

Malaysia

ADD (previously HOLD)

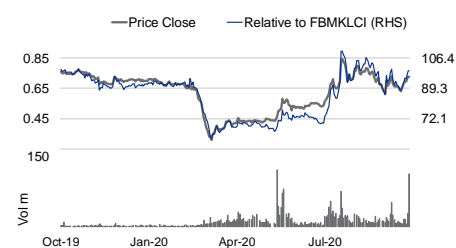
Consensus ratings*: Buy 7 Hold 6 Sell 0

Current price:	RM0.725
Target price:	RM1.35
Previous target:	RM0.81
Up/downside:	86.2%
CGS-CIMB / Consensus:	64.5%
Reuters:	MAHS.KL
Bloomberg:	MSGB MK
Market cap:	US\$423.8m
	RM1,760m
Average daily turnover:	US\$3.14m
	RM13.13m
Current shares o/s:	2,428m
Free float:	65.0%

*Source: Bloomberg

Key changes in this note

- FY20F EPS cut by 1%.
- FY21-22F EPS increased by 130-197%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	36.8	-5.2
Relative (%)	8.5	41.3	-1.9

Major shareholders	% held
Tan Sri Leong Hoy Kum	35.0
EPF	9.9
Lembaga Tabung Haji	5.8

Analyst(s)

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Mah Sing Group

Riding on the glove bandwagon

- Mah Sing said it plans to diversify its business into gloves and healthcare-related products, starting with the acquisition of 12 glove production lines.
- We expect this proposed diversification to contribute c.RM140m and c.RM220m to its FY21F and FY22F net profit, respectively.
- Upgrade to Add, given the earnings-accretive business venture.

Diversifying into manufacturing and trading of gloves

Mah Sing today announced plans to diversify its principal activities to include the manufacturing and trading of gloves and healthcare-related products. Currently, the group is principally involved in property development, plastics manufacturing, hotel operations, and investment holdings and others. The group will seek shareholders' approval through an extraordinary general meeting (EGM) for the proposed diversification as contribution from the new business is expected to make up 25% or more of its net profit. The rationale for the diversification is to leverage on the glove business' favourable long-term prospects and to reduce Mah Sing's reliance on the domestic property market.

Venturing into gloves

Mah Sing plans to acquire 12 new glove production lines to produce up to 3.68bn pieces of gloves per annum (mixture of nitrile and latex gloves), with an estimated capex of RM150m. For the first phase of expansion, six new glove production lines are expected to commence production in 2Q21F (starting in Apr 21, two new lines to come online per month), while the remaining six new glove production lines are slated to come on-stream by 3Q21F. Mah Sing is targeting export markets that include the US and Europe. The group intends to submit and obtain approvals from the authorities in 1Q21F and aims to sell its gloves at spot prices of US\$80-160 per 1,000 pieces due to the shortage of gloves; production cost is estimated at US\$25-27 per 1,000 pieces.

Potential contribution from glove operations

If the glove unit expansion proceeds as planned, the expected glove capacity for FY21F would be c.2bn pieces, while FY22F's normalised capacity would be 3.68bn pieces. We expect this proposed diversification to contribute c.RM140m and c.RM220m to its FY21F and FY22F net profits, respectively, based on an average selling price assumption of US\$50-60 per 1,000 pieces. We raise our FY21-22F EPS by 130-197% to factor in the potential earnings contributions from gloves.

Upgrade to Add from Hold

Our TP is revised to RM1.35, as we switch our valuation from P/BV to sum-of-the-parts (SOP) to reflect the new business. We ascribe: i) 1x FY19 P/BV for its property land bank and investment properties, ii) sector average FY21 P/E of 15x for its plastics division, and iii) 15x FY21 P/E for its glove division (a 20% discount to glove sector average of 19x). Upgrade Mah Sing to Add given the potential contribution from its glove unit starting in FY21F, healthy balance sheet and decent dividend yield of >6% for FY21-22F.

Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues (RMm)	2,193	1,790	1,472	2,071	2,270
Operating EBITDA (RMm)	383.3	311.8	258.2	499.4	603.2
Net Profit (RMm)	190.0	109.1	67.0	251.7	340.1
Core EPS (RM)	0.08	0.06	0.03	0.10	0.14
Core EPS Growth	(40%)	(25%)	(53%)	276%	35%
FD Core P/E (x)	9.26	12.30	26.28	6.99	5.18
DPS (RM)	0.045	0.034	0.023	0.050	0.065
Dividend Yield	6.21%	4.62%	3.17%	6.90%	8.97%
EV/EBITDA (x)	9.83	12.60	12.50	6.56	5.36
P/FCFE (x)	10.66	NA	2.62	62.76	11.52
Net Gearing	14.0%	17.3%	15.5%	16.1%	14.6%
P/BV (x)	0.50	0.50	0.50	0.48	0.46
ROE	5.47%	4.10%	1.91%	7.00%	9.06%
% Change In Core EPS Estimates			(1%)	130%	197%
CGS-CIMB/Consensus EPS (x)			0.81	2.07	2.42

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Riding on the glove bandwagon

Glove plant in Klang. The group has leased a piece of land of c.313,548 sq ft (7.2 acres) with a single-storey warehouse measuring c.228,800 sq ft (5.3 acres), together with a double-storey office at Kawasan Perindustrian Ladang Sungai Puloh, Klang, for RM274,560 per month. This land, which will be used to set up Mah Sing's glove business, is located close to the facilities of some major glove players (Top Glove, Kossan, Supermax, Smart Glove) and 20 minutes away from its plastics factory.

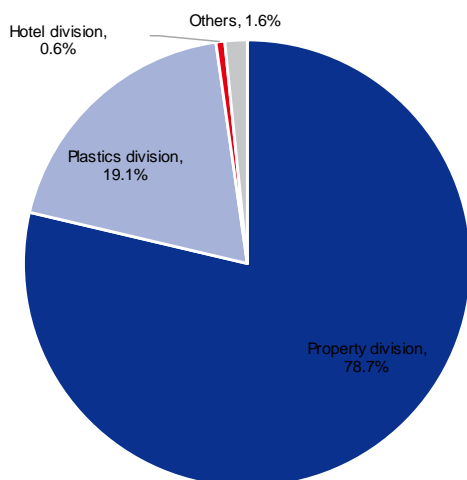
Phase 2 expansion. The second phase of the expansion plan is expected to include another 12 new glove production lines (another 3.68bn pieces of gloves p.a.) within the timeframe of Oct 2021-Mar 2022. If demand is sustainable, the group intends to expand to up to 100 gloves production lines. Mah Sing has the option of exercising the option to rent or purchase an additional 287,500 sq ft at the same location in Klang for its phase 2 expansion. The group said it has received indicative orders for c.9bn pieces, which already exceeds its phase 1 and 2 capacity.

Key management personnel for gloves business. The gloves unit will be led by Lawrence Khoo, who has more than 30 years of experience in the rubber industry, and Lee Foo Keong, who is currently the Executive Director of Mah Sing Plastics Industries. Mah Sing also plans to hire other experienced talents (team of engineers/chemists) with relevant glove manufacturing and technical expertise to drive the business.

Funding. The proposed diversification is expected to be funded via internally-generated funds, bank borrowings, and convertible sukuk. This will potentially raise its net gearing to 0.27x from 0.23x as of Jun 2020, which is still manageable, in our view.

