

Malaysia Gloves Sector

NEUTRAL

[Downgrade]

Sector facing a triple whammy

Temporary hiccup but sentiment hit

We are negatively surprised by the latest development in the glove sector where Top Glove, Hartalega and Kossan have initiated a full shutdown of their glove manufacturing facilities in Selangor due to the enforcement of the EMCO. While the impact on glove companies' earnings will be temporary, investors' sentiment on glove counters could be further hit by the latest development over the short term. We maintain Neutral on the glove sector pending further information.

Analyst

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Unexpected shut down of glove operations on EMCO

Yesterday, Top Glove, Hartalega and Kossan have initiated full shut down of their entire glove manufacturing facilities in Selangor due to the enforcement of the EMCO. The unexpected shut down of operations could be due to the stubbornly high Covid cases that linked to workplace clusters in Selangor, we reckon. The latest suspension of the glove factories in Selangor are expected to affect about 55% of Top Glove and 100% of Hartalega and Kossan's total production capacity.

A negative surprise

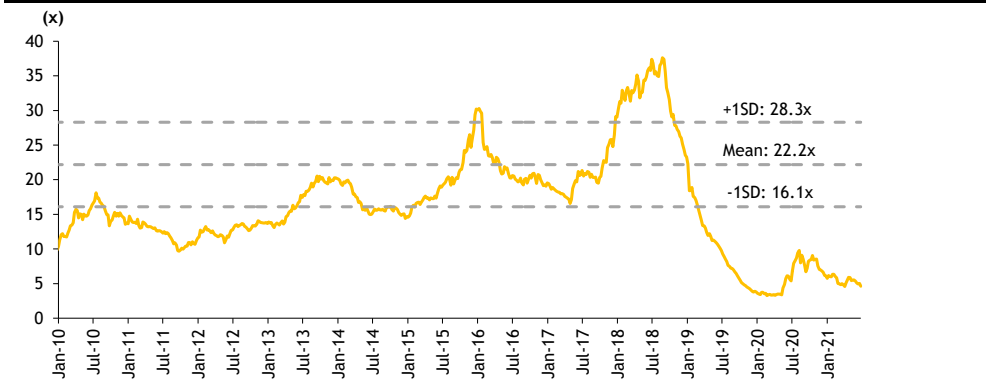
We are negatively surprised by the latest development as glove was one of the personal protective equipment (PPE) essential items and factories were allowed during MCO1.0. In our view, the temporary shutdown of glove factories will not only affect the companies' earnings but could also jeopardise their relationships with overseas buyers especially when the Malaysian glove makers are currently experiencing escalating competition from the China glove makers.

Triple whammy

Assuming a 2-week suspension of glove factories in Selangor under the EMCO, we expect our FY21 core net profit forecasts to decline by -7.4% for Top Glove and -16% for Kossan. As for Hartalega, our FY22 net profit forecast could drop by -16% on the full shut down. While impact on the glove companies' earnings are still manageable and temporary, investor sentiment towards the glove counters would have been further eroded by the latest development. The sector is currently clouded by on-going negative news such as: (i) declining ASP due to intensifying competition among the new and existing glove players; and (ii) ESG risks.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							21E	22E	21E	22E	21E	22E
Top Glove	TOPG MK	7,781	Hold	3.94	3.98	4	3.2	5.9	2.3	2.0	20.4	8.5
Hartalega	HART MK	5,823	Buy	7.06	9.80	42	10.3	5.0	6.1	3.4	5.6	11.4
Kossan Rubber	KRI MK	1,877	Hold	3.05	3.20	7	2.2	4.5	1.6	1.3	15.9	7.6

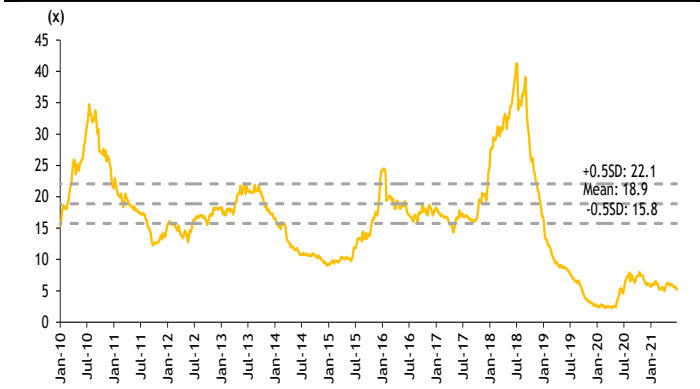
Glove sector's historical 1-year forward PER mean (2014-2018)*



*Top Glove, Hartalega, Kossan and Supermax

Source: Bloomberg, companies, Maybank Kim Eng (chart)

Top Glove: Historical 1-year forward PER mean (2014-2018; pre-Covid-19)



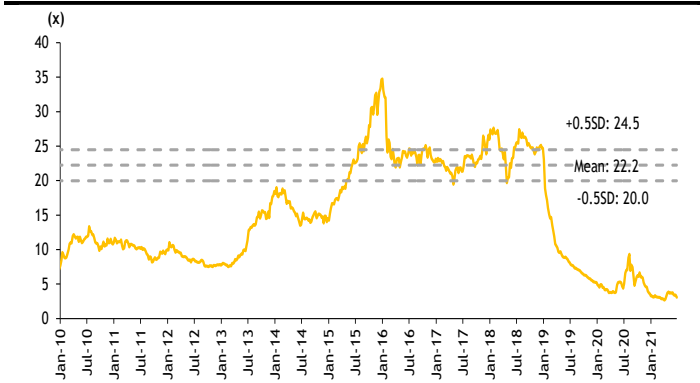
Source: Bloomberg, Company, Maybank Kim Eng (chart)

