

5 January 2024

Consumer Cyclical | Rubber Products

Rubber Products

Overweight (from Neutral)

Transition Towards Sustainable Growth; Upgrade

Stocks Covered 4
 Rating (Buy/Neutral/Sell): 3 / 1 / 0
 Last 12m Earnings Revision Trend: Positive

- **U/G to OVERWEIGHT from Neutral.** Recent export data suggests a positive demand recovery sign that coincides with steady ASP performance. Further normalisation in gas tariffs and various cost discipline measures in place could eventually propel profitability in 2024. We also expect a meaningful demand recovery trend by 2H24 before glovemakers recommence capacity expansions by 2025/2026. Key downside risks include weaker-than-expected demand, inability to pass on costs to customers, and higher-than-expected operating costs.
- **What triggered the upgrade?** Malaysia's monthly glove exports remain on a positive YoY growth trend for two consecutive months following a 2% YoY increase in Nov 2023 (Oct 2023: +33%). Despite export volumes contracting by 25% on a MoM basis, export value was 1% MoM higher in Nov 2023. We believe this may indicate cost pass-throughs starting to kick-in and a better product mix in Nov. On this front, we believe the ability to initiate cost pass-throughs will serve as a crucial catalyst to drive profitability moving forward, more so as it also indicates the risk from a price war has gradually dissipated. Based on our channel check, Malaysian glovemakers sold at USD19-20/1,000 pieces in Dec 2023, largely unchanged vs 3Q23's numbers. While domestic glovemakers suffered a weaker ASP in 3Q23, (down 3-7% QoQ), we think the pick-up in export value could substantiate the management teams' guidance and our expectations of a stabilised ASP trend, which could gradually materialise in 2024.
- **Demand-supply dynamic.** Our 2024 industry supply is now at 376bn vs 2023's 373bn, taking into account 1bn in new capacity from Thailand and Hartalega's progressive capacity transition plan (estimated: 2bn vs New Generation Complex or NGC's 1.5bn). Local players have yet to announce plans to commence new capacity in 2024, given that domestic industry plant utilisation is still running <50%. We raise our 2024 demand assumptions to 397bn from 386bn previously, which indicates 7% YoY growth from 4% growth previously vs the pre-COVID-19 5-year average growth of 14%. That said, we expect the industry to achieve equilibrium by 2H24, as the bulk of inventory stockpiled since 2020-2021 has been gradually consumed and is approaching its shelf-life end (3-5 years usually).
- **Now OVERWEIGHT.** We believe Malaysian glovemakers still have legs to run predominantly in 1H24 on a temporary demand shift to Malaysia amid China's Lunar New Year holiday break and ample room for capacity expansion (post demand recovery by 2H24). We upgrade Hartalega, Kossan Rubber, and Supermax to BUY, with Hartalega and Kossan being our sector Top Picks. We keep our NEUTRAL rating on Top Glove on weaker-than-peers balance sheet and plant utilisation. We expect improvements in demand visibility and favourable cost outlooks in 2024 to propel profitability. The consistency of order replenishments, ability to implement cost pass-throughs, and gradual improvements in utilisation rates remain the key statistics to watch out for and ensure earnings sustainability.

Top Picks

Target Price

Hartalega (HART MK) – BUY MYR3.25
 Kossan Rubber (KRI MK) – BUY MYR2.20

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ESG scores of basic materials companies under our coverage

Company	ESG scores
Top Glove	3.1
Hartalega	2.9
Kossan Rubber	2.6
Supermax	2.3

Source: RHB

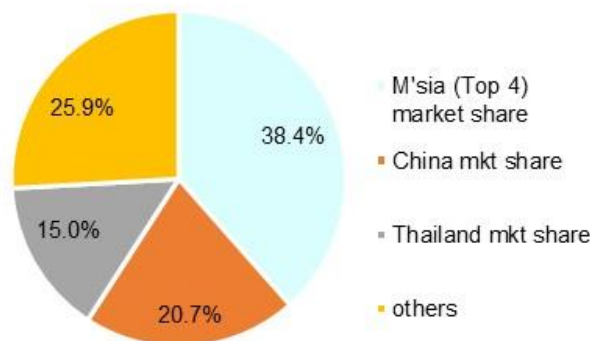
Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Hartalega	Buy	3.25	14.4	36.7	1.9	5.4	-
Kossan Rubber	Buy	2.20	15.6	29.1	1.2	4.1	1.0
Supermax Corp	Buy	1.06	10.8	47.4	0.5	1.1	0.4
Top Glove Corp	Neutral	0.93	(3.7)	274.4	1.7	0.6	-

Source: Company data, RHB

Figure 1: Global demand and supply overview



Figure 2: 2024 Market share by installed capacity



Source: Malaysian Rubber Glove Manufacturers Association (MARGMA), RHB

Source: MARGMA, respective Company data, RHB

Figure 3: Overview of global glove demand & supply (by country)

	2019	2020	2021	2022	2023F	2024F
Global Demand (bn)	340.0	460.0	492.0	399.0	371.1	396.8
YoY	21.4%	35.3%	7.0%	-18.9%	-7.0%	6.9%
Industry Supply (bn)	300.0	360.0	412.0	422.7	373.3	376.3
YoY	11.9%	20.0%	14.4%	2.6%	-11.7%	0.8%
Surplus/(Deficit)	-40.0	-100.0	-80.0	23.7	2.2	-20.5
Malaysia Top 4 Supply (bn)	156.5	185.7	202.7	198.7	142.7	144.7
YoY	10.0%	18.7%	9.2%	-2.0%	-28.2%	1.4%
M'sia (Top 4) market share	52.2%	51.6%	49.2%	47.0%	38.2%	38.7%
China	25.8	51.6	75.0	75.0	78.0	78.0
YoY		100.0%	45.3%	0.0%	4.0%	0.0%
China mkt share	8.6%	14.3%	18.2%	17.7%	20.9%	20.8%
Thailand	25.0	32.0	40.3	48.0	55.2	56.3
YoY		27.8%	26.2%	19.1%	15.1%	1.9%
Thailand mkt share	8.3%	8.9%	9.8%	11.4%	14.8%	15.0%
others	92.7	90.8	94.0	101.0	97.4	97.4
YoY		-2.1%	3.6%	7.5%	-3.6%	-2.1%

Source: MARGMA, respective Company data, RHB

Glove export overview. Malaysia's glove exports volumes spiked 2% YoY in Nov 2023, resuming its positive YoY growth momentum for two consecutive months following 33% YoY growth in Oct 2023. Conversely, China glove exports declined 3% MoM in Nov 2023 on a 1% MoM drop in export value. Malaysian export volumes was down 25% MoM in Nov 2023, offset by a 1% MoM growth in export value. We believe this is may be due to cost pass-throughs starting to kick-in and a better product mix in Nov 2023. On this front, we believe the ability to initiate cost pass-throughs will serve as a crucial catalyst to drive profitability moving forward – more so as it also indicates the risk from a price war is gradually dissipating.

According to our channel checks, Malaysian glovemakers are currently selling at USD19-20 per 1,000 pieces in Dec 2023 (China ASPs: USD15-17), largely unchanged vs 3Q23's numbers. While local glovemakers suffered weaker ASPs in 3Q23 – down 3-7% QoQ – we think the pick-up in export value could substantiate the management teams' guidance as well as our expectations of a stabilised ASP trend in 2024.

