

# Equity Beat

01 March 2010

## 4Q09 Results Review

## Kossan Rubber Industries Bhd

*Starting with a clean sheet*

**Reiterate TRADING BUY**

**Increased Target Price (TP): RM8.40 (from RM8.26)**

- **Kossan's FY09 results (including exceptional forex losses of RM53m) grew +13.9%yoy to RM66.8m. The figure was below ours and consensus expectation, accounting for 87.2% and 91.1% respectively of full year number. This was mainly due to smaller tax allowance entitlement and higher-than-estimated forex losses in 4QFY09.**
- **Management re-assured that all the forex losses had been fully reflected in FY09 results. We believe that the normalised net profit of RM108.2m (+82.9%yoy) is a better comparison for earnings forecast and valuation in FY10.**
- **Reiterate Trading Buy with higher TP of RM8.40 (RM8.26 previously), based on 13.0x revised EPS10.**

### STOCK INFO

Price (24 Feb 10)	RM6.86	KLCI	1,270.78
Issued shares (mil)	159.87	Bursa / Bloomberg	7153 / KRI MK
Par Value (RM)	0.50	Board / Sector	Main/ Glove
Market cap. (RM'm)	1,096.69	Syariah Compliant	Yes
Price over NA	3.08X		
52-wk price Range	RM2.77– RM7.13	Major Shareholders	
Beta (against KLCI)	1.06	Kossan Holdings S/B	51.75%
3-mth Avg Daily Vol	0.41m	Asian Small Companies Portfolio	4.93%
3-mth Avg Daily Value	RM2.83m	AIM Advisors	4.41%


**Business improved for both glove and technical rubber products (TRP) divisions**, which grew +5.5%qoq and +33.6%qoq respectively in 4QFY09. This translated into 8.4%qoq growth in Kossan's revenue to RM227.7m. For the full year, Kossan's revenue however declined by -6.7% to RM837m. This was due mainly to the lower average glove selling prices in tandem with lower raw materials costs, and sluggish demand for TRP on economy slowdown. Note also, the upgrading works of the old production lines and the fire incidents have caused a reduction of installed capacity by approximately 1b pieces of glove. Glove business in term of volumes sold remained intact, declining by only -0.4% to 8.45b pieces in FY09.

**Margin improvement.** Kossan's normalised pre-tax margin expanded further in 4QFY09 to 21.3% from 3QFY09's 15.3%. Better product mix, sales volume increase in nitrile gloves, and improved cost efficiency were the key factors. Recovery in the output capacity of TRP division to almost 80% also boosted margin.

**Expansion plans in FY10.** Management guided that 16 new production lines are expected to start contributing in 3QFY10, adding about 1.6 to 1.8b pieces of gloves to the existing capacity of 9.2b pieces. The new capacity will be allocated to produce nitrile glove. The projected contribution from nitrile glove segment is 40% of the total glove division sales in FY10, higher than FY09's 32.2%. All in, management expects to sell 9.5b pieces of glove at 90% production utilisation rate. →

FYE Dec	FY07	FY08	FY09E*	FY10F
Revenue (RM'm)	702.6	897.2	837.0	957.4
EBIT (RM'm)	68.6	83.4	96.5	144.4
Pretax Profit (RM'm)	58.3	72.9	87.4	133.7
Net Profit (RM'm)	55.1	58.6	66.8	103.4
EPS (sen)	34.4	36.7	41.8	64.6
EPS growth (%)	19.7%	6.5%	13.9%	54.8%
PER(x)	19.9	18.7	16.4	10.6
Net Dividend (sen)	7.0	5.1	8.4	12.9
Net Dividend Yield (%)	1.0%	0.7%	1.2%	1.9%

