



## Company report

# KOSSAN RUBBER

(KRI MK EQUITY, KRIB.KL)

27 July 2020

*New capacity planned for 1H2021*

## BUY

(Maintained)

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**Rationale for report: Company update**

Price	RM13.80
Fair Value	RM15.74
52-week High/Low	RM14.94/RM3.93

### Key Changes

Fair value	<a href="#">↑</a>
EPS	<a href="#">↑</a>

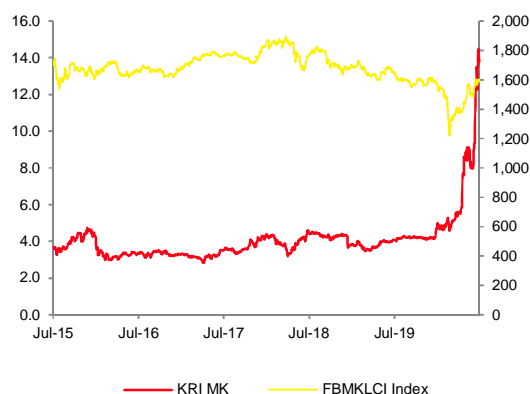
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	2,217.2	3,941.5	4,377.8	4,591.1
Core net profit (RM mil)	224.0	671.4	745.5	573.4
FD Core EPS (sen)	17.5	52.5	58.3	44.8
FD Core EPS growth (%)	12.0	199.8	11.0	(23.1)
Consensus Net Profit (RM mil)	-	516.2	559.5	453.6
DPS (sen)	5.5	21.0	23.3	17.9
PE (x)	78.8	26.3	23.7	30.8
EV/EBITDA (x)	47.7	18.2	16.1	19.5
Div yield (%)	0.4	1.5	1.7	1.3
ROE (%)	16.3	41.3	36.3	23.4
Net Gearing (%)	28.3	18.5	nm	0.1

### Stock and Financial Data

Shares Outstanding (million)	1,278.9
Market Cap (RMmil)	17,649.3
Book Value (RM/share)	1.13
P/BV (x)	12.2
ROE (%)	16.3
Net Gearing (%)	28.3

Major Shareholders	Kossan Holdings (49.6%) EPF (5.3%) KWAP (2.2%)
Free Float	0.4
Avg Daily Value (RMmil)	89.0

Price performance	3mth	6mth	12mth
Absolute (%)	146.4	190.5	239.1
Relative (%)	112.4	187.5	251.5



### Investment Highlights

- We maintain our BUY recommendation on Kossan Rubber Industries (Kossan) with a higher fair value of RM15.74. Our valuation is based on a P/E of 27x FY21F EPS.
- We raise our earnings forecasts by 7% for FY20F, 26% for FY21F and 22% for FY22F. This is to account for higher assumptions of average selling price (ASP) and sales volume. We increase our assumption for ASP to US\$29 (previously US\$28) in FY20F and FY21F. We also raise our assumption for sales volume by 5% for FY21F and 14% for FY22F.
- Key highlights of the conference call with Kossan are:
  - Kossan is seeing improved demand and the company has started to receive orders for 2H2021. ASP has shot up 20% in July 2020 and the group expects a 40% jump in August 2020 compared with 2QFY20E's ASP. Kossan expects ASP to continue to grow for the rest of the year.
  - Kossan has firmed up its capacity expansion plans for the upcoming years. The group will be adding a new factory, adjacent to its existing Plant 18 and Plant 19. The new plant will consist of 5 new lines with a total capacity of 1.4bil pieces per annum (+4%). This new plant is expected to be completed in 1HFY21, with its first line to be operational by 1QFY21.
  - Kossan will also add 16 more lines, to be set up on the newly purchased land in Meru, Klang. The group expects 6 of the lines to be completed in 2HFY21F while the rest will be done in 1HFY22F. This will add another 5bil pieces (+15%) of capacity for the group.
  - In Bidor, Kossan expects 12 lines to be completed by 2HFY22F. This plant will add on 4bil pieces per annum (+10%). The group is expected to have a capacity of roughly 32.0bil pieces in FY20F (+10%), 35.4bil in FY21F (+10%) and 42.4bil in FY22F (20%).
  - We are positive on this development as we think that the timing of the new expansion plan, especially in 1HFY21F, augurs well for the group as it will allow Kossan to benefit from the heightened demand for rubber gloves. The expansion plans will also continue to drive the group's earnings growth.
  - We like Kossan for its position as one of the biggest glove producers to benefit from the Covid-19 pandemic, its expansionary plans and its efforts in improving quality and operational efficiency as well as increasing automation. In the long term, we anticipate further improvements in Kossan's performance on the back of better operating efficiency.

EXHIBIT 1: SENSITIVITY ANALYSIS

FY20F			FY21F		
ASP (US\$/1,000)	Revenue	Net Profit	ASP (US\$/1,000)	Revenue	Net Profit
28	3,813	613	28	4,236	658
29	3,942	675	27	4,060	588
29	3,942	671	29	4,378	745
29	3,942	675	31	4,616	878
30	4,070	737	30	4,479	808

