

# Kossan Rubber Industries (KRI MK)

## 1Q22 dragged by lower ASP

### Profit above our expectation despite QoQ ASP decline

Kossan's 1Q22 net profit of MYR90m (-92% YoY, -59% QoQ) was above our expectation. The QoQ decline in 1Q22 earnings performance was mainly dragged by lower ASP (about -22% to -27% QoQ). Nonetheless, we raise our earnings forecasts by 8-20% and TP to MYR1.85 (+14sen; on an unchanged 17.7x CY23 PER or -1SD of historical mean). We maintain HOLD on Kossan.

### Earnings continued to trend down

1Q22 net profit of MYR90m (-92% YoY, -59% QoQ) accounted for 40%/28% of our/street's full-year forecasts. The earnings gap was mainly due to higher-than-expected ASP of about USD30/k pcs (versus our ASP assumption of USD28/k pcs for 1Q22) and the imputation of Prosperity tax in our FY22 earnings forecasts, we reckon. The YoY and QoQ declines in 1Q22 earnings were mainly due to declining ASP and logistics challenges i.e. capacity constraints on transport vessels.

### More on 1Q22 results

The QoQ decline in 1Q22 earnings was mainly due to: (i) -22% to -27% decline in blended ASP to about USD30-35/k pcs (from c.USD40-45/k pcs in 4Q21) and -5% to -10% decrease in sales volume in 1Q22; and (ii) gloves manufacturing division's PBT margin declined to 18.2% in 1Q22 (-15.6 ppt QoQ) notwithstanding a -30% to -35% QoQ decline in NBR cost.

### Earnings adjustments

We raise our FY22/23/24 earnings forecasts by 20.4%/7.9%/8.4% after i) removing prosperity tax as impact is likely to be muted since most subsidiaries report <MYR100m in earnings and ii) adjusting our exchange rate to MYR4.15/USD (from MYR4.10/USD). Our blended ASP assumptions remain largely unchanged at USD24/23/23/k pcs for FY22/FY23/24. Kossan's balance sheet remained strong as at Mar 2022 with net cash of MYR1.5b (MYR0.57/sh net cash).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,638	6,657	3,118	3,280	3,486
EBITDA	1,510	3,924	460	472	502
Core net profit	1,036	2,904	269	267	276
Core EPS (sen)	40.5	113.5	10.5	10.4	10.8
Core EPS growth (%)	361.1	180.3	(90.7)	(0.7)	3.5
Net DPS (sen)	14.0	48.0	3.7	3.7	3.8
Core P/E (x)	11.1	1.7	17.5	17.6	17.0
P/BV (x)	4.8	1.2	1.1	1.1	1.0
Net dividend yield (%)	3.1	25.0	2.0	2.0	2.1
ROAE (%)	57.0	88.9	6.5	6.2	6.2
ROAA (%)	34.7	66.9	5.3	5.0	4.9
EV/EBITDA (x)	7.3	0.7	4.3	4.1	3.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	326	325	344
MKE vs. Consensus (%)	-	-	(17.5)	(17.8)	(19.6)

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# HOLD

Share Price	MYR 1.84
12m Price Target	MYR 1.85 (+3%)
Previous Price Target	MYR 1.71

### Company Description

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

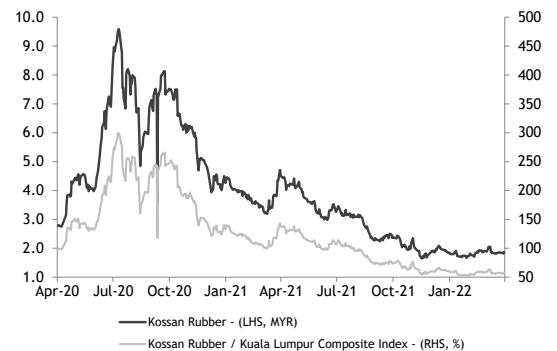
### Statistics

52w high/low (MYR)	4.49/1.65
3m avg turnover (USDm)	2.1
Free float (%)	42.2
Issued shares (m)	2,558
Market capitalisation	MYR4.7B
	USD1.1B