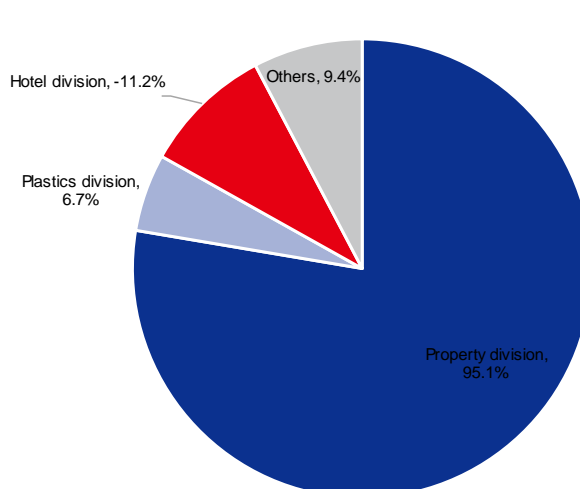
Key risks to our call. Potential re-rating catalysts are a solid balance sheet and decent dividend yields. Key risks to our Add call are a sudden deterioration in the property market sentiment and weaker property sales.

Figure 1: 2019 revenue breakdown by division



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: 2019 pre-tax profit breakdown by division



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Glove business expansion timeline

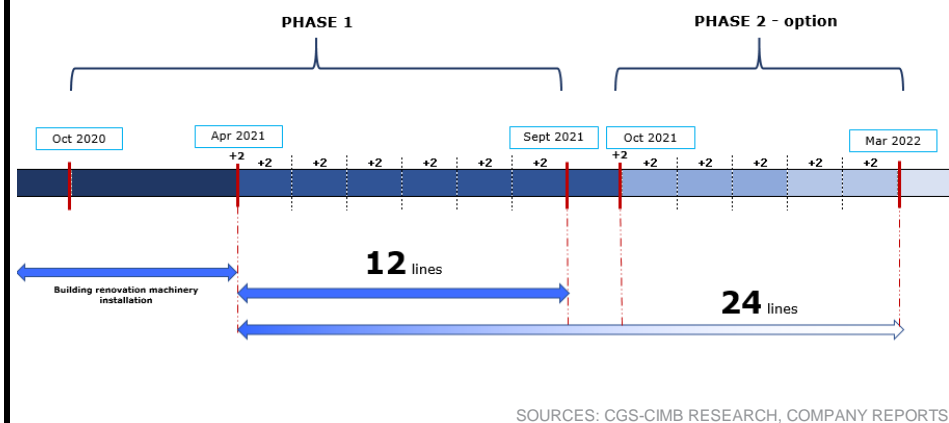


Figure 4: SOP valuation of Mah Sing

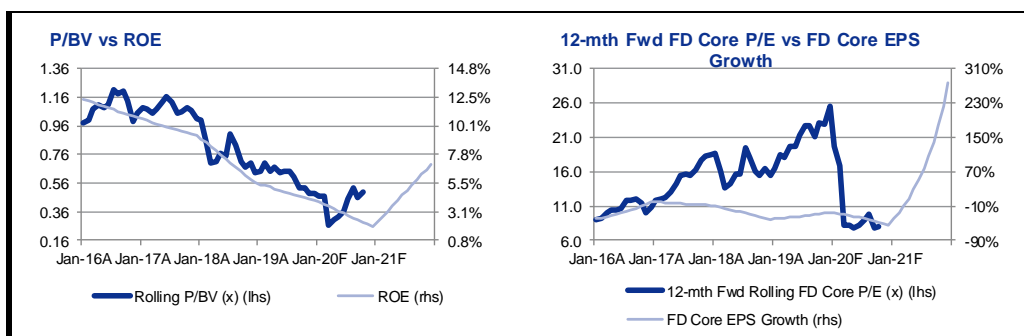
Asset	Methodology	RMm
Property development	1x FY19 PBV	1,750
Investment property	1x FY19 PBV	196
Plastics division	15x FY21 PE	200
Gloves division	15x FY21 PE	2,100
Cash/ (Debt)	FY19 (included expansion capex)	(980)
Sum of Parts		3,266
Number of shares (m)		2,428
Target Price (RM)		1.35