Harta: Historical 1-year forward PER mean (2014-2018; pre-Covid-19)



Source: Bloomberg, Company, Maybank Kim Eng (chart)

Kossan: Historical 1-year forward PER mean (2014-2018; pre-Covid-19)



Source: Bloomberg, Company, Maybank Kim Eng (chart)

Key risks

(i) Rising competition may hit profitability. It is forecasted that there will be a surplus in production capacity exceeding demand by 18% in 2023, followed by a 49% surplus in production capacity by 2024, according to *Vital Factor* analysis. Oversupply would lead to the decline in ASP and could potentially adversely affect glove players' profitability; (ii) fluctuation in raw material prices, (iii) disruptions on operation activities due to Covid-19, (iv) shortage of foreign workers and (v) ESG risks.

Top Glove (TOPG MK)

Production hit by EMCO

HOLD

Share Price MYR 3.94
 12m Price Target MYR 3.98 (+4%)
 Previous Price Target MYR 3.98

Manageable impact on earnings but sentiment hit

The latest suspension of Top Glove's factories in Klang on EMCO would affect about 55% of its total production capacity. A 2-week suspension could lead to -7.4% decline in our FY21 core net profit forecast, we estimate. While the impact on FY8/21 earnings remains manageable for now, investors' sentiment on glove counters could be further hurt by the latest development. We maintain our earnings forecasts and MYR3.98 TP (16x CY23 PER). Reiterate HOLD. Our preferred pick for the sector: Hartalega.

Temporary shutdown of its factories in Klang

Top Glove is temporarily halting the operations of its medical glove factories in Klang following the imposition of the EMCO in the district. The company is now awaiting clarification from the National Security Council (MKN) on the suspension. No further details are given for now (*source: The Edge Markets*).

Potential impact on FY21 earnings

Assuming a 2-week suspension of its factories in Klang, we expect our FY8/21 core net profit forecast to decline by -7.4% to MYR9.4b. As a result of the suspension of production in Klang and stricter SOP under the National Recovery Plan phase 1 as well as declining ASP, Top Glove's upcoming 4QFY8/21 results would be weaker QoQ, we reckon.

Sector facing a triple whammy

While impact on Top Glove's FY21 earnings seems manageable for a two weeks suspension, investor sentiment towards the glove counters would have been further eroded by the latest development. The sector is currently clouded by on-going negative news such as: (i) declining ASP due to intensifying competition among the new and existing glove players; and (ii) ESG risks.

Company Description

Top Glove is the world's biggest glove manufacturer with a balanced product mix in latex/nitrile examination gloves and non-examination gloves.

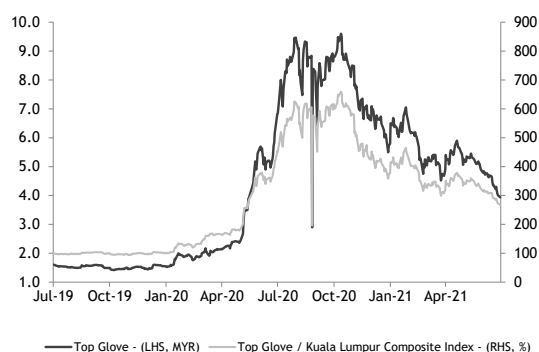
Statistics

52w high/low (MYR)	9.60/2.90
3m avg turnover (USDm)	30.1
Free float (%)	54.8
Issued shares (m)	8,207
Market capitalisation	MYR32.3B USD7.8B

Major shareholders:

LIM WEE CHAI	26.2%
Firstway United Corp.	6.8%
Employees Provident Fund	6.2%

Price Performance



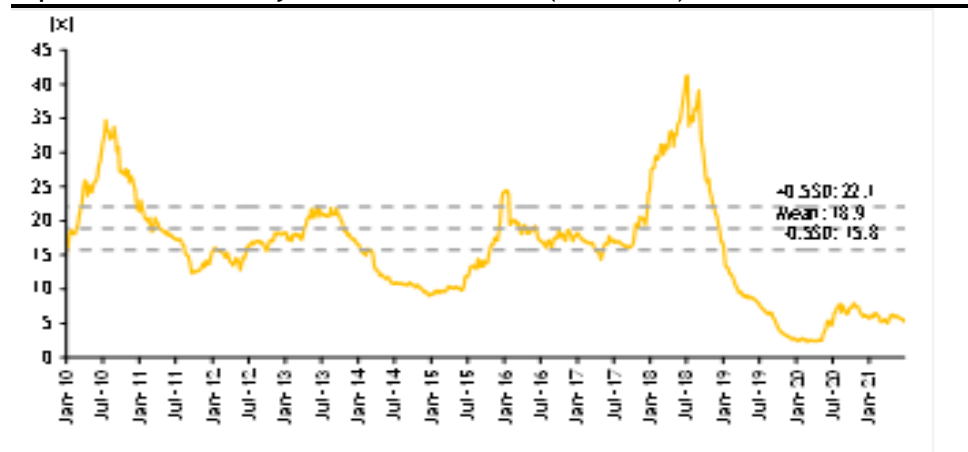
	-1M	-3M	-12M
Absolute (%)	(20)	(17)	(41)
Relative to index (%)	(17)	(15)	(39)

