

16 November 2023

# Kossan Rubber Industries

## Improved Outlook But Valuations Lofty

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

**KOSSAN's 9MFY23 results beat expectations with a surprise profit in 3QFY23 thanks largely to lower input costs. We now project a RM44m net profit in FY23 (from a RM76m loss), raise our FY24F earnings by 3x from a low base and lift our TP by 5% to RM1.34 (from RM1.28). Nonetheless, its valuations are lofty despite the improved outlook. Downgrade to UNDERPERFORM from MARKET PERFORM.**

KOSSAN's 9MFY23 results beat expectations with a small profit of RM13m vs. our full-year net loss forecast of RM76m and a full-year consensus net loss of RM66m. The variance against our forecast came largely from lower-than-expected input costs.

**QoQ**, its 3QFY23 revenue rose 4% due to higher volume sales (+10%) which more than offset a lower ASP (-5%). Its EBITDA rose >100% albeit from a low base effect in 2QFY23 and also due to, we believe, (i) lower natural gas price (-8%) and input raw material prices (-15%) and (ii) marginally improved utilisation rate. As a result, its 3QFY23 returned to the black registering a net profit of RM41m compared to a loss of RM3.3m in 2QFY23. No dividend was declared in this quarter as expected. **YoY**, 9MFY23 revenue dropped 35% due to lower ASP (-23%) and volume sales (-25%). This brings 9MFY23 net profit to RM13m compared to a profit of RM159m in 9MFY22.

**Outlook.** We expect the operating environment to continue to remain challenging as the sector continues to grapple with subdued ASP and low plant utilisation amidst intense competition, especially from Chinese producers. The ASP is expected to come under pressure in the next two quarters following lower natural gas prices, as competition will compel glove players to eventually pass on the cost savings to customers. Moreover, we gathered the industry expect volatile quarterly sales order as distributors or buyers sees no urgency to place sizeable orders or hold substantial stocks as supply is plentiful and readily available.

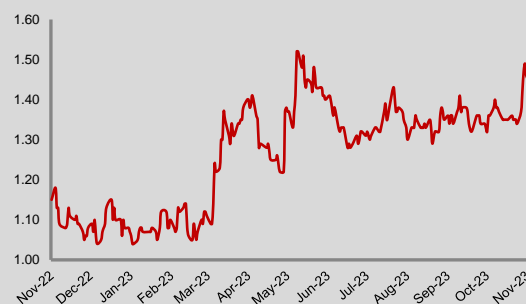
We expect the operating environment to remain challenging in subsequent quarters, plagued by massive oversupply. Nevertheless, we expect the oversupply situation to be less acute and gradually improve following signs of players culling production capacity via decommissioning of selective plants. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in 2025 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness. MARGMA projects 12%–15% growth in the global demand for rubber gloves annually from 2023, following an estimated 19% contraction to 399b pieces in 2022. It believes the supply-demand equilibrium may return in 6–9 months. However, we beg to differ, expecting the overcapacity situation to persist at least over the next 12 months. We project the demand for gloves to rise by 15% in 2023, which is consistent with MARGMA's forecast. This will result in an excess capacity of 112b pieces (instead which is similar to CY22). Despite the improvement, the overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in 2023.

**UNDERPERFORM** ↓

Price: **RM1.48**

Target Price: **RM1.34** ↑

### Share Price Performance



KLCI	1,466.84
YTD KLCI chg	-1.9%
YTD stock price chg	34.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KRI MK
Market Cap (RM m)	3,776.4
Shares Outstanding	2,551.6
52-week range (H)	1.62
52-week range (L)	1.02
3-mthavg daily vol:	2,229,865
Free Float	45%
Beta	0.5