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision

RM m	2019A	2020F			2021F			2022F		
		Old	New	chg	Old	New	chg	Old	New	chg
Revenue	1,790	1,470	1,472	0%	1,681	2,071	23%	1,675	2,270	36%
EBITDA	312	256	258	1%	289	499	73%	288	603	109%
Core pretax profit	316	194	193	-1%	220	410	86%	223	520	133%
Core net profit	143	68	67	-1%	110	252	130%	115	340	197%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues	2,193	1,790	1,472	2,071	2,270
Gross Profit	650	516	404	673	796
Operating EBITDA	383	312	258	499	603
Depreciation And Amortisation	(26)	(40)	(42)	(58)	(54)
Operating EBIT	358	271	216	441	549
Financial Income/(Expense)	(10)	(1)	(23)	(31)	(29)
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	348	270	193	410	520
Exceptional Items					
Pre-tax Profit	348	270	193	410	520
Taxation	(77)	(68)	(46)	(98)	(125)
Exceptional Income - post-tax					
Profit After Tax	271	203	147	311	395
Minority Interests	(81)	(94)	(80)	(60)	(55)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	190	109	67	252	340
Recurring Net Profit	190	143	67	252	340
Fully Diluted Recurring Net Profit	190	143	67	252	340

Cash Flow

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	383.3	311.8	258.2	499.4	603.2
Cash Flow from Invnt. & Assoc.					
Change In Working Capital	354.3	95.2	184.4	(41.6)	(116.6)
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	16.7	60.6	0.0	0.0	0.0
Net Interest (Paid)/Received	(2.8)	3.1	(23.5)	(31.5)	(29.0)
Tax Paid	(114.3)	(55.0)	(46.3)	(98.3)	(124.9)
Cashflow From Operations	637.2	415.7	372.8	328.0	332.7
Capex	(75.4)	(34.4)	(50.0)	(150.0)	(30.0)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/Investments	(246.3)	(326.0)	(50.0)	(50.0)	(50.0)
Other Investing Cashflow	(75.4)	(34.4)	0.0	0.0	0.0
Cash Flow From Investing	(397.1)	(394.8)	(100.0)	(200.0)	(80.0)
Debt Raised/(repaid)	(74.9)	(363.7)	400.0	(100.0)	(100.0)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(157.8)	(109.2)	(55.8)	(121.4)	(157.8)
Preferred Dividends					
Other Financing Cashflow	(36.6)	(36.9)	(594.4)	(54.4)	(54.4)
Cash Flow From Financing	(269.3)	(509.9)	(250.2)	(275.7)	(312.1)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	1,220	1,063	1,086	938	879
Properties Under Development	1,704	1,532	1,482	1,459	1,394
Total Debtors	991	963	792	1,115	1,222
Inventories	731	763	614	654	797
Total Other Current Assets	8	8	8	8	8
Total Current Assets	4,655	4,330	3,982	4,174	4,300
Fixed Assets	1,847	1,976	2,034	2,176	2,202
Total Investments	196	196	196	196	196
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	212	174	174	174	174
Total Non-current Assets	2,255	2,346	2,404	2,546	2,572
Short-term Debt	121	122	122	122	122
Current Portion of Long-Term Debt					
Total Creditors	1,396	1,149	964	1,262	1,330
Other Current Liabilities	22	15	15	15	15
Total Current Liabilities	1,540	1,286	1,100	1,398	1,467
Total Long-term Debt	443	445	845	745	645
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	32	49	49	49	49
Total Non-current Liabilities	475	494	894	794	694
Total Provisions	72	69	69	69	69
Total Liabilities	2,086	1,849	2,064	2,262	2,230
Shareholders' Equity	4,818	4,818	4,315	4,450	4,634
Minority Interests	5	8	8	8	8
Total Equity	4,824	4,826	4,323	4,458	4,642

