

29 November 2023

Kotra Industries

A Soft Patch, OTC to Drive Earnings

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KOTRA's 1QFY24 results disappointed as consumers held back purchases, having overstocked right after the economy reopening. However, we remain upbeat on KOTRA driven by a growing domestic over-the-counter (OTC) market. We cut our FY24-25F net profit forecasts by 14% and 13%, respectively, reduce our TP by 14% to RM6.03 (from RM7.00) but reiterate our OUTPERFORM call.

Its 1QFY24 net profit of RM13.7m missed expectations at only 20% of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from weaker-than-expected sales, we believe, as consumers held back purchases, having overstocked right after the economy reopening. No dividend was declared which is within our expectation.

YoY, its 1QFY24 revenue fell 18%, we believe, as consumers held back from buying as they ran down their excess supplies as mentioned above. Its net profit only declined by 25% due to a higher effective tax rate. Its EBITDA margin fell 2ppts to 31% due to lower-than-expected sales leading to poorer cost absorption.

QoQ, its 1QFY24 turnover fell 4% but its net profit rose 4% which we believe was due to the absence of advertising and promotion expenses.

Forecasts. We cut our FY24-25F net profit forecasts by 14% and 13%, as we: (i) moderate our sales volume growth assumptions from 9-11% to 4-11%, and (ii) reduced our EBITDA margin assumptions from 34-35% to 31-33%, respectively.

Consequently, we reduce our TP by 14% to RM6.03 (from 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).

Outlook. Looking ahead, KOTRA's earnings will be driven by an expanding domestic OTC market. Its OTC segment made up 53% of its FY22 revenue. The out-of-pocket healthcare spending in Malaysia at private pharmacies (KOTRA's OTC products accounts for 50% of its revenue) has grown at a 10-year CAGR of 11%. We expect KOTRA to capitalise on rising out-of-pocket health expenditure spend at pharmacies.

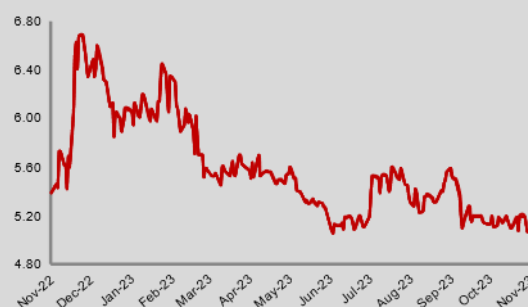
We continue to like KOTRA for: (i) the bright prospects of the OTC drug market, (ii) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (iii) the superior margins of its original brand manufacturing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

Key risks to our recommendation include: (i) failure in clinical trials could scupper new products 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: RM5.02
Target Price: RM6.03 ↓

Share Price Performance



KLCI	1,448.02
YTD KLCI chg	-3.2%
YTD stock price chg	-23.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KTRI MK
Market Cap (RM m)	744.5
Shares Outstanding	148.3
52-week range (H)	6.97
52-week range (L)	5.01
3-mth avg daily vol:	7,549
Free Float	24%
Beta	0.9

Major Shareholders

Piong Nam Kim	43.6%
Piong Teck Onn	11.0%
Piong Teck Yen	5.6%

Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	242.2	251.9	278.9
EBITDA	79.9	79.3	92.0
PBT	66.1	65.5	70.2
Net Profit	65.2	59.5	63.6
Core Net Profit	65.2	59.5	63.6
Consensus (NP)	-	67	71
Earnings Revision	-	-14%	-13%
EPS (sen)	44.1	40.2	43.0
EPS growth (%)	5.1	(8.9)	7.0
NDPS (sen)	25.5	25.5	25.5
PER (x)	11.4	12.5	11.7
PBV (x)	2.7	2.2	1.9
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	5.1	5.1	5.1

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Result Highlight					
FY Jun (RM m)	4Q FY23	1Q FY23	1Q FY24	QoQ Chg%	YoY Chg %
Turnover	55.8	64.8	53.3	(4.5)	(17.7)
EBITDA	16.3	21.6	16.3	(0.1)	(24.6)
PBT	13.5	18.4	13.9	3.0	(24.3)
Net Profit (NP)	13.1	18.2	13.7	4.4	(25.1)
EPS (sen)	8.8	12.3	9.2	4.2	(25.3)
EBITDA margin (%)	29.2	33.4	30.6		
PBT margin (%)	24.2	28.3	26.1		
Effective tax rate (%)	3.0	0.6	1.7		

Source: Bursa Malaysia, Kenanga Research

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. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	5.84	7.00	19.9%	51,433.0	Y	12/2023	17.9	20.7	13.9%	15.4%	32.6	28.3	1.9	5.9%	15.5	2.7%
KOTRA INDUSTRIES BHD	OP	5.02	6.03	20.1%	745.0	Y	06/2023	40.2	43.0	-8.7%	6.9%	12.5	11.7	2.2	19.8%	26.0	5.2%
KPJ HEALTHCARE BHD	OP	1.30	1.56	20.0%	5,885.0	Y	12/2023	5.1	5.5	32.8%	7.7%	25.3	23.5	2.5	10.1%	3.5	2.7%
NOVA WELLNESS GROUP BHD	OP	0.630	0.840	33.3%	201.0	Y	06/2023	5.6	6.4	24.5%	13.5%	11.2	9.9	1.7	15.9%	3.5	5.6%
PHARMANIAGA BHD	UP	0.400	0.300	-25.0%	576.0	Y	12/2023	2.4	3.1	-94.4%	31.9%	16.9	12.8	(2.7)	-14.8%	0.0	0.0%

Source: Company, 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	★	★	★	☆	
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

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

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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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