Figure 4: Malaysian glove exports (in tonnes)

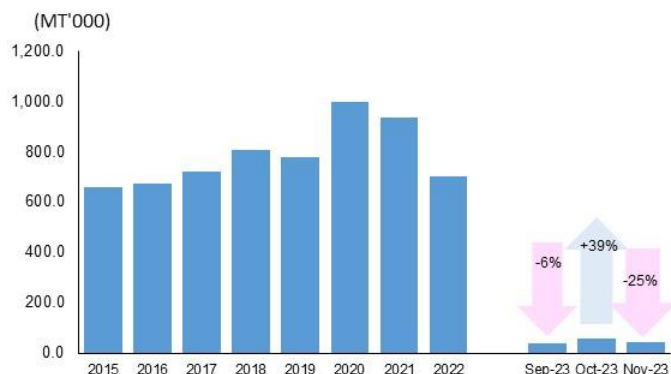
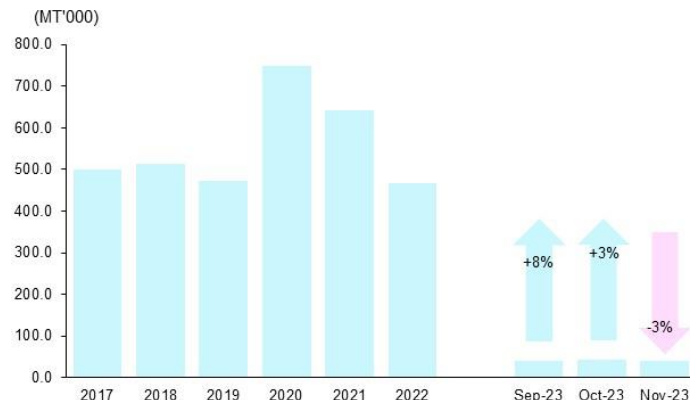


Figure 5: China glove exports (in tonnes)



Source: Department of Statistics Malaysia, RHB

Source: General Administration of Custom of the People's Republic of China, RHB

How do we compete against China? We gather that product quality from the Chinese glovemakers are rather subpar vis-à-vis Malaysia-made products, given that the former had earlier been issued multiple import alerts by the US Food & Drug Administration (US FDA). According to the latest [import alert](#) dated 26 Dec 2023 issued by the US FDA, 10 Chinese firms were issued import alerts by the agency in 4Q23, given that the shipment of medical gloves was found to be in violation of defects detected by the US FDA. According to our channel checks with the Chinese peers, the US agency has turned more stringent in its import assessments, resulting in higher numbers of inferior products being rejected in 4Q23, ie 10 vs three in 3Q23. Correspondingly, only one Malaysian firm was issued an import alert in 4Q23.

We also noticed that none of the local Top 4 had any history of being issued import alerts by the US FDA. By comparison Chinese glovemaking Intco Medical was issued with an alert on 23 Jun 2023. In view to that, we expect concerns over product quality will take precedent over ASPs in the mid-to-longer term. This, in turn, will benefit Malaysian makers – not forgetting that the country is still the largest gloves producer in the world with established historical presence and business relationships with western customers. All else being equal, glovemakers here uphold rather strict quality standards – not only on their products, but also in terms of services, sustainability, and operations.

Figure 6: Import alert issued by the US FDA on Intco Medical's products

INTCO MEDICAL HK CO LTD
 Date Published : 06/23/2023
 183 Queens Road East Le , Vel 54 Hopewell Cent Er , Hong Kong, HONG KONG SAR
 80 F - - MC Glove, Patient Examination
 Date Published: 06/23/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - YY Glove, Patient Examination, Latex
 Date Published: 06/23/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - YZ Glove, Patient Examination, Vinyl
 Date Published: 06/23/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - ZA Glove, Patient Examination, Poly
 Date Published: 06/23/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - ZC Glove, Patient Examination, Specialty
 Date Published: 06/23/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 O - - /G Rubber examination gloves, powder-free
 Date Published: 06/23/2023
 Desc: Examination Gloves
 Notes: *Level 1

Source: US FDA

Figure 7: Import alert issued by the US FDA on another Chinese glovemaking

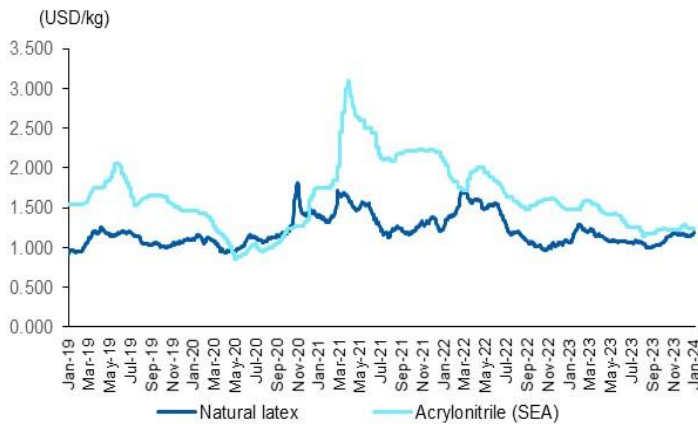
Jinzhou City Xinrui Plastic Products Co., Ltd.
 Date Published : 12/26/2023
 200 METERS EAST OF THE INTERSECTION OF CENTURY STREET AND 307 NATIONAL HIGHWAY , Jinzhou, Hebei CHINA
 80 F - - MC Glove, Patient Examination
 Date Published: 12/26/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - YY Glove, Patient Examination, Latex
 Date Published: 12/26/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - YZ Glove, Patient Examination, Vinyl
 Date Published: 12/26/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - ZA Glove, Patient Examination, Poly
 Date Published: 12/26/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 L - - ZC Glove, Patient Examination, Specialty
 Date Published: 12/26/2023
 Desc: Examination Gloves
 Notes: *Level 1
 80 O - - /G Rubber examination gloves, powder-free
 Date Published: 12/26/2023
 Desc: Examination Gloves
 Notes: *Level 1

Source: US FDA

Raw material prices. Natural latex is expected trend higher in the coming months as the major natural latex-producing country – Thailand – enters into its winter season (resulting in lower yields). As such, natural latex costs are expected to be increase by 11% QoQ in 4Q23. Nonetheless, price is expected to normalise by Mar-Apr 2024 based on historical data. Nitrile prices were 3% higher in 4Q23, predominantly due to feedstock price escalation during Oct 2023.

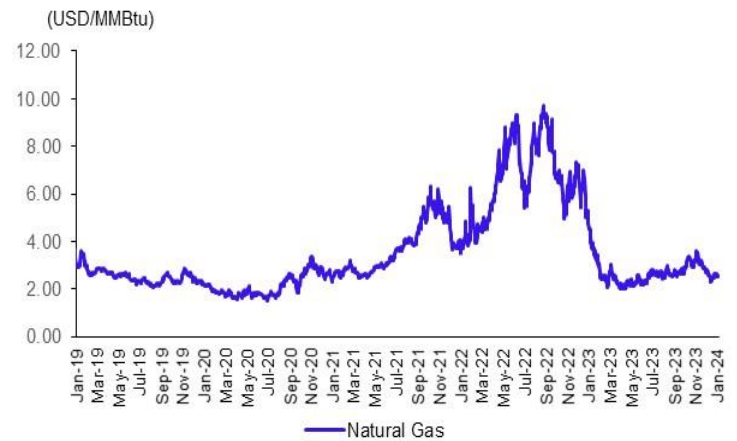
Meanwhile, [RHB Research](#) expects Brent crude oil prices to trade relatively lower at USD85 per bbl in 2024 from the peak range of USD90-95 per bbl seen in 2023. We view this as a positive sign for local glovemakers – taking into consideration the positive correlation between natural gas and crude oil prices, ie a correlation of 0.7-0.8. This could eventually allow Malaysian glovemakers to narrow the ASP gap against their Chinese counterparts.

Figure 8: Natural latex and acrylonitrile prices



Source: Bloomberg, RHB

Figure 9: Natural gas prices



Source: Bloomberg, RHB

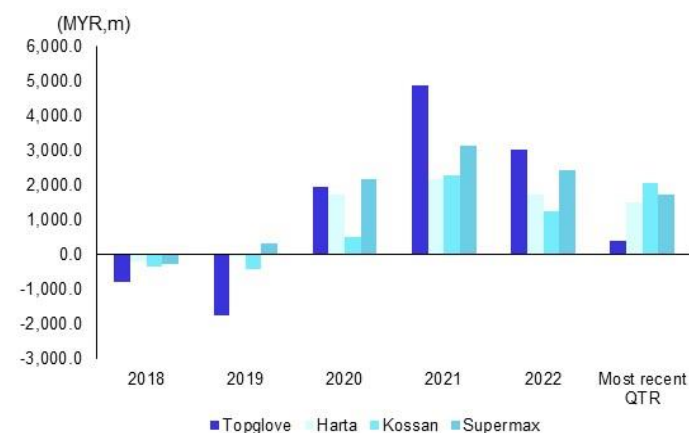
The strength of the balance sheet is key. Kossan overtook Supermax to become the glovemaker with the highest net cash on hand among Top 4. In terms of balance sheet strength, Kossan recorded net cash of MYR2bn (as at Sep 2023), which is 41% of its market cap (as at 3 Jan 2024). This is followed by Supermax and Hartalega – their net cash represents 66% and 16% of their respective market caps.

