

## Kossan Rubber Industries Berhad

(7153 | KRI MK) Main | Healthcare | Healthcare Equipment and Services

### Gloomy Outlook: Oversupply Situation Persist

#### KEY INVESTMENT HIGHLIGHTS

- **Core PATANCI below expectations mainly due to cost-driven factors**
- **Oversupply situation continued to drive 4QFY23 revenue lower**
- **Demand and cost-driven factors dragged down FY23 bottomline**
- **Revised FY24-25F earnings forecast and introduce FY26 forecast**
- **Downgrade to SELL (from NEUTRAL) with a lower TP of RM1.35 (previously RM1.38)**

**Core PATANCI below expectations mainly due to cost-driven factors.** Kossan Rubber Industries ("Kossan") reported a FY23 core PATANCI of RM27.7m, with a one-time item of RM13.4m, including an impairment loss of plant and equipment amounting to RM35.384m. The core PATANCI fell short of ours and consensus' FY23 projections. This account for only 74.5% of our expectation and 57.8% of streets'. This deviation stemmed primarily from higher-than-anticipated operating costs attributed to greater-than-expected production costs per unit.

**Dividend declared despite marginal profit.** The group declared a first-interim single-tier dividend of 2.0 sen/share in 4QFY23 (entitlement date: 14 Mar 2024), which is lower than the 2.5 sen/share declared in 4QFY22. The dividend surpasses the FY23 basic EPS of 0.56 sen. Notably, net cash decreased from RM1.31b in 12MFY22 to RM1.26b in FY23.

**Oversupply situation continued to drive 4QFY23 revenue lower.** On a quarterly basis, revenue experienced a marginal decline of -0.8%qoq to RM400.1m. This decrease was primarily attributed to lower revenue from Technical Rubber Product (TRP) sales, which more than offset greater revenue from the gloves and cleanroom divisions. Core PATANCI decreased by -10.3%qoq to RM30.7m, primarily due to the reduced revenue, coupled with lower operating income and higher operating costs. On a yearly basis, core net earnings saw an improvement, turning from a net loss of -RM13.5m in 4QFY22 to RM30.7m in 4QFY23, despite a 16.9%yoy decline in revenue to RM400.1m. This improvement was mainly driven by enhanced margins resulting from increased sales of higher-margin infrastructure products.

**Demand and cost-driven factors dragged down FY23 bottomline.** The group's cumulative core PATANCI for 12MFY23 stood at RM27.7m, a decline from RM133.1m in 12MFY22. This was mainly attributed to persistently lower sales volumes and ASP, coupled with increased natural costs. Specifically, both the gloves and cleanroom divisions experienced subpar performance during the period on the back of the continuous oversupply situation. On the other hand, the TRP Rubber Division recorded a higher revenue and operating profit, mainly driven by higher-margin infrastructure products.

**Downgrade to SELL**

(Previously NEUTRAL)

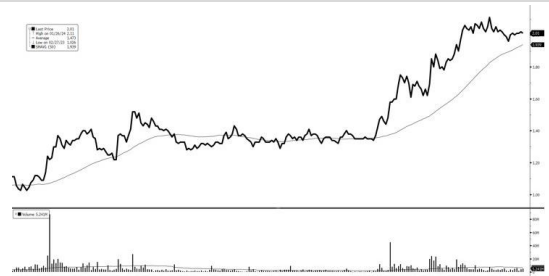
**Revised Target Price: RM1.35**

(Previously: RM1.38)

#### RETURN STATISTICS

Price @ 22 Feb 2024 (RM)	2.02
Expected share price return (%)	-33.2
Expected dividend yield (%)	0.7
Expected total return (%)	-32.52

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-7.3
3 months	8.6	18.6
12 months	76.3	67.7

#### INVESTMENT STATISTICS

FYE Dec (RM'm)	2024F	2025F	2026F
Revenue	1,924.6	2,270.2	2,452.6
EBITDA	230.9	301.6	325.4
Profit Before Tax	153.1	222.7	245.9
Core PATANCI	114.8	167.0	184.4
Core EPS (sen)	4.5	6.5	7.2
DPS (sen)	1.3	2.0	2.2
Dividend Yield (%)	0.7	1.0	1.1