### Major Shareholders

Kossan Holdings SdnBhd	35.0%
Abrdn Plc	5.9%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2316.2	1519.9	1711.7
PBT/(LBT)	213.0	58.9	118.5
<b>Net Profit / (Loss)</b>	156.7	43.6	89.3
<b>Core Net Profit / (Loss)</b>	151.3	43.6	89.3
Consensus (NP)	-	-66	85
Earnings Revision	-	+>100%	+>100%
Core EPS (sen)	6.1	1.7	3.5
Core EPS growth (%)	(94.6)	(72.2)	104.7
NDPS (sen)	2.5	-	1.0
BVPS (RM)	1.52	1.54	1.57
Core PER (x)	24.2	86.8	42.4
Price/BV (x)	1.0	1.0	0.9
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.7	-	0.7



16 November 2023

**Forecasts.** We now project a net profit of RM44m in FY23 (previously net loss of RM76m) as we assume a higher EBITDA margin of 11% (previously 1%) due to lower-than-expected input raw material and natural gas prices. We raise our FY24F net profit by 3x as we lift our EBITDA margin assumption to 14% (from 9%).

We raise our TP by 5% to RM1.34 (previously RM1.28) due to a higher FY24FBVPS projection. Our valuation basis remains unchanged at 0.9x FY24F BVPS, at 60% discount to the sector's average of 1.7x charted during previous downturns in 2008–2011 and 2014–2015. Our TP reflects a 5% discount to account for a 2-star ESG rating as appraised by us (see Page 4).

At 42-87x forward PER and forward ROE of only 1-2%, its valuations are lofty despite the improved outlook. Its valuations may become even more mind boggling assuming a knee-jerk reaction to the upside following this set of encouraging results. Downgrade to **UNDERPERFORM** from **MARKET PERFORM**.

**Key risks to our recommendation** are: (i) Certain Chinese glove giants stop predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), leading to a strong earnings rebound for the sector, (ii) stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, (iii) industry consolidation reducing competition among players, and (iv) epidemic and pandemic occurrences.

### Results Highlights

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Dec (RM m)	FY23	FY23	Chg %	FY22	Chg %	FY22	FY23	Chg %
Turnover	403.5	387.5	4.1	560.5	(28.0)	1,834.8	1,185.7	(35.4)
EBITDA	68.6	21.6	217.7	52.0	31.8	292.2	94.7	(67.6)
PBT	49.0	2.5	1,835.1	27.8	76.1	211.9	32.4	(84.7)
PATAMI (NP)	41.0	(3.3)	NM	23.3	76.1	159.3	13.4	(91.6)
EPS (sen)	1.2	(0.1)	NM	0.9	27.5	6.2	0.5	(92.0)
EBITDA margin (%)	17.0	5.6		9.3		15.9	8.0	
PBT margin (%)	12.1	0.7		5.0		11.5	2.7	
NP margin (%)	10.2	(0.9)		4.1		8.7	1.1	
Effective tax rate (%)	14.6	NM		11.3		23.7	52.0	

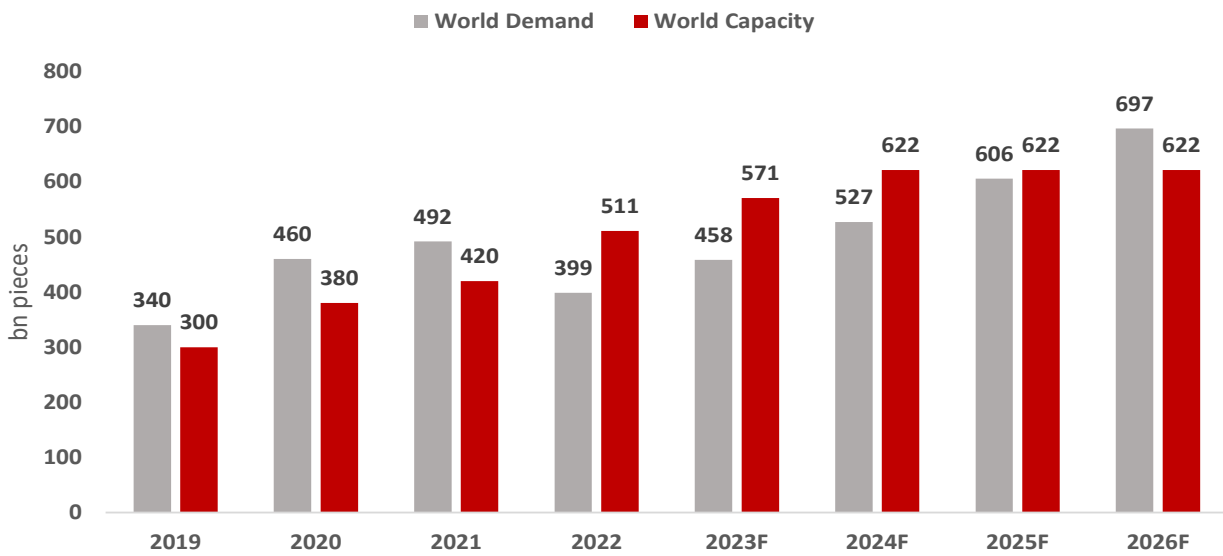
Source: Kenanga Research, Bursa Malaysia