Figure 10: Malaysia glovemakers net cash positions vs market cap

Companies	Latest net cash position (MYRm)	Market cap (MYRm)	Net cash as a % of market cap
Top Glove*	450.5	7,962.0	5.7%
Hartalega	1,505.4	9,734.0	15.5%
Kossan	2,048.3	4,860.0	42.1%
Supermax	1,714.7	2,612.0	65.6%

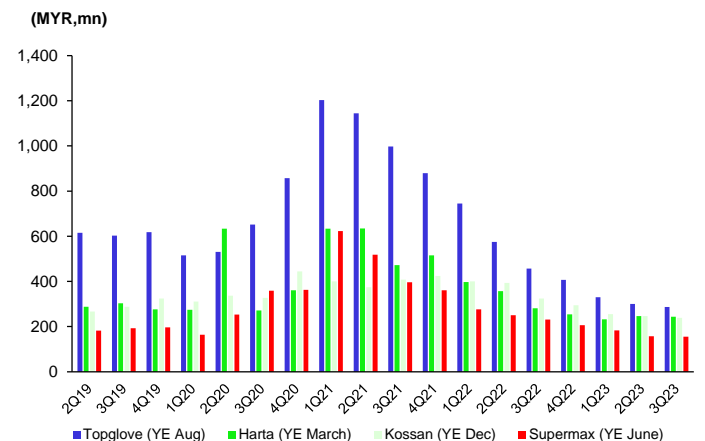
Note: *Net cash as at Nov 2023
Source: Company data, RHB

Figure 11: Malaysian glovemakers' net cash position



Source: Company data

Figure 12: Inventory levels by Malaysian glovemakers



Source: Company data

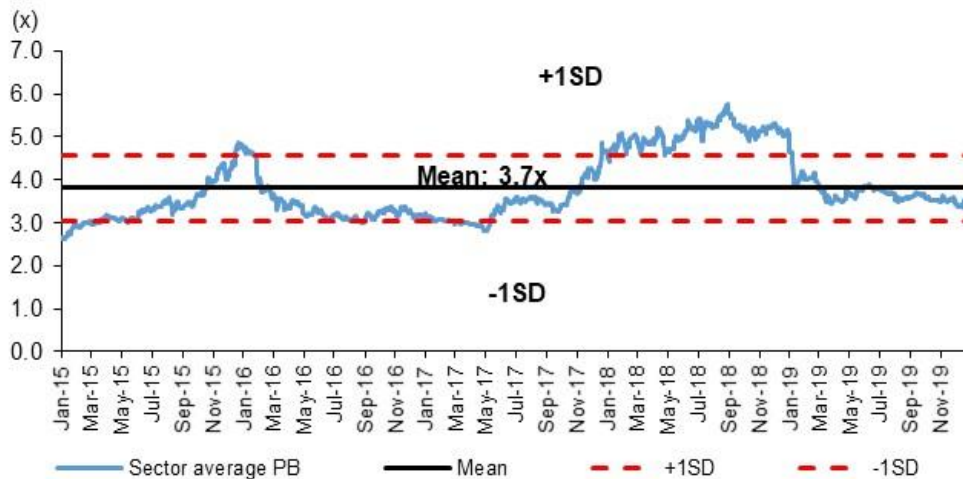
Valuation and strategy. The sector P/BV has recovered close to the -1SD level following improvements in the market dynamics. At forward P/BV of 1.3x, the sector valuation appears compelling against the pre-COVID-19 5-year mean of 3.7x. This is on the back of potential sectoral earnings recovery by 2025-2026.

Our sector Top Picks are Hartalega and Kossan – owing to their relatively better operating efficiencies and solid balance sheets with high net cash in hand. Our sector OVERWEIGHT rating is warranted based on the improving business dynamics thanks to the normalised cost outlook, stabilised ASP trend (with cost pass-through mechanisms taking place), and gradual depletion of client’s inventory levels (with restocking activities likely to meaningfully materialise by 2H24).

What are the other catalysts?

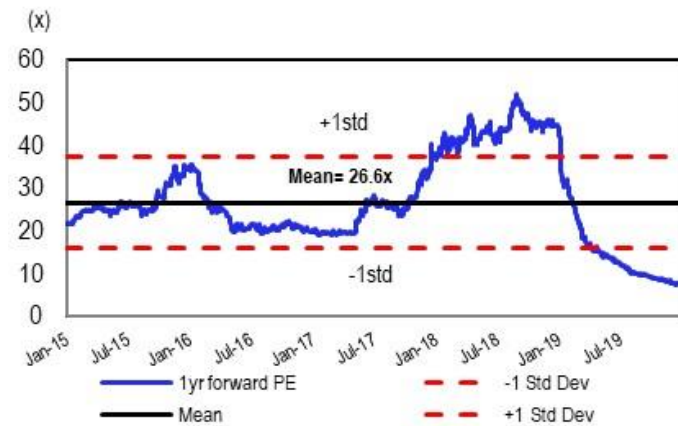
- i. The re-introduction of dividend payments (likely for companies with solid balance sheets like Hartalega, Kossan, and Supermax);
- ii. Resumption of capacity expansions (likely 2H24/2025 due to better demand visibility);
- iii. Potential inclusion into the KLCI constituents (we expect a low likelihood to this event, given that Hartalega – being the largest glovemaker by market cap – still requires at least c.65% to qualify as the 25th largest listed company on the KLCI).

Figure 13: Glove sector’s 5-year pre-COVID-19 P/BV band



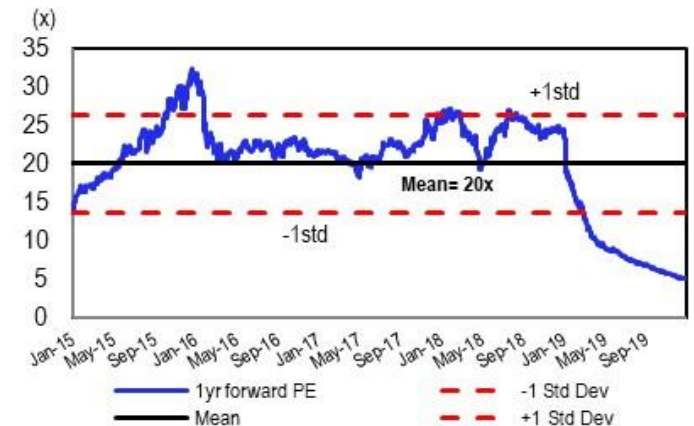
Source: Bloomberg, RHB

Figure 14: Hartalega's 5-year pre-COVID-19 P/E band



Source: Bloomberg, RHB

Figure 15: Kossan's 5-year pre-COVID-19 P/E band



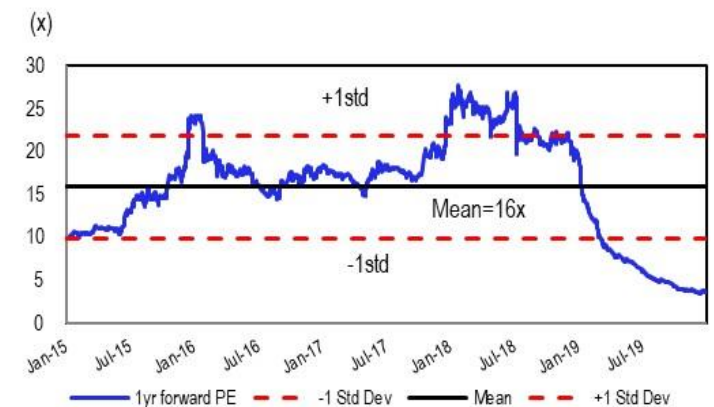
Source: Bloomberg, RHB

Figure 16: Supermax's 5-year pre-COVID-19 P/E band



Source: Bloomberg, RHB

Figure 17: Top Glove's 5-year pre-COVID-19 P/E band



Source: Bloomberg, RHB

5 January 2024

Consumer Cyclical | Rubber Products

Hartalega (HART MK)