### Major shareholders:

Kossan Holdings Malaysia Sdn. Bhd.	47.2%
Employees Provident Fund	8.8%
Public Mutual Bhd.	3.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(1)	(59)
Relative to index (%)	(3)	(6)	(59)

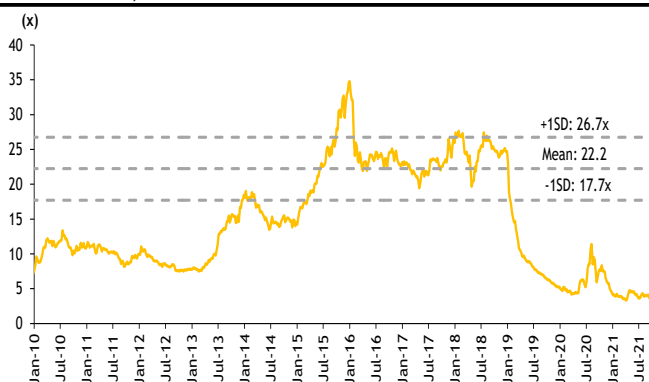
Source: FactSet

Table 1: Kossan's quarterly results

FY Dec (MYR m)	Quarterly				
	1Q22	1Q21	% YoY	4Q21	% QoQ
Turnover	690.6	2,192.1	(68.5)	924.6	(25.3)
EBITDA	406.8	1,453.3	(72.0)	573.8	(29.1)
Depreciation	(31.5)	(30.8)	2.1	(29.3)	7.5
EBIT	116.9	1,372.5	(91.5)	265.1	(55.9)
Net interest expense	2.9	1.0	177.4	8.6	(66.1)
Exceptional	0.0	(50.0)	(100.0)	0.0	#DIV/0!
<b>Pretax profit</b>	<b>119.8</b>	<b>1,373.5</b>	<b>(91.3)</b>	<b>273.7</b>	<b>(56.2)</b>
Tax	(29.2)	(330.6)	(91.2)	(54.6)	(46.6)
Minority interest	(0.5)	(1.1)	(50.4)	(0.4)	37.9
PATMI	90.1	1,041.8	(91.4)	218.7	(58.8)
Core PATMI	90.1	1,091.8	(91.7)	218.7	(58.8)
			<b>+/- ppt</b>		<b>+/- ppt</b>
<b>Margins and tax rate</b>					
EBITDA margin (%)	58.9	66.3	(7.4)	62.1	(3.2)
EBIT margin (%)	16.9	62.6	(45.7)	28.7	(11.7)
Core net margin (%)	13.0	49.8	(36.8)	23.7	(10.6)
Tax rate (%)	24.4	24.1	0.3	20.0	4.4
<b>Segmental (MYRm)</b>					
Turnover	690.6	2,192.1	(68.5)	924.6	(25.3)
Gloves	609.3	2,092.9	(70.9)	836.4	(27.2)
Technical rubber products	49.3	41.5	18.7	45.9	7.4
Cleanroom	28.4	56.3	(49.5)	42.2	(32.7)
<b>PBT (MYRm)</b>					
Gloves	111.0	1,354.7	(91.8)	283.1	(60.8)
Technical rubber products	5.1	8.9	(43.2)	2.2	126.8
Cleanroom	3.7	9.9	(62.2)	(11.6)	(132.2)
			<b>+/- ppt</b>		<b>+/- ppt</b>
PBT margin (%)	17.4	62.7	(45.3)	29.6	(12.3)
Gloves	18.2	64.7	(46.5)	33.8	(15.6)
Technical rubber products	10.3	21.5	(11.2)	4.9	5.4
Cleanroom	13.2	17.6	(4.4)	(27.6)	40.8

