

# Kossan Rubber Industries Bhd

(7153 | KRI MK) Health Care | Health Care Equipment & Services

## Maintain BUY

### Proceed from land disposal to fund expansion plan

**Unchanged Target Price: RM4.64**

#### KEY INVESTMENT HIGHLIGHTS

- **Kossan is proposing to dispose vacant Kuala Langat industrial land for a cash consideration of RM147.8m**
- **The land is currently not economically utilise and hence, this provides opportunity to unlock the value of the land**
- **Disposal proceed will partly fund new plant construction in Bidor, Perak which will commence construction in 1HFY20**
- **Earnings estimates are maintained**
- **Maintain BUY with an unchanged TP of RM4.64**

**Disposing land in Kuala Langat for RM147.8m.** Kossan Rubber Industries Bhd (Kossan) announced that it has entered into a conditional sale and purchase agreement with Liansheng Paper (Malaysia) Sdn Bhd to dispose its 390.4k sqm vacant freehold industrial land in Kuala Langat for a cash consideration of RM147.8m. The proposed disposal is expected to be completed by 1QFY21.

**Positive on the disposal.** We are positive on the disposal as it provides an opportunity to unlock the value of the land which is currently not economically utilised. The proceed will be used to partly fund its new glove manufacturing plants in Bidor, Perak which will commence in June 2020. In addition, the group plans to centralise all its future plants at this site (after Plant 19 in Meru, Klang which is expected to be fully commenced in 1QFY20). To recall, the site was acquired in March 2018 for RM82.4m and it comprises of two sizeable pieces of leasehold industrial land measuring about 824.0 acres. If fully utilized, the site is estimated to house plants that can produce about up to 34.0b pieces of glove per annum with plan capex allocation of up to RM1.5b.

**No impact on core earnings.** The proposed disposal is expected to result in a one-off net gain of about RM35.4m in FY21. Hence, we make no changes to our earnings forecast given the non-recurring nature of the transaction.

**Target Price.** We maintain our target price at **RM4.64** per share. The target price is derived via pegging our FY20F 21 EPS of 21.1sen to PER of 22.0x which is its two-year historical average.

**Maintain BUY.** We believe that earnings growth for Kossan will be supported by the higher production volumes as seen in its expansion plan. Its two new plants i.e. Plant 18 and Plant 19 will add additional 5.5b pieces of new production capacity which will increase existing capacity from 26.5b pieces to 32.0b pieces (+20.8%). While its first plant in Bidor, Perak is estimated to be completed in FY23. With these state-of-the-art plants, the group is targeting to further improve its efficiency level. We opine that this will cushion the downward pressure in average selling price caused by the heightening competition in glove industry. All things considered, we are maintaining our **BUY** recommendation on Kossan.



#### RETURN STATISTICS

Price @ 16 <sup>th</sup> January 2020 (RM)	4.16
Expected share price return (%)	+11.5
Expected dividend yield (%)	+1.9
<b>Expected total return (%)</b>	<b>+13.4</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+1.5	+0.3
3 months	0.0	-2.3
12 months	+9.8	+15.7

#### KEY STATISTICS

FBM KLCI	1,587.88
Syariah compliant	Yes
Issue shares (m)	1,278.94
Estimated free float (%)	34.95
Market Capitalisation (RM'm)	5,320.37
52-wk price range	RM3.44 – RM4.35
Beta vs FBM KLCI (x)	0.54
Monthly velocity (%)	24.25
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.86
3-mth average daily value (RM'm)	3.62
Top Shareholders (%)	
Kossan Holdings M Sdn Bhd	51.21
EPF	6.54
KWAP	2.20

#### ANALYST

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## INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2017	FY2018	FY2019E	FY2020F	FY2021F
<b>Revenue</b>	<b>1,957.6</b>	<b>2,144.2</b>	<b>2,265.0</b>	<b>2,516.8</b>	<b>2,854.3</b>
Operating Profit	236.0	264.7	303.5	348.4	410.0
PBT	228.3	250.2	287.7	335.8	395.7
<b>PATANCI</b>	<b>182.1</b>	<b>199.8</b>	<b>231.4</b>	<b>270.3</b>	<b>318.8</b>
Operating Profit margin (%)	12.1	12.3	13.4	13.8	14.4
PBT margin (%)	11.7	11.7	12.7	13.3	13.9
PATAMI margin (%)	9.3	9.3	10.2	10.7	11.2
EPS (sen)	14.2	15.8	18.1	21.1	24.9
EPS Growth (%)	9.0	10.7	14.5	16.9	17.9
PER (x)	29.2	24.2	23.0	19.7	16.7
Dividend per share (sen)	5.5	6.0	7.0	8.0	9.0
Dividend yield (%)	1.3	1.4	1.7	1.9	2.2

Source: Company, MIDFR

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#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.