

HLIB Research

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OVERWEIGHT

(Maintain)

Stock Rating

Stock	Rating	Price	Target
Top Glove	BUY	6.17	8.06
Hartalega	BUY	12.46	15.80
Kossan	BUY	4.00	5.12

Rubber Gloves

Vaccine roll out as a demand catalyst

For the foreseeable future, we believe that glove demand and ASPs will be driven by testing frequency and vaccine roll out using gloves. For the remainder of CY21, we expect the vaccination demand for gloves to more than offset the decline from testing demand. Even with global supply expected to rise by ~20%, we expect there to be a supply shortage of circa 12.4bn pieces in CY21. Based on our new valuation methodology, our top pick Top Glove's TP is lowered from RM10.54 to RM8.06. **Maintain BUY.**

Glove used for vaccinations. Examining countries with the highest population and other selected first world nations, we note that gloves are currently being used for most countries when administering vaccines. As such, while vaccinations are expected to eventually prevent the spread of Covid-19 (and hence lower usage of gloves for testing), in the medium term, it would in fact increase demand for gloves.

Glove ASPs driven by testing and vaccine roll out. For the foreseeable future, we believe that glove demand and ASPs will be driven by testing frequency and vaccine roll out needing gloves. For the remainder of CY21, we expect the vaccination demand for gloves to more than offset the decline in demand used for testing. With global vaccine roll out only just beginning to take shape, we expect glove ASPs to remain elevated (at around USD115-140 per thousand pieces) for the time being, with a possible decline in 4QCY21 at the earliest. Even with global supply expected to rise by ~20% this year from existing players ramping up production capacities and newer players entering the market, we still expect there to be a supply shortage of c.12.4bn pieces in CY21.

Herd immunity. The US expects to reach herd immunity by 4Q21 and full vaccinations by 1Q22. However, with vaccinations happening more rapidly in affluent Western countries than the rest of the globe, current estimates indicate global herd immunity could take as long as 5 years ([source](#)). This would provide support for glove demand in the medium term.

Second strain and anti-vax wildcard could potentially wreak havoc. While it is still unknown how the second strain variants affect existing vaccines, there is a possibility that existing vaccines prove ineffective against newer variants. According to a recent study, the Oxford/AstraZeneca Covid-19 vaccine does not appear to offer protection against a mild viral variant first identified in South Africa. With regard to anti-vax movement, we note that from the latest reading, if all US citizens that say they would not take the vaccine (31%) do not get vaccinated, the US would not be able to achieve herd immunity. These two factors have the potential to prolong the Covid-19 pandemic.

Valuation methodology. We switch our valuation methodology from straight PE multiple to a modified DCF valuation. We value the glove companies using with their pre-pandemic 5-year average PE multiple of (CY15-19) based on sustainable earnings in a post-super normal earnings environment summed with free cash flows (both discounted back to PV) generated during the boom period. This encompasses earnings in a post-pandemic era as well as high profits generated during the pandemic.

Forecasts: We rejig our forecasts as shown in Figure #14 as we expect high ASPs to sustain until 4QCY21.

Maintain OVERWEIGHT. Despite share prices correcting downwards, we do not expect vaccine roll out to be as straight forward as the market suggests as logistical, procurement, anti-vax movement and second strain issues could derail efforts and thus provide support for glove demand. Based on our new valuation methodology, our top pick Top Glove's TP is lowered from RM10.54 to **RM8.06 (maintain BUY).**

Thematic Highlights

Glove used for vaccinations.

Examining countries with the highest populations and other selected first world nations, we note that gloves are currently being used or will likely be used (in the case of Japan and Australia that have not yet started vaccine rollout) for most countries (Figure #1). Despite CDC guidelines stating that gloves are not required to be worn for vaccinations, our channel checks suggest that in most cases, gloves are in fact being used. For example, in the case of US (estimated to account for 35% of the world's glove demand), the "National Strategy for the Covid-19 response and pandemic preparedness" document published by the White House on Jan-21, it mentioned that the US is taking immediate action to fill supply shortfalls for vaccination supplies, which include nitrile gloves. Furthermore, from our anecdotal observation of pictures and videos of US citizens receiving the vaccine, gloves were worn by nurses and doctors administering the vaccine. As such, while vaccinations is expected to eventually prevent the spread of Covid-19 (and hence lower usage of gloves for testing), in the medium term, it would in fact increase demand for gloves.

