

Kossan Rubber Industries (KRI MK)

Focusing on cost efficiency and technology

Profit fell short

KRI's 4Q24 core net profit of MYR24m (-19% YoY, +9% QoQ) fell short of expectations due to higher-than-anticipated operating expenses. KRI has been prioritising efficiency over volume, focusing on automation and technology. We have adjusted our FY25/26 earnings forecasts by +31%/-17%. Our new TP is MYR1.99 (-50 sen), reflecting a lower FY26E PBV of 1.4x (from 1.7x) to account for supply risks anticipated from 2H26 onwards. Reiterate HOLD.

Higher sales volume and ASP offset by higher costs

Excl. MYR39m unrealised forex gain, MYR40.5m loss on derivatives and MYR5.5m fair value gain on financial assets, KRI's 4Q24 core net profit of MYR23.6m lifted FY24 core net profit to MYR97.3m (+53% YoY), accounting for 92%/80% of our/consensus estimates. The YoY growth in FY24 net profit was due to higher sales volume and ASP. Utilisation rate was stable at 70-75% as KRI is undergoing automation exercises for its existing lines.

Key highlights on 4Q24 results

4Q24 blended ASP is estimated at approximately USD22-26/k pcs, based on a 75% utilisation rate of a 24.5b pcs p.a. capacity. Despite a 2.1% QoQ increase in 4Q24 revenue, pretax profit declined by 2.5%, dragged by a 1.5ppt reduction in pretax margin for gloves, from the stronger MYR against the USD in 4Q24 compared with 3Q24. Conversely, technical rubber products (TRP)' pretax margin improved by 6ppt QoQ, despite a 33% decrease in revenue, as unrealised forex losses recognised in 4Q24 were lower than 3Q24. No dividend was declared in 4Q24. Cumulative DPS in FY24 amounted to 8 sen (including 6 sen special)/170% payout

Earnings adjustments

We have adjusted our FY25/26E earnings forecasts by +31%/-17% after factoring in: i) the change in ASP assumptions to USD21/21 per k pcs (from USD21/22) and ii) utilisation rates of 75%/70% (from 70%/75%) for FY25/26. KRI's balance sheet remains strong, with MYR1.6b in net cash (63 sen/sh) as of end-4Q24. KRI has a diversified income stream, with 34% of its PBT derived from TRP and cleanroom gloves. An additional 60m cleanroom gloves capacity is expected to be operational by 2H25, providing some buffers to the oversupplied nitrile gloves segment.

FYE Dec (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,591	1,907	1,994	2,036	2,166
EBITDA	157	204	224	197	174
Core net profit	64	97	148	107	71
Core EPS (sen)	2.5	3.8	5.8	4.2	2.8
Core EPS growth (%)	(60.3)	52.5	52.1	(27.6)	(34.1)
Net DPS (sen)	4.0	8.0	4.0	4.0	4.0
Core P/E (x)	74.0	74.2	33.6	46.4	70.5
P/BV (x)	1.2	2.0	1.3	1.3	1.4
Net dividend yield (%)	2.2	2.8	2.1	2.1	2.1
ROAE (%)	0.3	3.2	4.0	2.9	1.9
ROAA (%)	1.5	2.3	3.6	2.5	1.7
EV/EBITDA (x)	17.0	27.7	18.1	20.4	23.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	197	260	na
MIBG vs. Consensus (%)	-	-	(24.8)	(58.8)	na

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HOLD

Share Price	MYR 1.95
12m Price Target	MYR 1.99 (+3%)
Previous Price Target	MYR 2.49

Company Description

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

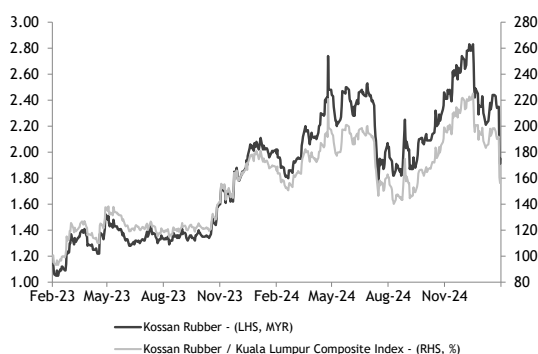
Statistics

52w high/low (MYR)	2.83/1.74
3m avg turnover (USDm)	3.4
Free float (%)	44.7
Issued shares (m)	2,558
Market capitalisation	MYR5.0B
	USD1.1B

