

16 October 2020

Mah Sing Group Berhad

Introducing MS Gloves

By Lum Joe Shen | lumjs@kenanga.com.my

Mahsing has unveiled their new venture – MS Gloves, which will have the capacity to produce 3.68b gloves/annum by September 2021. We are positive on the move as glove ASPs are expected to remain elevated through 2022 due to supply tightness – allowing Mahsing to achieve a quick payback of 1.5-2 years on their capex of c.RM150m. FY21E earnings +RM84m (or 75%) to RM196m. Upgrade to OP with a higher SoP derived TP of RM1.05.

MS Gloves – Mahsing’s next growth engine. Mahsing has officially announced that they will be entering the glove manufacturing space by investing c.RM150m into 12 brand new lines, allowing them to produce 3.68b pieces/annum. Timeline-wise, the 12 lines will come online from April to Sep-21 at a rate of 2 new lines/month which we find rather quick.

Optional Phase 2. Should the global glove demand still persist after September 2021, Mahsing has the option to add on another 12 lines (phase 2) from Oct-21 to March-22; bringing cumulative production capacity to 7.35b pieces/annum. Currently, Mahsing has obtained letter of intents indicating demand of up to 9.41b pieces/annum.

Positive on the venture. With the anticipated global demand for gloves to remain elevated while supply continues to play catch up, we think that Mahsing’s venture into the glove industry is not too late. Our in-house view is that the glove supply tightness will remain even until end of 2022, keeping ASPs high – and providing the means for Mahsing to achieve a payback period of 1.5-2 years.

As compared to other new entrants (from other industries) that intend to penetrate this space, we believe Mahsing’s balance sheet size coupled with their existing experience within the plastic manufacturing industry would provide them the edge to jumpstart operations quicker and more competitively.

Supernormal growth in FY21. We upgrade FY21 earnings by RM84m (or 75%) to RM196m after incorporating the new stream of earnings derived from its glove segment. We have **assumed ASPs of USD55/1000** gloves and have conservatively assumed Mahsing to only sell its first batch of gloves in July-21 (instead of April where lines are up) due to potential teething issues (refer to schedule behind). Costing wise, while management guided for USD25-27/1000 gloves, we have also conservatively assumed USD30/1000 gloves as they might have to pay premiums to obtain part supplies (ie formers) amidst this shortage.

Upgrade to Outperform with higher SoP derived TP of RM1.05 (from RM0.70). With the new segment, we switch our valuation method to Sum-of-Parts (from 0.53x FY21 PBV) whereby we value the new gloves segment within the SoP at 10x FY21 PER. We choose to only apply a PE of 10x for the division vs the 18.4x average PE ascribed to our big 4 coverage (Topglov, Harta, Kossan and Supermx) given the huge difference in capacity sizes, industry experience and also the fact that Mahsing’s operations have not come on stream yet – which could face start up hiccups.

OUTPERFORM ↑

Price : RM0.725
Target Price : RM1.05 ↑

Share Price Performance



KLCI	1,513.95
YTD KLCI chg	-4.7%
YTD stock price chg	2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MSGB MK EQUITY
Market Cap (RM m)	1,760.1
Shares Outstanding	2,427.7
52-week range (H)	0.91
52-week range (L)	0.31
3-mth avg. daily vol:	17,846,680
Free Float	49%
Beta	1.6

Major Shareholders

Mayang Teratai Sdn Bhd	26.9%
Amanah Saham Nasional	12.6%
Mayang Teratai Limited	7.4%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1,810	1,421	2,261
EBIT	294	222	394
PBT	287	210	386
Net Profit (NP)	117	59	196
Core NP (CNP)	117	59	196
Consensus (CNP)	n.a.	90	128
Earnings Revision	0%	0%	75%
FD EPS (sen)	4.1	2.1	7.0
FD EPS growth (%)	-39%	-49%	230%
NDPS (sen)	4.0	3.0	3.0
BV/Share (RM)	1.45	1.44	1.49
FD PER (x)	17.5	34.3	10.4
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.2	0.2	0.1
Dividend Yield (%)	5.5%	4.1%	4.1%

* CNP : Defined as core net profit to attributable to ordinary shareholders i.e. net of hybrid capital financing costs (e.g. Perpetual bonds). But note that our CNP excludes one-offs and non-cash adjustments.

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FY21 gloves capacity and sales

	New lines	Capacity (gloves/month)	Production for sale (m/month)
Apr-21	+2	51.1	0
May-21	+2	102.2	0
Jun-21	+2	153.3	0
Jul-21	+2	204.4	51.1*
Aug-21	+2	255.6	102.2
Sep-21	+2	306.7	153.3
Oct-21	0	306.7	204.4
Nov-21	0	306.7	255.6
Dec-21	0	306.7	306.7
Total production in FY21			1073.3

*We only assume the gradual ramp up of production in gloves to commence in July-21 despite plant being up in April-21 as we anticipate teething issues for a new plant.

