Corporate Update

Kossan Rubber Industries Berhad

(7153 | KRI MK) Main | Healthcare | Healthcare Equipment and Services

SHARIAH Compliant

Maintain **NEUTRAL**

Revised Target Price **RM1.93** (from RM2.14)

Single Digit Profit Margin

Slower-than-expected recovery. We are maintaining our Neutral recommendation on Kossan with a revised target price of RM 1.93 (previously RM2.14) post the group's 4QFY24 results announcement. While 4QFY24 revenue has stayed above the RM500m level, the profitability was negatively impacted by higher opex and taxation. The trend was also seen in the full year FY24 financial performance.

Moving forward, we expect growth in revenue to be mainly driven by higher demand from the U.S. in view of the imposition of higher U.S. tariff on Chinese-made medical gloves. However, we do not discount possibility that other export destination could potentially face more stiff competition where the Chinese gloves manufacturer could redirect their product. On another note, we remain concern on the elevating opex which could be caused by higher raw material cost and higher staff cost. This could put some pressure on the profit margin.

Weak 4QFY24 earnings. 4FY24 normalised earnings came in at RM23.0m, a decline of -25.0%yoy. This is despite Kossan recording higher revenue of RM517.9m (+29.4%yoy). The discrepancy was mainly led by high operating expenses and higher taxation.

Note that the higher revenue was mainly supported by the gloves and clean-room division which grew by +36.6%yoy and +38.8%yoy to RM440.2m and RM 36.3m respectively.

Below expectation. On a cumulative basis, full year FY24 normalised earnings amounted to RM100.2m, an improvement of +274.1%yoy from RM26.8m achieved a year ago. This was mainly supported by the +19.8%yoy increase in revenue to RM1,906.8m as well as improvement in production efficiencies, especially for the gloves division. As such, the profit margin expanded to 5.3% from 1.7% previously.

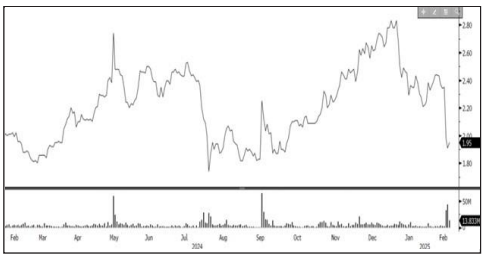
Nonetheless, we view that Kossan's FY24 financial performance fail to meet ours and consensus expectations, making up 91.6% and 80.8% of full year FY24 earnings estimates respectively.

Earnings revision. Taking into consideration FY24 financial performance, we cut FY25 and FY26 earnings estimates lower by -10.6% and -13.1% respectively as we adjust our profit margin assumption. Note that we maintain our revenue assumption for both years.

Downward adjustment in target price. Following our earnings downgrade, our target price has been adjusted to **RM1.93** from 2.14 previously. This is premised on pegging revised FY25 EPS of 4.9sen against unchanged target PER of 39.4x.

RETURN STATISTICS	
Price @ 20th Feb 2025 (RM)	1.95
Expected share price return (%)	-1.0
Expected dividend yield (%)	+1.3
Expected total return (%)	+0.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-17.0	-17.3
3months	-31.1	-17.7
12 months	-1.1	-2.4

INVESTMENT STATISTICS

FYE Mar	2025E	2026F	2027F
Revenue	2,231.1	2,442.2	2,633.8
Operating Profit	129.4	139.3	135.8
Profit Before Tax	166.9	177.0	173.6
Core PATANCI	123.8	131.2	128.7
Core EPS	4.9	5.1	5.0
DPS	2.5	3.0	3.0
Dividend Yield	1.3	1.5	1.5

KEY STATISTICS	
FBM KLCI	1,577.67
Issue shares (m)	2,551.62
Estimated free float (%)	46.54
Market Capitalisation (RM'm)	4,974.66
52-wk price range	RM1.69 – RM2.87
3-mth average daily volume (m)	6.40
3-mth average daily value (RM'm)	15.52
Top Shareholders (%)	
Kossan Holdings M Sdn Bhd	35.00
Employees Provident Fund Board	5.54
Abrdn Plc	5.47

Analyst
MIDF Research
research@midf.com.my

Kossan Rubber Industries: 4QFY24 Results Summary

FYE Dec (RM's)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	12MFY24	12MFY23	YoY (%)
Revenue	517.9	507.4	400.1	29.4	2.1	1,906.8	1,591.0	19.8
Operating expenses	(494.1)	(486.1)	(414.8)	19.1	1.7	(1,818.6)	(1,610.3)	12.9
Other operating income	15.8	18.8	18.8	(15.9)	(16.1)	71.2	55.2	29.0
Operating profit (EBIT)	**39.6**	**40.2**	**4.2**	**847.7**	**(1.5)**	**159.4**	**36.0**	**343.4**
Net finance income/(cost)	(0.8)	(0.4)	(0.7)	10.0	97.6	(1.4)	(1.4)	(3.4)
Profit before tax (PBT)	38.7	39.7	3.4	1,028.3	(2.5)	158.0	34.5	357.5
Taxation	(10.6)	(9.7)	(1.8)	474.1	8.9	(35.6)	(18.2)	95.3
Profit After tax (PAT)	**28.2**	**30.1**	**1.6**	**1,666.5**	**(6.2)**	**122.4**	**16.3**	**650.4**
PATANCI	27.7	29.4	0.8	3,336.8	(5.9)	120.0	13.3	800.0
Core PATANCI	**23.0**	**25.0**	**30.7**	**(25.0)**	**(7.9)**	**100.2**	**26.8**	**274.1**
Basic EPS (sen)	1.1	1.2	0.0	3,533.3	(5.2)	4.7	0.6	739.3
DPS (sen)	0.0	0.0	2.0	(100.0)	n.m.	0.0	2.0	(100.0)
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating Profit Margin	7.6	7.9	1.0	6.6	(0.3)	8.4	2.3	6.1
PBT Margin	7.5	7.8	0.9	6.6	(0.4)	8.3	2.2	6.1
Core PATANCI Margin	4.4	4.9	7.7	(3.2)	(0.5)	5.3	1.7	3.6
Effective tax rate (%)	27.2	24.4	53.5	(26.3)	2.9	22.5	52.8	(30.2)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	1,591.0	1,906.8	2,231.1	2,442.2	2,633.8
EBIT	36.0	159.4	129.4	139.3	135.8
Profit before tax (PBT)	34.5	158.0	166.9	177.0	173.6
Profit after tax (PAT)	16.3	122.4	123.8	131.2	128.7
Core PATANCI	26.8	100.2	123.8	131.2	128.7
Core EPS (sen)	1.0	3.9	4.9	5.1	5.0
DPS (sen)	4.0	8.0	2.5	3.0	3.0

Source: Company, MIDFR

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197501002077 (24878-X).

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

POSITIVE	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.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology