Kossan Rubber Industries (KRI MK) ASP continues to decline

Negatives largely priced in; U/G to HOLD

Kossan's 4Q21 net profit of MYR218.7m (-56% YoY, -59% QoQ) was in line. The QoQ decline in 4Q21 earnings performance was mainly dragged by lower ASP. We lower our FY22-23 earnings forecasts by -41%/-8% to factor in lower ASP and utilisation rate assumptions as well as the Prosperity tax. Our TP is lowered to MYR1.71 (-16 sen; on an unchanged 17.7x CY23 PER or -1SD of historical mean). After the selloff, risk-reward in the stock appears evenly balanced. U/G to HOLD.

Results in line

4Q21 net profit was MYR219m (-56% YoY, 59% QoQ), bringing up 2021 core net profit to MYR2.9b (+1.8x YoY). This accounted for 98%/96% of our/street's full-year forecasts. The YoY and QoQ decline in 4Q21 earnings was mainly due to declining ASP and logistics challenges i.e. capacity constraints on vessels, partially offset by higher volume. Kossan announced 4th interim DPS of 12sen in 4Q21 (2021: 48sen); above our expectation.

More details on 4Q21 results

The QoQ decline in 4Q21 earnings was mainly due to: (i) 35-40% decline in blended ASP to c.USD40/'000 pieces in 4Q21. This is despite the +13-18% increase in sales volume in 4Q21; (ii) gloves manufacturing division's PBT margin declined to 34% in 4Q21(-22.3 ppt QoQ) as the decline in ASP outweighed the decline in NBR cost (-25% to -30% QoQ).

Earnings adjustments; Upgrade to HOLD.

We lower our FY22/23 earnings forecasts by -41%/-8% to factor in: i) prosperity tax in 2022, ii) lower utilisation rate of 75%/75% (from 80%/80%) for FY22/FY23 and iii) new blended ASP assumptions of USD24/23 (from USD26/23 per k pcs) for FY22/23. We introduce our FY24 earnings forecasts (USD23/k pcs ASP). Kossan's balance sheet remained strong as at Dec 21 with net cash of MYR2.3b (MYR0.93/sh net cash). Although the overhang related to declining ASP and stiff competition is unlikely to disappear anytime soon, we believe the negatives have been largely priced in after the stock declined by -29% since our downgrade to SELL in early Oct 2021.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,638	6,657	3,073	3,244	3,447
EBITDA	1,510	3,924	427	447	474
Core net profit	1,036	2,904	223	248	255
Core EPS (sen)	40.5	113.5	8.7	9.7	10.0
Core EPS growth (%)	361.1	180.3	(92.3)	10.8	3.0
Net DPS (sen)	14.0	48.0	3.1	3.4	3.5
Core P/E (x)	11.1	1.7	19.3	17.5	17.0
P/BV (x)	4.8	1.2	1.0	1.0	1.0
Net dividend yield (%)	3.1	25.0	1.8	2.0	2.1
ROAE (%)	57.0	88.9	5.4	5.8	5.8
ROAA (%)	34.7	66.9	4.4	4.7	4.6
EV/EBITDA (x)	7.3	0.7	3.8	3.6	3.2
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	478	377	na
MKE vs. Consensus (%)	-	-	(53.3)	(34.3)	na

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[Prior:SELL]

Maybank IB Research

re Price	MYR 1.69
Price Target	MYR 1.71 (+3%)
ious Price Target	MYR 1.87

Company Description

Kossan is among the world's biggest glove producers with production highly concentrated in the nitrile segment.

Statistics

Shar 12m

Previ

52w high/low (MYR)	4.71/1.65
3m avg turnover (USDm)	5.3
Free float (%)	42.3
Issued shares (m)	2,558
Market capitalisation	MYR4.3B
	USD1.0B
Major shareholders:	
Kossan Holdings Malaysia Sdn. Bhd.	47.1%
Employees Provident Fund	8.8%
Public Mutual Bhd.	3.0%

Price Performance

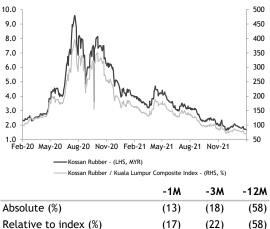
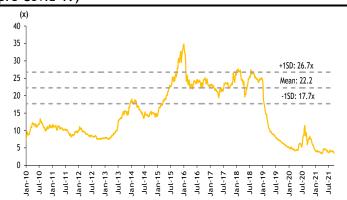


