)	(150.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(58.9)	(115.7)	(150.0)	(150.0)	(150.0)
Debt Raised/(repaid)	45.7	(44.3)	50.0	50.0	50.0
Proceeds From Issue Of Shares					
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(75.7)	(32.8)	(52.5)	(61.1)	(42.9)
Preferred Dividends					
Other Financing Cashflow	(14.0)	(19.7)	(19.7)	(19.9)	(22.1)
Cash Flow From Financing	(44.0)	(96.8)	(22.2)	(31.0)	(15.1)
Total Cash Generated	74.3	15.7	(66.9)	(0.9)	39.2
Free Cashflow To Equity	164.0	68.2	5.3	80.0	104.3
Free Cashflow To Firm	132.3	132.2	(24.9)	49.9	76.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Total Cash And Equivalents	145	174	107	106	145
Total Debtors	203	197	296	340	384
Inventories	188	183	267	308	349
Total Other Current Assets	36	77	175	176	177
Total Current Assets	572	631	845	930	1,055
Fixed Assets	896	972	1,049	1,134	1,214
Total Investments	197	202	202	202	202
Intangible Assets	29	29	29	29	29
Total Other Non-Current Assets	2	1	1	1	1
Total Non-current Assets	1,123	1,204	1,281	1,366	1,446
Short-term Debt	374	350	350	350	350
Current Portion of Long-Term Debt					
Total Creditors	192	229	319	360	400
Other Current Liabilities		49	49	49	49
Total Current Liabilities	566	627	717	758	799
Total Long-term Debt	62	42	92	142	192
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	82	82	83
Total Non-current Liabilities	62	42	174	224	275
Total Provisions	49	40	40	40	40
Total Liabilities	677	709	931	1,022	1,113
Shareholders' Equity	1,013	1,127	1,191	1,266	1,376
Minority Interests	10	0	4	8	12
Total Equity	1,023	1,127	1,195	1,274	1,388

Key Ratios

	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue Growth	15.8%	14.2%	15.6%	14.8%	12.9%
Operating EBITDA Growth	42.1%	8.9%	7.2%	12.6%	11.5%
Operating EBITDA Margin	16.2%	15.5%	14.4%	14.1%	13.9%
Net Cash Per Share (RM)	(0.21)	(0.16)	(0.25)	(0.28)	(0.29)
BVPS (RM)	0.74	0.83	0.88	0.93	1.01
Gross Interest Cover	12.15	9.48	9.61	10.86	11.00
Effective Tax Rate	32.0%	28.4%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	34.3%	30.6%	31.2%	31.2%	19.4%
Accounts Receivables Days	59.64	41.41	45.22	54.64	55.05
Inventory Days	79.63	66.14	68.35	75.47	76.16
Accounts Payables Days	81.54	58.71	62.12	74.94	75.62
ROIC (%)	14.6%	16.1%	16.0%	14.9%	15.4%
ROCE (%)	11.1%	12.2%	11.7%	12.4%	12.9%
Return On Average Assets	10.1%	10.9%	9.7%	9.9%	10.3%

Key Drivers

	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
ASP (% chg, main prod./serv.)	0.0%	13.7%	15.7%	9.7%	6.1%
Unit sales grth (% , main prod./serv.)	2.8%	-8.2%	72.7%	77.7%	31.9%
Util. rate (% , main prod./serv.)	79.0%	79.0%	77.0%	80.0%	80.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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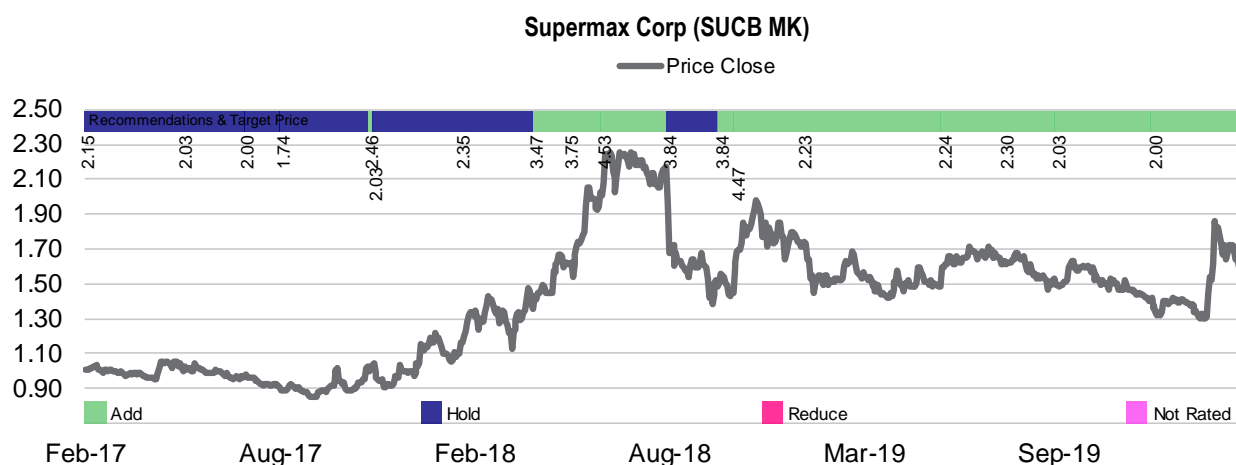
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	Rating Distribution (%)	Investment Banking clients (%)
Add	61.4%	0.0%
Hold	25.2%	0.0%
Reduce	13.4%	0.0%

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 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 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 November 30, 2018) 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 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

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Definition:

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- 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.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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