Major shareholders:

Kossan Holdings Malaysia Sdn. Bhd.	34.9%
Employees Provident Fund	5.5%
Abrdn Asia Ltd.	5.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(17)	(21)	(3)
Relative to index (%)	(17)	(20)	(5)

Source: FactSet

Fig 1: KRI's quarterly results

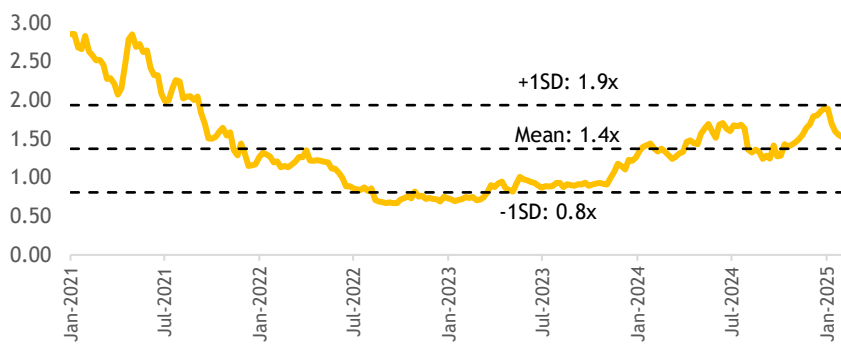
FY Dec (MYR m)	Quarterly					Cumulative		
	4Q24	4Q23	% YoY	3Q24	% QoQ	FY24	FY23	%YoY
Turnover	517.9	400.1	29.4	507.4	2.1	1,906.8	1,591.0	19.8
EBITDA	49.8	48.5	2.7	51.3	-2.9	203.8	143.8	41.7
Depreciation	-24.9	-26.2	4.9	-27.5	9.5	-106.5	-116.2	8.3
EBIT	30.4	-5.8	>+100	30.2	0.7	119.7	-1.1	>+100
Net interest expense	8.4	9.3	-9.6	9.6	-12.5	38.3	37.0	3.7
Exceptional	5.5	-35.4	>+100	7.7	-29.6	24.8	-36.0	>+100
Pretax profit	38.7	3.4	>+100	39.7	-2.5	158.0	34.5	>+100
Tax	-10.6	-1.8	>-100	-9.7	-8.9	-35.6	-18.2	-95.3
Minority interest	-0.5	-0.8	37.7	-0.6	20.4	-2.5	-2.9	14.6
PATMI	27.7	0.8	>+100	29.4	-5.9	119.9	13.3	>+100
Core PATMI	23.6	29.0	-18.5	21.7	8.8	97.3	63.8	52.5
Margins and tax rate								
EBITDA margin (%)	9.6	12.1	-2.5	10.1	-0.5	10.7	9.0	1.6
EBIT margin (%)	5.9	-1.5	7.3	5.9	-0.1	6.3	-0.1	6.3
Core net margin (%)	4.6	7.2	-2.7	4.3	0.3	5.1	4.0	1.1
Tax rate (%)	27.2	53.5	-26.3	24.4	2.9	22.5	52.8	-30.2
Segmental (MYRm)								
	4Q24	4Q23	% YoY	3Q24	% QoQ	2024	2023	%YoY
Turnover	517.9	400.1	29.4	507.4	2.1	1,906.8	1,591.0	19.8
Gloves	440.2	329.6	33.6	411.8	6.9	1,584.6	1,286.4	23.2
Technical rubber products	41.4	44.4	-6.8	61.9	-33.1	202.2	204.6	-1.2
Cleanroom	36.3	26.1	38.8	33.7	7.6	120.0	100.1	19.9
PBT	38.7	3.4	>+100	39.7	-2.5	158.0	36.0	339.6
Gloves	25.5	-9.3	>+100	30.0	-14.8	104.1	-25.0	>+100
Technical rubber products	6.1	10.0	-39.0	5.4	13.2	30.9	37.5	-17.5
Cleanroom + others	7.1	2.7	159.1	4.4	61.8	23.0	23.5	-2.0
PBT margin (%)								
			+/- ppt		+/- ppt			+/- ppt
PBT margin (%)	7.5	0.9	6.6	7.8	-0.4	8.3	2.3	6.0
Gloves	5.8	-2.8	8.6	7.3	-1.5	6.6	-1.9	8.5
Technical rubber products	14.7	22.5	-7.8	8.7	6.0	15.3	18.3	-3.0
Cleanroom + others	19.6	10.5	9.1	13.1	6.6	19.2	23.4	-4.3