Table 1: Kossan's quarterly results

			Quarterly				Cumulative	
FY Dec (MYR m)	4Q21	4Q20	% YoY	3Q21	% QoQ	2021	2020	%YoY
Turnover	924.6	1,307.0	(29.3)	1,302.8	(29.0)	6,657.5	3,638.5	83.0
EBITDA	264.0	746.3	(64.6)	751.4	(64.9)	3,901.4	1,509.6	>+100
Depreciation	(29.3)	(30.8)	5.0	(22.8)	(28.2)	(115.4)	(113.6)	(1.6)
EBIT	265.1	766.2	(65.4)	689.5	(61.5)	3,786.0	1,396.0	>+100
Net interest expense	8.6	(1.3)	>+100	7.3	17.0	20.5	(5.3)	>+100
Exceptional	0.0	50.7	n.m	0.0	n.m	(50.0)	50.7	>-100
Pretax profit	273.7	764.9	(64.2)	696.8	(60.7)	3,747.8	1,441.4	>+100
Tax	(54.6)	(221.0)	75.3	(167.8)	67.4	(836.3)	(349.3)	>-100
Minority interest PATMI	(0.4)	0.4	>-100 (59.8)	(0.7)	46.4	(3.3)	(5.4)	39.2 >+100
Core PATMI	218.7 218.7	543.4 492.7	(59.8) (55.6)	528.2 528.2	(58.6) (58.6)	2,853.5 2,903.5	1,086.7 1,035.9	>+100 >+100
			+/- ppt		+/- ppt			+/- ppt
Margins and tax rate								
EBITDA margin (%)	28.5	57.1	(28.5)	57.7	(29.1)	58.6	41.5	17.1
EBIT margin (%)	28.7	58.6	(29.9)	52.9	(24.2)	56.9	38.4	18.5
Core net margin (%)	23.7	37.7	(14.0)	40.5	(16.9)	43.6	28.5	15.1
Tax rate (%)	20.0	28.9	(8.9)	24.1	(4.1)	22.3	24.2	(1.9)
<u>Segmental (MYRm)</u>	4Q21	4Q20	% YoY	3Q21	% QoQ	2021	2020	%YoY
Turnover	924.6	1,307.0	(29.3)	1,302.8	(29.0)	6,657.5	3,638.5	83.0
Gloves	836.4	1,207.7	(30.7)	1,217.6	(31.3)	6,271.7	3,321.9	88.8
Technical rubber products	45.9	53.3	(13.8)	36.5	25.8	174.4	163.2	6.9
Cleanroom	42.0	45.6	(7.9)	46.4	(9.5)	205.8	152.1	35.4
<u>PBT (MYRm)</u>	273.7	764.9	(64.2)	696.8	(60.7)	3,747.8	1,441.4	160.0
Gloves	286.8	753.4	(61.9)	689.0	(58.4)	3,717.3	1,395.2	>+100
Technical rubber products	2.2	7.7	(71.3)	3.7	(40.2)	19.3	21.8	(11.7)
Cleanroom	1.1	10.8	(89.7)	5.2	(78.7)	31.5	31.4	0.2
			+/- ppt		+/- ppt			+/- ppt
PBT margin (%)	29.6	58.5	(28.9)	53.5	(23.9)	56.3	39.6	16.7
Gloves	34.3	62.4	(28.1)	56.6	(22.3)	59.3	42.0	17.3
Technical rubber products	4.8	14.4	(9.6)	10.1	(5.3)	11.0	13.4	(2.3)
Cleanroom	2.7	23.8	(21.1)	11.3	(8.7)	15.3	20.7	(5.4)

Source: Company, Maybank IBG Research



Kossan: Historical 1-year forward PER mean (2014-2018; pre-Covid-19)

Source: Bloomberg, Company, Maybank IBG Research (chart)

