

17 February 2021

Kossan Rubber Industries

Solid Earnings Ahead

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FY20 Core PATAMI of RM1,036m (+362%YoY) came within expectations at 101%/96% of our/consensus full-year forecasts. The group highlighted that (i) ASP is expected to be higher in 1QFY21 and 2QFY21 and (ii) it is difficult to predict when ASP will retrace, but more likely to be a gradual decline rather than a steep decline in 2022. Due to the diminishing ASP visibility, we downgrade our TP to RM6.00 based on 12x CY22E EPS as we roll over our valuation base from CY21 to CY22. Reiterate OP.

Key results' highlights. QoQ, 4QFY20 revenue rose 27% due to higher contribution from rubber gloves (+28%) on higher volume ASP(+50%) which more than off-set lower volume due to temporary production loss arising from COVID cases and unavailability of vessels. Pre-tax profit rose 75% on the back of margin improvement due to higher ASP. Pre-tax margin rose 16.3ppt to 58.5% from 3QFY20. This brings 4QFY20 core net profit excluding gain from sale of land (RM50.7m) to RM491.8m (+41% QoQ). A 2nd interim DPS of 3.0 and a special dividend of 8.0 sen was declared bringing FY20 DPS to 14.0 sen which came in above our expectation.

YoY, FY20 revenue rose 65%, due to higher contribution from glove division (+70%), underpinned by higher volume sales (+20%) and ASP (+50%). This brings FY20 core PATAMI to RM1,036m (+362%).

Salient points from 4QFY20 results conference call, capacity expansion plans on track. We highlight that ASP in 1QFY21 is expected to be 40-50% higher compared to 4QFY20 and expect some increase in 2QFY21 and a milder increase in 3QFY21. Recall that in a meeting end-4Q 2020, management highlighted that it is difficult to predict when ASP will retrace but they stopped short of hinting ASP hikes will gradually ease sometime in 4Q 2020, but more likely to be the case in 2022 (rather than a steep decline) depending on the outcome of the effectiveness of COVID-19 vaccines. A retracement in ASP then, if any, would likely in their view, be gradual and be cushioned by restocking activities. The group is confident of sustained strong demand with orders lined up till end-CY21 while capacity ramp-up is on track to commence gradually and staggered throughout Oct, Nov, and Dec. In the meantime, the planned capacity expansion over the next two years are as follows:- (i) Plant 20 located adjacent to Plants 18 and 19 with 1.5b pieces capacity which is expected to come on stream by early 2021 – 2 lines from plant 18 has commenced production, (ii) a recently acquired land in Meru located adjacent to one of its current plants which is earmarked for a single plant with 5b pieces capacity and to be completed in two phases i.e. Phase 1 – 6 lines, 2b pieces commencing in 2H 2021 and Phase 2 – 10 lines, 3b pieces commencing in 1H 2022, and (iii) 12 lines with 4b pieces capacity to fully commission in 2H 2022 in Bidor. Upon completion, these three new plants will bring the group's total installed capacity from 32b to 42.4b (+33%) pieces of gloves per annum.

Raised FY21E net profit by 23% after hiking our ASP from USD52/1,000 to USD61/1,000 pieces. We introduce FY22E numbers based on ASP of USD40/1,000 in our earnings model.

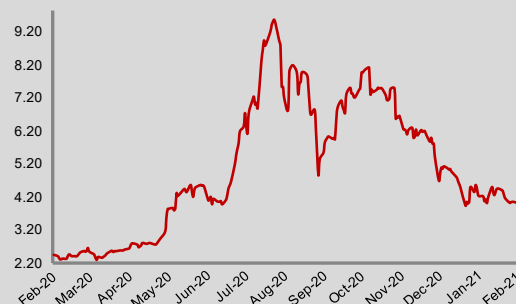
Maintain OP. Due to lack of ASP visibility, we downgrade our TP from RM7.50 to RM6.00 based on 12x CY22E EPS (at -0.5SD below 5-year forward historical mean) as we roll over our valuation base from CY21 to CY22.

Key risks to our call include: (i) ASP falling steeper and sooner than expected and (ii) faster-than-expected vaccine roll-outs.