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	(24.8%)	(18.4%)	(17.8%)	40.7%	9.6%
Operating EBITDA Growth	(22.8%)	(18.7%)	(17.2%)	93.4%	20.8%
Operating EBITDA Margin	17.5%	17.4%	17.5%	24.1%	26.6%
Net Cash Per Share (RM)	(0.28)	(0.34)	(0.28)	(0.30)	(0.28)
BVPS (RM)	1.44	1.44	1.45	1.51	1.58
Gross Interest Cover	17.41	17.01	6.27	10.69	14.94
Effective Tax Rate	22.2%	25.0%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	57.5%	74.6%	83.4%	48.2%	46.4%
Accounts Receivables Days	175.8	199.3	218.3	168.1	187.9
Inventory Days	160.9	214.1	236.0	165.5	179.6
Accounts Payables Days	345.5	364.6	362.0	290.4	320.8
ROIC (%)	8.6%	6.7%	5.1%	10.7%	12.7%
ROCE (%)	5.99%	4.21%	3.51%	7.31%	8.95%
Return On Average Assets	3.99%	3.00%	2.60%	5.23%	6.25%

Key Drivers

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Unbooked Presales (m) (RM)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (area: m sm)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (units)	N/A	N/A	N/A	N/A	N/A
Unsold attrib. landbank (area: m sm)	N/A	N/A	N/A	N/A	N/A
Gross Margins (%)	29.7%	28.8%	27.4%	32.5%	35.1%
Contracted Sales ASP (per Sm) (RM)	N/A	N/A	N/A	N/A	N/A
Residential EBIT Margin (%)	N/A	N/A	N/A	N/A	N/A
Investment rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Residential rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Inv. properties rental margin (%)	N/A	N/A	N/A	N/A	N/A
SG&A / Sales Ratio (%)	8.2%	5.2%	3.8%	5.5%	5.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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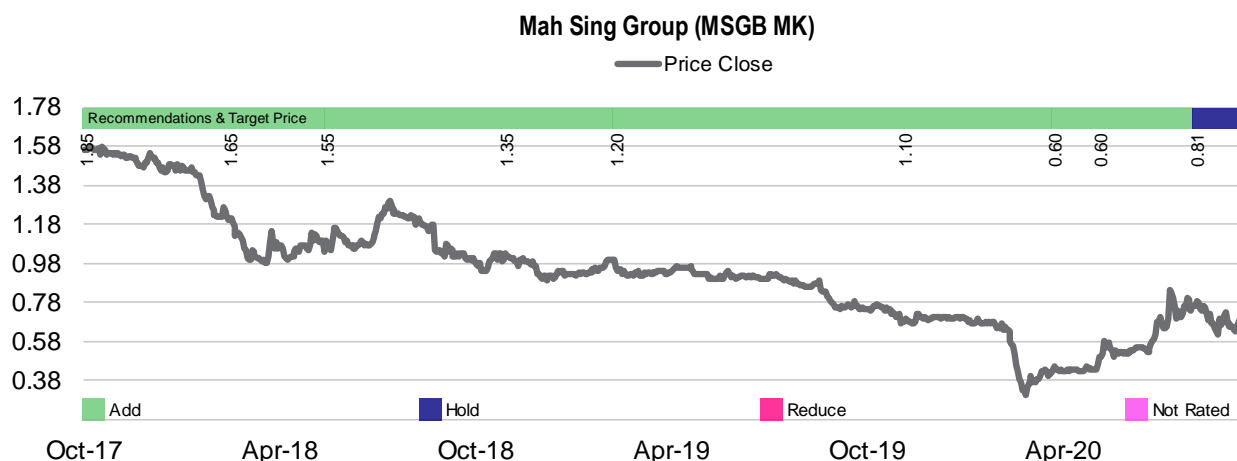
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795 companies under coverage for quarter ended on 30 September 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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