Figure #1 **Gloves used for vaccinations in various countries**

Country	Gloves used for vaccinations	Comments
China	Yes	
India	Yes (if available)	
United States	Yes	<p>In the 'National Strategy for the Covid-19 response and pandemic preparedness' document published by the white house in Jan-21, it mentioned 'The United States is taking immediate action to fill supply shortfalls for vaccination supplies, testing supplies, and PPE' and to 'increase the availability of supplies like N95 masks, isolation gowns, nitrile gloves, polymerase chain reaction (PCR) sample collection swabs, test reagents, pipette tips, laboratory analysis machines for PCR tests'</p> <p>Our further channel checks suggests that in most cases, gloves are being used for vaccination procedures in the USA.</p> <p>https://www.whitehouse.gov/wp-content/uploads/2021/01/National-Strategy-for-the-COVID-19-Response-and-Pandemic-Preparedness.pdf</p>
Indonesia	Yes (if available)	
Brazil	No	
Russia	Yes	
Japan*	Yes	Based on vaccine simulations, gloves will be used for vaccination.
United Kingdom	No	
Australia*	Yes	Guidelines states gloves and other prevention measures such as PPE must be used.
Germany	Yes	
France	No	

*Vaccine roll out has not begun in Japan and Australia.

Sources: South China Morning Post, Channel News Asia, Whitehouse.gov, BBC, Croner, Reuters, Straits Times.

Glove ASPs driven by testing and vaccine roll out.

For the foreseeable future, we believe that glove demand and ASPs will be driven by testing frequency and vaccination rollout (as explained above). Examining the tests conducted per day, we note that despite vaccine roll out already beginning since mid-Dec, daily testing frequencies have not declined as much as expected, and in the case of UK it has even increased (Figure #2). For the remainder of CY21, we expect demand for gloves during vaccinations to more than offset the decline in demand from testing. Figure #3 shows the strong correlation between nitrile glove ASPs and testing frequency + vaccinations. With global vaccine roll out only just beginning to take shape, we expect glove ASPs to remain elevated (at around USD115-140 per thousand pieces) for the time being, with a possible decline in 4QCY21 at the earliest. Even with global supply expected to rise by ~20% this year from existing players ramping up production capacities and newer players entering the market, we still expect there to be a supply shortage of c.12.4bn pieces in CY21 (Figure #4).

Figure #2 Gloves used for vaccination in various countries

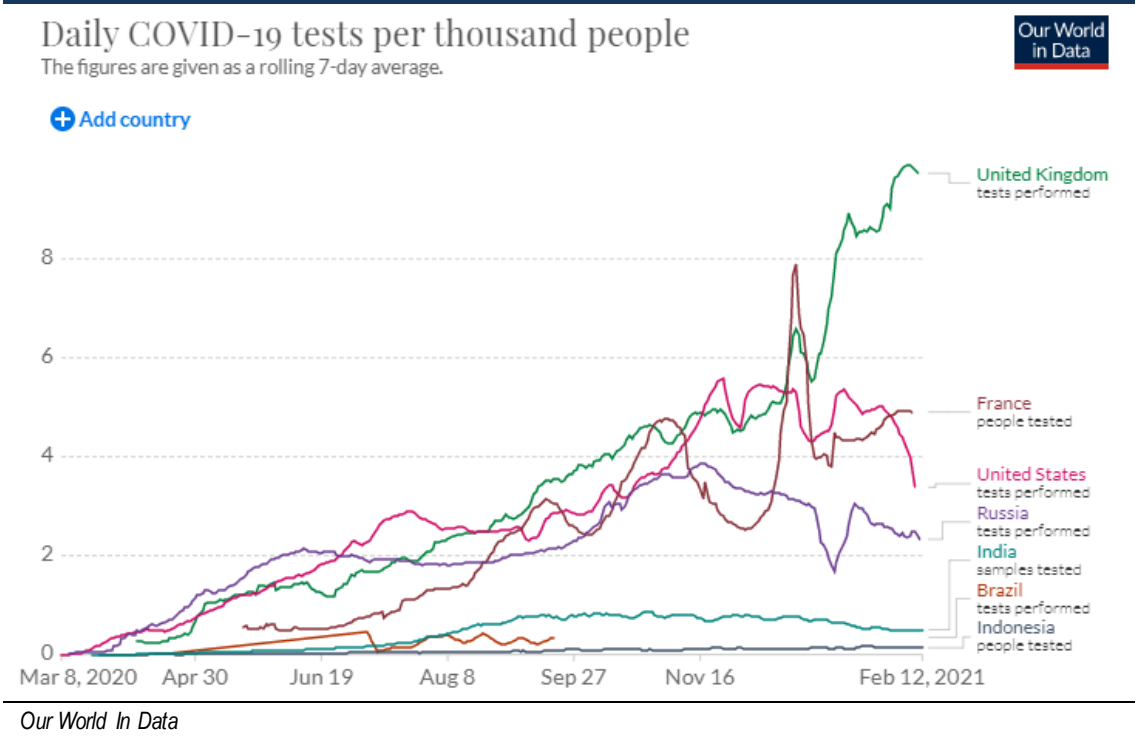


Figure #3 Vaccines administered and tests per day in US (LH) vs Nitrile glove price per '000' (RH)

