

Kossan Rubber Industries (KRI MK)

Expect a stronger 4Q24

Below expectations; 8sen interim & special DPS

KRI's 3Q24 core net profit of MYR22m (-62% YoY, -19% QoQ) was below our and consensus estimates. We, however, expect stronger earnings in 4Q24 due to increased sales volume and better ASP as well as stabilising USD/MYR rate. We lower FY24/25/26E earnings by 4-9%. Our new TP is MYR2.49 (-8sen; on unchanged 1.7x FY26E P/B). We continue to like KRI's strong balance sheet and more diversified income stream. Maintain BUY.

Results hit by higher raw material costs and forex

Excl. MYR27.8m unrealized forex loss, MYR30.4m gain on derivatives and MYR5.2m fair value gain on financial assets, KRI's 3Q24 core net profit of MYR21.7m lifted 9M24 core net profit to MYR73.6m (+111% YoY), accounting for 63%/61% of our/consensus' FY24E. The earnings shortfall was mainly due to higher raw material costs and realised forex losses.

More on 3Q24 results ...

Despite a +18% QoQ increase in 3Q24 revenue, core net profit declined by 19% dragged by lower pretax margin in its technical rubber products (-12.4 ppts QoQ) and cleanroom gloves + others (-9.1 ppts) divisions. Plant utilization rate (for gloves) is estimated at c.72% (based on ASP of USD21/k pcs vs. 66% in 2Q24) on 24.5b pcs. p.a. capacity. 4Q24 margin is expected to improve due to better utilisation rate and ASP on higher glove demand and stabilising USD/MYR currency rate.

Earnings adjustments

We lower our FY24/25/26E earnings forecasts by -8.4%/-8.8%/-4.4% after factoring in higher raw material costs and higher dividend payout for FY24. KRI's balance sheet remained strong with MYR1.8b in net cash (71sen/sh) as of end-3Q24. KRI also declared a total net DPS of 8sen (2sen interim and 6sen special) for FY24 YTD - above our expectation.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,316	1,586	1,834	2,036	2,320
EBITDA	312	155	225	241	268
Core net profit	161	57	106	113	129
Core EPS (sen)	6.3	2.2	4.2	4.4	5.1
Core EPS growth (%)	(94.4)	(64.7)	87.2	6.1	14.6
Net DPS (sen)	2.5	4.0	8.0	4.0	4.0
Core P/E (x)	17.5	83.1	54.7	51.6	45.0
P/BV (x)	0.7	1.2	1.6	1.6	1.5
Net dividend yield (%)	2.3	2.2	3.5	1.8	1.8
ROAE (%)	4.0	0.4	2.8	3.0	3.4
ROAA (%)	3.4	1.3	2.6	2.8	3.2
EV/EBITDA (x)	2.7	17.2	17.0	15.8	14.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	121	160	206
MIBG vs. Consensus (%)	-	-	(12.1)	(29.5)	(37.4)

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BUY

Share Price	MYR 2.28
12m Price Target	MYR 2.49 (+11%)
Previous Price Target	MYR 2.57

Company Description

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

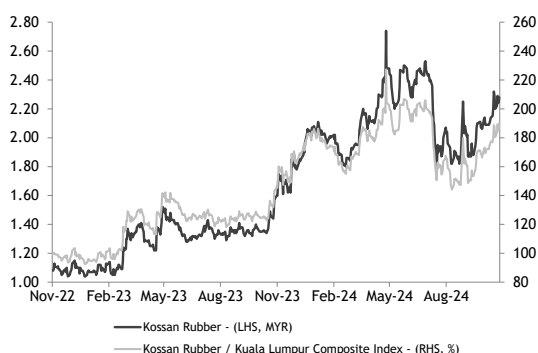
Statistics

52w high/low (MYR)	2.74/1.58
3m avg turnover (USDm)	3.0
Free float (%)	42.7
Issued shares (m)	2,558
Market capitalisation	MYR5.8B
	USD1.3B

Major shareholders:

Kossan Holdings Malaysia Sdn. Bhd.	34.9%
Employees Provident Fund	5.2%
Abrdn Asia Ltd.	4.8%