Source: FactSet

FYE Aug (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,801	7,236	22,549	19,933	15,938
EBITDA	690	2,568	13,781	8,108	3,354
Core net profit	365	1,867	10,152	5,888	2,193
Core EPS (sen)	4.7	23.3	123.6	66.8	24.9
Core EPS growth (%)	(16.1)	391.1	430.2	(46.0)	(62.8)
Net DPS (sen)	2.5	11.8	80.3	33.4	12.4
Core P/E (x)	33.4	37.6	3.2	5.9	15.8
P/BV (x)	4.8	11.4	2.3	2.0	1.9
Net dividend yield (%)	1.6	1.4	20.4	8.5	3.2
ROAE (%)	14.8	50.4	114.1	40.9	13.4
ROAA (%)	6.7	25.9	68.7	26.5	9.2
EV/EBITDA (x)	20.8	26.4	1.6	2.9	7.2
Net gearing (%) (incl perps)	84.9	net cash	net cash	net cash	net cash
Consensus net profit	-	-	9,079	3,766	2,024
MKE vs. Consensus (%)	-	-	11.8	56.3	8.4

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Top Glove: Historical 1-year forward PER mean (2014-2018)



Source: Bloomberg, Company, Maybank Kim Eng (chart)

Key risks

(i) Rising competition may hit profitability. It is forecasted that there will be a surplus in production capacity exceeding demand by 18% in 2023, followed by a 49% surplus in production capacity by 2024, according to *Vital Factor* analysis. Oversupply would lead to the decline in ASP and could potentially adversely affect Top Glove's profitability; (ii) fluctuation in raw material prices, (iii) disruptions on operation activities due to Covid-19, (iv) shortage of foreign workers and (v) ESG risks.

FYE 31 Aug	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	35.4	13.8	3.2	5.9	15.8
Core P/E (x)	33.4	37.6	3.2	5.9	15.8
P/BV (x)	4.8	11.4	2.3	2.0	1.9
P/NTA (x)	8.0	13.6	2.5	2.2	2.0
Net dividend yield (%)	1.6	1.4	20.4	8.5	3.2
FCF yield (%)	nm	3.5	29.7	11.1	1.0
EV/EBITDA (x)	20.8	26.4	1.6	2.9	7.2
EV/EBIT (x)	29.0	29.1	1.7	3.1	9.1
INCOME STATEMENT (MYR m)					
Revenue	4,801.1	7,236.3	22,549.5	19,932.9	15,938.2
EBITDA	690.2	2,567.5	13,781.5	8,108.4	3,354.4
Depreciation	(194.9)	(235.3)	(381.0)	(528.4)	(675.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	495.3	2,332.3	13,400.5	7,580.1	2,678.6
Net interest income / (exp)	(69.0)	(29.4)	143.0	294.2	305.4
Associates & JV	(2.7)	(1.4)	(1.4)	(1.4)	(1.4)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	423.6	2,301.4	13,542.0	7,872.8	2,982.5
Income tax	(56.0)	(397.6)	(3,250.1)	(1,889.5)	(715.8)
Minorities	(2.9)	(11.2)	(88.0)	(44.0)	(22.0)
Perpetual securities	0.0	(25.6)	(51.6)	(51.6)	(51.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	364.7	1,867.0	10,152.3	5,887.8	2,193.1
Core net profit	364.7	1,867.0	10,152.3	5,887.8	2,193.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	253.1	2,883.2	10,513.4	11,681.0	11,199.4
Accounts receivable	592.2	798.8	2,471.2	2,184.4	1,746.7
Inventory	629.9	530.7	1,235.6	1,092.2	873.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,480.0	3,010.2	5,129.2	7,100.9	8,925.1
Intangible assets	1,016.0	1,012.3	1,012.3	1,012.3	1,012.3
Investment in Associates & JVs	11.9	10.4	9.0	7.6	6.1
Other assets	705.2	460.3	460.3	460.3	460.3
Total assets	5,688.2	8,706.0	20,831.0	23,538.6	24,223.2
ST interest bearing debt	1,041.3	314.2	314.2	314.2	314.2
Accounts payable	492.4	810.8	2,526.7	2,233.5	1,785.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,379.4	226.3	226.3	226.3	226.3
Other liabilities	221.0	1,164.0	3,432.0	3,445.0	3,458.0
Total Liabilities	3,134.1	2,515.1	6,498.8	6,218.5	5,784.5
Shareholders Equity	2,537.0	4,870.8	12,924.1	15,868.0	16,964.5
Minority Interest	17.2	24.9	112.9	156.9	178.9
Total shareholder equity	2,554.1	4,895.6	13,036.9	16,024.8	17,143.4
Perpetual securities	0.0	1,295.3	1,295.3	1,295.3	1,295.3
Total liabilities and equity	5,688.2	8,706.0	20,831.0	23,538.6	24,223.2
CASH FLOW (MYR m)					
Pretax profit	423.6	2,301.4	13,542.0	7,872.8	2,982.5
Depreciation & amortisation	194.9	235.3	381.0	528.4	675.8
Adj net interest (income)/exp	69.0	29.4	(143.0)	(294.2)	(305.4)
Change in working capital	(73.3)	864.2	1,593.5	136.9	209.1
Cash taxes paid	(56.8)	(230.4)	(3,250.1)	(1,889.5)	(715.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	605.8	3,217.4	12,125.0	6,355.9	2,847.7
Capex	(624.1)	(765.2)	(2,500.0)	(2,500.0)	(2,500.0)
Free cash flow	(18.3)	2,452.2	9,625.0	3,855.9	347.7
Dividends paid	(220.1)	(374.3)	(6,599.0)	(2,943.9)	(1,096.6)
Equity raised / (purchased)	1.2	178.1	6,500.0	0.0	0.0
Perpetual securities	0.0	(25.6)	(51.6)	(51.6)	(51.6)
Change in Debt	(637.9)	(1,115.0)	0.0	0.0	0.0
Other invest/financing cash flow	(57.0)	(17.7)	155.9	307.2	319.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	7.1	1,044.6	7,630.2	1,167.6	(481.6)

