

### COMPANY UPDATE

## Mah Sing Group (MSGB MK)

Diversifying Into Glove Manufacturing Business

**Mah Sing has announced highly-anticipated details of its venture into the glove business. It will have an initial annual capacity of 3.7b pieces and options to double its capacity should demand be overwhelming. While we think that diversification is good when property demand is weak, we are concerned about the sustainability of high glove ASP, particularly upon completion of the plants' gestation period by end-21. Maintain HOLD and target price of RM0.80. Entry price: RM0.60.**

### WHAT'S NEW

- Phase 1 of 3.7b annual capacity.** Mah Sing Group (Mah Sing) has finally announced details of its venture into the rubber glove business. The company will occupy 228,800 sf of land in Klang and develop 12 production lines of rubber gloves with annual capacity of 3.7b. At present, the construction of plants has started to take place, with first commissioning expected by Apr 21. Management has set aside a maximum of RM150m capital outlay for Phase 1 of its glove manufacturing business.
- Cautious on long-term outlook of gloves.** As a new player in an overly-crowded industry, we do not discount the possibility of operational hiccups in the early stage of production, particularly the sourcing of raw materials for nitrile as well as hiring labour which has become increasingly challenging for rubber glove producers. Although diversification is good for Mah Sing, we are slightly concerned on whether the high ASP of gloves is still achievable upon completion of the trial period of production lines, which we expect to be at end-21. As more companies are jumping on the bandwagon, we anticipate a potentially enormous global capacity growth for the glove manufacturing industry.

### STOCK IMPACT

- Targeted to start commission in Apr 21.** As the plants are currently under construction, management has guided that the first commissioning of glove production will be in Apr 21 with two production lines. Gradually, two production lines will be commissioned each month with full commissioning of the 12 production lines targeted by Sep 21. Mah Sing also added that should the demand be overwhelming, there is an ample land next to its existing plants which will allow the company to essentially double production capacity to 7.4b, bringing the total number of production lines to 24.
- Focusing on nitrile gloves.** Management shared that they have secured letters of intent from buyers to take up glove production in excess of 9.4b pieces; all of these are for nitrile gloves. However, management also mentioned that the lines are interchangeable with latex gloves, in case there is a need to switch production.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,193	1,790	1,297	1,354	1,428
EBITDA	673	556	250	289	335
Operating profit	651	516	211	235	269
Net profit (rep./act.)	190	109	55	77	92
Net profit (adj.)	189	111	56	78	93
EPS (sen)	7.4	4.3	2.2	3.0	3.6
PE (x)	8.3	14.3	28.4	20.3	17.0
P/B (x)	0.8	0.8	0.4	0.4	0.4
EV/EBITDA (x)	3.9	4.8	10.6	9.2	7.9
Dividend yield (%)	7.3	5.4	3.4	3.5	3.9
Net margin (%)	8.7	6.1	4.2	5.7	6.5
Net debt/(cash) to equity (%)	37.3	46.2	32.6	37.1	39.9
Interest cover (x)	66.7	465.3	47.1	31.4	29.7
ROE (%)	7.2	6.0	2.1	2.2	2.5
Consensus net profit	-	-	99	136	150
UOBKH/Consensus (x)	-	-	0.57	0.58	0.62

Source: Mah Sing, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative PE, EV/EBITDA reflected as "n.m."

## HOLD

(Maintained)

Share Price	RM0.73
Target Price	RM0.80
Upside	+9.6%

### COMPANY DESCRIPTION

One of the leading property developers in Malaysia, famous for its quick turnaround strategy.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MSGB MK
Shares issued (m):	2,427.7
Market cap (RMm):	1,493.0
Market cap (US\$m):	350.5
3-mth avg daily t'over (US\$m):	1.9

### Price Performance (%)

52-week high/low RM0.925/RM0.310

1mth	3mth	6mth	1yr	YTD
18.3	43.0	(13.4)	(32.0)	(12.8)