Price Performance



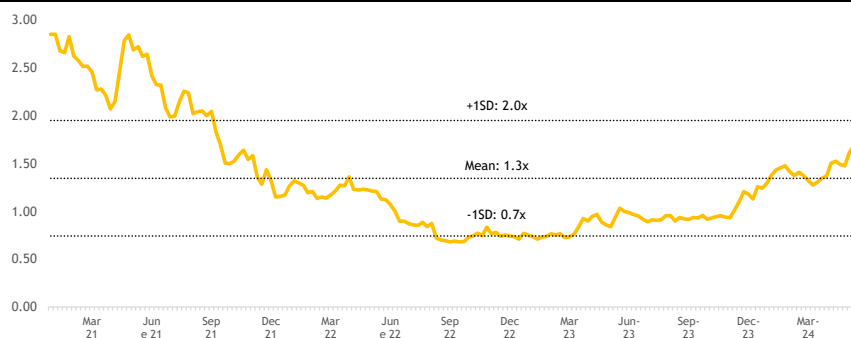
	-1M	-3M	-12M
Absolute (%)	8	19	54
Relative to index (%)	11	21	42

Source: FactSet

Table 1: KRI's quarterly results

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q24	3Q23	% YoY	2Q24	% QoQ	9M24	9M23	%YoY
Turnover	507.4	403.5	25.8	429.9	18.0	1,388.9	1,185.7	17.1
EBITDA	51.3	78.8	(34.9)	51.2	0.3	154.0	95.3	61.5
Depreciation	(27.5)	(29.2)	5.8	(28.1)	1.9	(81.6)	(90.0)	9.3
EBIT	30.2	39.4	(23.4)	28.3	6.5	89.4	4.7	>+100
Net interest expense	9.6	9.6	0.2	10.2	(6.5)	29.9	27.7	8.2
Exceptional	7.7	(15.5)	>+100	4.5	72.2	16.8	(0.6)	>+100
Pretax profit	39.7	49.0	(18.8)	38.6	3.0	119.3	32.4	>+100
Tax	(9.7)	(7.2)	(35.3)	(6.4)	(50.8)	(25.1)	(16.9)	(48.7)
Minority interest	(0.6)	(0.8)	25.1	(0.8)	23.2	(2.0)	(2.1)	6.2
PATMI	29.4	41.0	(28.1)	31.3	(6.1)	92.2	13.4	>+100
Core PATMI	21.7	56.5	(61.6)	26.8	(19.2)	73.6	34.8	>+100
Margins and tax rate			+/- ppt		+/- ppt			+/- ppt
EBITDA margin (%)	10.1	19.5	(9.4)	11.9	(1.8)	11.1	8.0	3.0
EBIT margin (%)	5.9	9.8	(3.8)	6.6	(0.6)	6.4	0.4	6.0
Core net margin (%)	4.3	14.0	(9.7)	6.2	(2.0)	5.3	2.9	2.4
Tax rate (%)	24.4	14.6	9.7	16.7	7.7	21.0	52.0	(31.0)
Segmental (MYRm)	3Q24	3Q23	% YoY	2Q24	% QoQ	9M24	9M23	%YoY
Turnover	507.4	403.5	25.8	429.9	18.0	1,388.9	1,185.7	17.1
Gloves	411.8	321.2	28.2	353.0	16.6	1,144.4	954.6	19.9
Technical rubber products	61.9	56.3	10.0	49.9	24.1	160.8	160.3	0.3
Cleanroom	33.7	25.9	30.1	27.0	24.9	83.7	70.8	18.3
PBT	39.7	49.0	(18.8)	38.6	3.0	119.3	-201.2	>+100
Gloves	30.0	31.2	(4.0)	22.1	35.7	78.6	-15.8	>+100
Technical rubber products	5.4	11.0	(50.9)	10.5	(48.8)	24.8	27.5	-9.6
Cleanroom + others	4.4	6.8	(35.0)	6.0	(26.3)	15.9	20.7	(23.3)
PBT margin (%)	7.8	12.1	(4.3)	9.0	(1.1)	8.6	(17.0)	25.6
Gloves	7.3	9.7	(2.4)	6.3	1.0	6.9	(1.7)	8.5
Technical rubber products	8.7	19.5	(10.8)	21.1	(12.4)	15.4	17.1	(1.7)
Cleanroom + others	13.1	26.1	(13.1)	22.1	(9.1)	19.0	29.3	(10.3)

