

22 October 2021

Kossan Rubber Industries

9MFY21 Impacted by Lower-than-expected Volume Sales

By Raymond Choo Ping Khoon | pkchoo@kenanga.com.my

9MFY21 Core PATAMI of RM2,710m (+5-fold YoY) came in below expectations at 81%/86% of our/consensus full-year forecasts in anticipation of lower ASP in 4Q21. The negative variance from our forecast is due to lower-than-expected volume sales. As such, we lower our FY21E net profit by 8% as we factor in lower utilisation rate to 83% from 90% into our earnings model. Our FY22E ASP assumption remains at USD28/1,000 pieces. Our TP is RM2.45 based on 12x FY22E EPS (at -0.5 SD below 5-year pre-COVID forward historical mean of 17x). Reiterate MP.

Key results' highlights. QoQ, 3QFY21 revenue fell 42% due to lower volume sales (-25% to -30%) and ASP (-15% to -20%) from rubber gloves. The lower volume sales was impacted by the Enhanced Movement Control Order (EMCO) imposed in the state of Selangor as well as by the subsequent National Recovery Plan (NRP) where affected plants were only allowed to operate at 60% of workforce capacity. This brings 3QFY21 core net profit to RM528m (-52%). A 3rd interim DPS of 12.0 sen was declared bringing 9MFY21 DPS to 36.0 sen which came inline with our expectation.

YoY, 9MFY21 revenue rose 144% due to higher contribution from glove division (+156%), underpinned by higher ASP (+200%) more than offset lower volume sales (-8%). This elevated 9MFY21 core net profit to RM2,710m (+5-fold).

Outlook. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. From Top Glove's 4QFY21 results briefing recently, we gathered that its ASPs have dropped faster than expected at 31% QoQ to USD48/1,000 pieces. We believe this signals acceleration in overall market ASP normalization. We are unable to quantify as to how low ASP will fall to; however, glove manufacturers are of the view that ASP is unlikely to go below pre-COVID pricing considering that the cost structure has risen amongst others including social compliance costs and the high nitrile feedstock cost compared to pre-COVID era. 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 be fully commissioned by 4Q21, (ii) a land in Meru located adjacent to one of its current plants is earmarked for a single plant with 5b pieces capacity 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 2HCY22 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.

Lowered our FY21E net profit by 8% as we factor in lower utilisation rate to 83% from 90% into our earnings model. Our FY22E ASP assumption remains at USD28/1,000 pieces.

Maintain MP. Our TP is RM2.45 based on 12x FY22E EPS (at -0.5 SD below 5-year pre-COVID forward historical mean of 17x). Since ASPs are no longer lofty, expectations of disappointments in subsequent quarters are expected to be capped.

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

MARKET PERFORM ↔

Price: RM2.44
Target Price: RM2.45 ↔

Share Price Performance



KLCI	1,591.62
YTD KLCI chg	-2.2%
YTD stock price chg	-44.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KRI MK Equity
Market Cap (RM m)	6,226.0
Shares Outstanding	2,551.6
52-week range (H)	7.98
52-week range (L)	2.20
3-mth avg daily vol:	6,085,318
Free Float	40%
Beta	0.9

Major Shareholders

Kossan Holdings SdnBhd	47.1%
Employees Provident Fund	8.5%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	3653.5	6976.4	3136.0
PBT	1444.6	3972.8	683.3
Net Profit (NP)	1087.1	3104.9	521.4
Consensus (NP)	-	3146	804
Earnings Revision	-	-8%	-
Core EPS (sen)	40.5	121.4	20.4
Core EPS growth (%)	361.2	199.5	(83.2)
NDPS (sen)	14.0	40.0	6.0
BVPS (RM)	0.93	1.75	1.89
Core PER (x)	6.0	2.0	12.0
Price/BV (x)	2.6	1.4	1.3
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	5.7	16.4	2.5



22 October 2021

Result Highlight								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Dec (RM m)	FY21	FY21	Chg %	FY20	Chg %	FY20	FY21	Chg %
Turnover	1,302.8	2,238.0	(41.8)	1,033.3	26.1	2,346.5	5,732.9	144.3
EBITDA	712.3	1,432.8	(50.3)	464.8	53.3	764.2	3,548.3	364.3
PBT	696.8	1,403.7	(50.4)	436.4	59.7	679.8	3,474.1	411.1
PATAMI (NP)	528.2	1,064.8	(50.4)	348.7	51.5	544.6	2,634.9	383.8
Core PATAMI [^]	528.2	1,089.8 [^]	(51.5)	348.7	51.5	544.6	2,709.8 [^]	397.2
EPS (sen)	20.7	41.6	(50.3)	13.6	51.7	21.3	103.1	384.0
EBITDA margin (%)	54.7	64.0		45.0		32.6	61.9	
PBT margin (%)	53.5	62.7		42.2		29.0	60.6	
NP margin (%)	40.5	47.6		33.7		23.2	46.0	
Effective tax rate (%)	24.1	24.1		19.5		19.3	24.1	

Source: Kenanga Research, Bursa Malaysia
^{*}excluding one-off contribution towards COVID-19 vaccination (RM50m)
[^]excluding one-off balance workers remediation fees (RM25m)

Quarterly segmental breakdown							
	1Q21	2Q21	3Q21	Chg % q-o-q	9M FY20	9M FY21	Chg % y-o-y
Revenue (RM m)							
Gloves division	2,092.9	2,124.7	1,217.6	(42.7)	2,125.4	5,435.3	155.7
Technical rubber products (TRP) division	41.5	50.4	36.5	(27.6)	110.0	128.4	16.8
Cleanroom products division	56.3	61.2	46.4	(24.2)	110.4	163.9	48.5
Investment Holding	1.3	1.8	2.3	27.5	0.8	5.4	599.7
Total	2,192.1	2,238.0	1,302.8	(41.8)	2,346.5	5,732.9	144.3
Pre-tax profit (RM m)							
Gloves division	1,354.7	1,384.3	689.0	(50.2)	644.4	3,428.0	432.0
Technical rubber products (TRP) division	8.9	6.9	3.7	(46.4)	14.7	19.5	32.6
Cleanroom products division	11.5	13.7	5.2	(61.5)	20.6	30.4	47.6
Investment Holding	(1.6)	(1.1)	(1.2)	5.7	0.0	(3.9)	NM
Total	1,373.5	1,403.7	696.8	(50.4)	679.8	3,474.1	411.1
Pre-tax profit margin (%)							
Gloves division	65	65	57		30	63	
Technical rubber products division	22	14	10		13	15	
Cleanroom products division	20	22	11		19	19	

Source: Kenanga Research, Bursa Malaysia

22 October 2021

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 DivYld (%)	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	6.14	20,983	Y	03/2022	45%	-43%	35%	-69%	7.2	5.4	17.2	4.2	3.2	68%	11%	8.85	OP
KOSSAN RUBBER INDUSTRIES	2.44	6,226	Y	12/2021	91%	-55%	187%	-83%	6.0	2.0	12.0	2.6	1.4	91%	16%	2.45	MP
SUPERMAX CORP BHD	2.05	5,366	Y	06/2022	-42%	-24%	-72%	-50%	1.5	5.3	10.5	1.2	1.0	21%	6%	2.15	MP
TOP GLOVE CORP BHD	2.73	21,859	Y	08/2022	-34%	-2%	-74%	-15%	2.8	10.8	12.7	3.7	3.4	33%	5%	3.60	OP

Source: Bloomberg, Kenanga Research

The rest of the page is intentionally left blank

22 October 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my