FYE 31 Aug	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	13.8	50.7	211.6	(11.6)	(20.0)
EBITDA growth	0.3	272.0	436.8	(41.2)	(58.6)
EBIT growth	(8.5)	370.9	474.6	(43.4)	(64.7)
Pretax growth	(19.0)	443.3	488.4	(41.9)	(62.1)
Reported net profit growth	(15.0)	412.0	443.8	(42.0)	(62.8)
Core net profit growth	(15.0)	412.0	443.8	(42.0)	(62.8)
Profitability ratios (%)					
EBITDA margin	14.4	35.5	61.1	40.7	21.0
EBIT margin	10.3	32.2	59.4	38.0	16.8
Pretax profit margin	8.8	31.8	60.1	39.5	18.7
Payout ratio	52.7	50.7	65.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	7.6	25.8	45.0	29.5	13.8
Revenue/Assets (x)	0.8	0.8	1.1	0.8	0.7
Assets/Equity (x)	2.2	1.8	1.6	1.5	1.4
ROAE (%)	14.8	50.4	114.1	40.9	13.4
ROAA (%)	6.7	25.9	68.7	26.5	9.2
Liquidity & Efficiency					
Cash conversion cycle	55.3	29.0	(6.3)	4.9	14.9
Days receivable outstanding	47.4	34.6	26.1	42.0	44.4
Days inventory outstanding	54.6	45.2	36.5	35.6	28.2
Days payables outstanding	46.7	50.8	68.9	72.8	57.7
Dividend cover (x)	1.9	2.0	1.5	2.0	2.0
Current ratio (x)	1.1	2.0	2.3	2.6	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	3.5	3.2	3.8	4.2
Net gearing (%) (incl perps)	84.9	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	84.9	net cash	net cash	net cash	net cash
Net interest cover (x)	7.2	79.2	na	na	na
Debt/EBITDA (x)	3.5	0.2	0.0	0.1	0.2
Capex/revenue (%)	13.0	10.6	11.1	12.5	15.7
Net debt/ (net cash)	2,167.6	(2,342.7)	(9,972.9)	(11,140.4)	(10,658.9)

Source: Company; Maybank

Hartalega (HART MK)

BUY

Share Price MYR 7.06
 12m Price Target MYR 9.80 (+42%)
 Previous Price Target MYR 9.80

Temporary shutdown of its factories

Temporary hiccup but sentiment will be hit

Hartalega has initiated a full shutdown of its entire glove manufacturing facilities in Bestari Jaya and Sepang due to the enforcement of the EMCO in Selangor. If the shut down last for 2-week, we would likely see a -16% decline in our FY3/22 net profit forecast. While the impact on earnings will be temporary, investors' sentiment on glove counters could be hurt by the latest development in the short term. No change to our earnings forecasts, MYR9.80 TP (22x CY23 PER) and BUY rating for now pending further information from management.

Suspends all its manufacturing facilities in Selangor

Hartalega has initiated a full shutdown of its entire glove manufacturing facilities in Bestari Jaya and Sepang following the enforcement of the EMCO in Selangor. However, the company has not specified the timeline of the temporary closure of its manufacturing facilities in these locations (*source: The Edge Markets*).

Potential impact on FY22 earnings

Assuming a 2-week suspension of Hartalega's factories, we expect our FY3/22 net profit forecast to decline by -16% to MYR4b. As a result of the suspension of manufacturing facilities and stricter SOP under the National Recovery Plan phase 1 as well as declining ASP, Hartalega's upcoming 2QFY3/22 results would be weaker QoQ, we believe.

Sector facing a triple whammy

While the negative impact on Hartalega's FY22 earnings is temporary, investor sentiment towards the glove counters would have been further eroded by the latest development. The sector is currently clouded by ongoing negative news such as: (i) declining ASP due to intensifying competition among the new and existing glove players; and (ii) ESG risks.