Source: Company, Maybank IBG Research

Fig 2: KRI's 1-year forward PBV (2021-2024)

Source: Bloomberg, Company data, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for KRI. Abrupt changes in the momentum of input costs (i.e. latex, NBR) and intense competition may lead to lower earnings for KRI. Additionally, sharp appreciation of MYR against USD will negatively affect its earnings, for almost the entire group revenue is derived in USD.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	23.5	242.0	54.7	51.6	45.0
Core P/E (x)	17.5	83.1	54.7	51.6	45.0
P/BV (x)	0.7	1.2	1.6	1.6	1.5
P/NTA (x)	0.7	1.2	1.6	1.6	1.5
Net dividend yield (%)	2.3	2.2	3.5	1.8	1.8
FCF yield (%)	nm	3.0	0.9	1.2	1.4
EV/EBITDA (x)	2.7	17.2	17.0	15.8	14.1
EV/EBIT (x)	4.5	68.9	37.4	34.0	28.7

INCOME STATEMENT (MYR m)

Revenue	2,316.2	1,585.9	1,833.6	2,036.2	2,320.0
EBITDA	311.7	154.9	224.9	241.4	268.1
Depreciation	(126.6)	(116.2)	(122.9)	(129.5)	(136.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	185.1	38.7	102.0	111.9	131.9
Net interest income / (exp)	27.8	37.0	41.7	40.8	41.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
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	212.9	35.8	143.7	152.7	173.1
Income tax	(53.6)	(18.7)	(34.5)	(36.7)	(41.6)
Minorities	(2.7)	(2.9)	(2.9)	(3.3)	(2.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	156.6	14.2	106.3	112.8	129.3
Core net profit	161.2	56.8	106.3	112.8	129.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,072.6	2,089.4	2,025.0	2,025.9	2,035.8
Accounts receivable	291.3	272.7	230.6	256.1	291.8
Inventory	287.1	234.4	227.3	252.4	287.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,356.9	1,293.9	1,271.1	1,241.5	1,205.3
Intangible assets	6.0	6.1	6.1	6.1	6.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	313.3	295.6	295.6	295.6	295.6
Total assets	4,327.1	4,192.1	4,055.6	4,077.6	4,122.2
ST interest bearing debt	70.6	9.8	(5.3)	(15.3)	(25.3)
Accounts payable	204.9	188.6	162.2	180.1	205.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.3	0.0	0.0	0.0	0.0
Other liabilities	153.0	129.0	129.0	129.0	129.0
Total Liabilities	429.2	327.8	286.2	294.1	309.3
Shareholders Equity	3,875.7	3,839.1	3,741.3	3,752.0	3,779.2
Minority Interest	22.3	25.2	28.1	31.4	33.7
Total shareholder equity	3,897.9	3,864.3	3,769.4	3,783.4	3,812.9
Total liabilities and equity	4,327.1	4,192.1	4,055.6	4,077.6	4,122.2

CASH FLOW (MYR m)

Pretax profit	212.9	35.8	143.7	152.7	173.1
Depreciation & amortisation	126.6	116.2	122.9	129.5	136.2
Adj net interest (income)/exp	(0.3)	0.0	(41.7)	(40.8)	(41.2)
Change in working capital	318.5	85.9	(39.9)	(32.7)	(45.8)
Cash taxes paid	(558.5)	(19.2)	(34.5)	(36.7)	(41.6)
Other operating cash flow	(14.1)	16.9	0.0	0.0	0.0
Cash flow from operations	91.5	239.0	150.4	172.1	180.8
Capex	(115.3)	(95.8)	(100.0)	(100.0)	(100.0)
Free cash flow	(23.7)	143.1	50.4	72.1	80.8
Dividends paid	(307.9)	(63.8)	(204.1)	(102.1)	(102.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(171.2)	(62.5)	(10.0)	(10.0)	(10.0)
Other invest/financing cash flow	(697.1)	(98.1)	41.7	40.8	41.2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,199.9)	(81.3)	(122.0)	0.9	9.9