OUTPERFORM ↔

Price: **RM3.94**
Target Price: **RM6.00** ↓

Share Price Performance



KLCI	1,606.14
YTD KLCI chg	-1.3%
YTD stock price chg	-12.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KRI MK Equity
Market Cap (RM m)	10,059.3
Shares Outstanding	2,553.1
52-week range (H)	9.75
52-week range (L)	2.11
3-mth avg daily vol:	11,493,650
Free Float	39%
Beta	0.8

Major Shareholders

Kossan Holdings Sdn Bhd	47.0%
Employees Provident Fund	8.5%
KWAP	2.4%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	3653.5	7509.4	4971.1
PBT	1444.6	3435.2	1642.2
Net Profit (NP)	1087.1	2682.6	1280.3
Consensus (NP)	-	2271	1077
Earnings Revision	-	+23%	-
Core EPS (sen)	40.5	104.9	50.1
Core EPS growth (%)	361.2	158.8	(52.3)
NDPS (sen)	14.0	30.0	20.0
BVPS (RM)	0.93	1.68	1.98
Core PER (x)	9.8	3.8	7.9
Price/BV (x)	4.2	2.4	2.0
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	3.5	7.6	5.1

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Result Highlight

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY19	FY20	Chg %
Turnover	1,307.0	1,033.3	26.5	578.3	126.0	2,217.2	3,653.5	64.8
EBITDA	797.0	464.8	71.5	97.6	716.3	385.5	1,561.2	305.0
PBT	764.9	436.4	75.3	72.3	958.3	276.4	1,444.6	422.7
PATAMI (NP)	542.5	348.7	55.6	61.0	789.4	224.3	1,087.1	384.6
Core PATAMI [^]	491.8	348.7	41.0	61.0	706.3	224.3	1,036.4	362.0
EPS (sen)	21.2	13.6	55.5	2.4	789.2	8.8	42.5	384.4
EBITDA margin (%)	61.0	45.0		16.9		17.4	42.7	
PBT margin (%)	58.5	42.2		12.5		12.5	39.5	
NP margin (%)	41.5	33.7		10.5		10.1	29.8	
Effective tax rate (%)	28.9	19.5		14.8		18.9	24.4	

Source: Kenanga Research, Bursa Malaysia
[^]excluding gain from sale of land (RM50.7m)

Quarterly segmental breakdown

	1Q20	2Q20	3Q20	4Q20	Chg %	12M	12M	Chg %
					q-o-q	FY19	FY20	y-o-y
Revenue (RM m)								
Gloves division	548.2	630.6	946.6	1,207.7	27.6	1,960.0	3,333.0	70.1
Technical rubber products (TRP) division	38.4	25.1	46.5	53.3	14.6	180.7	163.2	(9.7)
Cleanroom products division	24.5	45.6	40.3	45.6	13.2	74.0	155.9	110.6
Investment Holding	0.3	0.4	0.1	0.5	NM	2.4	1.3	(44.2)
Total	611.5	701.7	1,033.3	1,307.0	26.5	2,217.2	3,653.5	64.8
Pre-tax profit (RM m)								
Gloves division	77.1	150.6	416.7	753.4	80.8	246.3	1,397.8	467.5
Technical rubber products (TRP) division	3.5	1.5	9.8	7.7	(21.1)	27.4	22.4	(18.1)
Cleanroom products division	1.8	8.6	10.2	10.8	6.4	2.6	31.4	1,094
Investment Holding	0.1	0.1	(0.2)	(7.1)	3,469	0.0	(7.1)	NM
Total	82.5	160.8	436.4	764.9	75.3	276.4	1,444.6	422.7
Pre-tax profit margin (%)								
Gloves division	14	24	44	62		13	42	
Technical rubber products division	9	6	21	14		15	14	
Cleanroom products division	8	19	25	24		3	20	

Source: Kenanga Research, Bursa Malaysia

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	12.44	42,639	Y	03/2021	181%	36.0%	655%	54.5%	95.3	12.9	8.3	16.3	11.0	103%	4.7%	21.00	OP
KOSSAN RUBBER INDUSTRIES	3.94	10,059	Y	12/2021	106%	-34%	146%	-52%	9.8	3.8	7.9	4.2	2.4	80%	7.6%	6.00	OP
SUPERMAX CORP BHD	5.86	15,339	Y	06/2021	254%	-25%	673%	-45%	30.7	4.0	7.4	10.1	3.7	137%	8.4%	7.80	OP
TOP GLOVE CORP BHD	6.06	48,621	Y	08/2021	205%	-39%	400%	-56%	26.5	5.3	12.1	9.9	5.6	135%	9.5%	8.50	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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