

01 December 2021

Mah Sing Group Berhad

9MFY21 Below Expectations

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9MFY21 CNP of RM93m is below expectations due to earnings shortfall from its new gloves division on weaker-than-expected volumes and ASPs. Meanwhile, 9MFY21 sales of RM1.28b were inline. Cut earnings by 22%/32% after completely removing glove contributions from our forecast given the severe price competition ahead which could be challenging for a new comer. Maintain MP with lower TP of RM0.75 based on 0.51x group PBV (from RM0.85).

Below expectations. 3QFY21 CNP of RM40m led 9MFY21 CNP to RM93m – below our/consensus expectations at 68%/62% of full-year forecast. The negative deviation came mainly from weaker-than-expected contributions from its maiden glove division due to shortfall in volumes and ASPs. Our channel checks reveal that ASPs are now hovering at USD30/1,000 pieces (for Nov/Dec delivery) versus our FY21-22E ASP assumption of USD45-35 per 1,000 pieces. No dividends as expected.

Sales in line. Meanwhile, 3QFY21 sales of RM479m led 9MFY21 sales to RM1.28b – in line with our/management's target of RM1.6b. These sales were backed by launches worth RM1.18b in 9MFY21 and management targets another c.RM0.4b launches for 4QFY21.

Highlights. 3QFY21 CNP of RM40.2m improved 202% QoQ, mainly due to the absence of RM27.1m perpetual securities distribution payable every 2Q and 4Q. Ignoring this distribution for comparison purposes, earnings would actually come in flat despite revenue decreasing 17% due to better margins at its property arm as there were cost savings upon account finalisation for project completed recently. Meanwhile, we note that revenue contribution from gloves¹ remains insignificant during the quarter (2QFY21 glove revenue was <RM8m). In fact, its gloves division had incurred a loss due to the lack of economies of scale. YoY, 9MFY21 CNP leapt 1.5x on higher revenue (+15%) as 9MFY20 was bogged down by a more stringent MCO 1.0.

New land in Batu Caves. Alongside the results, Mahsing announced an 8.09ac leasehold land acquisition at Batu Caves for RM95m, earmarked for a RM790m GDV high-rise project (2,100 units) – implying an attractive land/GDV ratio of 12% (typically 15%). This is Mahsing's third land acquisition of the year.

Gloves venture not living up to potential. Based on four working lines as of end-June, potential glove production/month (assuming they are efficient) is at 100m pieces/month. Consequently, this brings total potential glove production in 3QFY21 to 150m pieces (assuming 1.5 months' lockdown during the quarter). However, our analysis² indicate that Mahsing has at most only sold 62.5m pieces during the quarter – a far cry from the potential 150m pieces. **This discrepancy indicates either (i) a lack of demand or (ii) inability to produce efficiently due to teething issues.** Note, Mahsing's maiden line was commissioned in May 2021.

Given the non-existent glove contributions currently coupled with a challenging outlook ahead which could stymie future profitability of this new segment, **we have completely remove glove earnings from our estimates. Hence, FY21-22E earnings are reduced by 22-32%.** Note, the glove division was projected to contribute RM33m-58m in FY21-22 previously.

With the removal of gloves earnings, we revert valuations back to PBV from SoP. Consequently, TP is lowered to RM0.75 (from RM0.85) based on FY22E PBV of 0.51x (-0.5SD from mean). MP maintained. The 0.51x PBV valuation is within the 0.3-0.7x PBV targeted range ascribed to developers under our coverage.

MARKET PERFORM ↔

Price : RM0.740
Target Price : RM0.750 ↓

Share Price Performance



KLCI 1,513.98
YTD KLCI chg -7.0%
YTD stock price chg -14.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MSGB MK EQUITY
Market Cap (RM m)	1,796.5
Shares Outstanding	2,427.7
52-week range (H)	1.11
52-week range (L)	0.67
3-mth avg. daily vol:	4,657,566
Free Float	51%
Beta	1.4

Major Shareholders

MayangTerataiSdnBhd	26.9%
AmanahSahamNasional	12.2%
MayangTeratai Limited	7.4%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1,531	1,662	2,044
EBIT	164	268	299
PBT	154	211	242
Net Profit (NP)	27	107	127
Core NP (CNP)	63	107	127
Consensus (CNP)	n.a.	149	211
Earnings Revision	n.a.	-22%	-32%
FD EPS (sen)	1.4	3.8	4.5
FD EPS growth (%)	-65%	165%	19%
NDPS (sen)	1.7	3.0	3.0
BV/Share (RM)	1.42	1.43	1.45
FD PER (x)	51.7	19.5	16.4
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.1	0.0	-0.1
Dividend Yield (%)	0.7%	4.1%	4.1%

* CNP : Defined as core net profit to attributable to ordinary shareholders i.e. net of hybrid capital financing costs (e.g. Perpetual bonds) but note that our CNP excludes one-offs and non-cash adjustments.

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Foot notes:

¹Starting 3Q21, glove division is bundled together with its plastic division and the entire profit segmentation has changed from "plastic" previously to "manufacturing".