Company Description

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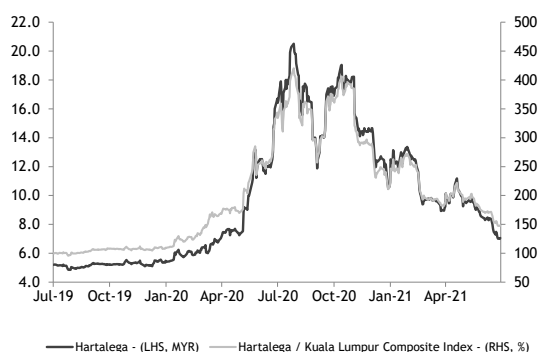
Statistics

52w high/low (MYR) 20.50/7.01
 3m avg turnover (USDm) 16.4
 Free float (%) 44.6
 Issued shares (m) 3,428
 Market capitalisation MYR24.2B
 USD5.8B

Major shareholders:

Hartalega Industries Sdn. Bhd. 34.3%
 Employees Provident Fund 7.9%
 BNP Paribas Wealth Management 2.9%

Price Performance



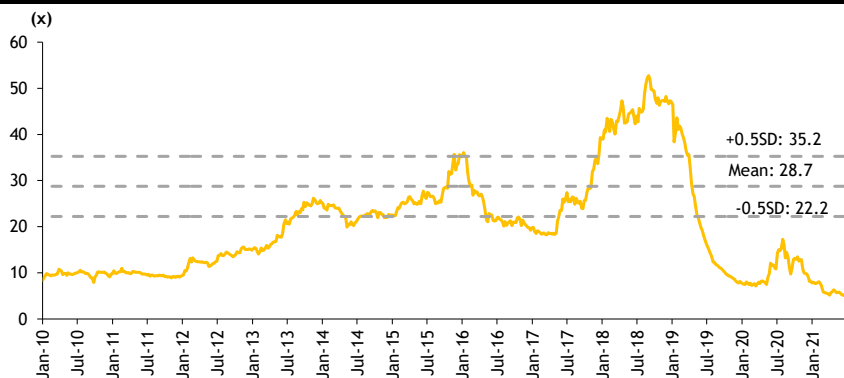
	-1M	-3M	-12M
Absolute (%)	(18)	(23)	(57)
Relative to index (%)	(15)	(20)	(56)

Source: FactSet

FYE Mar (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,924	6,696	10,698	8,357	5,960
EBITDA	724	4,065	6,477	3,868	1,588
Core net profit	435	2,975	4,786	2,840	1,081
Core FDEPS (sen)	12.9	86.6	139.4	82.7	31.5
Core FDEPS growth(%)	(5.5)	569.9	60.9	(40.7)	(61.9)
Net DPS (sen)	7.5	50.2	80.8	48.0	18.2
Core FD P/E (x)	53.2	10.3	5.1	8.5	22.4
P/BV (x)	9.1	6.1	3.4	2.9	2.8
Net dividend yield (%)	1.1	5.6	11.4	6.8	2.6
ROAE (%)	18.1	76.8	79.9	37.4	12.8
ROAA (%)	13.8	58.6	60.2	29.8	10.7
EV/EBITDA (x)	31.7	6.9	3.2	5.1	12.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	4,411	1,772	1,256
MKE vs. Consensus (%)	-	-	8.5	60.3	(14.0)

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Hartalega: Historical 1-year forward PER mean (2014-2018)



Source: Bloomberg, company, Maybank Kim Eng (chart)

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(i) Rising competition may hit profitability. It is forecasted that there will be a surplus in production capacity exceeding demand by 18% in 2023, followed by a 49% surplus in production capacity by 2024, according to *Vital Factor* analysis. Oversupply would lead to the decline in ASP and could potentially adversely affect Hartalega's profitability; (ii) fluctuation in raw material prices, (iii) disruptions on operation activities due to Covid-19, (iv) shortage of foreign workers and (v) ESG risks.

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	41.4	15.7	5.0	8.5	22.3
Core P/E (x)	52.9	10.3	5.0	8.5	22.3
Core FD P/E (x)	53.2	10.3	5.1	8.5	22.4
P/BV (x)	9.1	6.1	3.4	2.9	2.8
P/NTA (x)	9.2	6.2	3.5	3.0	2.8
Net dividend yield (%)	1.1	5.6	11.4	6.8	2.6
FCF yield (%)	2.8	10.1	15.2	11.5	4.2
EV/EBITDA (x)	31.7	6.9	3.2	5.1	12.2
EV/EBIT (x)	38.4	7.2	3.3	5.4	14.1

INCOME STATEMENT (MYR m)