Source: Company, Kenanga Research

Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	2916	2193	1810	1421	2261
EBITDA	468	364	297	232	404
Depreciation	-20	-23	-24	-25	-34
EBIT	481	368	294	222	394
Interest Expense	-17	-21	-7	-12	-8
Investing	0	0	0	0	0
Associate/JCE	0	0	0	0	0
Exceptionals/FV	8	0	0	0	0
PBT	472	348	287	210	386
Taxation	-113	-77	-75	-51	-90
Minority Interest	-56	-81	-96	-101	-101
Net Profit	303	190	117	59	196
Core NP	297	190	117	59	196

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	1834	2043	2323	2328	2474
Intangibles	6	6	5	5	5
Other FA	181	206	148	155	181
Inventories	629	731	543	384	550
Receivables	3261	2695	3163	3320	3406
Other CA	14	8	5	6	7
Cash	1216	1220	145	138	214
Total Assets	7140	6909	6334	6336	6837
Payables	1524	1396	708	700	967
ST Borrowings	143	121	147	86	86
Other ST Liability	38	22	22	15	26
LT Borrowings	638	443	531	620	708
Other LT Liability	149	103	79	82	93
MI/Perpetual Bond	1192	1335	1339	1339	1339
Net Assets	3456	3489	3508	3495	3618
Share Capital	1773	1776	1776	1776	1776
Reserves	1683	1713	1732	1719	1842
Shareholders Equity	3456	3489	3508	3495	3618

Cashflow Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	248	450	-804	93	405
Investing CF	-227	-205	-285	-43	-150
Financing CF	271	-241	14	-57	88
Net Change in Cash	292	4	-1075	-7	343
Free Cash Flow	654	682	-500	123	555

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Revenue	-1.4	-24.8	-17.5	-21.5	59.1
EBITDA	-3.9	-22.4	-18.4	-21.8	73.9
EBIT	-5.5	-23.5	-20.1	-24.4	77.3
Pre-tax Income	-2.2	-26.4	-17.5	-26.6	83.5
Core NP	-14.4	-36.0	-38.7	-49.1	229.7
Profitability (%)					
EBITDA Margin	16.1	16.6	16.4	16.3	17.8
EBIT Margin	16.5	16.8	16.3	15.6	17.4
PBT Margin	16.2	15.9	15.8	14.8	17.1
Core Net Margin	10.2	8.7	6.4	4.2	8.7
ETR	-24.0	-22.1	-26.0	-24.0	-23.3
ROE	9.0	5.5	3.3	1.7	5.5
ROA	4.5	2.7	1.8	0.9	3.0
DuPont					
Net margin (%)	10.2	8.7	6.4	4.2	8.7
Assets Turnover	0.4	0.3	0.3	0.2	0.3
Leverage Factor	2.0	2.0	1.9	1.8	1.9
ROE (%)	9.0	5.5	3.3	1.7	5.5
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.2	0.2	0.2	0.2	0.2
Net Debt/(Cash)	-434.8	-656.1	532.6	567.6	580
Net Debt/Equity	-0.13	-0.19	0.15	0.16	0.16
Valuations					
Core EPS (sen)	12.2	7.8	4.8	2.4	8.1
Core FD EPS	10.6	6.8	4.1	2.1	7.0
NDPS (sen)	6.5	4.5	4.0	3.0	3.0
BV/share (RM)	1.42	1.44	1.45	1.44	1.49
Core PER (x)	5.8	9.3	15.1	29.7	9.0
Core FD PER (x)	6.9	10.7	17.5	34.3	10.4
Net Div. Yield	8.9	6.2	5.5	4.1	4.1
PBV (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	4.0	5.2	6.4	8.1	4.7

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.390	1,148.3	Y	10/2020	5.6	4.9	4.9	0.3	0.2	4.8%	2.9%	0.490	OP	
IOI PROPERTIES GROUP BHD	0.900	4,955.5	Y	06/2021	8.0	7.3	7.1	0.3	0.3	3.7%	3.3%	0.970	MP	
LBS BINA GROUP BHD	0.365	570.0	Y	12/2020	8.5	14.6	8.3	0.4	0.4	2.8%	1.9%	0.330	UP	
MAH SING GROUP BHD	0.725	1,760.1	Y	12/2020	17.7	34.5	10.4	0.5	0.5	1.7%	4.1%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.435	1,919.2	Y	12/2020	N.A.	39.5	18.9	0.4	0.4	1.0%	0.5%	0.750	OP	
SIME DARBY PROPERTY BHD	0.575	3,910.5	Y	12/2020	5.5	11.6	9.1	0.4	0.4	3.5%	2.6%	0.700	OP	
SP SETIA BHD	0.745	3,022.3	Y	12/2020	11.8	35.5	7.8	0.2	0.2	0.6%	0.8%	0.680	UP	
SUNWAY BHD	1.37	6,707.6	Y	12/2020	10.5	16.0	11.2	0.7	0.7	4.4%	3.1%	1.57	OP	
UEM SUNRISE BHD	0.385	1,746.9	Y	12/2020	5.6	6.2	7.2	0.2	0.2	0.8%	0.0%	0.555	OP	
UOA DEVELOPMENT BHD	1.48	3,143.2	Y	12/2020	8.0	8.2	7.3	0.6	0.6	7.0%	9.5%	1.82	OP	
					9.0	17.8	9.2	0.4	0.4	3.0%	2.9%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

