

Kossan Rubber Industries Berhad

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

Plagued by High Raw Material Costs

KEY INVESTMENT HIGHLIGHTS

- **Maintain NEUTRAL with a revised target price of RM2.14 post the 3QFY24 results announcement**
- **3QFY24 normalised earnings grew at a slower pace in view of the rising raw material costs**
- **Nonetheless, cumulative 9MFY24 normalised earnings came in at RM77.0m which is at the lower end of our expectation**
- **Immediate share price performance will be supported by special dividend of 6sen per share**

Near-term profit margin squeeze. We are maintaining our **NEUTRAL recommendation** on Kossan with a revised target price of **RM 2.14** (previously RM1.89) post the group's 3QFY24 results announcement. The group's profitability in 3QFY24 was impacted by the increase in raw material cost despite recording better revenue. We expect the profit margin to gradually improve in view of the continuous recovery in demand as well as ongoing improvement in production efficiencies. Nonetheless, we expect the share price performance would be supported by the special dividend of 6sen per share which came in a surprise.

Weak 3QFY24 earnings. 3FY24 normalised earnings came in at RM25.0m, a decline of -27.0%yoy and -8.4%qoq. This was despite Kossan recording higher revenue of RM507.4m. The discrepancy was mainly led higher raw material cost across all divisions.

Largely within expectation. On a cumulative basis, 9MFY24 normalised earnings amounted to RM77.0m, a reversal from a loss of -RM3.1m. This was mainly supported by +17.1%yoy recovery in revenue to RM1.4b as well as improvement in production efficiencies.

All in, Kossan's 9MFY24 financial performance came in at the lower end of our expectation, making up 70.4% of our full year FY24 earnings estimates. Comparatively, it was below consensus expectations at 59.6% of full year earnings estimates.

Special dividend declared. The group announced interim dividend of 2sen per share. In addition, it also announced a special dividend of 6sen per share. This adds up to 8sen dividend announced in 3QFY24.

Earnings revision. We retain our earnings estimates for FY24. We only adjust our dividend estimates higher to account for the special dividend. Meanwhile, FY25 and FY26 earnings estimates has been revised up by +13.3% and +7.7% respectively as we assume higher demand for its products, primarily for the glove division.

Higher target price. Following our earnings upgrade, our target price has been revised upwards to RM2.14 from 1.89 previously. Note that we retained our target PER of 39.4x.



Maintain NEUTRAL

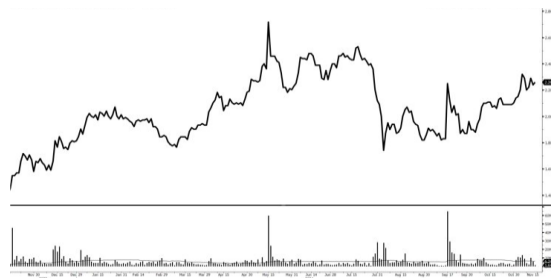
Revised Target Price: RM2.14

(Previously RM1.89)

RETURN STATISTICS

Price @ 15 th November 2024 (RM)	2.28
Expected share price return (%)	-6.1
Expected dividend yield (%)	+1.1
Expected total return (%)	-5.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.1	9.1
3 months	20.9	20.6
12 months	56.9	41.7

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024F	2025F	2026F
Revenue	1,797.2	2,231.1	2,442.2
EBITDA	157.8	199.4	218.7
Profit Before Tax	147.6	186.8	203.8
Core PATANCI	109.4	138.5	151.1
Core EPS (sen)	4.3	5.4	5.9
DPS (sen)	8.0	2.5	3.0
Dividend Yield (%)	3.5	1.1	1.3

KEY STATISTICS

FBM KLCI	1,592.44
Issue shares (m)	2551.62
Estimated free float (%)	46.52
Market Capitalisation (RM'm)	5,766.66
52-wk price range	RM1.44 - RM2.83
3-mth average daily volume (m)	6.44
3-mth average daily value (RM'm)	13.31
Top Shareholders (%)	
Kossan Holdings M Sdn Bhd	35.00
Employees Provident Fund	5.22
Abrdn plc	4.85

Analyst(s)

Foo Chuan Loong, Martin

martin.foo@midf.com.my

Kossan Rubber Industries: 3QFY24 Results Summary

FYE Dec (RM's)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	507.4	429.9	403.5	25.8	18.0	1,388.9	1,185.7	17.1
Operating expenses	(486.1)	(409.0)	(373.8)	30.0	18.8	(1,324.5)	(1,206.2)	9.8
Other operating income	18.8	17.8	19.5	(3.3)	6.1	55.4	53.8	3.0
Operating profit (EBIT)	40.2	38.7	49.1	(18.3)	3.9	119.8	33.3	259.9
Net finance income/(cost)	(0.4)	(0.1)	(0.2)	130.2	415.0	(0.6)	(0.9)	(37.8)
Profit before tax (PBT)	39.7	38.6	49.0	(18.8)	3.0	119.3	32.4	268.1
Taxation	(9.7)	(6.4)	(7.2)	35.3	50.8	(25.1)	(16.9)	48.7
Profit After tax (PAT)	30.1	32.1	41.8	(28.1)	(6.5)	94.2	15.6	505.6
PATANCI	29.4	31.3	41.0	(28.1)	(6.1)	92.2	13.4	587.4
Core PATANCI	25.0	27.3	34.3	(27.0)	(8.4)	77.0	(3.1)	(2,607.5)
Basic EPS (sen)	1.2	1.2	1.6	(28.6)	(6.5)	3.6	0.5	581.1
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	7.9	9.0	12.2	(4.3)	(1.1)	8.6	2.8	5.8
PBT Margin	7.8	9.0	12.1	(4.3)	(1.1)	8.6	2.7	5.9
Core PATANCI Margin	4.9	6.4	8.5	(3.6)	(1.4)	5.5	(0.3)	5.8
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	0.0	24.5	24.1	(24.1)	(24.5)	0.0	24.1	(24.1)
Effective tax rate (%)	24.4	16.7	14.6	9.7	7.7	21.0	52.0	(31.0)