Revenue	2,924.3	6,695.9	10,698.5	8,356.7	5,959.9
EBITDA	724.2	4,064.5	6,476.8	3,868.2	1,588.5
Depreciation	(125.1)	(137.4)	(164.9)	(192.4)	(219.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	599.1	3,927.1	6,311.9	3,675.7	1,368.5
Net interest income / (exp)	(7.6)	(0.9)	24.6	35.7	43.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(90.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	556.3	3,813.4	6,336.5	3,711.4	1,412.2
Income tax	(120.4)	(909.8)	(1,520.8)	(853.6)	(324.8)
Minorities	(1.1)	(18.2)	(29.4)	(17.4)	(6.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	434.8	2,885.4	4,786.4	2,840.3	1,080.8
Core net profit	434.8	2,975.4	4,786.4	2,840.3	1,080.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	305.0	2,668.7	3,505.7	4,670.0	5,113.9
Accounts receivable	503.1	1,065.5	1,702.5	1,329.8	948.4
Inventory	276.1	646.7	1,033.3	807.2	575.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,002.1	2,156.4	2,541.5	2,899.0	3,229.1
Intangible assets	28.8	32.6	32.6	32.6	32.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	202.5	262.1	262.1	262.1	262.1
Total assets	3,317.6	6,832.1	9,077.7	10,000.7	10,161.7
ST interest bearing debt	85.4	105.0	105.0	105.0	105.0
Accounts payable	276.0	1,059.3	1,351.1	1,055.4	752.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	188.6	241.7	141.7	141.7	141.7
Other liabilities	223.0	427.0	427.0	427.0	427.0
Total Liabilities	773.0	1,833.0	2,024.8	1,729.1	1,426.4
Shareholders Equity	2,541.0	4,974.8	6,999.2	8,200.6	8,657.7
Minority Interest	3.6	24.2	53.6	71.0	77.6
Total shareholder equity	2,544.6	4,999.0	7,052.8	8,271.6	8,735.3
Total liabilities and equity	3,317.6	6,832.1	9,077.7	10,000.7	10,161.7

CASH FLOW (MYR m)

Pretax profit	556.3	3,813.4	6,336.5	3,711.4	1,412.2
Depreciation & amortisation	125.1	137.4	164.9	192.4	219.9
Adj net interest (income)/exp	7.6	0.9	(24.6)	(35.7)	(43.7)
Change in working capital	(20.3)	(146.6)	(731.8)	303.1	310.2
Cash taxes paid	(72.7)	(730.8)	(1,520.8)	(853.6)	(324.8)
Other operating cash flow	59.7	13.3	0.0	0.0	0.0
Cash flow from operations	655.7	3,087.7	4,224.3	3,317.7	1,573.9
Capex	(3.1)	(2.2)	(550.0)	(550.0)	(550.0)
Free cash flow	652.6	3,085.5	3,674.3	2,767.7	1,023.9
Dividends paid	(249.0)	(604.2)	(2,762.0)	(1,639.0)	(623.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(78.1)	80.9	(100.0)	0.0	0.0
Other invest/financing cash flow	(170.9)	(204.6)	24.6	35.7	43.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	154.6	2,357.6	837.0	1,164.3	443.9

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.4	129.0	59.8	(21.9)	(28.7)
EBITDA growth	7.6	461.2	59.4	(40.3)	(58.9)
EBIT growth	5.2	555.5	60.7	(41.8)	(62.8)
Pretax growth	1.0	585.6	66.2	(41.4)	(61.9)
Reported net profit growth	(4.5)	563.6	65.9	(40.7)	(61.9)
Core net profit growth	(4.5)	584.3	60.9	(40.7)	(61.9)
Profitability ratios (%)					
EBITDA margin	24.8	60.7	60.5	46.3	26.7
EBIT margin	20.5	58.6	59.0	44.0	23.0
Pretax profit margin	19.0	57.0	59.2	44.4	23.7
Payout ratio	57.7	59.5	57.7	57.7	57.7
DuPont analysis					
Net profit margin (%)	14.9	43.1	44.7	34.0	18.1
Revenue/Assets (x)	0.9	1.0	1.2	0.8	0.6
Assets/Equity (x)	1.3	1.4	1.3	1.2	1.2
ROAE (%)	18.1	76.8	79.9	37.4	12.8
ROAA (%)	13.8	58.6	60.2	29.8	10.7
Liquidity & Efficiency					
Cash conversion cycle	60.6	15.3	14.2	41.9	50.7
Days receivable outstanding	59.2	42.2	46.6	65.3	68.8
Days inventory outstanding	45.5	60.2	74.4	76.0	59.0
Days payables outstanding	44.1	87.1	106.7	99.4	77.2
Dividend cover (x)	1.7	1.7	1.7	1.7	1.7
Current ratio (x)	2.7	3.1	3.7	4.9	6.1
Leverage & Expense Analysis					
Asset/Liability (x)	4.3	3.7	4.5	5.8	7.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	78.6	nm	na	na	na
Debt/EBITDA (x)	0.4	0.1	0.0	0.1	0.2
Capex/revenue (%)	0.1	0.0	5.1	6.6	9.2
Net debt/ (net cash)	(31.0)	(2,322.0)	(3,259.0)	(4,423.3)	(4,867.2)

Source: Company; Maybank

Kossan Rubber Industries (KRI MK)

HOLD

Share Price MYR 3.05
 12m Price Target MYR 3.20 (+7%)
 Previous Price Target MYR 3.20

Temporary stoppage of its factories on EMCO

Temporary hiccup

Kossan has implemented a temporary stoppage of its glove manufacturing facilities in Klang due to the enforcement of the EMCO in Selangor. A 2-week suspension could lead to -16% decline in our FY21 core net profit forecast, we estimate. While the impact on earnings will be temporary, investors' sentiment on glove counters could be hurt by the latest development in the short term. We maintain our earnings forecasts, MYR3.20 TP (20x CY23 PER) and HOLD rating for now pending further information from management. Our preferred pick for the sector: Hartalega.

Temporary shutdown of its factories in Klang

Kossan is temporarily halting the operations of its glove factories in Klang following the imposition of the EMCO in Selangor. However, the company has not specified the timeline of the temporary closure of its manufacturing facilities (*source: The Edge Markets*).