#### KEY STATISTICS


FBM KLCI	1,545.49
Issue shares (m)	2545.37
Estimated free float (%)	41.37
Market Capitalisation (RM'm)	5,128.76
52-wk price range	RM1.05- RM2.71
3-mth average daily volume (m)	6.88
3-mth average daily value (RM'm)	12.75
Top Shareholders (%)	
Kossan Holdings M Sdn Bhd	35.00
Abrdn PLC	5.27
Employees Provident Fund Board	5.10

**Analyst(s)**

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**Revised FY24-25F earnings forecast and introduce FY26 forecast.** Given that the earnings came in below expectations, we have adjusted our FY24-25F forecast downwards by -7.7%/-9.3%. This was after accounting for higher operating costs and lower profit margins, reflecting the persistent challenges in the business landscape exacerbated by oversupply and intense competition from Chinese and Thai glovemakers.

**Downgrade to SELL (from NEUTRAL) with a lower TP of RM1.35 (previously RM1.38).** Our revised TP is based on a lower FY24F BVPS of 153sen (previously 155sen), pegged to an unchanged P/BV of 0.89x PER, which represents its 2-year historical average P/BV. Hence, we downgrade Kossan to **SELL** from NEUTRAL as we believe that the stock is currently overvalued and does not reflect the underperformance of the glove industry. Looking ahead, we anticipate the ASP for the gloves segment to remain relatively stagnant in the short term, constrained by persistent oversupply dynamics and tight competition. Although a modest recovery in glove demand is expected as buyers replenish their inventory following the depletion of pandemic-induced stockpiles, the pace of this recovery has been slower than anticipated. Hence, we are now expecting the oversupply situation to persist into FY24, posing continued challenges for the industry. **Potential catalysts** include: (i) a faster-than-expected recovery in utilization rate; and (ii) more new entrants leaving the market and/or existing companies discontinuing certain manufacturing lines. 

### Kossan Rubber Industries: 4QFY23 Results Summary

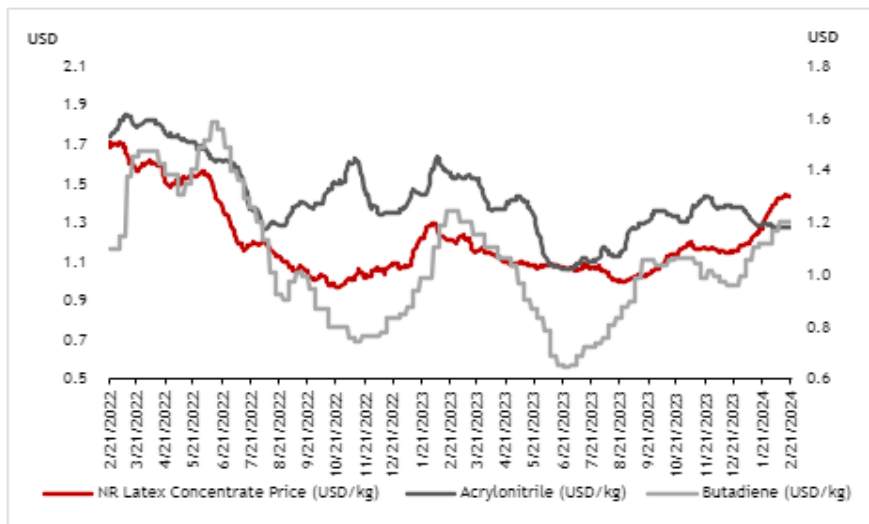
FYE Dec (RM's)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	400.1	403.5	481.4	(16.9)	(0.8)	1,585.9	2,343.8	(32.3)
Operating expenses	(414.8)	(373.8)	(499.6)	(17.0)	11.0	(1,621.0)	(2,203.4)	(26.4)
Other operating income	18.8	19.5	20.4	(7.8)	(3.5)	72.6	77.4	(6.2)
<b>Operating profit (EBIT)</b>	<b>4.2</b>	<b>49.1</b>	<b>2.2</b>	<b>88.3</b>	<b>(91.5)</b>	<b>37.5</b>	<b>217.8</b>	<b>(82.8)</b>
Net finance income/(cost)	(0.7)	(0.2)	(1.3)	(41.3)	313.4	(1.6)	(4.3)	(61.8)
Profit before tax (PBT)	3.4	49.0	1.0	>100.0	(93.0)	35.8	213.5	(83.2)
Taxation	(1.8)	(7.2)	(3.4)	(46.6)	(74.3)	(18.7)	(54.3)	(65.6)
<b>Profit After tax (PAT)</b>	<b>1.6</b>	<b>41.8</b>	<b>(2.5)</b>	<b>&gt;(100.00)</b>	<b>(96.2)</b>	<b>17.2</b>	<b>159.2</b>	<b>(89.2)</b>
PATANCI	0.8	41.0	(2.5)	>(100.00)	(98.0)	14.2	157.1	(90.9)
<b>Core PATANCI</b>	<b>30.7</b>	<b>34.3</b>	<b>(13.5)</b>	<b>&gt;(100.00)</b>	<b>(10.3)</b>	<b>27.7</b>	<b>133.1</b>	<b>(79.2)</b>
Basic EPS (sen)	0.0	1.6	(0.1)	>(100.00)	(98.1)	0.6	6.1	(90.9)
DPS (sen)	2.0	0.0	2.5	(20.0)	n.m.	2.0	2.5	(20.0)
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Operating Profit Margin	1.0	12.2	0.5	0.6	(11.1)	2.4	9.3	(6.9)
PBT Margin	0.9	12.1	0.2	0.7	(11.3)	2.3	9.1	(6.8)
Core PATANCI Margin	7.7	8.5	(2.8)	10.5	(0.8)	1.7	5.7	(3.9)
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net cash/market cap (%)	24.4	24.4	25.5	(1.1)	0.0	24.4	25.5	(1.1)
Effective tax rate (%)	53.5	14.6	359.7	n.a.	38.9	52.1	25.4	26.7

