

5 October 2020

Industrials | Manufactured Goods

## Mark Dynamics Indonesia (MARK IJ)

## Not Rated

### Capitalising On High Glove Demand

Target Price (Return): N/A  
Price: IDR825  
Market Cap: USD211m  
Avg Daily Turnover (IDR/USD) 6,530m/0.45m

- **Leading porcelain hand former manufacturer for nitrile gloves.** Mark Dynamics Indonesia is the largest hand former producer in the world, making up more than half of the global market for the nitrile former segment. The company produces non-reusable porcelain moulds/formers for nitrile gloves production. The rising demand for gloves since the outbreak of the COVID-19 pandemic has pushed global gloves manufacturers to increase their production capacity, thereby driving up demand for its product.
- **Global market leader.** MARK controls the largest market share for the porcelain hand former segment, with c.30-40% share. The key reason lies in the company's product of high chemical resistance, special finishing and coating, as well as suitability for high speed production lines. It supplies to glove producers in Malaysia, (65% of global share, including Hartalega – (HART MK, BUY, TP: MYR21.60), and Top Glove (TOPG MK, BUY, TP: MYR9.50), Thailand, Vietnam, and China, with products ranging from examination, surgical, household, industrial, and custom-made formers. Note that its formers are non-reusable and can only be used for production of 10,368 pcs of gloves. As such, formers are ordered on a monthly basis.
- **Still more room to increase utilisation.** The company now operates two factories in Tanjung Morawa in Medan. As at 2020, the company has total installed capacity of 680,000units/month, or 8.1m units annually. Additionally, its new factory, which started operations in Aug 2019, is currently only operating at 40% utilisation or at 250,000units/month (1m units/year). Hence, the company still has a lot of room for further increase in capacity without any major capex spending.
- **High growth still expected in 2021F.** In 1H20, the company saw revenue grow by 9.6% YoY, with earnings up 14.6% YoY driven by the COVID-19 pandemic, which resulted in a surge in demand for gloves. Its growth trajectory is likely to accelerate in 2021 with massive signed export contracts of USD44m or c.IDR660bn. Taking into account the signed contracts alone, MARK should grow revenue by 59% YoY, from 2020 Street estimates. However, the company still needs to increase its capacity to as much as 1m units/month (12m/year) – this requires an additional capex of IDR45bn. According to management even after the COVID-19 pandemic is over, demand for gloves will continue to grow.
- **Margins continue rising with higher capacity.** Throughout 2016-2019, MARK's revenue grew at a CAGR of 20.4%, in line with its capacity CAGR at 21%. Along with this, GPM and PATMI also expanded from 22.9% and 9.4% to 43.3% and 24.3%. Additional upside for margins also came from lower gas prices, which account for c.15% of its COGS.
- **Valuation.** MARK is currently trading at 22x FY21F P/E (Street estimates).
- **Key drivers and risks.** Drivers: increased demand for gloves during the pandemic resulting a surge in demand for formers, and increased awareness for sanitation. Risk: lower demand once the COVID-19 pandemic is over.

### Analyst

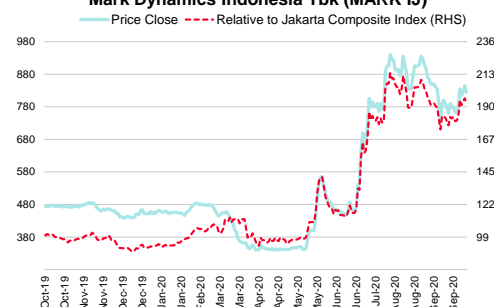
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### Share Performance (%)

|                            | YTD   | 1m    | 3m   | 6m    | 12m       |
|----------------------------|-------|-------|------|-------|-----------|
| Absolute                   | 82.5  | (3.0) | 52.8 | 137.1 | 71.9      |
| Relative                   | 104.3 | 4.3   | 53.6 | 128.4 | 90.5      |
| 52-wk Price low/high (IDR) |       |       |      |       | 340 – 940 |