### Quarterly Segmental Breakdown

	2Q23	3Q23	Chg %	9M	9M	Chg %
			Q-o-Q	FY22	FY23	Y-o-Y
Revenue (RM m)						
Gloves division	315.9	321.2	1.7	1,591.2	954.6	(40.0)
Technical rubber products (TRP) division	47.8	56.3	17.8	152.6	160.3	5.1
Cleanroom products division	23.9	25.9	8.7	91.0	70.8	(22.2)
Total	387.5	403.5	4.1	1,834.8	1,185.7	(35.4)
Pre-tax profit (RM m)						
Gloves division	(12.1)	31.2	NM	165.4	(15.8)	(109.5)
Technical rubber products (TRP) division	8.6	11.0	27.9	14.7	27.5	86.7
Cleanroom products division	2.4	2.8	18.5	7.9	6.8	(14.0)
Investment Holding	3.6	4.0	8.4	24.0	13.9	(42.0)
Total	2.5	49.0	NM	211.9	32.4	(84.7)
Pre-tax profit margin (%)						
Gloves division	(4)	10		10	(2)	
Technical rubber products division	18	19		10	17	
Cleanroom products division	10	11		9	10	

Source: Kenanga Research, Bursa Malaysia

**Global Glove Demand & Supply Pointing to Sustained Excess Supply Over CY22-24**



Source: Kenanga Research

16 November 2023

### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS / (LPS) (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.				
<b>Stocks Under Coverage</b>																	
HARTALEGA HOLDINGS BHD	MP	2.35	2.33	-1%	8,055	Y	03/2024	MP	2.35	2.33	-1%	8,055	MP	2.35	2.33	-1%	8,055
KOSSAN RUBBER INDUSTRIES	UP	1.48	1.34	-9%	3,786	Y	12/2023	UP	1.48	1.34	-9%	3,786	UP	1.48	1.34	-9%	3,786
SUPERMAX CORP BHD	MP	0.860	0.850	-1%	2,340	Y	06/2024	MP	0.860	0.850	-1%	2,340	MP	0.860	0.850	-1%	2,340
TOP GLOVE CORP BHD	MP	0.750	0.750	0%	6,156	Y	08/2024	MP	0.750	0.750	0%	6,156	MP	0.750	0.750	0%	6,156

Source: Kenanga Research

### Stock ESG Ratings:

	Criterion	Rating		
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	☆
	Community Investment	★	★	★
	Workers Safety & Wellbeing	★	★	☆
	Corporate Governance	★	★	★
	Anti-Corruption Policy	★	★	★
	Emissions Management	★	★	☆
<b>SPECIFIC</b>	Product Quality & Safety	★	★	☆
	Effluent/Waste Management	★	★	★
	Automation & Innovation	★	★	★
	Energy Efficiency	★	★	★
	Supply Chain Management	★	★	★
	Legal & Regulatory Compliance	★		
<b>OVERALL</b>		★	★	

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

16 November 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. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

---

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) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)