Upside/downside risks

(i) Raw material prices to decline faster than ASP, (ii) Higher demand/consumption for gloves from non-healthcare industries post pandemic and (iii) lower than expected ASP.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24
Key Metrics					
P/E (reported) (x)	11.4	2.9	19.3	17.5	17.
Core P/E (x)	11.1	1.7	19.3	17.5	17.
P/BV (x)	4.8	1.2	1.0	1.0	1.
P/NTA (x)	4.8	1.2	1.0	1.0	1.
Net dividend yield (%)	3.1	25.0	1.8	2.0	2.
FCF yield (%)	8.3	61.0	10.5	2.3	2.
EV/EBITDA (x)	7.3	0.7	3.8	3.6	3.
EV/EBIT (x)	7.9	0.7	5.5	5.3	5.
INCOME STATEMENT (MYR m)					
Revenue	3,638.5	6,657.5	3,073.1	3,244.3	3,447.
EBITDA	1,509.6	3,923.6	426.9	446.9	473.
Depreciation	(113.6)	(115.4)	(132.1)	(148.8)	(165.4
Amortisation	0.0	0.0	0.0	0.0	0.
EBIT	1,396.0	3,808.2	294.8	298.2	308.
Net interest income /(exp)	(5.3)	20.5	30.2	31.9	31.
Associates & JV	0.0	0.0	0.0	0.0	0.
Exceptionals	50.7	(50.0)	0.0	0.0	0.
Other pretax income	0.0	0.0	0.0	0.0	0.
Pretax profit	1,441.4	3,747.8	324.9	330.0	339.
ncome tax	(349.3)	(890.9)	(98.2)	(79.2)	(81.6
Winorities	(5.4)	(3.3)	(3.3)	(3.3)	(3.3
Discontinued operations	0.0	0.0	0.0	0.0	0.
Reported net profit	1,086.7	2,853.5	223.4	247.5	255.
Core net profit	1,035.9	2,903.5	223.4	247.5	255.
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,089.5	2,557.5	3,064.9	3,209.9	3,373.
Accounts receivable	677.3	573.8	264.8	279.6	297.
nventory	440.1	424.0	195.7	206.6	219.
Reinsurance assets	0.0	0.0	0.0	0.0	0.
Property, Plant & Equip (net)	1,273.7	1,373.3	1,491.2	1,592.4	1,677.
ntangible assets	6.1	6.1	6.1	6.1	6.
nvestment in Associates & JVs	0.0	0.0	0.0	0.0	0.
Other assets	147.4	115.0	115.0	115.0	115.
Total assets	3,634.0	5,049.6	5,137.8	5,409.6	5,687.
ST interest bearing debt	447.9	193.9	296.6	396.6	496.
Accounts payable	447.9	297.9	137.5	145.2	154.
Insurance contract liabilities	400.4	0.0	0.0	0.0	0.
	107.2	43.5	43.5	43.5	43.
_T interest bearing debt Other liabilities	179.0	455.0	452.0	452.0	452.
Total Liabilities		455.0 990.4	432.0 930.0		
Shareholders Equity	1,220.7			1,037.6	1,146.
	2,384.8 28.4	4,031.5 27.7	4,176.8 31.0	4,337.7 34.3	4,503. 37.
Winority Interest					4,541.
Total shareholder equity	2,413.2	4,059.3	4,207.8	4,372.0	-
Total liabilities and equity	3,634.0	5,049.6	5,137.8	5,409.6	5,687.
CASH FLOW (MYR m)		2 7 17 0	22.4.0	220.0	220
Pretax profit	1,441.4	3,747.8	324.9	330.0	339.
Depreciation & amortisation	113.6	115.4	132.1	148.8	165.
Adj net interest (income)/exp	5.3	(20.5)	(30.2)	(31.9)	(31.3
Change in working capital	(95.3)	(50.0)	376.8	(18.0)	(21.)
Cash taxes paid	(258.8)	(601.4)	(98.2)	(79.2)	(81.
Other operating cash flow	83.7	1,221.9	0.0	0.0	0.
Cash flow from operations	1,136.1	3,213.4	705.5	349.7	371.
Capex	(179.3)	(217.7)	(250.0)	(250.0)	(250.0
Free cash flow	956.8	2,995.7	455.5	99.7	121
Dividends paid	(153.8)	(1,199.9)	(78.2)	(86.6)	(89.)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0
Change in Debt	(14.0)	(314.9)	100.0	100.0	100
Other invest/financing cash flow	142.4	0.0	30.2	31.9	31.
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	64.1	83.0	(53.8)	5.6	6.3
EBITDA growth	293.7	159.9	(89.1)	4.7	6.0
EBIT growth	385.2	172.8	(92.3)	1.1	3.5
Pretax growth	421.5	160.0	(91.3)	1.6	3.0
Reported net profit growth	383.7	162.6	(92.2)	10.8	3.0
Core net profit growth	361.1	180.3	(92.3)	10.8	3.0
Profitability ratios (%)					
EBITDA margin	41.5	58.9	13.9	13.8	13.7
EBIT margin	38.4	57.2	9.6	9.2	9.0
Pretax profit margin	39.6	56.3	10.6	10.2	9.9
Payout ratio	33.0	43.0	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	29.9	42.9	7.3	7.6	7.4
Revenue/Assets (x)	1.0	1.3	0.6	0.6	0.6
Assets/Equity (x)	1.5	1.3	1.2	1.2	1.3
ROAE (%)	57.0	88.9	5.4	5.8	5.8
ROAA (%)	34.7	66.9	4.4	4.7	4.6
Liquidity & Efficiency					
Cash conversion cycle	57.2	38.5	62.4	38.3	38.1
Days receivable outstanding	54.9	33.8	49.1	30.2	30.1
Days inventory outstanding	60.3	51.1	44.8	27.1	26.7
Days payables outstanding	58.1	46.4	31.5	19.0	18.8
Dividend cover (x)	3.0	2.3	2.9	2.9	2.9
Current ratio (x)	2.3	4.4	4.7	4.3	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.0	5.1	5.5	5.2	5.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.4	0.1	0.8	1.0	1.1
Capex/revenue (%)	4.9	3.3	8.1	7.7	7.3
Net debt/ (net cash)	(534.5)	(2,320.0)	(2,724.8)	(2,769.8)	(2,832.9)

Source: Company; Maybank

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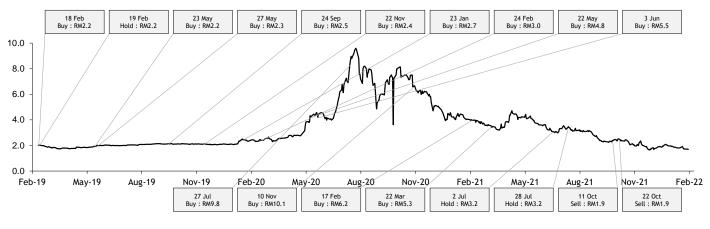
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Historical recommendations and target price: Kossan Rubber Industries (KRI MK)



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