

PP14767/09/2012(030761)

Monday, September 19, 2016

Market Access

Kossan Rubber Industries Berhad

“First Mover Advantage”

Kossan Rubber Industries Berhad (Kossan) launched its new patented Low Derma Technology recently, which is the first Malaysian glove manufacturer to be granted the “low dermatitis potential” claim by the US Food and Drug Administration (FDA). We deem the accomplishment will add value to the company’s image as one of the world’s largest glove OEMs. This is a testament to its mission of continuing building strong research and development (R&D) capability moving forward. We maintain a BUY call on Kossan with an unchanged target price of RM8.55.

- **Type I and Type IV allergies.** Healthcare personnel have suffered from protein allergy (Type I) arises in the usage of natural rubber glove decades ago which caused allergic reaction of the skin with itchy patches, wheels or hives. Hence, the powdered-free natural rubber (NR) gloves and synthetic gloves (predominantly nitrile gloves) have been widely regarded as substitute of NR glove that could minimize the allergic reactions. Notwithstanding that, another form of allergy (Type IV) arose subsequently from the chemical accelerators and other additives used in the production of nitrile, latex and non-latex gloves that caused contact dermatitis on the users’ wrists and the back of their hands.
- **Providing solutions to Type IV allergy.** Over the years, glove manufactures have been undergoing trials and tribulations to solve the Type IV allergic reaction of the use of synthetic gloves, which are seen to be a good substitute of NR gloves. Today, the efforts have borne fruits when Kossan officially launched its Low Derma Technology by introducing Chemax 7th sense gloves. These nitrile gloves are produced without using added components (sulphur

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BUY (TP:RM8.55)

Current Price (RM)	RM6.26
New Target Price (RM)	RM8.55
Previous Target Price (RM)	RM8.62
Previous Recommendation	BUY
Upside/(Downside) To Target	37%
Dividend Yield	2%

Stock Code

Bloomberg	KRI MK
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Stock Information

Listing	MAIN MARKET	
Sector	Glove	
Shariah Compliance	Yes	
Issued Shares (mn)	639.5	
Market Cap (RM mn)	4,003	
YTD Chg in Share Price	-32.7%	
Beta (x)	0.14	
52-week Hi/Lo (RM)	9.50	5.90
3M Average Volume (shrs)	1.3mn	
Estimated Free Float	33.3%	

Major Shareholders

Kossan Holdings SdnBhd	51%
Employees Provident Fund	11%
CIMB-Principal Asset Management	5%

Company Update - Kossan Rubber Industries Berhad

and chemical accelerators) that cause Type IV allergy during the vulcanisation stage of glove manufacturing. This non-sterile glove also provides better tensile strength, thermal stability and durability without compromising barrier properties.

- **What we think.** Being the first in the world to be approved by FDA, Kossan's Chemax 7th sense gloves are expected to enjoy first mover advantage particularly in the developed countries. Hence the company is likely to enjoy certain premium over the product's selling price. In addition, this could lift the company image of Kossan as a 'segment leader' in glove industry. We understand that the application of LDP had been submitted to FDA 3-4 years ago before it gained a nod, nevertheless, we are yet to quantify the demand or sales contribution of this new product for now until next few quarters after response shows in the market. We believe more glove companies will introduce LDP gloves in near future and that could lead to "wait-and-see" approach by hospitals (the buyers) that probably would delay procurement until more substitutes appear in the market.
- **Changes of forecast.** We make no changes in our earnings forecast, maintaining FY16/17 PAT at RM220 million and RM264 million, respectively.
- **Valuation & recommendation.** We maintain our target price at RM8.55 based on targeted PER of 21x pegged to FY17 EPS of 41 sen. Maintain **BUY**. The recent launching of LDT has reflected Kossan's unremitting effort in product innovation and enhancing the properties of gloves to combat the downsides of its product offerings.

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Kossan	Dec	6.60	23	30	20	20	4	4	22	2	8.55	BUY
Hartalega	Mar	4.50	16	14	22	32	5	5	19	2	4.78	BUY
Top Glove	Aug	4.60	15	23	16	17	2	3	23	3	6.12	BUY
Supermax	Dec	2.17	17	15	10	22	1	2	11	3	2.94	HOLD
Average			18	21	17	23	3	4				