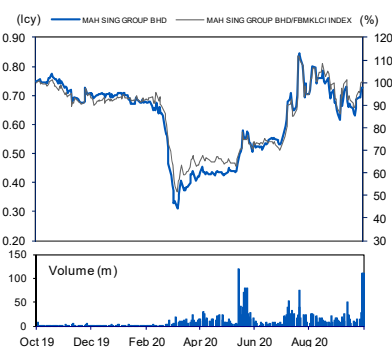
### Major Shareholders

	%
Mayang Teratai Sdn Bhd	34.6
Employees Provident Fund	8.7
-	-

FY20 NAV/Share (RM) 1.46

FY20 Net Debt/Share (RM) 0.48

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- Aiming to be one of top 5 glove producers.** Mah Sing has hinted that its ultimate goal is to be one of the top 5 glove producers in Malaysia with 100 production lines and over 30b pieces of annual capacity. Management further highlighted that they may proceed with the listing of manufacturing or healthcare divisions, separate from its property division, when the time is ripe.
- Expect massive contribution assuming no hiccups...** Based on our back-of-envelope calculations, earnings contribution to Mah Sing from its glove division may be significant as it may at least double our current 2020 estimates. This is premised on our assumed ASP of US\$40/1,000 pieces of nitrile gloves and only half of the capacity to be commissioned in 2020. On a full-year basis, we expect the glove manufacturing business to make an annual profit of RM255.2m if nitrile glove ASP stabilises at US\$40/1,000 pieces. However, note that contribution in 2021 will only be halved as first two production lines are estimated to be commissioned only in April, and full commissioning only by Sep 21.
- ...but in reality, glove industry is a crowded space with uncertain outlook.** Although diversification is a good strategy, particularly at times when the property market is weak, we are concerned on the industry's outlook, and whether the sky-high ASP can be sustained till next year when its production lines are commissioned. In addition, we also understand that supply of raw materials, especially for nitrile glove, is scarce; hence newer player may need to pay premium for raw materials which will then affect their profit margin. Essentially, we also think Mah Sing will need to undergo a gestation period throughout 2021 when the plants are first commissioned, after which the vaccine for COVID-19 may already been discovered.

### EARNINGS REVISION/RISK

- None.

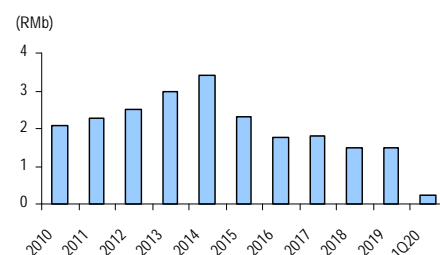
### VALUATION/RECOMMENDATION

- Maintain HOLD** and target price of RM0.80, based on a 67% discount to its RNAV, which is -1SD below the historical average. We like Mah Sing for its 40% dividend payout policy as well as a lean balance sheet. It is also trading at an attractive a0.4x P/B (-2SD below historical average) vs 0.68x during the global financial crisis, which is at a 50% discount to the 5-year historical average of 0.8x. Entry price is RM0.60.

### SHARE PRICE CATALYST

- Further land acquisitions.

### PROPERTY SALES



Source: Mah Sing

### DETAILS OF GLOVE BUSINESS

Location	Sungai Puloh, Klang
Capex	RM150m
Annual capacity	3.68b pieces
Land size	228,800sf
Production lines	12 lines
Future expansion	Another 12 lines with 3.68b pieces capacity

Source: Mah Sing

### PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	1,790	1,297	1,354	1,428
EBITDA	556	250	289	335
Deprec. & amort.	40	39	54	66
EBIT	516	211	235	269
Net interest income/(expense)	(1)	(5)	(9)	(11)
Pre-tax profit	270	166	172	191
Tax	(68)	(38)	(40)	(44)
Minorities	(2)	(1)	(1)	(1)
Net profit	109	55	77	92
Net profit (adj.)	111	56	78	93

### CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	416	224	24	75
Pre-tax profit	270	166	172	191
Tax	(55)	(38)	(40)	(44)
Deprec. & amort.	40	39	54	66
Associates	(29)	(29)	(29)	(29)
Working capital changes	95	(8)	(227)	(203)
Other operating cashflows	94	94	94	94
Investing	(292)	(179)	(179)	(179)
Capex (growth)	(263)	(150)	(150)	(150)
Investments	(29)	(29)	(29)	(29)
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(510)	(38)	61	57
Dividend payments	(91)	(38)	(39)	(44)
Issue of shares	0	0	0	0
Proceeds from borrowings	2	0	100	100
Loan repayment	0	0	0	0
Others/interest paid	(421)	0	0	1
Net cash inflow (outflow)	(386)	7	(94)	(47)
Beginning cash & cash equivalent	1,188	733	740	646
Changes due to forex impact	261	0	0	2
Ending cash & cash equivalent	1,063	740	646	601

### BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	226	336	433	516
Other LT assets	1,951	2,287	2,327	2,328
Cash/ST investment	1,063	740	646	601
Other current assets	3,267	2,860	2,889	2,998
<b>Total assets</b>	<b>6,507</b>	<b>6,224</b>	<b>6,295</b>	<b>6,444</b>
ST debt	122	122	122	122
Other current liabilities	1,164	650	528	473
LT debt	1,774	1,774	1,874	1,974
Other LT liabilities	1,635	118	118	118
Shareholders' equity	1,804	3,550	3,642	3,745
Minority interest	8	9	10	11
<b>Total liabilities &amp; equity</b>	<b>6,507</b>	<b>6,224</b>	<b>6,295</b>	<b>6,444</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	31.1	19.3	21.3	23.5
Pre-tax margin	15.1	12.8	12.7	13.4
Net margin	6.1	4.2	5.7	6.5
ROA	1.7	0.9	1.2	1.4
ROE	6.0	2.1	2.2	2.5
<b>Growth</b>				
Turnover	(18.4)	(27.5)	4.4	5.4
EBITDA	(17.4)	(55.0)	15.4	16.1
Pre-tax profit	(22.3)	(38.5)	3.4	11.2
Net profit	(42.6)	(49.6)	40.7	19.1
Net profit (adj.)	(41.1)	(49.7)	40.0	18.8
EPS	(41.6)	(49.7)	40.0	18.8
<b>Leverage</b>				
Debt to total capital	51.1	34.8	35.3	35.8
Debt to equity	105.1	53.4	54.8	56.0
Net debt/(cash) to equity	46.2	32.6	37.1	39.9
Interest cover (x)	465.3	47.1	31.4	29.7

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