Potential impact on FY21 earnings

Assuming a 2-week suspension of Kossan's factories, we expect our FY21 net profit forecast to decline by -16% to MYR3b. As a result of the suspension of manufacturing facilities and stricter SOP under the National Recovery Plan phase 1 as well as declining ASP, Kossan's upcoming 3QFY21 results would be weaker QoQ, we believe.

Sector facing triple whammy

While the negative impact on Kossan's FY21 earnings is temporary, investor sentiment towards the glove counters would have been further eroded by the latest development. The sector is currently clouded by on-going negative news such as: (i) declining ASP due to intensifying competition among the new and existing glove players; and (ii) ESG risks.

Company Description

Kossan is among the world's biggest glove producers with production highly concentrated in the nitrile segment.

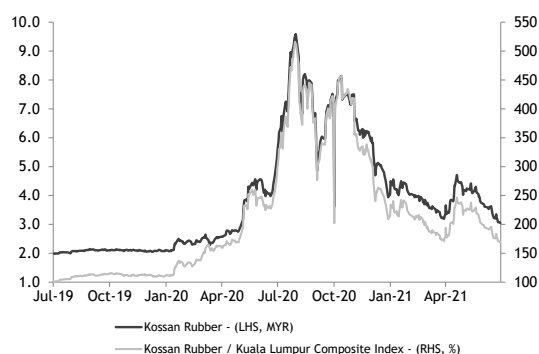
Statistics

52w high/low (MYR) 9.59/3.05
 3m avg turnover (USDm) 8.8
 Free float (%) 42.5
 Issued shares (m) 2,558
 Market capitalisation MYR7.8B
 USD1.9B

Major shareholders:

Kossan Holdings Malaysia Sdn. Bhd. 47.0%
 Employees Provident Fund 8.8%
 Public Mutual Bhd. 3.0%

Price Performance



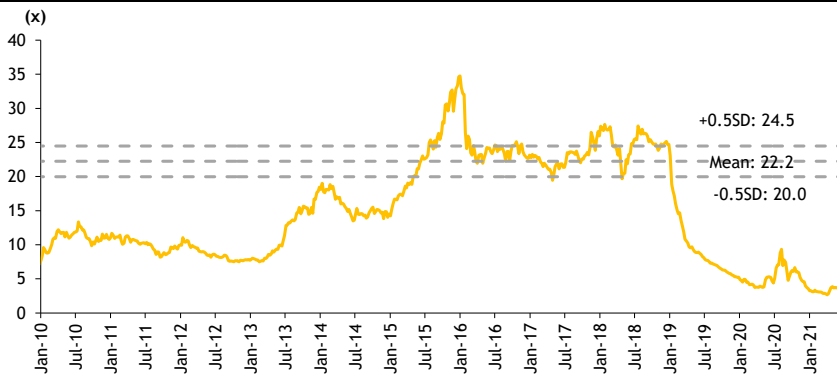
	-1M	-3M	-12M
Absolute (%)	(19)	(7)	(41)
Relative to index (%)	(16)	(4)	(40)

Source: FactSet

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,217	3,654	9,275	7,135	4,828
EBITDA	383	1,510	4,838	2,394	679
Core net profit	225	1,036	3,580	1,718	410
Core EPS (sen)	8.8	40.5	140.0	67.2	16.0
Core EPS growth (%)	12.5	361.3	245.4	(52.0)	(76.1)
Net DPS (sen)	3.0	14.0	48.4	23.2	5.5
Core P/E (x)	23.7	11.1	2.2	4.5	19.0
P/BV (x)	3.7	4.8	1.6	1.3	1.3
Net dividend yield (%)	1.4	3.1	15.9	7.6	1.8
ROAE (%)	16.4	57.0	100.6	32.5	6.8
ROAA (%)	10.0	35.0	71.2	25.1	5.7
EV/EBITDA (x)	15.0	7.3	1.3	2.1	6.5
Net gearing (%) (incl perps)	27.7	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,371	1,280	570
MKE vs. Consensus (%)	-	-	6.2	34.2	(28.1)

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Kossan: Historical 1-year forward PER mean (2014-2018)



Source: Bloomberg, Company, Maybank Kim Eng (chart)

Key risks

(i) Rising competition may hit profitability. It is forecasted that there will be a surplus in production capacity exceeding demand by 18% in 2023, followed by a 49% surplus in production capacity by 2024, according to *Vital Factor* analysis. Oversupply would lead to the decline in ASP and could potentially adversely affect Kossan's profitability; (ii) fluctuation in raw material prices, (iii) disruptions on operation activities due to Covid-19, (iv) shortage of foreign workers and (v) ESG risks.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	22.6	11.4	2.2	4.5	19.0
Core P/E (x)	23.7	11.1	2.2	4.5	19.0
P/BV (x)	3.7	4.8	1.6	1.3	1.3
P/NTA (x)	3.7	4.8	1.7	1.3	1.3
Net dividend yield (%)	1.4	3.1	15.9	7.6	1.8
FCF yield (%)	1.6	8.1	27.4	24.3	9.7
EV/EBITDA (x)	15.0	7.3	1.3	2.1	6.5
EV/EBIT (x)	20.0	7.9	1.4	2.3	8.7

INCOME STATEMENT (MYR m)