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) higher/lower than expected ASP.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	11.4	2.9	17.5	17.6	17.0
Core P/E (x)	11.1	1.7	17.5	17.6	17.0
P/BV (x)	4.8	1.2	1.1	1.1	1.0
P/NTA (x)	4.8	1.2	1.1	1.1	1.0
Net dividend yield (%)	3.1	25.0	2.0	2.0	2.1
FCF yield (%)	8.3	61.0	10.5	2.5	3.0
EV/EBITDA (x)	7.3	0.7	4.3	4.1	3.7
EV/EBIT (x)	7.9	0.7	6.1	6.0	5.5

**INCOME STATEMENT (MYR m)**

Revenue	3,638.5	6,657.5	3,118.0	3,280.1	3,485.7
EBITDA	1,509.6	3,923.6	460.0	472.3	501.6
Depreciation	(113.6)	(115.4)	(132.1)	(148.8)	(165.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,396.0	3,808.2	327.9	323.5	336.2
Net interest income / (exp)	(5.3)	20.5	30.3	32.3	31.9
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	50.7	(50.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,441.4	3,747.8	358.3	355.8	368.1
Income tax	(349.3)	(890.9)	(86.0)	(85.4)	(88.3)
Minorities	(5.4)	(3.3)	(3.3)	(3.3)	(3.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,086.7	2,853.5	269.0	267.1	276.4
Core net profit	1,035.9	2,903.5	269.0	267.1	276.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,089.5	2,557.5	3,089.8	3,248.5	3,425.3
Accounts receivable	677.3	573.8	268.7	282.7	300.4
Inventory	440.1	424.0	198.6	208.9	222.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,273.7	1,373.3	1,491.2	1,592.4	1,677.0
Intangible assets	6.1	6.1	6.1	6.1	6.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	147.4	115.0	115.0	115.0	115.0
<b>Total assets</b>	<b>3,634.0</b>	<b>5,049.6</b>	<b>5,169.4</b>	<b>5,453.6</b>	<b>5,745.8</b>
ST interest bearing debt	447.9	193.9	296.6	396.6	496.6
Accounts payable	486.4	297.9	139.5	146.8	156.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	107.2	43.5	43.5	43.5	43.5
Other liabilities	179.0	455.0	452.0	452.0	452.0
<b>Total Liabilities</b>	<b>1,220.7</b>	<b>990.4</b>	<b>932.0</b>	<b>1,039.2</b>	<b>1,148.4</b>
Shareholders Equity	2,384.8	4,031.5	4,206.4	4,380.0	4,559.7
Minority Interest	28.4	27.7	31.0	34.3	37.6
<b>Total shareholder equity</b>	<b>2,413.2</b>	<b>4,059.3</b>	<b>4,237.4</b>	<b>4,414.4</b>	<b>4,597.4</b>
<b>Total liabilities and equity</b>	<b>3,634.0</b>	<b>5,049.6</b>	<b>5,169.4</b>	<b>5,453.6</b>	<b>5,745.8</b>

