

# Kotra Industries

## A Solid 9MFY23 Performance

By Raymond Choo Ping Khoo | [pkchoo@kenanga.com.my](mailto:pkchoo@kenanga.com.my)

KOTRA's 9MFY23 results beat expectations as consumers took precautionary steps amidst rising cases of the common flu and influenza-like illnesses by stocking up health supplements. We raise our FY23F net profit by 9% but keep our FY24F numbers. We maintain our TP at RM7.00 (based on FY24F earnings) and reiterate our **OUTPERFORM** call.

9MFY23 net profit of RM52m exceeded expectations, coming in at 83% and 78% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from strong sales as consumers stocked up health supplements. No dividend was declared in this quarter which came in within our expectation.

**YoY**, 9MFY23 revenue rose 17%, we believe, driven by an increase in demand for health supplement products as consumers take precautionary steps amidst rising cases of the common flu and influenza-like illnesses (following increased contacts within the population after the lifting of pandemic restrictions). EBITDA only rose by 10% on increased advertising and promotional expenses to widen its brand awareness.

**QoQ**, 3QFY23 revenue fell 5%. We are unperturbed and regard this as nothing more than a normal quarterly fluctuation and take comfort that 3QFY23 revenue rose 8% YoY. 3QFY23 net profit rose 6% due to lower advertising and promotional expenses.

**Outlook.** Looking ahead, earnings are expected to be driven by: (i) the growing trend for the consumption of health supplements for better defence against communicable diseases, (ii) its sustainable EBITDA margin of 34%-35% due to economies of scale and better overhead absorption rate thanks to incremental sales, (iii) an effective tax rate of 8% and 10% in FY23 and FY24, respectively, below the statutory rate due to unabsorbed business losses and unutilised reinvestment allowances.

An expanding domestic over-the-counter (OTC) market going forward augurs well for KOTRA since its OTC segment makes up more than half of revenue, i.e. 53% of FY22 revenue. The out-of-pocket healthcare spending in Malaysia to private pharmacies (KOTRA's OTC products accounts for 50% of its FY22 revenue) has grown at a 10-year CAGR of 11%. We expect KOTRA to capitalise on rising out-of-pocket health expenditure spend on pharmacies.

**Forecasts.** We raise our FY23F net profit by 9% as we raise our sales volume growth assumptions from 16% to 19% and effective tax rate of 4% instead of 10%. However, we keep our FY24F earning unchanged. Our TP remains unchanged at RM7.00 based on 15x FY24F EPS, in line with its peers' average. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

We continue to like KOTRA for: (i) the bright prospects of the OTC drug market, (ii) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (iii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing) with established household brands such as *Appeton*. Maintain **OUTPERFORM**.

**Key risks to our recommendation:** (i) failure in clinical trials could scupper new-product break-through, leading to the inability to recover cost incurred for the pre-clinical and clinical trials, (ii) its dependency on commercialisation of new products and slower-than-expected commercial operation of the new lab to generate new revenue stream in the future.

## OUTPERFORM ↔

**Price:** RM5.60  
**Target Price:** RM7.00 ↔

### Share Price Performance



KLCI	1,402.98
YTD KLCI chg	-6.2%
YTD stock price chg	-15.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KTRI MK
Market Cap (RM m)	829.0
Shares Outstanding	148.0
52-week range (H)	6.97
52-week range (L)	3.82
3-mth avg daily vol:	14,801
Free Float	19%
Beta	1.0

### Major Shareholders

Piong Nam Kim	43.7%
Piong Teck Onn	11.0%
Piong Teck Yen	5.6%

### Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	207.9	246.6	264.5
EBITDA	71.8	83.8	89.9
PBT	58.3	71.9	76.8
Net Profit	62.1	69.0	69.1
Core Net Profit	62.1	69.0	69.1
Consensus (NP)	-	67	67
Earnings Revision	-	+9%	-
EPS (sen)	42.0	46.6	46.7
EPS growth (%)	(153.9)	11.1	0.2
NDPS (sen)	25.5	19.0	19.0
PER (x)	13.3	12.0	12.0
PBV (x)	3.4	2.6	2.2
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	4.6	3.4	3.4

28 May 2023

## Result Highlight

<b>FY Jun (RM m)</b>	<b>3Q FY23</b>	<b>2Q FY23</b>	<b>QoQ Chg%</b>	<b>3Q FY22</b>	<b>YoY Chg %</b>	<b>9M FY22</b>	<b>9M FY23</b>	<b>YoY Chg %</b>
Turnover	59.4	62.3	(4.6)	55.2	7.5	159.2	186.4	17.1
EBITDA	20.6	19.7	4.7	20.8	(1.1)	56.3	61.9	9.9
PBT	17.7	16.6	6.8	17.1	3.4	45.9	52.6	14.5
Net Profit (NP)	17.5	16.4	6.6	17.0	2.7	45.9	52.1	13.7
EPS (sen)	11.8	11.1	6.6	11.5	2.7	31.0	35.2	13.7
EBITDA margin (%)	34.7	31.6		37.7		35.4	33.2	
PBT margin (%)	29.8	26.6		30.9		28.9	28.2	
Effective tax rate (%)	1.1	0.9		0.3		0.1	0.8	

Source: Bursa Malaysia, Kenanga Research

28 May 2023

## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
HEALTHCARE																	
IHH HEALTHCARE BHD	OP	5.85	7.00	19.66%	51,521.0	Y	12/2023	18.8	20.7	19.7%	9.8%	31.1	28.3	1.9	6.2%	7.0	1.2%
KOTRA INDUSTRIES BHD	OP	5.60	7.00	25.00%	829.0	Y	06/2023	46.6	46.7	11.1%	0.1%	12.0	12.0	2.6	24.8%	19.0	3.4%
KPJ HEALTHCARE BHD	OP	1.13	1.50	32.74%	5,115.0	Y	12/2023	4.7	5.3	21.6%	13.0%	24.0	21.3	2.2	9.2%	3.0	2.7%
MALAYSIAN GENOMICS RESOURCE CENTRE BHD	OP	0.500	0.800	60.00%	130.0	Y	06/2023	1.3	4.7	-75.0%	255.6%	37.6	10.6	1.4	4.3%	0.0	0.0%
NOVA WELLNESS GROUP BHD	OP	0.760	0.960	26.32%	242.0	Y	06/2023	4.7	6.4	-10.8%	37.8%	16.3	11.8	2.2	14.1%	3.0	3.9%

Source: Bloomberg, Kenanga Research

## STOCK ESG RATINGS

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	☆		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	☆		
	Energy Efficiency	★	★	★		
	Education & Training	★	★	★	☆	
	Talent Management	★	★	★	☆	
OVERALL		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

28 May 2023

**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 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](http://www.kenanga.com.my) Email: [research@kenanga.com.my](mailto:research@kenanga.com.my)