Source: Company, Maybank IBG Research

Fig 2: Change in assumptions

		FY25	FY26	FY27 (new)
Revenue (MYRm)	- Old	2,036	2,320	-
	- New	1,994	2,036	2,166
		-2%	-12%	NA
Net profit (MYRm)	- Old	113	129	-
	- New	148	107	71
		31%	-17%	NA
Utilisation rate (%)	- Old	70	75	-
	- New	75	70	70

Source: Maybank IBG Research

Fig 3: KRI's 1-year forward PBV (2021-2025)

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	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	258.1	46.2	33.6	46.4	70.5
Core P/E (x)	74.0	74.2	33.6	46.4	70.5
P/BV (x)	1.2	2.0	1.3	1.3	1.4
P/NTA (x)	1.2	2.0	1.3	1.3	1.4
Net dividend yield (%)	2.2	2.8	2.1	2.1	2.1
FCF yield (%)	1.1	nm	2.7	2.2	1.2
EV/EBITDA (x)	17.0	27.7	18.1	20.4	23.3
EV/EBIT (x)	61.4	58.2	36.6	52.1	84.9

INCOME STATEMENT (MYR m)

Revenue	1,591.0	1,906.8	1,994.5	2,036.5	2,166.3
EBITDA	156.6	203.5	223.8	197.2	174.4
Depreciation	(113.2)	(106.5)	(113.2)	(119.9)	(126.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	43.4	97.0	110.6	77.3	47.9
Net interest income /(exp)	41.6	38.3	11.4	11.0	10.1
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	34.5	158.0	122.0	88.3	58.0
Income tax	(18.2)	(35.6)	29.3	21.2	13.9
Minorities	(3.0)	(2.4)	(3.3)	(2.3)	(1.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	13.3	120.0	147.9	107.2	70.6
Core net profit	63.8	97.3	147.9	107.2	70.6

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,094.0	1,664.7	1,065.9	1,132.8	1,149.2
Accounts receivable	267.6	388.7	406.6	415.1	441.6
Inventory	239.2	239.4	250.4	255.7	272.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,294.4	1,489.5	1,476.3	1,456.4	1,429.9
Intangible assets	6.1	6.1	6.1	6.1	6.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	298.8	301.9	987.9	987.9	987.9
Total assets	4,200.2	4,090.3	4,193.1	4,253.9	4,286.6
ST interest bearing debt	9.8	59.0	103.3	152.2	201.1
Accounts payable	199.4	203.8	213.2	217.7	231.6
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	128.0	152.0	152.0	152.0	152.0
Total Liabilities	337.2	414.7	468.3	521.7	584.6
Shareholders Equity	3,836.0	3,646.2	3,692.1	3,697.2	3,665.7
Minority Interest	27.0	29.4	32.7	35.0	36.3
Total shareholder equity	3,863.0	3,675.6	3,724.8	3,732.2	3,702.0
Total liabilities and equity	4,200.2	4,090.3	4,193.1	4,253.9	4,286.6

CASH FLOW (MYR m)

Pretax profit	34.5	158.0	122.0	88.3	58.0
Depreciation & amortisation	113.2	106.5	113.2	119.9	126.5
Adj net interest (income)/exp	0.0	0.0	(11.4)	(11.0)	(10.1)
Change in working capital	63.5	(79.1)	(19.5)	(9.3)	(28.9)
Cash taxes paid	(27.6)	(27.4)	29.3	21.2	13.9
Other operating cash flow	17.2	(9.8)	0.0	0.0	0.0
Cash flow from operations	138.4	(177.5)	233.6	209.0	159.4
Capex	(87.0)	(301.6)	(100.0)	(100.0)	(100.0)
Free cash flow	51.5	(479.1)	133.6	109.0	59.4
Dividends paid	(3.7)	0.8	(102.1)	(102.1)	(102.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(61.8)	48.9	48.9	48.9	48.9
Other invest/financing cash flow	(75.2)	132.1	11.4	11.0	10.1
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(89.2)	(297.2)	91.8	66.9	16.4