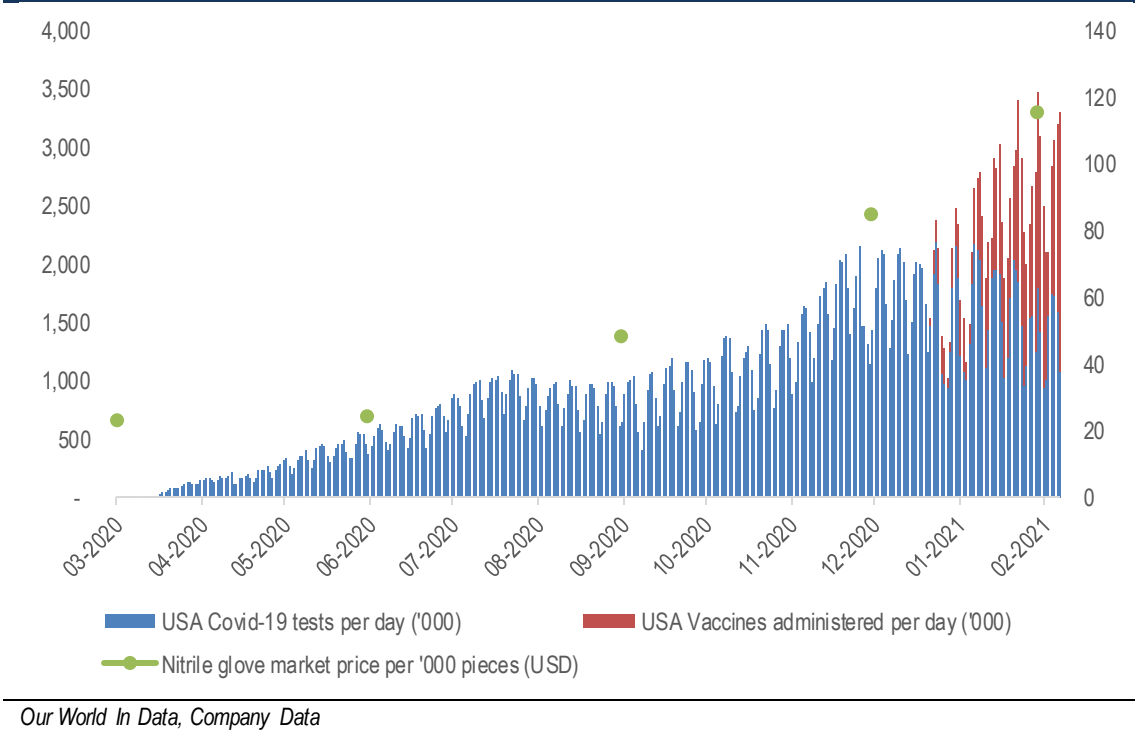


Figure #4 Global supply and demand for gloves

Capacity (bn)	CY19	CY20	CY21	CY22
Top Glove	70.5	90.0	108.0	129.0
Growth		27.7%	20.0%	19.4%
Hartailega	38.1	40.5	43.7	48.5
Growth		6.3%	7.9%	11.0%
Kossan	29.0	32.0	35.5	42.5
Growth		10.3%	10.9%	19.7%
Supermax	21.8	26.2	36.4	48.4
Growth		20.3%	39.1%	33.0%
Sri Trang	27.0	33.0	36.0	49.0
Growth		22.2%	9.1%	36.1%
Others	102.0	122.4	153.0	172.1
Growth		20.0%	25.0%	12.5%
Total estimated manufacturing capacity	288.4	344.1	412.6	489.5
Increase in global supply		19.3%	19.9%	18.6%
Global Demand*	280.0	360.0	425.0	489.0
Increase in global demand		28.6%	18.1%	15.1%
Global Surplus/ (Shortage)	8.4	-15.9	-12.4	0.5

Source: MARGMA 2019 Industry Brief, Company Data, Hong Leong IB

*Global demand figures are based on MARGMA & Sri Trang forecasts

Source: MARGMA 2019 Industry Brief, Company Data, HLIB estimates

*Global demand figures are based on MARGMA & Sri Trang forecasts

Herd immunity.

Dr. Anthony Fauci (chief medical advisor to the US government) indicates that between 70-85% need to receive the vaccine for herd immunity to be achieved. In a bull case scenario, assuming no major logistical hiccups in procuring vaccines and related supplies (syringes etc.), the US expect to reach herd immunity by 4Q21 and full vaccination by 1Q22. With vaccinations happening more rapidly in affluent Western countries than the rest of the globe, current estimates indicate global herd immunity could take as long as 5 years ([source](#)) (Figure #5). This would provide support for glove demand in the medium to long term.