Source: Company, MIDFR

**Kossan Rubber Industries: Breakdown by operating segment**

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
<b>Revenue (RM'm):</b>								
Gloves Division	329.6	321.2	402.6	(18.1)	2.6	1,284.2	1,996.5	(35.7)
Technical Rubber Division	44.4	56.3	44.4	0.0	(21.1)	204.7	197.0	3.9
Cleanroom Division	26.1	25.9	34.4	(24.0)	0.8	96.9	125.3	(22.7)
Others	0.0	0.0	0.0	n.m.	n.m.	0.0	2.7	(100.0)
<b>Total</b>	<b>400.1</b>	<b>403.5</b>	<b>481.4</b>	<b>(16.9)</b>	<b>(0.8)</b>	<b>1,585.9</b>	<b>2,321.5</b>	<b>(31.7)</b>
<b>Operating Profit (RM'm):</b>								
Gloves Division	(9.3)	31.2	(22.7)	(59.0)	(129.8)	(25.1)	142.6	(117.6)
Technical Rubber Division	10.0	11.0	7.6	30.9	(9.0)	37.5	22.3	67.6
Cleanroom Division	2.8	2.8	3.5	(18.0)	0.7	9.6	11.3	(15.2)
Others	(0.1)	4.0	12.6	(100.7)	(102.2)	13.8	36.5	(62.2)
<b>Total</b>	<b>3.4</b>	<b>49.0</b>	<b>1.0</b>	<b>259.2</b>	<b>(93.0)</b>	<b>35.8</b>	<b>212.9</b>	<b>(83.2)</b>
<b>Operating profit margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Gloves Division	(2.8)	9.7	(5.6)	2.8	(12.5)	(2.0)	7.1	(9.1)
Technical Rubber Division	22.5	19.5	17.2	5.3	3.0	18.3	11.3	7.0
Cleanroom Division	10.9	10.9	10.1	0.8	(0.0)	9.9	9.1	0.9
Others	n.a.	n.a.	n.a.	n.m.	n.m.	n.a.	1,353.1	n.a.
<b>Total</b>	<b>0.9</b>	<b>12.1</b>	<b>0.2</b>	<b>0.7</b>	<b>(11.3)</b>	<b>2.3</b>	<b>9.2</b>	<b>(6.9)</b>