Source: Company, MIDFR

Kossan Rubber Industries: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue (RM'm):								
Gloves Division	411.8	353.0	321.2	28.2	16.6	1,144.4	954.6	411.8
Technical Rubber Division	61.9	49.9	56.3	10.0	24.1	160.8	160.3	61.9
Cleanroom Division	33.7	27.0	25.9	30.1	24.9	83.7	70.8	33.7
Total	507.4	429.9	403.5	25.8	18.0	1,388.9	1,185.7	507.4
Operating Profit (RM'm):								
Gloves Division	30.0	22.1	31.2	(4.0)	35.7	78.6	(15.8)	30.0
Technical Rubber Division	5.4	10.5	11.0	(50.9)	(48.8)	24.8	27.5	5.4
Cleanroom Division	2.0	2.5	2.8	(30.6)	(20.9)	6.9	6.8	2.0
Total	39.7	38.6	49.0	(18.8)	3.0	119.3	32.4	39.7
Operating profit margin (%)				+ / (-) ppts	+ / (-) ppts			
Gloves Division	7.3	6.3	9.7	(2.4)	1.0	6.9	(1.7)	7.3
Technical Rubber Division	8.7	21.1	19.5	(10.8)	(12.4)	15.4	17.1	8.7
Cleanroom Division	5.8	9.2	10.9	(5.1)	(3.4)	8.2	9.6	5.8
Total	7.8	9.0	12.1	(4.3)	(1.1)	8.6	2.7	7.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	2,343.8	1,591.0	1,797.2	2,231.1	2,442.2
Raw materials and consumable used	(1,263.3)	(885.2)	(1,021.8)	(1,357.3)	(1,456.1)
Changes in inventories of finished goods & WIP	(71.7)	(33.4)	(3.6)	54.8	21.1
Goods purchased for resale	(57.9)	(31.9)	(36.1)	(66.9)	(73.3)
Gross Profit	950.9	640.6	735.7	861.6	934.0
Other (expense)/income	44.1	47.5	22.4	27.8	30.4
Staff costs	(374.5)	(299.2)	(314.1)	(333.0)	(353.0)
Other operating expenses	(304.6)	(252.1)	(286.2)	(357.0)	(392.8)
EBITDA	315.9	136.8	157.8	199.4	218.7
EBIT	184.5	(7.1)	110.3	149.3	166.1
Profit before tax (PBT)	213.5	34.5	147.6	186.8	203.8
Profit After tax (PAT)	159.2	16.3	109.4	138.5	151.1
Core PATANCI	144.9	31.8	109.4	138.5	151.1
Core EPS (sen)	5.7	1.2	4.3	5.4	5.9
DPS (sen)	2.5	2.0	8.0	2.5	3.0
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	1,356.9	1,294.4	1,292.4	1,315.7	1,371.4
Intangible assets & Goodwill	6.0	6.1	6.1	6.1	6.1
Total Non-current assets	1,470.6	1,402.7	1,408.7	1,443.1	1,510.1
Inventories	287.1	239.2	235.7	290.4	311.6
ST - Trade and other receivables	276.0	248.4	317.5	394.2	431.5
Cash and cash equivalents	1,348.0	1,271.3	1,284.0	1,296.9	1,309.8
Total current assets	2,856.5	2,799.6	2,927.9	3,126.8	3,257.7
Total Assets	4,327.1	4,202.3	4,336.6	4,569.9	4,767.7
LT Loans and borrowings	0.9	0.3	1.7	1.7	1.8
LT Lease Liabilities	5.8	4.9	5.5	6.8	7.5
Total Non-current liabilities	144.5	125.6	145.7	160.9	169.3
ST Loans and borrowings	71.3	10.2	66.2	68.2	70.2
ST Trade and other payables	200.2	192.0	196.3	260.8	279.8
Total Current Liabilities	284.7	213.7	274.5	342.1	363.7
Total Liabilities	429.2	339.3	420.3	503.1	532.9
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	213.5	34.5	147.6	186.8	203.8
Cash flow from operations	93.4	202.8	169.3	114.3	163.7
Cash flow from investing	(812.3)	(162.1)	(10.5)	(41.0)	(77.0)
Cash flow from financing	(480.9)	(129.8)	(146.1)	(60.4)	(73.8)
Net cash flow	(1,199.9)	(89.2)	12.7	12.8	13.0
Net cash/(debt) b/f	2,557.8	1,348.0	1,271.3	1,284.0	1,296.9
Net cash/(debt) c/f	1,348.0	1,271.3	1,284.0	1,296.9	1,309.8
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	25.4	52.8	25.9	25.9	25.9
PER (x)	37.0	438.5	53.2	42.0	38.5
P/BV ratio (x)	1.49	1.51	1.49	1.43	1.37
Cash/Market Capitalisation (%)	21.9	21.7	20.9	21.1	21.3
Cash/share (sen)	3.7	7.9	6.6	4.5	6.4
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	40.6	40.3	40.9	38.6	38.2
EBIT Margin (%)	7.9	(0.4)	6.1	6.7	6.8
Core PATANCI Margin (%)	6.2	2.0	6.1	6.2	6.2

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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