Buy (from Neutral)

Clearer Visibility Ahead; Upgrade to BUY

Target Price (Return): MYR3.25 (14.4%)
 Price (Market Cap): MYR2.84 (USD2,092m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 21.1m/4.49m

- **Upgrade to BUY from Neutral, new MYR3.25 TP from MYR2.22, 14% upside.** Our upgrade is premised on recent robust export data that potentially suggests a positive sign of demand recovery that coincides with steady ASP performance. Moving forward, we expect the improvement in demand visibility, coupled with a favourable cost outlook in 2024, to propel glovemakers' profitability. Our TP on Hartalega incorporates a 2% ESG discount, as HART's ESG score is below the 3.0 country median.
- **What triggered our upgrade?** Malaysia's monthly glove exports has remained on a positive YoY growth trend for two consecutive months following a 2% YoY increase in Nov 2023 (Oct 2023: +33%). Despite export volumes contracting 25% on a MoM basis, the export value was 1% MoM higher in Nov 2023. We believe this may indicate a cost pass-throughs starting to kick-in and a better product mix in Nov 2023. On this front, we believe the ability to initiate cost pass-throughs will serve as a crucial catalyst to drive profitability moving forward. It also indicates risks from a price war has gradually dissipated. Based on our channel checks, Malaysian glovemakers sold at USD19-20/1,000 pieces in Dec 2023, largely unchanged vs 3Q23. While Malaysian glovemakers suffered weaker ASPs in 3Q23 (down 3-7% QoQ), we think the pick-up in export value could substantiate the management teams' guidance and our expectations of a stabilised ASP trend that could gradually materialise in 2024.
- **Demand-supply dynamic.** Our 2024 industry supply is now at 376bn vs 2023's 373bn, taking into account 1bn in new capacity from Thailand and Hartalega's progressive capacity transition plan (estimated at 2bn from the New Generation Complex or NGC's 1.5bn). Malaysian glovemakers have yet to announce any plans to commence new capacities in 2024, given that domestic industry plant utilisation is still running below 50%. We raised our 2024 demand assumptions to 397bn from 386bn previously, which indicates a 7% YoY growth from 4% growth previously. This is in comparison with the pre-COVID-19 5-year average growth of 14%. That said, we expect the industry to achieve equilibrium by 2H24, as the bulk inventory stockpiled since 2020-2021 has been gradually consumed and is approaching shelf-life end (typically 3-5 years).
- **Earnings revision and valuation.** We raise FY24F-25F (Mar) earnings to MYR175m and MYR294m from MYR147m and MYR191m – taking into account of the better demand visibility and improving plant utilisation rate. Our WACC is lowered 7% from 8% after we trim our cost of equity to 9% from 10% previously. Our DCF-derived TP represents 28x FY25F P/E, ie above HART's pre-COVID-19 5-year mean of 27x. Key risks: Drop in glove ASPs, slower-than-expected capacity expansions, lower-than-expected utilisation rates, and higher-than-expected raw material prices.

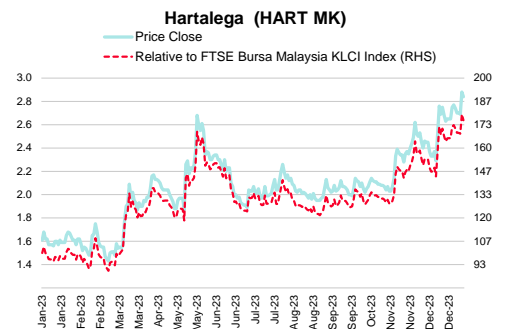
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.2	15.9	34.0	39.9	76.4
Relative	3.6	14.1	29.7	33.8	75.9
52-wk Price low/high (MYR)	1.43 – 2.88				



Source: Bloomberg

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover (MYRm)	7,888	2,410	2,453	2,667	3,008
Recurring net profit (MYRm)	3,180	118	175	294	425
Recurring net profit growth (%)	7.8	(96.3)	48.9	68.0	44.5
Recurring P/E (x)	3.06	82.64	55.52	33.04	22.87
P/B (x)	1.9	2.1	2.0	1.9	1.8
P/CF (x)	2.61	na	49.95	25.58	19.02
Dividend Yield (%)	20.1	1.2	na	na	na
EV/EBITDA (x)	1.59	na	22.35	14.94	10.92
Return on average equity (%)	64.1	(4.8)	3.7	5.9	8.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: GOOD

HART has pledged to reduce its carbon emission intensity by 45% by 2030 through the installation various production related equipment and advanced technologies to optimise equipment efficiency and further reduce the group's energy consumption and carbon emissions. More than 90% of product packaging are made from recyclable materials.

S: GOOD

HART has invested more than MYR98m in providing first-rate workers' accommodation, which complies with the International Labour Organisation's 11 Indicators of Forced Labour and exceeds the requirements of the Workers' Minimum Standards of Housing and Amenities (Amendment) Act 2019 (Act 446) specified under the Malaysian law.

G: EXCELLENT

56% of its board members are independent, and 33% are women, exceeding the Malaysian Code on Corporate Governance's requirement of 30%. Additionally, HART provides full disclosures on directors' remunerations, including salaries and bonuses. The group holds regular investor briefings, embodying good transparency, and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Malaysia	Recurring EPS	0.93	0.03	0.05	0.09	0.12
Consumer Cyclical	DPS	0.57	0.03	-	-	-
Hartalega	BVPS	1.50	1.36	1.41	1.49	1.62
HART MK	Return on average equity (%)	64.1	(4.8)	3.7	5.9	8.0
Buy						
	Valuation metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Valuation basis	Recurring P/E (x)	3.06	82.64	55.52	33.04	22.87
We adopt DCF valuation methodology	P/B (x)	1.9	2.1	2.0	1.9	1.8
	FCF Yield (%)	29.5	(3.6)	(0.6)	1.3	2.7
Key drivers	Dividend Yield (%)	20.1	1.2	-	-	-
i. Sales volume growth;	EV/EBITDA (x)	1.59	na	22.35	14.94	10.92
ii. Appreciation of the USD against the MYR;	EV/EBIT (x)	1.64	na	36.63	20.82	13.97
iii. Lower-than-expected raw material prices.						
	Income statement (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Key risks	Total turnover	7,888	2,410	2,453	2,667	3,008
i. Decrease in glove ASPs;	Gross profit	4,795	319	482	620	829
ii. Slower-than-expected capacity expansions;	EBITDA	4,794	(55)	367	540	713
iii. Lower-than-expected utilisation rates;	Depreciation and amortisation	(152)	(152)	(143)	(153)	(156)
iv. Higher-than-expected raw material prices.	Operating profit	4,642	(207)	224	387	557
	Net interest	(5)	(8)	(5)	(4)	(4)
Company Profile	Pre-tax profit	4,637	(214)	219	383	553
Hartalega is the world's second-largest glove producer by market cap.	Taxation	(1,395)	(24)	(44)	(88)	(127)
	Reported net profit	3,234	(235)	175	294	425
	Recurring net profit	3,180	118	175	294	425
	Cash flow (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Change in working capital	182	119	(112)	(55)	(53)
	Cash flow from operations	3,716	(38)	195	380	511
	Capex	(847)	(307)	(250)	(250)	(250)
	Cash flow from investing activities	(810)	(266)	(233)	(233)	(228)
	Cash flow from financing activities	(3,210)	(352)	(15)	(14)	(14)
	Cash at beginning of period	2,669	2,378	1,724	1,672	1,804
	Net change in cash	(304)	(657)	(53)	132	268
	Ending balance cash	2,378	1,723	1,672	1,804	2,072
	Balance sheet (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Total cash and equivalents	2,378	1,724	1,672	1,804	2,072
	Tangible fixed assets	2,372	1,943	1,856	1,760	1,663
	Total assets	6,347	5,305	5,618	5,880	6,304
	Short-term debt	104	87	87	87	87
	Total long-term debt	140	64	54	44	34
	Total liabilities	1,203	647	784	751	749
	Total equity	5,145	4,658	4,834	5,129	5,555
	Total liabilities & equity	6,347	5,305	5,618	5,880	6,304
	Key metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Revenue growth (%)	17.7	(69.5)	1.8	8.7	12.8
	Recurrent EPS growth (%)	7.8	(96.3)	48.9	68.0	44.5
	Gross margin (%)	60.8	13.2	19.7	23.2	27.5
	Operating EBITDA margin (%)	60.8	(2.3)	15.0	20.2	23.7
	Net profit margin (%)	41.0	(9.8)	7.1	11.0	14.1
	Dividend payout ratio (%)	60.4	(50.9)	0.0	0.0	0.0
	Capex/sales (%)	10.7	12.8	10.2	9.4	8.3
	Interest cover (x)	972	(27)	47	87	134

Source: Company data, RHB

Figure 1: SOP valuation

FYE 31 Mar (MYRm)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	Terminal
NOPAT	170	294	424	538	574	606	629	657	698	765	801	
+ D&A	143	153	156	159	162	166	169	172	176	179	183	
- Change in NWC	(112)	(55)	(53)	(69)	(28)	(32)	(34)	(36)	(36)	(28)	(27)	
- CAPEX	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	
Free cash flow to firm (FCFF)	-48	142	276	378	458	490	515	543	587	666	706	15,235
Discount factor	0.91	0.85	0.79	0.74	0.69	0.65	0.60	0.56	0.53	0.49	0.46	0.46
PV of FCFF	(44)	120	219	281	318	317	311	307	310	329	325	7,017
Risk-free	4%											
WACC	8%											
Terminal growth	2%											
Enterprise value (MYRm)	9,810											
- Minority	(0)											
Cash	1,672											
- Debt	(142)											
Equity value (MYRm)	11,339											
Number of shares (m)	3,422											
Initial TP (MYR)	3.30											
ESG discount/premium	(0.06)											
TP (MYR)	3.25											

Source: RHB

Figure 2: Changes in assumptions

	FY2024F		FY2025F		FY2026F	
	Before	After	Before	After	Before	After
Blended (ASP, USD/1,000)	24	24	24	24	25	25
Total production	20,703	23,284	21,129	25,401	22,679	28,527
Utilisation	56%	63%	68%	78%	73%	78%

Source: RHB

Emissions And ESG

Trend analysis

Lower Scopes 1 and 2 emissions in FY23 due to lower natural gas and purchased electricity consumption.

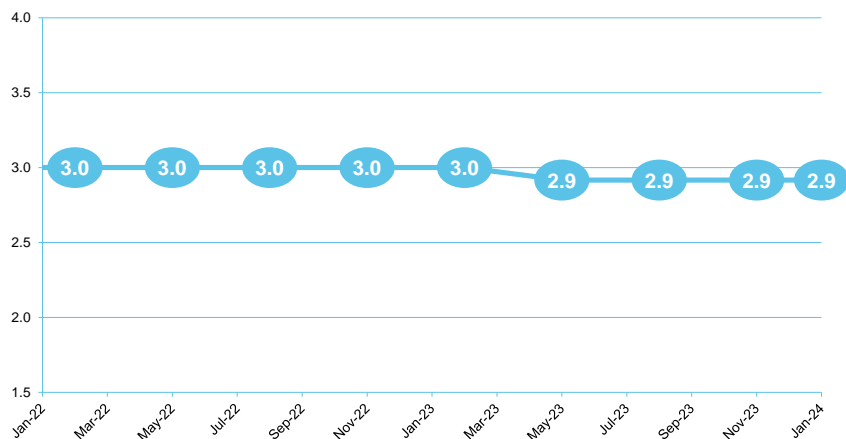
Emissions (tCO2e)	Mar-21	Mar-22	Mar-23
Scope 1	626,972	521,681	378,118
Scope 2	183,460	136,705	114,517
Scope 3	-	-	5,383
Total emissions	810,432	658,386	498,018

Source: Company data, RHB

Latest ESG-Related Developments

- Invested more than MYR90m in strengthening wastewater systems at its manufacturing plants

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-08	Neutral	2.2	2.4
2023-08-10	Neutral	1.9	2.1
2023-06-28	Neutral	2.0	1.9
2023-05-10	Neutral	2.4	2.3
2023-03-27	Neutral	2.1	1.9
2023-02-08	Neutral	1.6	1.5
2022-11-09	Sell	1.5	2.0
2022-09-27	Sell	1.4	1.6
2022-05-11	Neutral	5.0	4.4
2022-02-08	Neutral	5.1	5.6
2021-12-26	Neutral	5.1	5.5
2021-11-03	Neutral	5.9	5.7
2021-09-27	Neutral	5.6	5.5
2021-01-26	Buy	23.9	12.4
2020-10-27	Buy	23.5	18.3

Source: RHB, Bloomberg

5 January 2024

Consumer Cyclical | Rubber Products

Kossan Rubber (KRI MK)

Buy (from Neutral)

Improving Operating Dynamics; Upgrade To BUY

Target Price (Return): MYR2.20 (15.6%)
 Price (Market Cap): MYR1.90 (USD1,046m)
 ESG score: 2.6 (out of 4)
 Avg Daily Turnover (MYR/USD) 10.0m/2.13m

- **Upgrade to BUY from Neutral, new MYR2.20 TP from MYR1.45, 16% upside, c.1% yield.** We upgrade Kossan Rubber as recent robust export data indicates a demand recovery, and also due to its steady ASP performance. We continue to like Kossan for its relatively robust balance sheet and better-than-peers operating efficiency. Our TP incorporates an 8% ESG discount as Kossan's ESG score is below the country median.

- **What triggered our upgrade?** Malaysia's monthly glove exports saw positive YoY growth for two consecutive months, with a 2% YoY increase in Nov 2023 (Oct 2023: +33%). Despite export volumes contracting 25% MoM, export value was higher by 1% MoM in Nov 2023. We believe this indicates: i) Cost-pass-through has started to kick-in; ii) a better product mix in Nov 2023. We believe the ability to initiate cost-pass-through will serve as a crucial catalyst to drive profitability moving forward. It also indicates that risks from the price war has gradually dissipated. Based on our channel checks, Malaysia glove makers were selling at USD19-20 per 1,000 pieces in Dec 2023, largely unchanged vs 3Q23. While Malaysia glove makers suffered weaker ASPs in 3Q23 (3-7% lower QoQ), we think the pick-up in export value could substantiate management's guidance as well as our expectations of a stabilised ASP trend materialising in 2024.

- **Demand-supply dynamic.** Our 2024 industry supply is now at 376bn vs 2023's 373bn, taking into account 1bn in new capacity from Thailand and Hartalega's (HART MK, BUY, TP: MYR3.25) progressive capacity transition plan (estimated 2bn from the Next Generation Integrated Glove Manufacturing Complex or NGC 1.5). Malaysia glove makers have yet to announce any plans to commence new capacity in 2024, as the local industry's plant utilisation (PU) is still running below 50%. We raised our 2024 demand assumption to 397bn from 386bn previously, reflecting a 7% YoY growth (from 4% previously) vs the pre-pandemic 5-year average growth of 14%. That said, we expect the industry to achieve its equilibrium level by 2H24 as the bulk inventory stockpiled since 2020-2021 has been gradually consumed and approaching its shelf-life (typically 3-5 years).

- **Earnings revision and valuation.** We raise our 2023-2024 earnings to MYR76m and MYR167m from MYR64m and MYR103m respectively, taking into account better demand visibility and improving plant utilisation rates. Our DCF-derived TP represents 23x FY25 P/E, above its pre-COVID-19 5-year mean of 20x.

- **Key risks.** Decrease in glove ASPs, slower-than-expected capacity expansion, lower-than-expected utilisation rates, and higher-than-expected raw material prices.

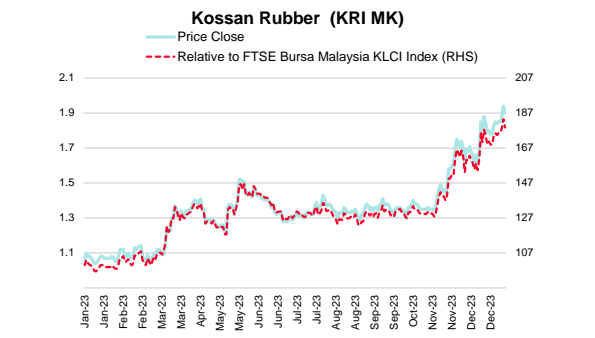
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	13.1	39.7	47.3	79.2
Relative	1.1	11.3	35.4	41.2	78.7
52-wk Price low/high (MYR)	1.04 – 1.94				



Source: Bloomberg

Overall ESG Score: 2.6 (out of 4)

E: GOOD

Kossan employs a 3R strategy to Reduce, Reuse and Recycle to manage the impacts of pollutants derived from its manufacturing process. The group undertake energy optimisation initiatives which include transition to solar energy plant, LED lights and solar-powered perimeter spotlights are fitted at all factories and offices.

S: GOOD

Kossan adopted Employee Pays (Zero-Cost) Policy under migrant workers recruitment process. Workers are protected from debt bondage, prohibit coercion into employment and allow freedom of movement. To ensure transparency employment contracts are make available in the workers' native languages. Potential recruitment agencies are also required to go through an onsite due diligence audit accompanied together with an independent consultant.

G: GOOD

44% of its board members are independent and 22% are female. Both are still below the Malaysian Code on Corporate Governance requirement of 50% independent and 30% female directors. On a positive note, Kossan provides full disclosures on its directors' remunerations. The company also holds regular investor briefings, which embodies good transparency and disclosure practices.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	6,631	2,344	1,943	2,178	2,344
Recurring net profit (MYRm)	2,860	167	76	167	200
Recurring net profit growth (%)	164.1	(94.2)	(54.2)	118.9	19.6
Recurring P/E (x)	1.70	29.17	63.62	29.06	24.31
P/B (x)	1.2	1.3	1.2	1.2	1.2
P/CF (x)	1.51	52.04	19.10	22.01	15.48
Dividend Yield (%)	25.2	1.3	0.5	1.0	1.2
EV/EBITDA (x)	0.67	11.50	17.90	10.82	9.15
Return on average equity (%)	70.6	3.8	1.9	4.1	4.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

5 January 2024

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	1.12	0.07	0.03	0.07	0.08
Consumer Cyclical	DPS	0.48	0.02	0.01	0.02	0.02
Kossan Rubber	BVPS	1.58	1.52	1.54	1.58	1.64
KRI MK	Return on average equity (%)	70.6	3.8	1.9	4.1	4.8
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	1.70	29.17	63.62	29.06	24.31
Discounted Cash Flow(DCF) FCFF valuation	P/B (x)	1.2	1.3	1.2	1.2	1.2
	FCF Yield (%)	61.8	(0.5)	1.1	0.4	2.3
	Dividend Yield (%)	25.2	1.3	0.5	1.0	1.2
Key drivers	EV/EBITDA (x)	0.67	11.50	17.90	10.82	9.15
Earnings forecasts are most sensitive to changes in:	EV/EBIT (x)	0.69	19.61	41.50	16.95	13.75
i. Improvement in sales volume;						
ii. Positive effect of any change in the USD/MYR rate;						
iii. Lower nitrile butadiene prices;						
iv. Lower natural rubber prices.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	6,631	2,344	1,943	2,178	2,344
i. Increase/decrease in gloves ASP;	Gross profit	4,068	451	166	303	395
ii. Slower/faster-than-expected capacity expansion;	EBITDA	3,841	314	200	332	386
iii. Higher/lower-than-expected utilisation rates;	Depreciation and amortisation	(120)	(130)	(114)	(120)	(129)
iv. Lower/higher-than-expected raw material price.	Operating profit	3,722	185	86	212	257
	Net interest	25	29	13	11	11
	Pre-tax profit	3,741	204	99	223	268
	Taxation	(890)	(54)	(22)	(54)	(64)
	Reported net profit	2,847	148	76	167	200
	Recurring net profit	2,860	167	76	167	200
Company Profile						
Kossan is one of the world's Big 4 glove makers. It has a production capacity of 33.5bn pieces pa.						
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(50)	319	77	(58)	(8)
	Cash flow from operations	3,225	93	255	221	314
	Capex	(220)	(115)	(200)	(200)	(200)
	Cash flow from investing activities	(222)	(812)	(182)	(182)	(182)
	Dividends paid	(1,200)	(1,225)	(23)	(50)	(60)
	Cash flow from financing activities	(1,541)	(481)	(28)	(57)	(66)
	Cash at beginning of period	1,090	2,558	1,348	1,392	1,374
	Net change in cash	1,462	(1,200)	44	(18)	65
	Ending balance cash	2,551	1,358	1,392	1,374	1,440
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	2,558	1,348	1,392	1,374	1,440
	Tangible fixed assets	1,420	1,420	1,506	1,586	1,657
	Total investments	1	0	0	0	0
	Total assets	5,013	4,286	4,410	4,562	4,735
	Short-term debt	187	77	77	77	77
	Total long-term debt	65	7	7	7	7
	Total liabilities	1,019	429	499	532	561
	Total equity	3,993	3,856	3,911	4,030	4,174
	Total liabilities & equity	5,013	4,286	4,410	4,562	4,735
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	82.3	(64.7)	(17.1)	12.1	7.6
	Recurrent EPS growth (%)	164.1	(94.2)	(54.2)	118.9	19.6
	Gross margin (%)	61.3	19.2	8.5	13.9	16.9
	Operating EBITDA margin (%)	57.9	13.4	10.3	15.3	16.5
	Net profit margin (%)	42.9	6.3	3.9	7.7	8.5
	Dividend payout ratio (%)	43.0	43.2	30.0	30.0	30.0
	Capex/sales (%)	3.3	4.9	10.3	9.2	8.5
	Interest cover (x)	450	43	18	31	40

Source: Company data, RHB

5 January 2024

Consumer Cyclical | Rubber Products

Figure 1: SOP valuation

FYE 31 March (MYR m)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal
NOPAT	161	195	220	224	229	246	264	282	295	307	
+ D&A	120	129	139	148	156	163	170	177	184	191	
- Change in NWC	(58)	(8)	2	(12)	(13)	(14)	(9)	(24)	(27)	(28)	
- CAPEX	(200)	(200)	(200)	(200)	(150)	(150)	(150)	(150)	(150)	(150)	
Free cash flow to firm (FCFF)	24	117	161	160	221	244	275	285	301	320	6,929
Discount factor	0.94	0.91	0.85	0.79	0.74	0.69	0.65	0.61	0.57	0.53	0.53
PV of FCFF	22	106	136	127	164	170	178	173	171	170	3,680
Risk-free	4%										
WACC	7%										
Terminal growth	2%										
Enterprise Value (MYR m)	5,097										
- Minority	(83)										
Cash	1,329										
- Debt	(231)										
Equity Value (MYR m)	6,112										
No of shares (m)	2,552										
TP (MYR)	2.40										
ESG discount/premium	-0.20										
TP (MYR)	2.20										

Source: RHB

Figure 2: Changes in assumptions

	FY2023F		FY2024F		FY2025F	
	Before	After	Before	After	Before	After
Blended (ASP, USD/1000)	21	21	21	22	22	22
Total production	16,828	17,463	18,300	18,910	19,520	20,130
Utilisation	53%	55%	60%	62%	64%	66%

Source: RHB

Emissions And ESG

Trend analysis

Installed 3.16 MWP of solar energy as at 2022. Pledged to reduce carbon emission via "reduce and optimise" strategy.