Revenue	2,217.2	3,653.5	9,275.4	7,134.8	4,827.8
EBITDA	383.4	1,510.5	4,837.6	2,394.5	679.0
Depreciation	(95.7)	(110.1)	(126.8)	(150.1)	(170.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	287.7	1,400.3	4,710.9	2,244.3	508.9
Net interest income / (exp)	(11.3)	(6.5)	6.7	23.1	37.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	50.7	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	276.4	1,444.6	4,717.6	2,267.4	546.6
Income tax	(48.5)	(352.0)	(1,132.2)	(544.2)	(131.2)
Minorities	(3.2)	(5.5)	(5.5)	(5.5)	(5.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	224.7	1,087.1	3,579.8	1,717.7	409.9
Core net profit	224.7	1,036.3	3,579.8	1,717.7	409.9

BALANCE SHEET (MYR m)

Cash & Short Term Investments	162.9	1,089.2	1,899.4	3,122.1	3,671.6
Accounts receivable	432.9	629.6	1,778.8	1,368.3	925.9
Inventory	324.5	444.0	1,270.6	977.4	661.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,398.0	1,268.3	1,391.5	1,591.4	1,721.3
Intangible assets	4.9	4.9	4.9	4.9	4.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	22.1	138.5	138.5	138.5	138.5
Total assets	2,345.4	3,574.6	6,483.8	7,202.7	7,123.6
ST interest bearing debt	392.9	447.8	347.8	247.8	147.8
Accounts payable	249.1	431.8	1,092.7	781.9	529.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	172.3	107.0	107.0	107.0	107.0
Other liabilities	77.0	174.0	174.0	174.0	174.0
Total Liabilities	891.3	1,160.2	1,721.1	1,310.3	957.4
Shareholders Equity	1,427.1	2,385.6	4,728.5	5,852.6	6,120.9
Minority Interest	27.0	28.7	34.3	39.8	45.3
Total shareholder equity	1,454.1	2,414.4	4,762.7	5,892.4	6,166.2
Total liabilities and equity	2,345.4	3,574.6	6,483.8	7,202.7	7,123.6

CASH FLOW (MYR m)

Pretax profit	276.4	1,444.6	4,717.6	2,267.4	546.6
Depreciation & amortisation	95.7	110.1	126.8	150.1	170.1
Adj net interest (income)/exp	11.3	6.5	(6.7)	(23.1)	(37.7)
Change in working capital	(13.1)	(140.7)	(1,314.9)	392.9	505.6
Cash taxes paid	(62.5)	(352.0)	(1,132.2)	(544.2)	(131.2)
Other operating cash flow	3.3	32.2	0.0	0.0	0.0
Cash flow from operations	311.1	1,100.7	2,390.5	2,243.2	1,053.5
Capex	(224.8)	(171.5)	(250.0)	(350.0)	(300.0)
Free cash flow	86.3	929.1	2,140.5	1,893.2	753.5
Dividends paid	(115.2)	(115.4)	(1,237.0)	(593.5)	(141.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	58.4	(10.5)	(100.0)	(100.0)	(100.0)
Other invest/financing cash flow	(12.9)	137.5	6.7	23.1	37.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	16.6	926.9	810.2	1,222.7	549.5

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.6	64.8	153.9	(23.1)	(32.3)
EBITDA growth	12.4	293.9	220.3	(50.5)	(71.6)
EBIT growth	8.8	386.8	236.4	(52.4)	(77.3)
Pretax growth	10.9	422.7	226.6	(51.9)	(75.9)
Reported net profit growth	12.5	383.9	229.3	(52.0)	(76.1)
Core net profit growth	12.5	361.3	245.4	(52.0)	(76.1)
Profitability ratios (%)					
EBITDA margin	17.3	41.3	52.2	33.6	14.1
EBIT margin	13.0	38.3	50.8	31.5	10.5
Pretax profit margin	12.5	39.5	50.9	31.8	11.3
Payout ratio	34.2	32.9	34.6	34.6	34.6
DuPont analysis					
Net profit margin (%)	10.1	29.8	38.6	24.1	8.5
Revenue/Assets (x)	0.9	1.0	1.4	1.0	0.7
Assets/Equity (x)	1.6	1.5	1.4	1.2	1.2
ROAE (%)	16.4	57.0	100.6	32.5	6.8
ROAA (%)	10.0	35.0	71.2	25.1	5.7
Liquidity & Efficiency					
Cash conversion cycle	82.6	59.3	54.7	93.9	100.1
Days receivable outstanding	70.6	52.3	46.7	79.4	85.5
Days inventory outstanding	58.4	60.6	71.7	87.5	72.8
Days payables outstanding	46.4	53.7	63.7	73.0	58.2
Dividend cover (x)	2.9	3.0	2.9	2.9	2.9
Current ratio (x)	1.5	2.4	3.4	5.1	7.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	3.1	3.8	5.5	7.4
Net gearing (%) (incl perps)	27.7	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	27.7	net cash	net cash	net cash	net cash
Net interest cover (x)	25.4	nm	na	na	na
Debt/EBITDA (x)	1.5	0.4	0.1	0.1	0.4
Capex/revenue (%)	10.1	4.7	2.7	4.9	6.2
Net debt/ (net cash)	402.3	(534.4)	(1,444.6)	(2,767.4)	(3,416.9)

Source: Company; Maybank

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