²Based on our analysis (since no breakdown was given for its gloves segment), we deduce that revenue contribution from its glove division is at most RM10m for 3Q. Assuming ASP of USD40/1,000 pieces, this implies a tentative sale quantum of 62.5m pieces of glove.

Result Highlight								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue	364.6	438.7	-17%	388.2	-6%	1216.6	1058.0	15%
Cogs	-254.7	-322.1	-21%	-299.7	-15%	-874.2	-796.8	10%
Gross Profit	109.8	116.6	-6%	88.5	24%	342.4	261.1	31%
Other Income	5.2	4.9	8%	8.6	-39%	15.9	14.8	7%
SGA	-53.2	-53.0	0%	-52.0	2%	-160.7	-159.7	1%
Operating Profit	61.9	68.4	-10%	45.2	37%	197.5	116.2	70%
Net Finance income/(costs)	-9.7	-10.4	-6%	-4.7	105%	-31.2	-10.2	207%
PBT	52.2	58.0	-10%	40.5	29%	166.4	106.0	57%
Tax	-12.0	-13.7	-13%	-13.8	-13%	-38.0	-32.5	17%
PAT	40.2	44.3	-9%	26.6	51%	128.4	73.6	75%
MI	0.0	3.9	-99%	-0.4	n.a.	7.6	1.3	480%
Perps	0.0	-27.1	n.a.	0.0	n.a.	-27.1	-45.6	-41%
PATAMI	40.2	13.3	202%	27.0	49%	93.7	26.6	252%
Exceptionals	0.0	0.0	n.a.	3.8	-100%	0.8	-10.7	n.a.
CNP	40.2	13.3	202%	23.2	73%	93.0	37.4	149%
DPS	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
GP margin	30%	27%		23%		28%	25%	
OP margin	17%	16%		12%		16%	11%	
PBT margin	14%	13%		10%		14%	10%	
CNP margin	11%	3%		7%		8%	3%	
Effective tax	-23%	-24%		-34%		-23%	-31%	

Source: Kenanga Research

Segmental Breakdown								
External Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Property	265.7	341.1	-22%	301.1	-12%	917.9	811.9	13%
Manufacturing (previously Plastic)*	90.2	86.7	4%	72.3	25%	268.1	204.7	31%
Hotel	3.2	2.7	18%	4.5	-29%	7.8	9.9	-21%
Investment & Others	5.4	8.1	-33%	10.3	-47%	22.7	31.5	-28%
Total	364.6	438.7	-17%	388.2	-6%	1216.6	1058.0	15%
Operating Profit								
Property	65.6	62.6	5%	32.6	102%	189.2	107.6	76%
Manufacturing (previously Plastic)*	-12.3	6.9	-280%	9.3	-233%	-0.4	8.4	-104%
Hotel	0.7	0.1	889%	-0.1	n.a.	0.6	-13.2	n.a.
Investment & Others	7.9	-1.1	n.a.	3.4	129%	8.1	13.5	-40%
Total	61.9	68.4	-10%	45.2	37%	197.5	116.2	70%
OP Margins								
Property	25%	18%		11%		21%	13%	
Manufacturing (previously Plastic)*	-14%	8%		13%		0%	4%	
Hotel	23%	3%		-2%		8%	-133%	
Investment & Others	145%	-14%		33%		36%	43%	
Total	17%	16%		12%		16%	11%	

*Changed from Plastic to Manufacturing from 3QFY21 onwards after bundling in gloves division.

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net DivYld (%) 1-Yr. Fwd.	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.840	2,473.3	Y	10/2021	10.5	10.5	9.3	0.5	0.5	3.7%	2.5%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.12	6,166.9	Y	06/2022	9.8	9.7	8.7	0.3	0.3	3.4%	2.5%	1.32	OP	
MAH SING GROUP BHD	0.740	1,796.5	Y	12/2021	52.9	19.5	16.4	0.5	0.5	3.1%	4.1%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.340	1,519.0	Y	12/2021	N.A.	N.A.	56.7	0.3	0.3	-1.6%	2.9%	0.345	MP	
SIME DARBY PROPERTY BHD	0.635	4,318.5	Y	12/2021	30.2	27.6	12.5	0.5	0.5	1.7%	2.0%	0.735	MP	
SP SETIA BHD	1.28	5,207.0	Y	12/2021	142.2	41.3	10.2	0.4	0.4	0.9%	3.0%	1.19	UP	
SUNWAY BHD	1.69	8,262.5	Y	12/2021	27.3	34.5	20.8	0.9	0.9	3.0%	1.2%	2.05	OP	
UEM SUNRISE BHD	0.310	1,568.1	Y	12/2021	N.A.	N.A.	29.8	0.2	0.2	-0.9%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.65	3,838.7	Y	12/2021	11.0	11.8	11.0	0.6	0.6	3.0%	7.9%	1.76	MP	
Simple Average					40.6	22.1	19.5	0.5	0.5	1.8%	2.9%			

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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Published and printed by:

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