**CASH FLOW (MYR m)**

Pretax profit	1,441.4	3,747.8	358.3	355.8	368.1
Depreciation & amortisation	113.6	115.4	132.1	148.8	165.4
Adj net interest (income)/exp	5.3	(20.5)	(30.3)	(32.3)	(31.9)
Change in working capital	(95.3)	(50.0)	372.1	(17.0)	(21.6)
Cash taxes paid	(258.8)	(601.4)	(86.0)	(85.4)	(88.3)
Other operating cash flow	83.7	1,221.9	0.0	0.0	0.0
Cash flow from operations	1,136.1	3,213.4	746.1	369.8	391.6
Capex	(179.3)	(217.7)	(250.0)	(250.0)	(250.0)
Free cash flow	956.8	2,995.7	496.1	119.8	141.6
Dividends paid	(153.8)	(1,199.9)	(94.1)	(93.5)	(96.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(14.0)	(314.9)	100.0	100.0	100.0
Other invest/financing cash flow	142.4	0.0	30.3	32.3	31.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>924.1</b>	<b>1,468.0</b>	<b>532.3</b>	<b>158.7</b>	<b>176.8</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	64.1	83.0	(53.2)	5.2	6.3
EBITDA growth	293.7	159.9	(88.3)	2.7	6.2
EBIT growth	385.2	172.8	(91.4)	(1.3)	3.9
Pretax growth	421.5	160.0	(90.4)	(0.7)	3.4
Reported net profit growth	383.7	162.6	(90.6)	(0.7)	3.5
Core net profit growth	361.1	180.3	(90.7)	(0.7)	3.5
<b>Profitability ratios (%)</b>					
EBITDA margin	41.5	58.9	14.8	14.4	14.4
EBIT margin	38.4	57.2	10.5	9.9	9.6
Pretax profit margin	39.6	56.3	11.5	10.8	10.6
Payout ratio	33.0	43.0	35.0	35.0	35.0
<b>DuPont analysis</b>					
Net profit margin (%)	29.9	42.9	8.6	8.1	7.9
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	6.5	6.2	6.2
ROAA (%)	34.7	66.9	5.3	5.0	4.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	57.2	38.5	62.0	38.4	38.1
Days receivable outstanding	54.9	33.8	48.6	30.3	30.1
Days inventory outstanding	60.3	51.1	44.8	27.3	26.9
Days payables outstanding	58.1	46.4	31.5	19.2	18.9
Dividend cover (x)	3.0	2.3	2.9	2.9	2.9
Current ratio (x)	2.3	4.4	4.7	4.4	4.1
<b>Leverage &amp; Expense Analysis</b>					
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	0.7	0.9	1.1
Capex/revenue (%)	4.9	3.3	8.0	7.6	7.2
Net debt/ (net cash)	(534.5)	(2,320.0)	(2,749.7)	(2,808.4)	(2,885.2)

Source: Company; Maybank IBG Research

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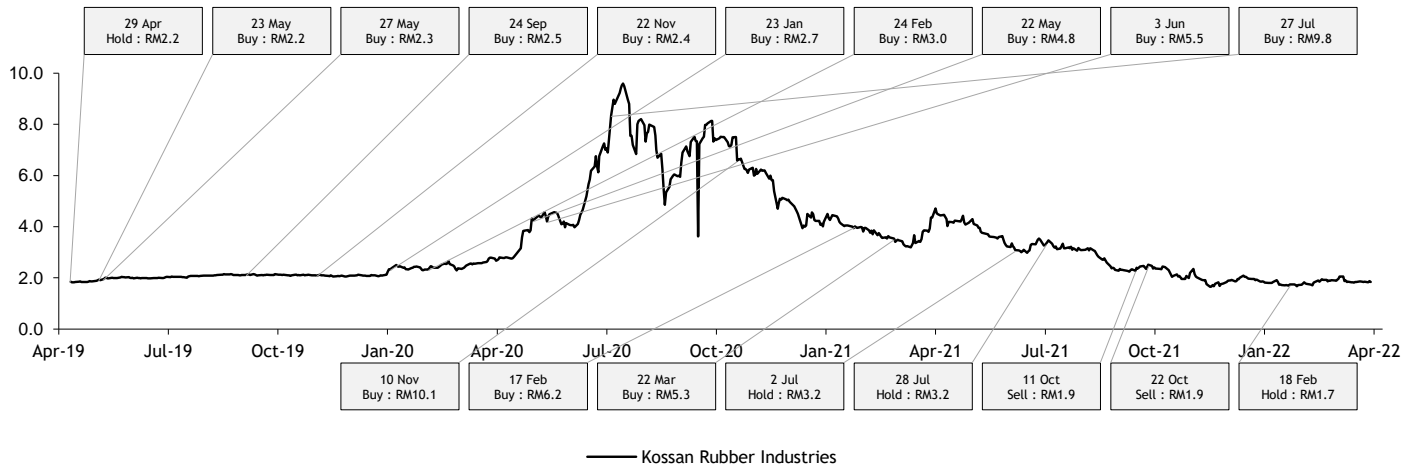
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