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(65.1)	(31.5)	15.6	11.0	13.9
EBITDA growth	(92.0)	(50.3)	45.2	7.4	11.0
EBIT growth	(95.1)	(79.1)	163.7	9.7	17.9
Pretax growth	(94.3)	(83.2)	301.0	6.3	13.4
Reported net profit growth	(94.5)	(90.9)	647.5	6.1	14.6
Core net profit growth	(94.4)	(64.8)	87.1	6.1	14.6
Profitability ratios (%)					
EBITDA margin	13.5	9.8	12.3	11.9	11.6
EBIT margin	8.0	2.4	5.6	5.5	5.7
Pretax profit margin	9.2	2.3	7.8	7.5	7.5
Payout ratio	40.8	nm	192.0	90.5	78.9
DuPont analysis					
Net profit margin (%)	6.8	0.9	5.8	5.5	5.6
Revenue/Assets (x)	0.5	0.4	0.5	0.5	0.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	4.0	0.4	2.8	3.0	3.4
ROAA (%)	3.4	1.3	2.6	2.8	3.2
Liquidity & Efficiency					
Cash conversion cycle	88.8	82.9	62.6	57.5	56.7
Days receivable outstanding	68.6	64.0	49.4	43.0	42.5
Days inventory outstanding	77.4	77.0	54.8	50.7	49.6
Days payables outstanding	57.2	58.1	41.6	36.2	35.4
Dividend cover (x)	2.4	0.1	0.5	1.1	1.3
Current ratio (x)	10.0	13.9	16.8	16.3	15.4
Leverage & Expense Analysis					
Asset/Liability (x)	nm	nm	nm	nm	nm
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)	na	na	na	na	na
Debt/EBITDA (x)	0.2	0.1	nm	nm	nm
Capex/revenue (%)	5.0	6.0	5.5	4.9	4.3
Net debt/ (net cash)	(2,001.7)	(2,079.6)	(2,030.4)	(2,041.2)	(2,061.2)

Source: Company; Maybank IBG Research

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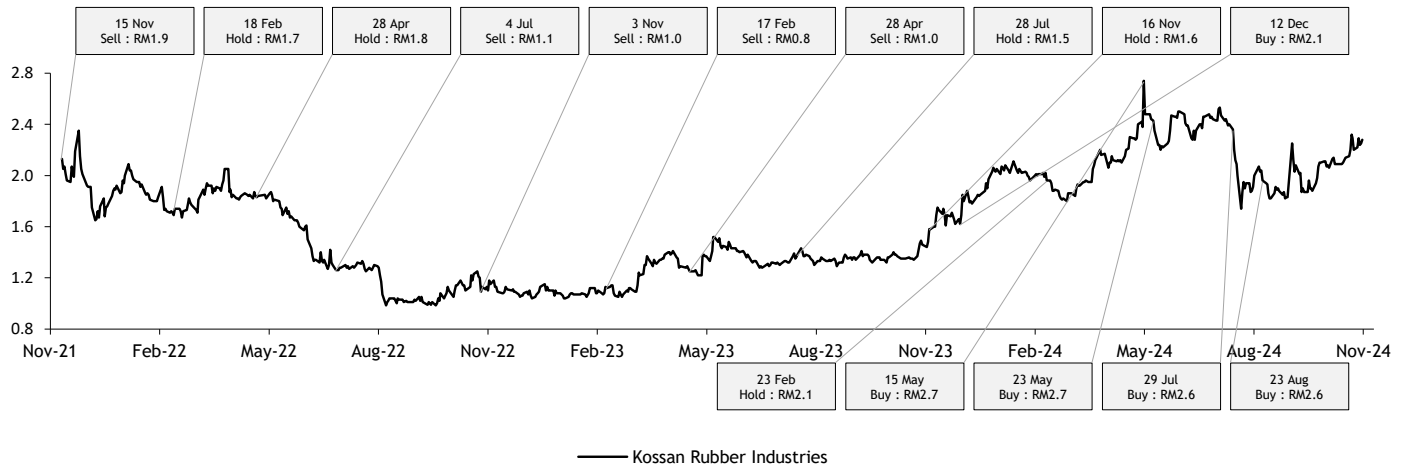
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