### Mark Dynamics Indonesia Tbk (MARK IJ)



Source: Bloomberg

| Forecasts and Valuation         | Dec-16 | Dec-17 | Dec-18 | Dec-19 |
|---------------------------------|--------|--------|--------|--------|
| Total turnover (IDRb)           | 207    | 240    | 325    | 362    |
| Recurring net profit (IDRb)     | 20     | 48     | 82     | 88     |
| Recurring net profit growth (%) | -      | 138.0  | 72.2   | 7.3    |
| Recurring P/E (x)               | 31.33  | 13.16  | 7.65   | 21.38  |
| P/B (x)                         | 7.7    | 3.8    | 2.7    | 10.6   |
| P/CF (x)                        | na     | 13.59  | 12.31  | 42.33  |
| Dividend Yield (%)              | na     | na     | na     | na     |
| EV/EBITDA (x)                   | 24.23  | 9.62   | 5.91   | 16.02  |
| Return on average equity (%)    | -      | 40.0   | 41.0   | 33.0   |

Source: Company data, RHB

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## Financial Exhibits

|  |                                     |               |               |               |               |
|--|-------------------------------------|---------------|---------------|---------------|---------------|
| <b>Asia</b>  | <b>Financial summary (IDR)</b>      | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> |
| Indonesia  | Recurring EPS                       | 26.33         | 62.67         | 107.90        | 38.58         |
| Industrials  | BVPS                                | 106.85        | 217.42        | 310.19        | 78.20         |
| <b>Mark Dynamics Indonesia</b>   | Return on average equity (%)        | -             | 40.0          | 41.0          | 33.0          |
| MARK IJ  |                                     |               |               |               |               |
| Not Rated  |                                     |               |               |               |               |
| <b>Valuation basis</b>   | <b>Valuation metrics</b>            | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> |
| na   | Recurring P/E (x)                   | 31.33         | 13.16         | 7.65          | 21.38         |
|  | P/B (x)                             | 7.7           | 3.8           | 2.7           | 10.6          |
|  | FCF Yield (%)                       | (9.0)         | 3.6           | (3.1)         | (1.1)         |
|  | EV/EBITDA (x)                       | 24.23         | 9.62          | 5.91          | 16.02         |
|  | EV/EBIT (x)                         | 25.31         | 9.86          | 5.99          | 16.28         |
| <b>Key drivers</b>   | <b>Income statement (IDRb)</b>      | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> |
| i. Increased demand for gloves during the pandemic resulting a surge in demand for formers;  | Total turnover                      | 207           | 240           | 325           | 362           |
| ii. Increased awareness for sanitation   | Gross profit                        | 48            | 90            | 145           | 156           |
|  | EBITDA                              | 29            | 66            | 113           | 121           |
|  | Depreciation and amortisation       | (1)           | (2)           | (2)           | (2)           |
|  | Operating profit                    | 27            | 64            | 111           | 119           |
|  | Pre-tax profit                      | 29            | 67            | 112           | 119           |
|  | Taxation                            | (8)           | (17)          | (29)          | (31)          |
|  | Reported net profit                 | 21            | 49            | 82            | 88            |
|  | Recurring net profit                | 20            | 48            | 82            | 88            |
| <b>Key risks</b>   | <b>Cash flow (IDRb)</b>             | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> |
| Lower demand once the COVID-19 pandemic is over.   | Change in working capital           | (66.0)        | (18.7)        | (38.7)        | (49.6)        |
|  | Cash flow from operations           | (35.5)        | 46.1          | 50.9          | 44.4          |
|  | Capex                               | (21.1)        | (23.5)        | (70.2)        | (64.8)        |
|  | Cash flow from investing activities | (21.1)        | (23.5)        | (70.2)        | (64.8)        |
|  | Cash flow from financing activities | 46.7          | (9.6)         | 6.8           | 42.9          |
|  | Cash at beginning of period         | 14.8          | 4.9           | 17.9          | 5.4           |
|  | Net change in cash                  | (10.0)        | 13.1          | (12.5)        | 22.5          |
|  | Ending balance cash                 | 4.9           | 17.9          | 5.4           | 28.0          |
| <b>Company Profile</b>   | <b>Balance sheet (IDRb)</b>         | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> |
| Mark Dynamics Indonesia manufactures and develops all types of hand formers. The company offers hand formers for surgical, household, and customer applications. It serves customers in Asia | Total cash and equivalents          | 5             | 18            | 5             | 28            |
|  | Tangible fixed assets               | 74            | 89            | 151           | 206           |
|  | Total assets                        | 171           | 228           | 318           | 441           |
|  | Short-term debt                     | 73            | 26            | 45            | 57            |
|  | Total long-term debt                |               |               |               | 57            |
|  | Total liabilities                   | 90            | 61            | 80            | 142           |
|  | Total equity                        | 81            | 167           | 238           | 299           |
|  | Total liabilities & equity          | 171           | 228           | 318           | 441           |
|  | <b>Key metrics</b>                  | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18</b> | <b>Dec-19</b> |
|  | Revenue growth (%)                  | 0.0           | 15.7          | 35.7          | 11.1          |
|  | Recurrent EPS growth (%)            | 0.0           | 138.0         | 72.2          | (64.2)        |
|  | Gross margin (%)                    | 23.0          | 37.6          | 44.6          | 43.3          |
|  | Operating EBITDA margin (%)         | 13.8          | 27.5          | 34.7          | 33.4          |
|  | Net profit margin (%)               | 10.2          | 20.5          | 25.3          | 24.3          |
|  | Capex/sales (%)                     | 10.2          | 9.8           | 21.6          | 17.9          |

Source: Company data, RHB

### Company profile

Mark Dynamics is a producer of porcelain hand formers for nitrile glove manufacturing. It was established in 2002 and was listed in the Indonesia Stock Exchange since 2017 with the ticker MARK. The company now operates two manufacturing facilities in Tanjung Morawa, Medan, Indonesia. Its total installed capacity currently stands at 680,000 units per month and it is planning on increasing to 1m units per month to meet the rising demand. The company currently controls the largest market share for formers for nitrile glove at 30-40% share. It mainly caters to glove makers in Malaysia (65% share of global glove manufacturer), Thailand, Vietnam, and China, among others.

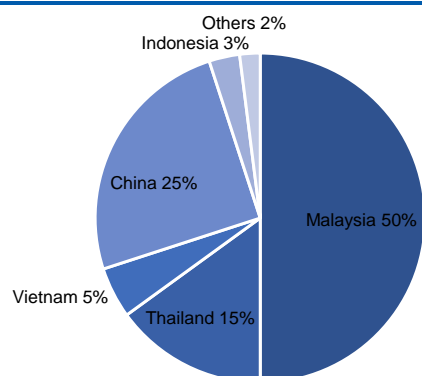
Figure 1: Mark Dynamics's product



- ♦ Mark Dynamic's porcelain hand former for nitrile gloves includes examination, surgical, household, Industrial, and custom-made formers

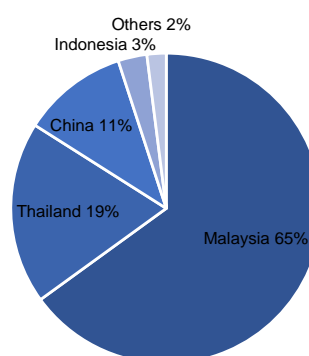
Source: Company data, RHB

Figure 2: MARK's sales by region



Source: Company data, RHB

Figure 3: Global glove producers by region



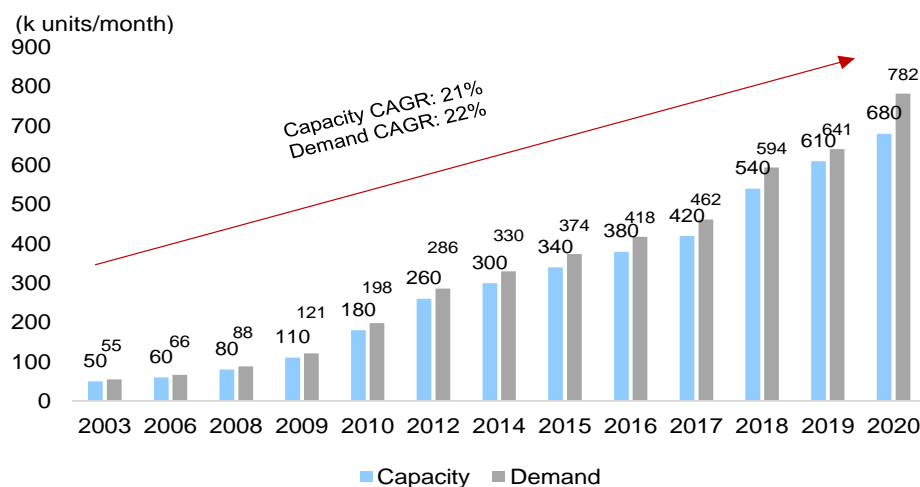
Source: Company data, RHB

Figure 4: MARK's customers



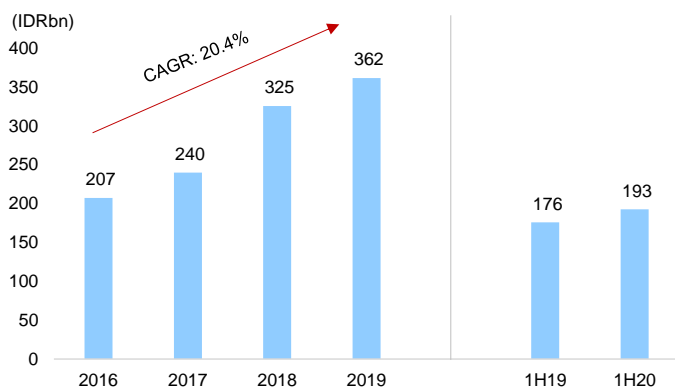
Source: Company data

Figure 5: MARK's production capacity



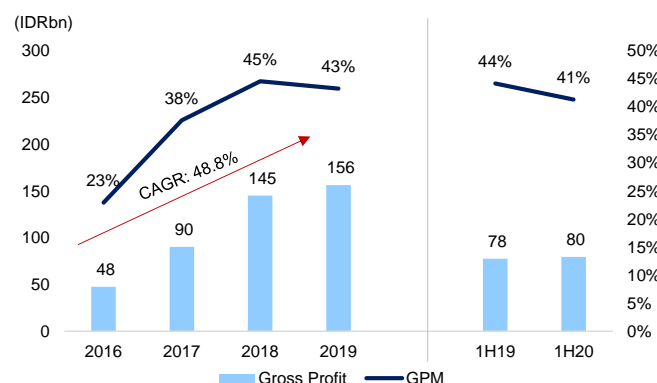
Source: Company data, RHB

Figure 5: MARK's revenue



Source: Company data, RHB

Figure 6: MARK's GP and GPM



Source: Company data, RHB

Figure 7: MARK's EBITDA

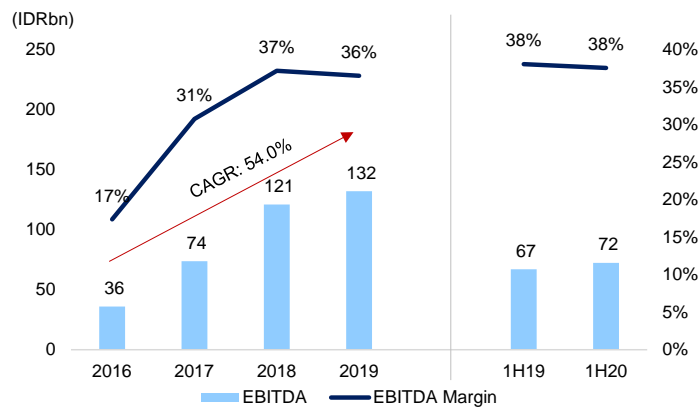
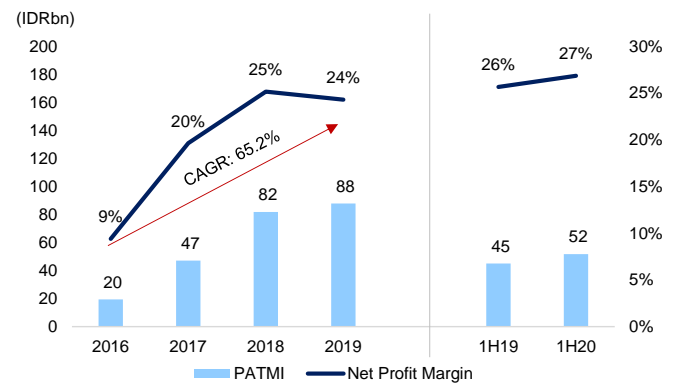


Figure 8: MARK's net profit



Source: Company data, RHB



Source: Company data, RHB

Figure 9: MARK's milestones

| Year | Description   |
|------|---|
| 2002 | Mark Dynamics Indonesia was established   |
| 2003 | The company operates with a capacity of 50,000 unit per month following with the construction of Plant 1 covering an area of 3,000 m2   |
| 2005 | Expanded Plant 1 capacity through the acquisition of an additional 3,500 m2 plant – new production capacity is 55,000 unit per month  |
| 2007 | Build new office building and meeting room located in Plant 2   |
| 2008 | Increased production capacity to 80,000 units per month<br>The company won ISO 9001 : 2000 quality management standard certification  |
| 2009 | Increased production capacity to 110,000 units per month  |
| 2011 | Extension of ISO 9001 Certification and improve its qualifications to ISO 9001 : 2008<br>Increased production capacity to 220,000 units per month   |
| 2014 | Increased production capacity to 300,000 units per month  |
| 2016 | Acquired new land covering an area of 2,400m2 for increased production<br>Acquired another land consisting 3 ha for future expansion  |
| 2017 | Shares listed at new nominal value of IDR20 per share on 11 Feb 2019<br>Opening of the company's new branch on Jl. Utama Desa Dalu Sepuluh A, Deli Serdang  |
| 2018 | Increased production capacity to 610,000 per month<br>Completed the acquisition of ± 9ha of land<br>Split its nominal shares with a ratio 1 : 5<br>Increased production capacity to 540,000 units per month |




Source: Company data, RHB

Figure 10: Board of commissioners

| Name   | Position                 | Description  |
|--|--------------------------|--|
| <br>Chin Kien Ping  | President commissioner   | Chin Kien Ping was appointed as president commissioner of PTMDI since 2017. He got his diploma in Animal and Veterinary Science from National Pingtung Polytechnic Institute, Taiwan in 1995 and went on to acquire his MBA from the West Coast Institute of Management and Technology, Australia in 2000.               |
| <br>Dompok Pasaribu | Independent commissioner | Dompok Pasaribu was appointed as independent commissioner of PTMDI since 2017. He got his Bachelor's degree in Economics from the Faculty of Economics, Universitas Methodist Indonesia in 1998 and his Masters of Accounting Science in 2003 and Doctorate degree in Accounting in 2018 from Universitas Sumatera Utara |

Source: Company, RHB

Figure 11: Board of directors

| Name   | Position             | Description  |
|--|----------------------|--|
|  <p>Ridwan Goh</p>            | President director   | Ridwan Goh was appointed as president director of PTMDI since 2018. He graduated from the Mikroskil Institute with a Bachelor of Computer Science. He then joined PTMDI in 2008 as a Marketing manager and was promoted to Director from 2017-2018 |
|  <p>Sutiyo Bin Risman</p>     | Director             | Sutiyo Bin Risman was appointed as a director of PTMDI since 2017. He has been with PTMDI since 2002 as a general manager until 2009, before being appointed as a commissioner until 2014  |
|  <p>Cahaya Dewi Surbakti</p> | Independent Director | Cahaya Dewi Surbakti was appointed as an independent director of PTMDI since 2018. She completed her undergraduate studies at the University of North Sumatera Medan with a major in Chemical Engineering and graduated in 2004.                   |

Source: Company, RHB

## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2020-10-03 |                |              |       |

Source: RHB, Bloomberg



## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
| <b>Sell:</b>        | Share price may fall by more than 10% over the next 12 months                                    |
| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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