Source: Company, AmInvestment Bank Bhd, Bloomberg

EXHIBIT 2: PB BAND CHART

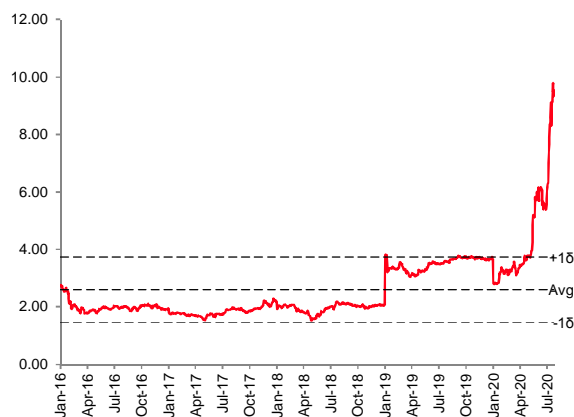


EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,140.6	2,217.2	3,941.5	4,377.8	4,591.1
EBITDA	341.3	378.2	986.9	1,096.1	903.2
Depreciation/Amortisation	(76.8)	(91.2)	(115.7)	(131.5)	(147.3)
Operating income (EBIT)	264.5	287.0	871.2	964.6	755.9
Other income & associates	-	-	-	-	-
Net interest	(15.1)	(11.3)	(25.2)	(19.4)	(24.3)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	249.4	275.7	846.0	945.2	731.6
Taxation	(44.7)	(48.5)	(165.0)	(189.0)	(150.0)
<b>Minorities/pref dividends</b>	<b>(4.8)</b>	<b>(3.2)</b>	<b>(9.6)</b>	<b>(10.7)</b>	<b>(8.2)</b>
Net profit	199.9	224.0	671.4	745.5	573.4
Core net profit	199.9	224.0	671.4	745.5	573.4
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	1,267.9	1,206.9	1,406.0	1,589.4	1,756.9
Intangible assets	1.6	-	-	-	-
<b>Other long-term assets</b>	<b>2.1</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>
Total non-current assets	1,271.7	1,222.0	1,421.2	1,604.6	1,772.1
Cash & equivalent	146.3	162.3	(150.4)	154.4	60.5
Stock	249.0	321.5	430.6	475.7	549.8
Trade debtors	436.4	415.3	803.6	892.6	936.0
<b>Other current assets</b>	<b>33.9</b>	<b>38.2</b>	<b>38.2</b>	<b>38.2</b>	<b>38.2</b>
Total current assets	865.7	937.2	1,122.0	1,560.8	1,584.6
Trade creditors	206.6	253.2	332.8	367.6	424.8
Short-term borrowings	279.4	401.9	62.5	62.5	62.5
<b>Other current liabilities</b>	<b>0.8</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>
Total current liabilities	486.8	657.0	397.2	432.0	489.2
Long-term borrowings	229.3	163.3	125.0	62.5	-
<b>Other long-term liabilities</b>	<b>89.8</b>	<b>93.0</b>	<b>93.0</b>	<b>93.0</b>	<b>93.0</b>
<b>Total long-term liabilities</b>	<b>319.1</b>	<b>256.3</b>	<b>218.0</b>	<b>155.5</b>	<b>93.0</b>
Shareholders' funds	1,315.1	1,424.7	1,827.6	2,274.9	2,618.9
Minority interests	27.5	26.7	63.5	70.6	74.0
BV/share (RM)	2.10	1.13	1.48	1.83	2.11
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	249.4	275.7	846.0	945.2	731.6
Depreciation/Amortisation	76.8	91.2	115.7	131.5	147.3
Net change in working capital	(91.3)	(45.6)	(417.9)	(99.2)	(60.3)
<b>Others</b>	<b>(39.3)</b>	<b>(58.0)</b>	<b>(139.8)</b>	<b>(169.6)</b>	<b>(125.7)</b>
Cash flow from operations	195.7	263.3	404.1	807.9	692.9
Capital expenditure	(314.9)	(207.7)	(314.9)	(314.9)	(314.9)
Net investments & sale of fixed assets	0.8	1.2	1.2	1.2	1.2
<b>Others</b>	<b>0.1</b>	-	-	-	-
Cash flow from investing	(314.0)	(206.6)	(313.7)	(313.7)	(313.7)
Debt raised/(repaid)	60.0	132.3	(145.0)	122.3	(221.7)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-	(268.6)	(298.2)	(229.4)
<b>Others</b>	<b>(13.3)</b>	<b>(16.1)</b>	<b>11.6</b>	<b>(12.4)</b>	<b>(20.8)</b>
<b>Cash flow from financing</b>	<b>46.7</b>	<b>116.2</b>	<b>(401.9)</b>	<b>(188.2)</b>	<b>(471.9)</b>
<b>Net cash flow</b>	<b>(71.5)</b>	<b>172.9</b>	<b>(311.5)</b>	<b>306.0</b>	<b>(92.6)</b>
<b>Net cash/(debt) b/f</b>	<b>210.4</b>	<b>146.3</b>	<b>162.3</b>	<b>(150.4)</b>	<b>154.4</b>
Net cash/(debt) c/f	137.5	319.0	(149.5)	155.3	61.5
<b>Key Ratios (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	9.3	3.6	77.8	11.1	4.9
EBITDA growth (%)	10.4	10.8	161.0	11.1	(17.6)
Pretax margin (%)	11.7	12.4	21.5	21.6	15.9
Net profit margin (%)	9.3	10.1	17.0	17.0	12.5
Interest cover (x)	17.5	25.4	34.6	49.7	31.1
Effective tax rate (%)	17.9	17.6	19.5	20.0	20.5
Dividend payout (%)	19.2	31.4	40.0	40.0	40.0
Debtors turnover (days)	69	70	56	71	73
Stock turnover (days)	39	47	35	38	41
Creditors turnover (days)	35	38	27	29	32

Source: Company, AmInvestment Bank Bhd estimates

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