Figure #5 Vaccination rate in select countries

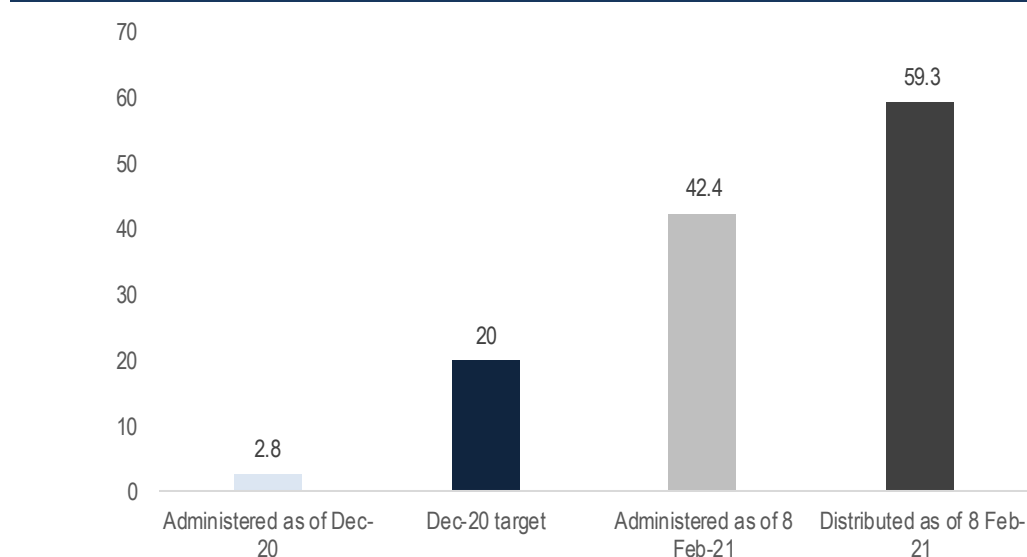
Country	Current vaccination rate (doses administered per day '000)	Estimated time to cover 75% of the population at current vaccination rate
Israel	118	2 months
UAE	106	3 months
United Kingdom	440	6 months
USA	1,700	8 months
France	110	2.3 years
Brazil	292	2.9 years
China	1,550	3.6 years
India	355	>10 years
Russia	35	>10 years
Indonesia	81	>10 years
Global	5,960	5 years

Source: Bloomberg, Johns Hopkins University, Our World In Data

Vaccine logistical issues.

Despite countries best efforts to vaccinate citizens as quickly as possible, we note that there are various logistical issues faced, namely (i) stretched resources in the healthcare sector, and (ii) complex handling requirements (eg. Pfizer vaccine needs to be stored at -70 degrees Celsius). Note that despite close to 60m of vaccine doses distributed in US, only 42.4m doses have been administered as of 8 Feb 2021. While the US intends to fully vaccinate citizens by end-1Q21, logistical issues may hamper progress. As shown in Figure #6, their 2.8m doses administered by Dec 20 was far short of the previously set 20m target.

Figure #6 US vaccination statistics (m)



Centers for Disease Control and Prevention (CDC)

Threat of a second strain has the potential to wreak havoc.

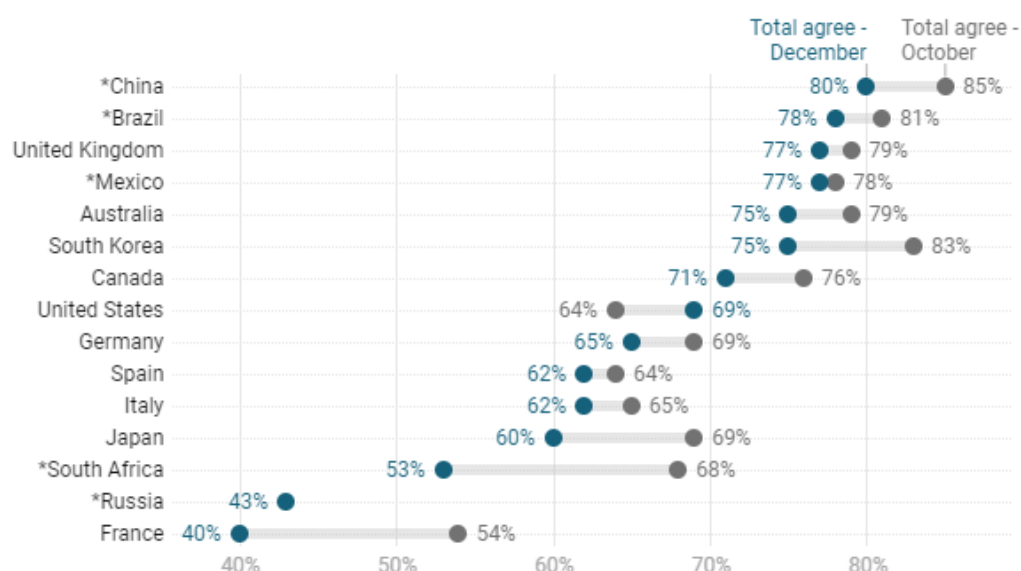
According to the Centres for Disease Control and Prevention (CDC), viruses constantly change through mutation, and new virus variants are expected to occur over time. Sometimes new variants emerge and disappear. Other times, new variants emerge and persist. Multiple variants of the virus that causes Covid-19 have been documented in the US and globally during this pandemic. According to the CDC, new variants discovered in UK, South Africa and Brazil have been found to spread more easily and quickly. While it is still unknown how these variants affect existing vaccines, there is a possibility that existing vaccines prove ineffective against newer variants. According to a recent study, the Oxford/AstraZeneca Covid-19 vaccine does not appear to offer protection against mild and moderate disease caused by the viral variant first identified in South Africa. As such, vaccines may require updating similar to flu vaccines that are updated every year for new mutations.