Source: Company, Forecasts by MIDFR \*including one-off items

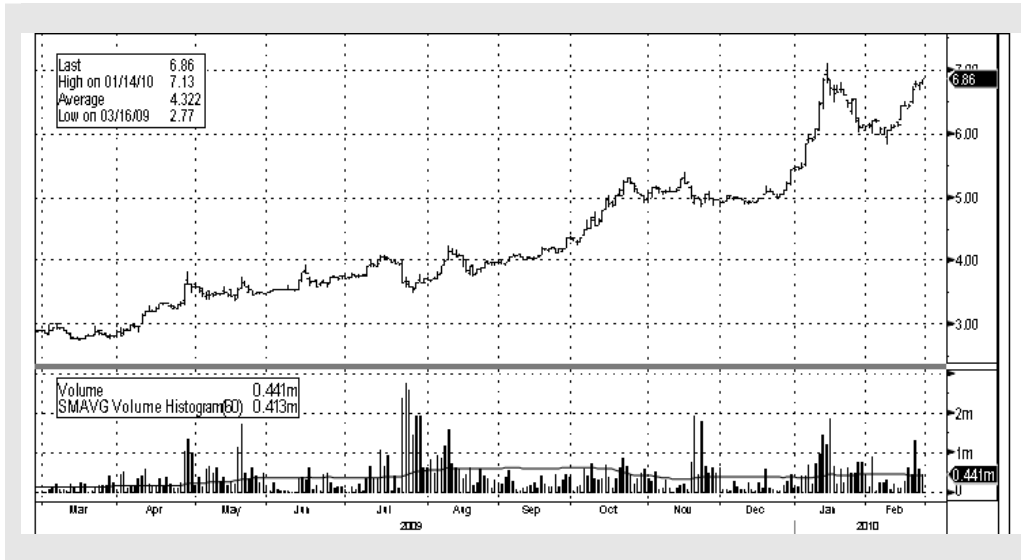
**Maintain TRADING BUY.** We are revising upwards our FY10 EPS forecast by +1.7% to 64.6 sen, taking cue from the higher pre-tax margin, but also partly offset by higher effective tax rate. We are maintaining our TRADING BUY call on Kossan with higher TP of RM8.40 (RM8.26 previously), based on 13.0x revised EPS10. 

## Kossan: 4QFY09 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
Revenue	227.7	-4.6%	8.4%	837.0	-6.7%	Lower average selling price and sales contraction for TRP sales for the full year.
Operating expenses	-194.9	-10.4%	4.0%	-742.0	-9.2%	Average latex price in 4QFY09 was 532.16 sen/kg as compared to 3QFY09's 442.06 and 4QFY08's 410.82. FY09: 450.63 sen/kg vs FY08: 569.62 sen/kg.
EBIT	33.8	55.8%	47.5%	96.5	15.7%	Higher profitability per glove sold due to higher production utilisation rate and better cost efficiency.
Interest expenses	-2.2	-24.8%	5.0%	-9.1	-13.1%	
Pre-tax profit	31.6	68.3%	51.8%	87.4	19.9%	
Tax	-7.3	>100%	32.8%	-20.1	46.5%	Smaller tax allowance entitled.
Net profit	24.0	50.9%	56.0%	66.8	13.9%	
EPS (sen)	15.0	50.9%	56.1%	41.8	13.9%	
		+/- ppts	+/- ppts			
EBIT margin (%)	10.9%	1.6	1.3	10.3%	0.8	As above.
Tax rate (%)	26.5%	6.0	7.7	22.9%	2.7	
<u>Revenue Breakdown</u>	4Q09	%YoY	%QoQ	FY09	%YoY	
Gloves	199.1	-5.5%	5.5%	746.3	-4.0%	Due to: (i) Lower average selling price as lower raw materials prices; (ii) Lower sales volume as production interruption.
Technical rubber products	28.7	2.4%	33.6%	90.7	-21.4%	Due to slowdown in global auto industry and economy, but showing improvement.
<u>Pre-tax Breakdown</u>						
Gloves	26.7	43.4%	39.4%	81.0	24.9%	
Technical rubber products	4.9	>100%	>100%	6.4	-21.7%	
<u>Pre-tax margin</u>		+/- ppts	+/- ppts			
Gloves	13.4%	4.6	3.3	10.8%	2.5	As above.
Technical rubber products	16.9%	16.5	9.3	7.1%	-0.0	Annual margin backed to previous level.

Source: Company, MIDFR

## DAILY PRICE CHART



Zulkifli Hamzah  
Belford Chang  
Chang.kz@midf.com.my  
03-2173 8392

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 (Bank Pelaburan)  
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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

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