Source: Bloomberg, M&A Securities

Company Update - Kossan Rubber Industries Berhad

Table 2: Financial Summary

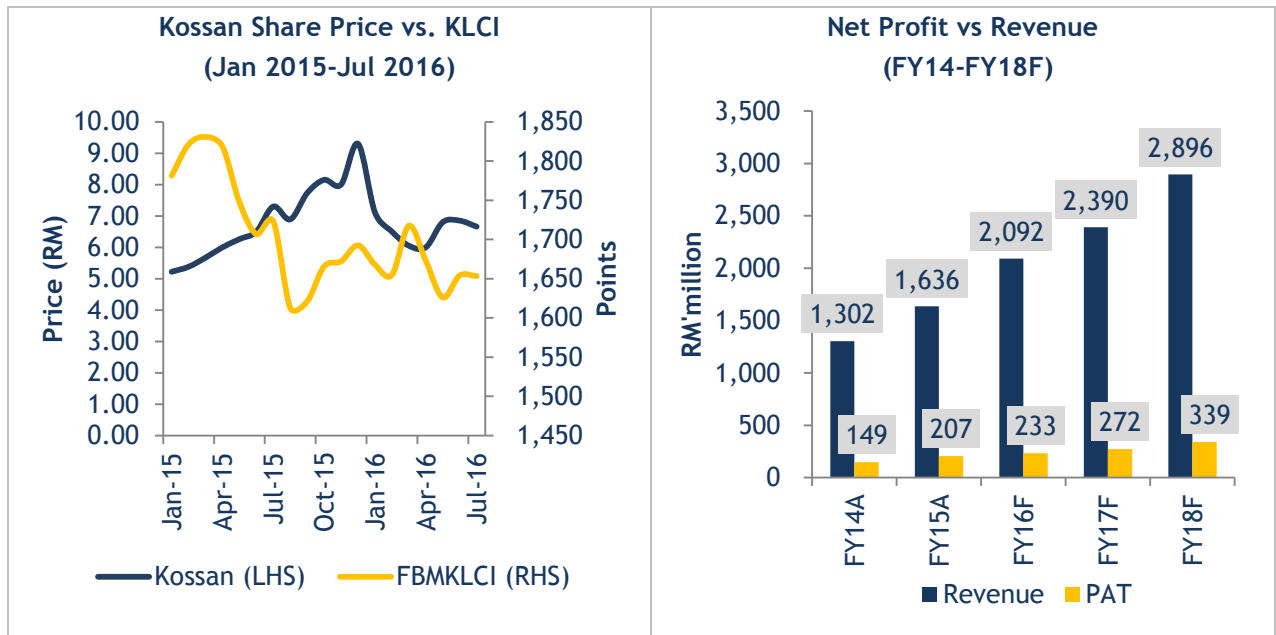
FYE DEC (RM million)	2Q16	1Q16	2Q15	Q-o-Q	Y-o-Y	6M15	6M16	Y-o-Y
Revenue	404	416	386	-3%	5%	755	816	8%
EBITDA	70	85	77	-17%	-9%	154	156	1%
D&A	-17	-17	-16	0%	9%	-32	-35	7%
EBIT	53	68	61	-22%	-14%	122	121	-1%
Net interest income	-2	-2	-1	1%	75%	-3	-5	78%
PBT	51	66	60	-23%	-16%	119	116	-2%
Tax	-9	-13	-12	-33%	-24%	-25	-22	-10%
PAT	42	52	48	-20%	-14%	94	94	0%
MI	-1	-1	-1	-13%	-9%	-2	-2	22%
PATMI	41	51	47	-20%	-14%	93	92	-1%
EPS	6	8	7	-20%	-14%	15	14	-1%
EBITDA margin	17%	20%	20%	-3%	-3%	20%	19%	-1%
EBIT margin	13%	16%	16%	-3%	-3%	16%	15%	-1%
PBT margin	13%	16%	16%	-3%	-3%	16%	14%	-2%
Net profit margin	10%	12%	12%	-2%	-2%	12%	11%	-1%

Source: Bursa Malaysia

Table 3: Financial Forecast

FYE DEC (RM million)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	1,307	1,302	1,636	2,092	2,390	2,896
EBITDA	235	248	341	364	431	519
D&A	-51	-56	-67	-77	-87	-97
EBIT	184	193	274	288	344	422
Net interest income	-4	-6	-5	-5	-5	-5
PBT	180	187	269	282	339	417
Tax	-40	-38	-61	-62	-74	-93
PAT	140	149	207	220	264	324
MI	-4	-4	-4	-4	-4	-4
PATMI	136	145	203	216	260	320
EPS (sen)	21	23	32	34	41	50
EBITDA margin	18%	19%	21%	17%	18%	18%
EBIT margin	14%	15%	17%	14%	14%	15%
PBT margin	14%	14%	16%	13%	14%	14%
Net profit margin	10%	11%	12%	10%	11%	11%
PER (x)	31	30	21	20	16	13
P/BV (x)	6	5	4	4	4	3
Dividend (sen)	7	7	11	17	20	25

Source: M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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