Anti-vaccination wildcard could prove to be a stumbling block.

In a survey done by Ipsos, we note that from Oct to Dec, vaccine scepticism in all surveyed countries except US appear to be growing (Figure #7). We reckon vaccine scepticism may be a hurdle for countries to administer vaccines on citizens (and hence dent the containment efforts Covid-19) in the coming months as anti-vaxxers outright refuse to take the vaccine over concerns of the side effects, effectiveness and other unfounded myths (Figure #8). Note that from the latest reading, if all US citizens that say they would not take the vaccine (31%) do not get jabbed, the US would not be able to achieve the estimated herd immunity of 75%. In the case of France, vaccination rates are low, partially due to logistical issues, but perhaps also due to high scepticism of the vaccine. We note that both France (65m) and UK (67m) have similar population sizes and started vaccinations in mid-Dec and yet, France have vaccinated just 3.5% of their population (vs. UK: 22.5%) (Figure #9). We reckon this may be partially due to France's high number of vaccine sceptics. According to survey results, just 40% of people surveyed in France said they would take the vaccine if available to them, the lowest reading of all countries surveyed.

Figure #7 Vaccine Scepticism in select countries

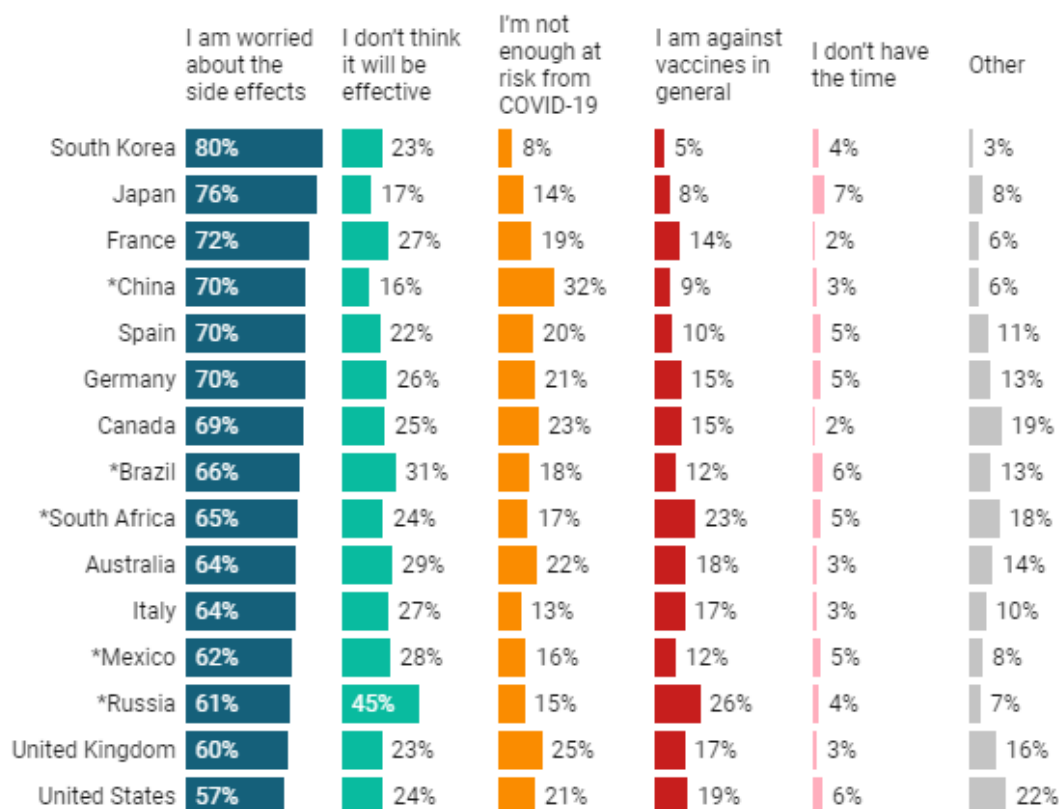
If a vaccine for COVID-19 were available, I would get it



Ipsos

Figure #8 Reasons for vaccine scepticism

Which best describes why you would not take a vaccine for COVID-19?