Source: Company, MIDFR

**TABLE 1: Raw Material Futures Price Trend (USD/MT)**

Source: MIDFR, Bloomberg

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>2,343.8</b>	<b>1,585.9</b>	<b>1,924.6</b>	<b>2,270.2</b>	<b>2,452.6</b>
Raw materials and consumable used	(1,263.3)	(927.4)	(913.7)	(1,072.4)	(1,123.8)
Changes in inventories of finished goods & WIP	(71.7)	(27.9)	(7.1)	39.5	12.8
Goods purchased for resale	(57.9)	(39.5)	(48.0)	(57.2)	(62.4)
<b>Gross Profit</b>	<b>950.9</b>	<b>590.9</b>	<b>955.8</b>	<b>1,180.1</b>	<b>1,279.2</b>
Other (expense)/income	44.1	34.0	42.5	50.4	54.7
Staff costs	(374.5)	(258.5)	(316.8)	(386.8)	(419.9)
Other operating expenses	(304.6)	(367.6)	(450.6)	(542.1)	(588.6)
<b>EBITDA</b>	<b>315.9</b>	<b>(1.1)</b>	<b>230.9</b>	<b>301.6</b>	<b>325.4</b>
<b>EBIT</b>	<b>184.5</b>	<b>(1.1)</b>	<b>112.9</b>	<b>182.2</b>	<b>205.1</b>
<b>Profit before tax (PBT)</b>	<b>213.5</b>	<b>35.8</b>	<b>153.1</b>	<b>222.7</b>	<b>245.9</b>
<b>Profit After tax (PAT)</b>	<b>159.2</b>	<b>17.2</b>	<b>114.8</b>	<b>167.0</b>	<b>184.4</b>
<b>Core PATANCI</b>	<b>144.9</b>	<b>27.7</b>	<b>114.8</b>	<b>167.0</b>	<b>184.4</b>
Core EPS (sen)	5.7	1.1	4.5	6.5	7.2
DPS (sen)	2.5	2.0	1.3	2.0	2.2

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	1,356.9	1,293.9	1,252.8	1,246.8	1,273.6
Intangible assets & Goodwill	6.0	6.1	7.4	8.7	9.4
<b>Total Non-current assets</b>	<b>1,470.6</b>	<b>1,402.6</b>	<b>1,383.2</b>	<b>1,380.4</b>	<b>1,408.0</b>
Inventories	287.1	234.4	227.3	266.8	279.5
ST - Trade and other receivables	276.0	272.7	342.7	404.3	436.8
Cash and cash equivalents	1,348.0	1,266.7	1,268.2	1,279.0	1,292.0
<b>Total current assets</b>	<b>2,856.5</b>	<b>2,789.5</b>	<b>2,824.4</b>	<b>2,880.8</b>	<b>2,812.8</b>
<b>Total Assets</b>	<b>4,327.1</b>	<b>4,192.1</b>	<b>4,207.6</b>	<b>4,261.3</b>	<b>4,220.8</b>
LT Loans and borrowings	0.9	0.0	0.0	0.0	0.0
LT Lease Liabilities	5.8	5.5	5.3	5.0	4.3
<b>Total Non-current liabilities</b>	<b>144.5</b>	<b>127.2</b>	<b>138.3</b>	<b>161.8</b>	<b>173.8</b>
ST Loans and borrowings	71.3	9.8	10.0	10.2	10.4
ST Trade and other payables	200.2	188.6	187.7	220.4	230.9
<b>Total Current Liabilities</b>	<b>284.7</b>	<b>200.6</b>	<b>200.1</b>	<b>233.2</b>	<b>244.1</b>
<b>Total Liabilities</b>	<b>429.2</b>	<b>327.8</b>	<b>338.4</b>	<b>395.1</b>	<b>417.8</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	213.5	35.8	153.1	222.7	245.9
Cash flow from operations	93.4	175.2	73.0	134.6	175.6
Cash flow from investing	(812.3)	(194.0)	(37.1)	(73.5)	(106.9)
Cash flow from financing	(480.9)	(62.5)	(34.4)	(50.2)	(55.8)
<b>Net cash flow</b>	<b>(1,199.9)</b>	<b>(81.3)</b>	<b>1.5</b>	<b>10.9</b>	<b>12.9</b>
(+/-) Adjustments	(9.9)	0.0	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>2,557.8</b>	<b>1,348.0</b>	<b>1,266.7</b>	<b>1,268.2</b>	<b>1,279.0</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	25.4	52.1	25.0	25.0	25.0
PER (x)	32.8	360.7	44.9	30.9	27.9
P/BV ratio (x)	1.32	1.33	1.33	1.33	1.36
Cash/Market Capitalisation (%)	24.7	24.4	24.4	24.6	24.9
Cash/share (sen)	3.7	6.9	2.9	5.3	6.9

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	40.6	37.3	49.7	52.0	52.2
EBIT Margin (%)	7.9	(0.1)	5.9	8.0	8.4
Core PATANCI Margin (%)	6.2	1.7	6.0	7.4	7.5

Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology