Shariah Compliant

21 February 2025

Consumer Cyclical | Rubber Products

Kossan Rubber (KRI MK)

At The Crossroads; Upgrade To BUY

Buy (from Neutral)

Target Price (Return):	MYR2.36 (20.8%)
Price (Market Cap):	MYR1.95 (USD1,123m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (MYR/USD)	14.5m/3.26m

- **U/G to BUY from Neutral, with a lower MYR2.36 TP (DCF) from MYR2.60.** Kossan Rubber reported 4Q24 core net profit of MYR23.6m, bringing its 2024 numbers to MYR97.2m – accounting for 89% and 79% of our and consensus' estimates. Its share price corrected 22% since our sector downgrade in January. Following the recent share price correction, we view its valuation as undemanding, trading at 0.4SD above mean. We believe Kossan deserves at least +1SD valuation given its relatively better margin profile and sizable exposure in the US, which should benefit from trade diversion opportunity.
- **Results overview.** Kossan's 2024 full-year results were below expectations, primarily due to unfavourable FX, offset by improved operating efficiencies. Revenue surged 2% QoQ to MYR517.9m as its gloves and cleanroom division saw 7% and 8% growths, against a 33% QoQ decline from the technical rubber division. Assuming a blended ASP of USD22/1000 pieces, we estimate a sales volume growth of c.2% QoQ – implying plant utilisation rate of 80%.
- **Margin.** PBT margin from the technical rubber division improved 6ppt QoQ to 14.7%, mainly due to higher unrealised FX losses recognised in 3Q24. Meanwhile, its glove division saw PBT margin contracting 1.5ppt QoQ to 5.8%, as MYR strengthened against the USD.
- **Outlook.** Our sector downgrade at the start of 2025 had largely played out. Kossan is currently trading at 1.3x P/B, which is 0.4SD above its 2-year historical mean of 1.2x. However, we expect the 1Q25 results to likely be weaker QoQ on the back of a potential slowing down in sales volume due to the frontloading effect by US customers. We advise investors to look beyond the April/May period when the US channel inventory depletes, which should start to drive volume growth. Following the recent share price correction, we think its valuation is undemanding, as such level was last traded prior to the second round of tariff announcement in September last year.
- **Earnings adjustment.** We lowered our 2025-2026 earnings estimate by 13% and 14% after slashing our blended ASP assumptions as we think glovemakers' pricing power could be affected by the elevated inventory level after US customers front-loaded their orders in 4Q24. Post earnings adjustment, our TP is now at MYR2.36. Our DCF-derived TP implies 2025 P/B of 1.6x, 1.4SD above its 2-year historical mean. Key re-rating catalyst will still depend on Kossan's ability to arbitrage against the higher import tariff (preferably USD25 and above). Otherwise, the higher import tariff would be rendered meaningless.
- **Key risks:** Lower-than-expected sales volumes, weaker-than expected USD against the MYR, and higher-than-expected raw material prices.

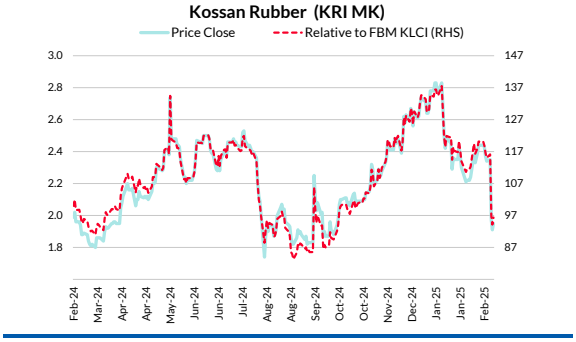
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.1)	(17.0)	(20.7)	(5.8)	(3.5)
Relative	(27.2)	(17.3)	(19.4)	(1.8)	(4.9)
52-wk Price low/high (MYR)					1.74 –2.83



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	1,591	1,907	2,127	2,194	2,312
Recurring net profit (MYRm)	33	97	105	151	194
Recurring net profit growth (%)	(80.1)	192.8	8.3	43.6	28.0
Recurring P/E (x)	150.08	51.26	47.35	32.98	25.77
P/B (x)	1.3	1.4	1.3	1.3	1.3
P/CF (x)	24.60	na	16.85	18.15	16.15
Dividend Yield (%)	2.1	0.7	0.6	0.9	1.2
EV/EBITDA (x)	35.56	15.43	15.73	12.18	9.88
Return on average equity (%)	(0.2)	3.9	2.8	4.0	4.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.8 (out of 4)

E Score: 3.0 (GOOD)
S Score: 2.3 (GOOD)
G Score: 2.7 (GOOD)
Please refer to the ESG analysis on the next page

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-22	Dec-23	Dec-24	Dec-25
Scope 1	295,547	212,743	na	na
Scope 2	126,020	86,211	na	na
Scope 3	5,250	5,305	na	na
Total emissions	426,818	304,258	na	na

Source: Company data, RHB

Latest ESG-Related Developments

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

ESG Unbundled

Overall ESG Score: 2.8 (out of 4)

Last Updated: 20 Dec 2024

E Score: 3.0 (GOOD)

Kossan employs a 3R strategy to Reduce, Reuse and Recycle to manage the impacts of pollutants derived from its manufacturing process. The company 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.

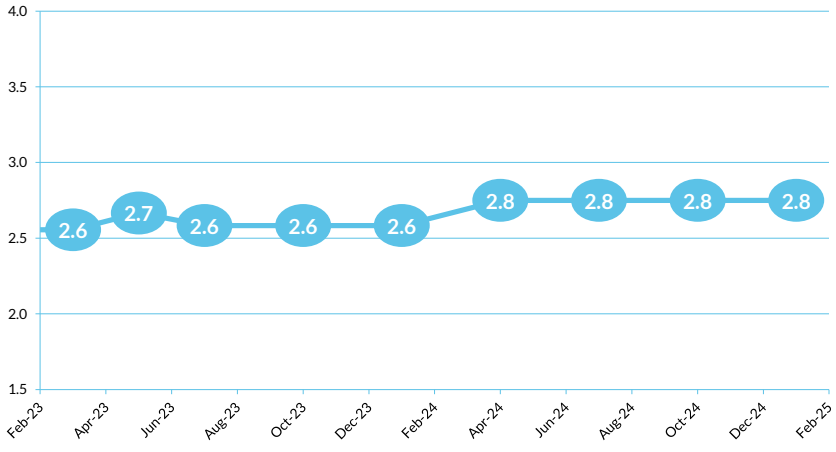
S Score: 2.3 (GOOD)

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

G Score: 2.7 (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.

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
Kossan Rubber
KRI MK
Buy

Valuation basis

Discounted Cash Flow(DCF) FCFF valuation

Key drivers

i. Increase in gloves ASP;
ii. Improvement in sales volume;
iii. Appreciation of USD against MYR;
iv. Lower-than-expected raw material prices.

Key risks

Decrease in gloves ASP, slower-than-expected capacity expansion, lower-than-expected utilisation rate, higher-than-expected raw material price.

Company Profile

Kossan is one of the world's Big 4 glove makers. It has a production capacity of 33.5bn pieces pa.

Financial summary (MYR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Recurring EPS	0.01	0.04	0.04	0.06	0.08
DPS	0.04	0.01	0.01	0.02	0.02
BVPS	1.50	1.43	1.45	1.50	1.55
Return on average equity (%)	(0.2)	3.9	2.8	4.0	4.9

Valuation metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Recurring P/E (x)	150.08	51.26	47.35	32.98	25.77
P/B (x)	1.3	1.4	1.3	1.3	1.3
FCF Yield (%)	2.3	(9.6)	2.9	2.5	3.2
Dividend Yield (%)	2.1	0.7	0.6	0.9	1.2
EV/EBITDA (x)	35.56	15.43	15.73	12.18	9.88
EV/EBIT (x)	na	25.73	29.46	19.98	15.05

Income statement (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover	1,591	1,907	2,127	2,194	2,312
Gross profit	233	88	278	324	389
EBITDA	106	266	253	320	384
Depreciation and amortisation	(113)	(107)	(118)	(125)	(132)
Operating profit	(7)	159	135	195	252
Net interest	42	(1)	6	8	9
Pre-tax profit	15	181	141	203	261
Taxation	(18)	(36)	(34)	(49)	(63)
Reported net profit	(7)	143	105	151	194
Recurring net profit	33	97	105	151	194

Cash flow (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Change in working capital	64	(79)	77	3	(13)
Cash flow from operations	203	(178)	296	275	309
Capex	(87)	(302)	(150)	(150)	(150)
Cash flow from investing activities	(162)	(347)	(137)	(136)	(135)
Dividends paid	(64)	0	(32)	(45)	(58)
Cash flow from financing activities	(130)	227	(38)	(52)	(64)
Cash at beginning of period	1,348	1,271	974	1,095	1,182
Net change in cash	(89)	(297)	121	87	110
Ending balance cash	1,259	974	1,095	1,182	1,292

Balance sheet (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total cash and equivalents	1,271	974	1,095	1,182	1,292
Tangible fixed assets	1,364	1,489	1,522	1,547	1,565
Total assets	4,173	3,975	4,172	4,303	4,468
Short-term debt	12	59	59	59	59
Total long-term debt	5	0	0	0	0
Total liabilities	339	415	535	557	582
Total equity	3,833	3,561	3,637	3,746	3,886
Total liabilities & equity	4,173	3,975	4,172	4,303	4,468

Key metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Revenue growth (%)	(32.1)	19.8	11.6	3.1	5.4
Recurrent EPS growth (%)	(80.1)	192.8	8.3	43.6	28.0
Gross margin (%)	14.6	4.6	13.1	14.8	16.8
Operating EBITDA margin (%)	6.6	13.9	11.9	14.6	16.6
Net profit margin (%)	(0.4)	7.5	5.0	6.9	8.4
Dividend payout ratio (%)	(1559.4)	25.2	30.0	30.0	30.0
Capex/sales (%)	5.5	15.8	7.1	6.8	6.5
Interest cover (x)	(5.01)	116.87	20.90	30.90	39.92

Source: Company data, RHB

Figure 1: Results snapshot

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	2023	2024	YoY (%)	Comments
Revenue	**400.1**	**507.4**	**517.9**	**2.1**	**29.4**	**1,585.9**	**1,906.8**	**20.2**	Full year revenue growth mainly driven by recovery of sales volume and improvement in ASP
EBITDA	**56.5**	**58.1**	**56.1**	**(3.5)**	**(0.7)**	**152.1**	**227.6**	**49.7**	
EBITDA Margin (%)	*14.1*	*11.4*	*10.8*			*9.6*	*11.9*		
Depreciation	(26.2)	(27.5)	(24.9)	(9.5)	(4.9)	(116.2)	(106.5)	(8.3)	
EBIT	**39.6**	**40.2**	**39.6**	**(1.5)**	**0.0**	**72.9**	**159.4**	**118.8**	
EBIT Margin (%)	*9.9*	*7.9*	*7.6*			*4.6*	*8.4*		
Interest expense	(0.7)	(0.4)	(0.8)	97.6	10.4	(1.6)	(1.4)	(15.9)	
Pretax profit	**3.4**	**39.7**	**38.7**	**(2.5)**	**1,028.3**	**35.8**	**158.0**	**340.9**	
Pretax Margin (%)	*0.9*	*7.8*	*7.5*			*2.3*	*8.3*		
Tax	(1.8)	(9.7)	*(10.6)*	8.9	474.1	(18.7)	*(35.6)*	90.5	
Effective tax rate (%)	*(53.5)*	*(24.4)*	*(27.2)*			*(52.1)*	*(22.5)*		
Minority Interest	(0.8)	(0.6)	(0.5)	(20.4)	(37.7)	(2.9)	(2.5)	(14.6)	
Net Profit	**0.8**	**29.4**	**27.7**	**(5.9)**	**3,336.8**	**14.2**	**119.9**	**743.2**	
Core Net Profit	**29.5**	**21.7**	**23.6**	**8.8**	**(19.9)**	**36.9**	**97.2**	**163.5**	Accounted for 89%/79% of ours and Street's expectations.
Net Margin (%)	*0.2*	**5.8**	*5.3*	(0.5)	5.1	*0.9%*	*0.1*		

Source: Company data, RHB

Figure 2: Global demand & supply overview



Source: MARGMA, RHB

Figure 3: Key assumptions

	2025F			2026F			2027F		
	old	new	Var	old	new	Var	old	new	Var
Blended (ASP, USD per 1,000)	22.3	22.1	-1.1%	22.8	22.5	-1.1%	22.8	22.5	-1.1%
Total production (per m pieces)	18,768.8	18,768.8	0.0%	19,443.8	19,443.8	0.0%	20,118.8	20,118.8	0.0%
Utilisation	75.0%	75.0%	0.0	75.0%	75.0%	0.0	75.0%	75.0%	0.0

Source: RHB

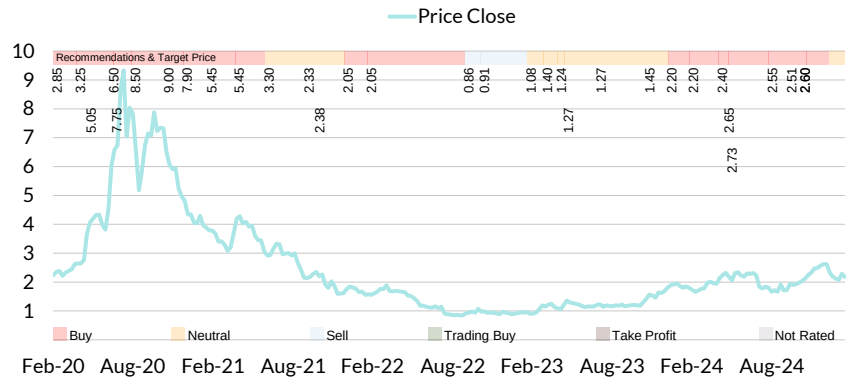
Figure 4: DCF valuation

FYE 31 Dec (MYR m)	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F	Terminal
NOPAT	103	148	192	200	209	225	241	258	322	337	
+ D&A	118	125	132	139	145	150	154	159	164	168	
- Change in NWC	77	3	(13)	(11)	(14)	(8)	(22)	(23)	(41)	(28)	
- CAPEX	(150)	(150)	(150)	(150)	(100)	(100)	(100)	(100)	(100)	(100)	
Free cash flow to firm (FCFF)	148	127	161	178	240	266	273	293	344	377	7,907
Discount factor	0.94	0.88	0.82	0.77	0.72	0.67	0.62	0.58	0.54	0.51	0.51
PV of FCFF	139	112	132	136	172	178	170	170	187	191	3,999

Risk-free	4%
WACC	7%
Terminal growth	2%
Enterprise Value (MYR m)	5,585
- Minority	(92)
Cash	1,059
- Debt	(211)
Equity Value (MYR m)	6,342
No of shares (m)	2,558
Intrinsic value (MYR)	**2.48**
ESG discount/premium	**(0.12)**
Target Price (MYR)	**2.36**

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-01-09	Neutral	2.60	2.42
2024-11-18	Buy	2.60	2.33
2024-10-06	Buy	2.51	1.88
2024-08-23	Buy	2.55	1.96
2024-05-23	Buy	2.73	2.43
2024-05-15	Buy	2.65	2.74
2024-04-30	Buy	2.40	2.20
2024-02-23	Buy	2.20	1.96
2024-01-05	Buy	2.20	1.97
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

Source: RHB, Bloomberg

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