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(31.3)	19.8	4.6	2.1	6.4
EBITDA growth	(49.8)	30.0	10.0	(11.9)	(11.5)
EBIT growth	(76.6)	123.5	14.0	(30.1)	(38.0)
Pretax growth	(83.8)	357.5	(22.8)	(27.6)	(34.3)
Reported net profit growth	(91.5)	800.0	23.3	(27.6)	(34.1)
Core net profit growth	(60.4)	52.5	52.1	(27.6)	(34.1)
Profitability ratios (%)					
EBITDA margin	9.8	10.7	11.2	9.7	8.1
EBIT margin	2.7	5.1	5.5	3.8	2.2
Pretax profit margin	2.2	8.3	6.1	4.3	2.7
Payout ratio	nm	170.1	69.0	95.2	144.6
DuPont analysis					
Net profit margin (%)	0.8	6.3	7.4	5.3	3.3
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.1	1.1	1.1	1.2	1.2
ROAE (%)	0.3	3.2	4.0	2.9	1.9
ROAA (%)	1.5	2.3	3.6	2.5	1.7
Liquidity & Efficiency					
Cash conversion cycle	81.7	70.9	79.7	80.5	78.8
Days receivable outstanding	63.2	62.0	71.8	72.6	71.2
Days inventory outstanding	79.5	56.7	53.4	53.2	51.1
Days payables outstanding	61.0	47.8	45.5	45.3	43.5
Dividend cover (x)	0.1	0.6	1.4	1.0	0.7
Current ratio (x)	13.2	8.4	7.5	6.7	5.9
Leverage & Expense Analysis					
Asset/Liability (x)	nm	9.9	9.0	8.2	7.3
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)	0.1	0.3	0.5	0.8	1.2
Capex/revenue (%)	5.5	15.8	5.0	4.9	4.6
Net debt/ (net cash)	(2,084.0)	(1,605.7)	(962.6)	(980.6)	(948.0)

Source: Company; Maybank IBG Research

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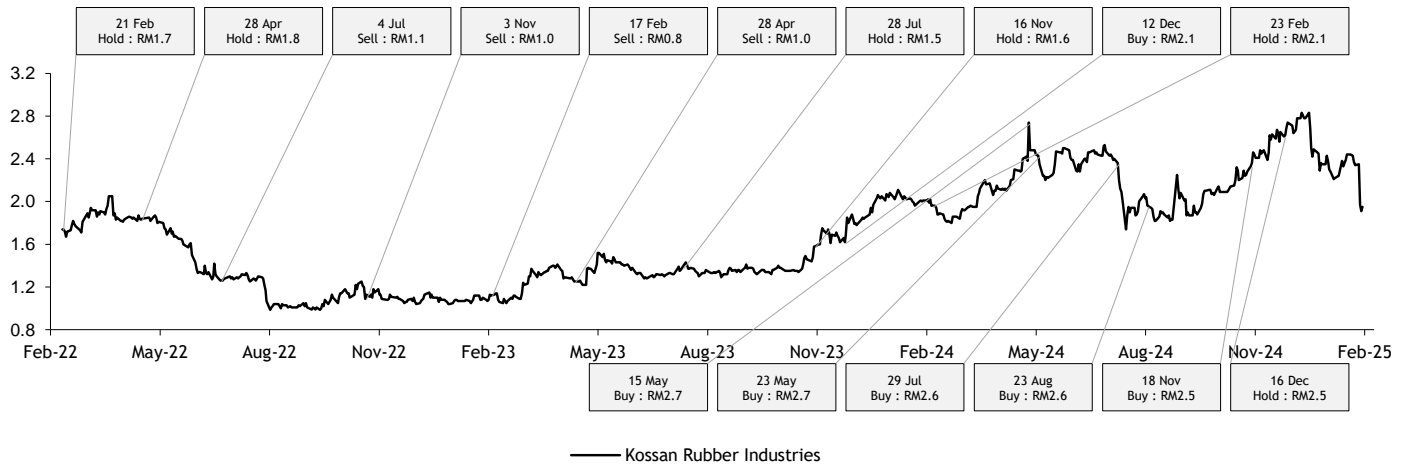
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