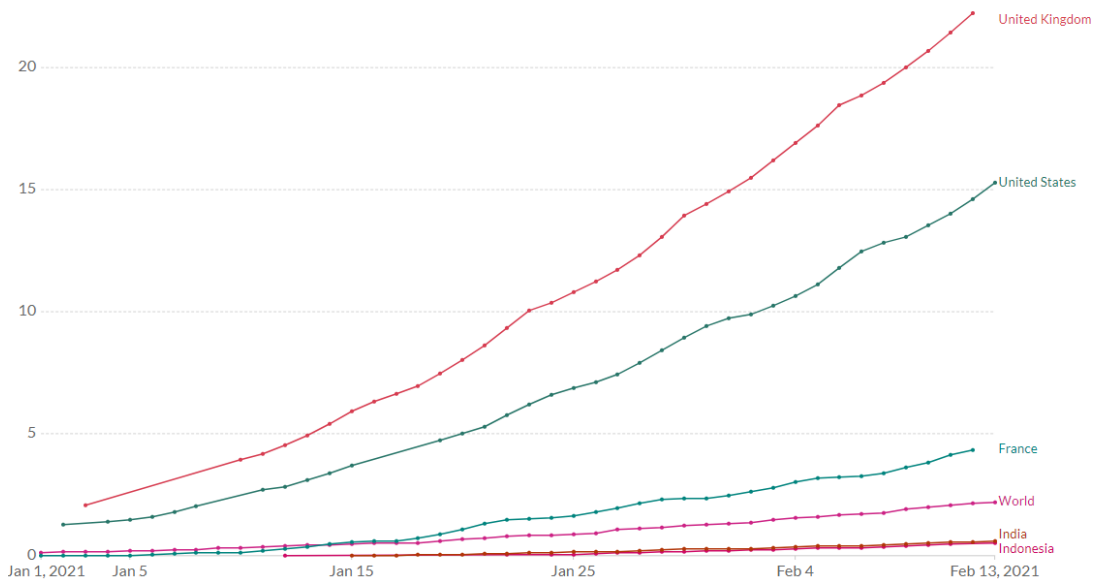
Ipsos

Figure #9 Vaccination rate in select countries**Cumulative COVID-19 vaccination doses administered per 100 people**

This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Our World
in Data

LINEAR LOG



Our World in Data

Forecast & Valuation

Valuation methodology. We switch our valuation methodology from straight PE multiple to a modified DCF valuation. We value the glove companies using with their pre-pandemic 5-year average PE multiple of (CY15-19) based on sustainable earnings in a post-super normal earnings environment summed with free cash flows (both discounted back to PV) generated during the boom period. We reckon this is the most suitable valuation methodology as it encompasses earnings of the companies in a post-pandemic era but also accounts for the high profits generated during the pandemic era (Figure #10-12)

Forecasts: We rejig our forecasts as shown in Figure #13 as we expect high ASPs to sustain until 4QCY21.

Maintain OVERWEIGHT. Despite share prices correcting downwards, we do not expect vaccine roll out to be as straight forward as the market suggests as logistical, procurement, anti-vaccination movement and second strain issues could derail efforts and thus provide support for glove demand. Based on our new valuation methodology, our top pick Top Glove's TP is lowered from RM10.54 to **RM8.06**. Maintain **BUY**.

Figure #10 Top Glove valuation methodology

FYE Aug	FY21	FY22
FCFE	7,495.8	4,897.3
Risk free rate	2.7%	
Market risk premium	6.0%	
Discount rate	8.7%	
Value of FY21-22 discounted cash flows	11,040.6	
PE multiple	18	Pre-pandemic 5 year average forward PE (2015-2019)
Sustainable net profit	3,573.7	FY23 net profit
Net Cash	3,454.5	
Target Equity Value	64,578.9	
No. of shares	8,009.9	
TP (RM)	8.06	

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Figure #11 Hartalega valuation methodology

FYE Mar	FY21	FY22	FY23
FCFE	2,864.9	4,451.8	2,974.6
Risk free rate	2.7%		
Market risk premium	6.0%		
Discount rate	8.7%		
Value of FY21-23 discounted cash flows	8,719.3		
PE multiple	27.5	Pre-pandemic 5 year average PE (2015-2019)	
Sustainable net profit	2,216.4	FY24 net profit	
Net cash	1,785.3		
Target Equity Value	54,163.1		
No. of shares	3,427.6		
TP (RM)	15.80		

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Figure #12 Kossan valuation methodology

FYE Dec	FY21	FY22
FCFE	2,048.5	1,482.4
Risk free rate	2.70%	
Market risk premium	6%	
Discount rate	8.70%	
Value of FY21-22 discounted cash flows	3,139.1	
PE multiple	24	Pre-pandemic 5 year average PE (2015-2019)
Sustainable net profit	517.3	FY23 net profit
Net cash	286.3	
Target Equity Value	13,091.6	
No. of shares	2,557.0	
TP (RM)	5.12	

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Figure #13 Changes to TPs and forecasts.