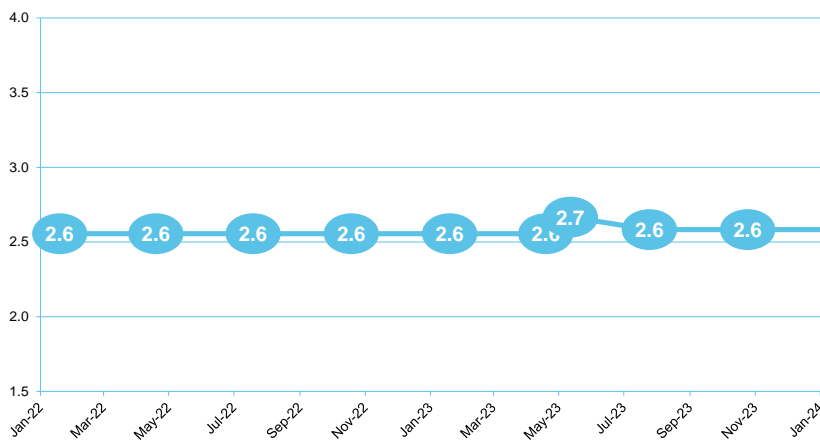
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	382,028	295,621
Scope 2	na	130,998	126,020
Scope 3	na	-	5,250
Total emissions	na	513,026	426,892

Source: Company data, RHB

Latest ESG-Related Developments

- Introduced a comprehensive carbon accounting system and database, and have improved GHG calculation methodology by taking Methane (CH4) and Nitrous Oxide (N2O) into consideration when calculating emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-16	Neutral	1.45	1.58
2023-07-28	Neutral	1.27	1.38
2023-05-15	Neutral	1.27	1.33
2023-04-28	Neutral	1.24	1.25
2023-03-27	Neutral	1.40	1.31
2023-02-17	Neutral	1.08	1.12
2022-11-03	Sell	0.91	1.09
2022-09-27	Sell	0.86	1.00
2022-02-17	Buy	2.05	1.69
2021-12-26	Buy	2.05	1.78
2021-10-22	Neutral	2.38	2.51
2021-09-27	Neutral	2.33	2.27
2021-06-28	Neutral	3.30	3.20
2021-04-21	Buy	5.45	3.93
2021-02-17	Buy	5.45	4.01

Source: RHB, Bloomberg

5 January 2024

Consumer Cyclical | Rubber Products

Supermax Corp (SUCB MK)

Buy (from Neutral)

Eyeing Better Prospects Ahead; U/G To BUY

Target Price (Return):	MYR1.06 (10.8%)
Price (Market Cap):	MYR0.96 (USD534m)
ESG score:	2.3 (out of 4)
Avg Daily Turnover (MYR/USD)	9.11m/1.94m

- **Upgrade to BUY, new MYR1.06 TP from MYR0.97, 11% upside.** Our upgrade for Supermax Corp is premised on recent robust export data which potentially suggests a positive sign of demand recovery coinciding with steady ASP performance. We expect the company to deliver a stellar performance in the coming quarter following the uplift of US Customs & Border Protection (US CBP) ban on 20 Sept 2023. Our TP incorporates a 13% ESG discount, as its ESG score is below the 3.0 country median.

- **What triggered our upgrade?** Malaysia's monthly glove exports remain on a positive YoY growth for two consecutive months following a 2% YoY increase in Nov 2023 (Oct 2023: +33%). Despite export volumes contracting 25% on a MoM basis, the export value was 1% MoM higher in November. We believe this may indicate cost pass-throughs starting to kick-in and a better product mix in Nov 2023. On this front, we believe the ability to initiate cost pass-through will serve as a crucial catalyst to drive profitability moving forward, and also indicate that risks from a price war has gradually dissipated. Based on our channel checks, Malaysian glovemakers sold at USD19-20/ 1,000 pieces in Dec 2023 – largely unchanged vs 3Q23. While Malaysian glovemakers suffered weaker ASPs in 3Q23, (lowered 3-7% QoQ), we think the pick-up in export value could substantiate management teams' guidance and our expectations of a stabilised ASP trend that could gradually materialise in 2024.

- **Demand-supply dynamic.** Our 2024 industry supply is now at 376bn vs 2023's 373bn, taking into account 1bn in new capacity from Thailand and Hartalega's (HART MK, BUY, TP: MYR3.25) progressive capacity transition plan (estimated 2bn from the Next Generation Integrated Glove Manufacturing Complex or NGC 1.5). Malaysian glovemakers have yet to announce any plans to commence new capacities in 2024, given that domestic industry plant utilisation is still running below 50%. We raised our 2024 demand assumptions to 397bn from 386bn previously – indicating a 7% YoY growth (from 4% previously). This is in comparison with the pre-COVID-19 5-year average growth of 14%. Hence, we expect the industry to achieve equilibrium by 2H24, as bulk inventory stockpiled since 2020-21 is gradually consumed and is approaching shelf-life end (typically 3-5 years).

- **Earnings revision and valuation.** We raise our FY24F-25F (Jun) earnings for SUCB to MYR17m and MYR90m from MYR10m and MYR76m, taking into account a better demand visibility and improving plant utilisation rate. Our WACC is lowered 8% from 10% after we trim our cost of equity to 9% from 10% previously. Our DCF-derived TP represents 7x FY25 ex-cash PE, below its pre-COVID-19 5-year mean of 10x.

- **Key risks:** Decrease in glove ASPs, slower-than-expected capacity expansion, lower utilisation rate, higher-than-expected raw material price.

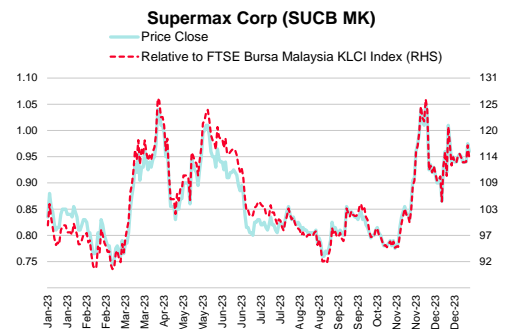
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.1	4.3	15.7	16.4	15.0
Relative	0.5	2.5	11.4	10.3	14.5
52-wk Price low/high (MYR)	0.75 – 1.05				



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	2,687	821	1,227	1,433	1,563
Recurring net profit (MYRm)	724	(113)	17	90	132
Recurring net profit growth (%)	(80.8)	(115.5)	-	441.6	46.9
Recurring P/E (x)	3.51	na	152.85	28.22	19.21
P/B (x)	0.5	0.6	0.5	0.5	0.5
P/CF (x)	7.39	na	na	12.36	10.42
Dividend Yield (%)	26.0	5.3	0.1	0.7	1.0
EV/EBITDA (x)	(0.26)	na	5.10	2.78	2.00
Return on average equity (%)	14.3	(2.9)	0.3	1.8	2.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.3 (out of 4)

E: GOOD

SUCB practices recycling of waste materials from its raw material by-products. The company will also evaluate its supplier performance via periodic audit to ensure adherence to its purchasing and quality requirements. Overall environmental disclosure lacks of further clarity and future targets.

S: GOOD

SUCB has established an independent grievance reporting channel (SUARA KAMI) that is administered by an independent party. Workers' facilities at its dormitories are in accordance with Malaysia's Employees' Minimum Standards of Housing, Accommodations and Amenities Act 1990 (Act 446).

G: MODERATE

50% of its board members are independent. 25% of its directors are female – still below the Malaysian Code on Corporate Governance requirement of 30%. Additionally, SUCB provides full disclosure on its directors' remunerations, including salaries and bonuses.

5 January 2024

Consumer Cyclical | Rubber Products

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.27	(0.04)	0.01	0.03	0.05
Consumer Cyclical	DPS	0.25	0.05	0.00	0.01	0.01
Supermax Corp	BVPS	1.84	1.74	1.75	1.77	1.81
SUCB MK	Return on average equity (%)	14.3	(2.9)	0.3	1.8	2.7
Buy						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	3.51	na	152.85	28.22	19.21
We adopt DCF valuation methodology	P/B (x)	0.5	0.6	0.5	0.5	0.5
	FCF Yield (%)	(4.1)	(27.2)	(11.8)	2.2	3.7
Key drivers	Dividend Yield (%)	26.0	5.3	0.1	0.7	1.0
Our earnings forecasts are most sensitive to:	EV/EBITDA (x)	(0.26)	na	5.10	2.78	2.00
i. Nitrile and latex glove volumes;	EV/EBIT (x)	(0.28)	na	26.34	5.38	3.33
ii. USD/MYR;						
iii. Raw material prices.						
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Key risks	Total turnover	2,687	821	1,227	1,433	1,563
i. Increase/decrease in glove ASPs;	Gross profit	1,551	151	324	449	521
ii. Slower/faster-than-expected capacity expansion;	EBITDA	1,151	(90)	131	228	284
iii. Higher/lower-than-expected utilisation rate;	Depreciation and amortisation	(74)	(85)	(105)	(110)	(114)
iv. Lower/higher-than-expected raw material price.	Operating profit	1,077	(175)	25	117	171
	Net interest	(6)	(7)	(4)	(4)	(4)
	Pre-tax profit	1,060	(189)	21	116	170
Company Profile	Taxation	(302)	18	(4)	(24)	(36)
Supermax is one of the world's Big 4 glove makers. It produces both latex and nitrile gloves.	Reported net profit	719	(141)	17	90	132
	Recurring net profit	724	(113)	17	90	132
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	(87)	166	(126)	2	(5)
	Cash flow from operations	344	(79)	(0)	205	244
	Capex	(449)	(611)	(300)	(150)	(150)
	Cash flow from investing activities	(449)	(611)	(300)	(150)	(150)
	Dividends paid	(659)	(134)	(3)	(18)	(26)
	Cash flow from financing activities	(765)	(287)	(13)	(27)	(31)
	Cash at beginning of period	3,776	3,029	2,146	1,833	1,861
	Net change in cash	(870)	(977)	(313)	28	63
	Ending balance cash	3,029	2,146	1,833	1,861	1,924
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	3,029	2,146	1,833	1,861	1,924
	Tangible fixed assets	1,728	2,243	2,437	2,477	2,514
	Total investments	208	228	228	230	234
	Total assets	5,957	5,246	5,217	5,325	5,457
	Short-term debt	180	86	81	76	76
	Total long-term debt	53	19	19	19	19
	Total liabilities	925	464	422	456	481
	Total equity	5,032	4,782	4,795	4,869	4,976
	Total liabilities & equity	5,957	5,246	5,217	5,325	5,457
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	(62.5)	(69.4)	49.4	16.8	9.1
	Recurrent EPS growth (%)	(81.1)	(115.5)	0.0	441.6	46.9
	Gross margin (%)	57.7	18.4	26.4	31.3	33.3
	Operating EBITDA margin (%)	42.8	(11.0)	10.7	15.9	18.2
	Net profit margin (%)	26.8	(17.2)	1.4	6.3	8.4
	Dividend payout ratio (%)	91.7	(95.1)	20.0	20.0	20.0
	Capex/sales (%)	16.7	74.4	24.5	10.5	9.6
	Interest cover (x)	189	(24)	6	28	41

Source: Company data, RHB

5 January 2024

Consumer Cyclical | Rubber Products

Figure 1: DCF valuation

FYE 30 Jun (MYRm)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33 F	Terminal
NOPAT	13	84	124	127	129	130	129	134	137	139	
+ D&A	105	110	114	117	121	124	128	131	134	137	
- Change in NWC	(126)	2	(5)	(8)	(4)	(4)	(3)	(4)	(3)	(3)	
- CAPEX	(300)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	
Free cash flow to firm (FCFF)	(308)	46	83	87	96	100	103	111	119	123	2,190
Discount factor	0.89	0.83	0.77	0.72	0.66	0.62	0.57	0.53	0.49	0.46	0.46
PV of FCFF	(276)	38	64	62	64	62	59	59	58	56	1,001
Risk-free	4%										
WACC	8%										
Terminal growth	2%										
Enterprise value (MYRm)	1,296										
- Minority	(90)										
Cash	2,143										
- Debt	(104)										
Equity value (MYRm)	3,244										
No of shares (m)	2,644										
Equity value per share (MYR)	1.23										
ESG premium/discount	-0.17										
Target Price	1.06										

Source: RHB

Figure 2: Changes in assumptions

	FY2024F		FY2025F		FY2026F	
	Before	After	Before	After	Before	After
Blended (ASP, US\$/1000)	21	21	22	22	23	23
Total production	12,100	13,088	13,698	14,833	15,524	15,722
Utilisation	57%	62%	65%	70%	73%	74%

Source: RHB

Emissions And ESG

Trend analysis

CO2 emissions are on a decreasing trend from FY21 to FY23.

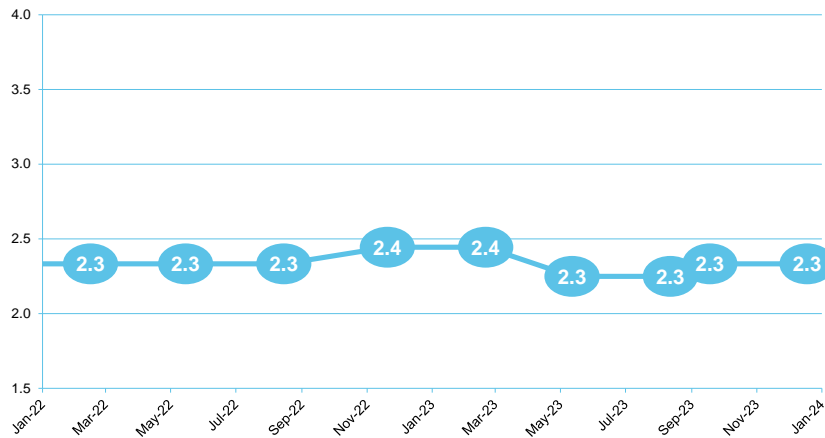
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	61,498	44,724	24,298
Scope 2	64,903	50,827	39,248
Scope 3	-	-	-
Total emissions	126,401	95,551	63,546

Source: Company data, RHB

Latest ESG-Related Developments

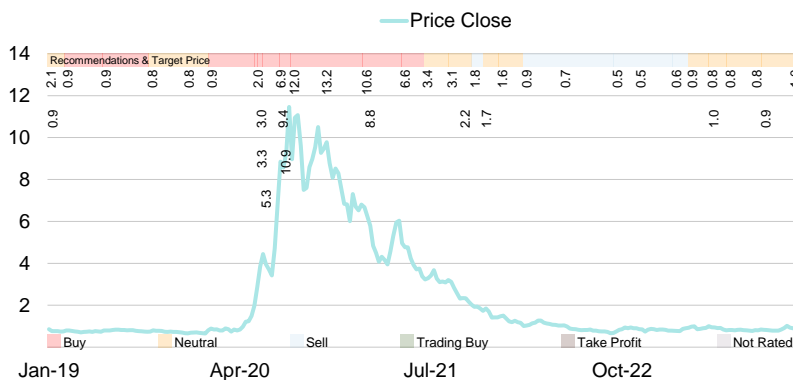
- USCBP ban has been lifted after SUCB's successful remediation of forced labour practices.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-30	Neutral	1.0	0.9
2023-09-21	Neutral	0.9	0.8
2023-08-30	Neutral	0.8	0.8
2023-06-28	Neutral	0.8	0.8
2023-05-19	Neutral	1.0	1.0
2023-05-15	Neutral	0.8	0.9
2023-03-27	Neutral	0.9	0.9
2023-02-17	Sell	0.6	0.8
2022-11-23	Sell	0.5	0.9
2022-09-27	Sell	0.5	0.7
2022-05-26	Sell	0.7	1.0
2022-02-23	Sell	0.9	1.0
2021-12-26	Neutral	1.6	1.4
2021-11-18	Neutral	1.7	1.7
2021-10-22	Sell	1.8	2.0

Source: RHB, Bloomberg

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