Stock	Previous TP	New TP	Previous Core PAT Forecasts			New Core PAT Forecasts			Changes (%)		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Topglove	10.54	8.06	10,609.5	5,326.6	3,864.1	10,609.5	5,340.6	3,573.7	0.0%	0.3%	-7.5%
Hartalega	19.06	15.80	2,698.3	3,269.6	1,866.8	3,234.2	5,211.0	2,846.1	19.9%	59.4%	52.5%
Kossan	7.8	5.12	973.9	2,150.5	1,039.7	1,017.5	2,790.1	1,513.1	4.5%	29.7%	45.5%

*FY20 refers to FY21 for Top Glove and Hartalega due to odd FYE.

HLIB Research, Bloomberg

Top Glove Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Cash	165.8	1,208.6	1,637.5	3,906.1	5,116.7
Receivables	592.2	798.8	1,989.2	1,386.4	1,210.1
Inventories	629.9	530.7	917.5	904.6	924.7
PPE	2,480.0	3,010.2	5,002.4	6,170.3	7,052.5
Others	1,820.3	3,157.6	2,993.2	2,993.6	2,993.9
Assets	5,688.2	8,706.0	12,539.9	15,361.1	17,297.9
Payables	492.4	810.8	1,030.2	1,015.8	1,038.3
Debt	2,420.7	540.5	540.5	540.5	540.5
Others	221.0	1163.7	1163.7	1163.7	1163.7
Liabilities	3,134.1	2,515.1	2,734.5	2,720.1	2,742.5
Shareholder's eq	2,537.0	6,166.0	9,553.4	12,274.7	14,112.5
Minority interest	17.2	24.9	252.0	366.3	442.8
Equity	2,554.1	6,190.9	9,805.4	12,641.0	14,555.4

Cash Flow Statement

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxal	430.7	2,133.2	13,159.3	6,819.1	4,563.1
D&A	195.0	253.0	412.1	508.2	580.7
Working capital	-3.3	-1,112.2	-1,796.5	630.0	133.9
Taxation	-56.8	-230.4	-2,322.6	-1,364.1	-912.9
Others	-79.3	2,127.7	397.3	-70.4	3.4
CFO	486.5	3,171.3	9,849.5	6,522.7	4,368.2
Capex	-632.2	-2,351.8	-2,403.7	-1,675.4	-1,462.3
Others	129.8	-268.8	-41.6	-41.6	-41.6
CFI	-502.4	-2,083.0	-2,362.2	-1,633.8	-1,420.7
Changes in debt	192.3	-1,115.0	50.0	50.0	50.0
Shares issued	0.0	0.3	0.1	0.0	0.0
Dividends	-217.4	-371.8	-7,108.4	-2,670.3	-1,786.8
Others	-12.1	-0.3	-0.1	0.0	0.0
CFF	-13.0	-1,486.8	-7,058.4	-2,620.3	-1,736.8
Net cash flow	-6.4	-398.5	429.0	2,268.6	1,210.6
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	1.0
Beginning cash	165.2	158.8	1,208.6	1,637.5	3,906.1
Ending cash	158.8	1,208.6	1,637.5	3,906.1	5,116.7

Income Statement

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Revenue	4,801.8	7,237.4	20,699.0	14,427.2	12,591.9
EBITDA	658.6	2,397.4	13,527.8	7,294.4	5,111.0
EBIT	463.6	2,144.4	13,115.7	6,786.3	4,530.3
Finance cost	-79.3	-29.4	25.3	14.5	14.5
Associates & JV	-1.7	-1.4	-1.4	-1.4	-1.4
Profit before tax	430.7	2,133.2	13,159.3	6,819.1	4,563.1
Tax	-57.1	-376.7	-2,322.6	-1,364.1	-912.9
Net profit	373.6	1,756.5	10,836.7	5,455.0	3,650.2
Minority interest	-3.0	-36.8	-227.1	-114.3	-76.5
Core PATMI	370.6	1,804.3	10,609.5	5,340.6	3,573.7
Consensus			10,204.0	3,926.0	2,505.0
HLIB/Consensus			104.0%	136.0%	142.7%

Valuation & Ratios

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	14.5	21.5	132.5	66.7	44.6
P/E (x)	42.6	28.7	4.7	9.3	13.8
EV/EBITDA (x)	79.1	20.4	3.6	6.3	8.8
DPS (sen)	7.5	11.3	88.7	33.3	22.3
Dividend yield (%)	1.2	1.8	14.4	5.4	3.6
BVPS (RM)	0.3	0.8	1.2	1.5	1.8
P/B (x)	19.5	8.0	5.2	4.0	3.5
EBITDA margin	13.7%	33.1%	65.4%	50.6%	40.6%
EBIT margin	9.7%	29.6%	63.4%	47.0%	36.0%
PBT margin	9.0%	29.5%	63.6%	47.3%	36.2%
Net margin	7.7%	24.9%	51.3%	37.0%	28.4%
ROE	14.6%	29.3%	111.1%	43.5%	25.3%
ROA	6.5%	20.7%	84.6%	34.8%	20.7%
Net gearing	88.9%	N Cash	N Cash	N Cash	N Cash

Assumptions

FYE Aug	FY21f	FY22f	FY23f
Utilization rate	97%	88%	86%
MYRUSD	4.00	4.20	4.20

Hartalega Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Cash	150.2	305.2	1,222.7	2,541.1	3,801.1
Receivables	402.2	429.9	818.6	1,247.3	969.6
Inventories	275.8	273.9	300.9	344.2	375.7
PPE	1,896.2	2,002.2	2,204.1	2,514.2	2,660.9
Others	267.1	302.8	298.3	298.3	298.3
Assets	2,991.5	3,313.9	4,844.6	6,945.1	8,105.6
Payables	103.8	112.1	343.9	344.2	357.8
Debt	343.9	274.0	274.0	274.0	274.0
Others	283.2	384.7	380.2	380.2	380.2
Liabilities	731.0	770.8	998.1	998.4	1,012.0
Shareholder's equity	2,257.4	2,539.8	3,833.5	5,917.9	7,056.3
Minority interest	3.1	3.3	13.1	28.7	37.3
Equity	2,264.0	2,543.1	3,846.5	5,946.6	7,093.6

Cash Flow Statement

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	551.9	556.3	4,325.2	6,968.9	3,806.2
D&A	-103.6	-125.1	-171.6	-195.8	-207.2
Working capital	-1.4	-18.8	-184.0	-471.7	259.8
Taxation	-78.3	-72.7	-1,081.3	-1,742.2	-951.5
Others	256.7	312.2	350.1	398.4	421.2
CFO	625.2	651.8	3,238.4	4,957.6	3,328.5
Capex	-431.1	-251.1	-373.5	-505.9	-353.9
Others	-0.7	0.4	0.0	0.0	0.0
CFI	-431.8	-250.8	-373.5	-505.9	-353.9
Changes in debt	17.8	-1.4	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-286.2	-249.0	-1,940.5	-3,126.6	-1,707.6
Others	58.9	12.2	-6.8	-6.8	-6.8
CFF	-209.5	-238.1	-1,947.4	-3,133.5	-1,714.5
Net cash flow	-16.0	162.9	917.6	1,318.3	1,260.1
Forex and Others	9.7	-8.0	0.0	0.0	0.0
Beginning cash	156.6	150.2	305.2	1,222.7	2,541.1
Ending cash	150.2	305.2	1,222.7	2,541.1	3,801.1

Income Statement

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Revenue	2,827.9	2,924.0	7,469.9	10,117.1	7,078.2
EBITDA	662.9	689.0	4,503.7	7,171.6	4,020.2
EBIT	559.2	563.9	4,332.1	6,975.8	3,813.0
Finance cost	-7.4	-7.6	-6.8	-6.8	-6.8
Associates & JV	0.0	0.0	0.0	0.0	0.0
Profit before tax	551.9	556.3	4,325.2	6,968.9	3,806.2
Tax	-95.6	-120.4	-1,081.3	-1,742.2	-951.5
Net profit	456.2	435.8	3,243.9	5,226.7	2,854.6
Minority interest	0.0	-1.1	-9.7	-15.7	-8.6
Core PATMI	456.6	436.8	3,234.2	5,211.0	2,846.1
Consensus			3,040.0	3,869.0	1,927.0
HLIB/Consensus			106.4%	134.7%	147.7%

Valuation & Ratios

FYE Mar	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	13.8	13.0	96.1	154.8	84.6
P/E (x)	90.4	96.0	13.0	8.0	14.7
EV/EBITDA (x)	62.5	60.8	9.1	5.5	9.6
DPS (sen)	8.0	7.8	57.7	92.9	50.7
Dividend yield	0.6%	0.6%	4.6%	7.5%	4.1%
BVPS (RM)	0.68	0.75	1.14	1.76	2.10
P/B (x)	18.3	16.5	10.9	7.1	5.9
EBITDA margin	23.4%	23.6%	60.3%	70.9%	56.8%
EBIT margin	19.8%	19.3%	58.0%	69.0%	53.9%
PBT margin	19.5%	19.0%	57.9%	68.9%	53.8%
Net margin	16.1%	14.9%	43.4%	51.7%	40.3%
ROE	20%	17%	85%	88%	40%
ROA	15%	13%	67%	75%	35%
Net gearing	9%	Net Cash	Net Cash	Net Cash	Net Cash

Assumptions

FYE Mar	FY21f	FY22f	FY23f
MYRUSD	4.00	4.10	4.20
Utilization Rate (%)	95.0	95.0	85.0

Kossan Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	143.1	162.3	414.5	1,346.9	2,224.0
Receivables	442.8	415.3	601.6	982.0	725.3
Inventories	251.6	321.5	411.4	485.5	548.3
PPE	1,265.9	1,315.6	1,481.7	1,803.0	2,033.7
Others	14.0	162.6	162.6	162.6	162.6
Assets	2,117.4	2,377.2	3,071.8	4,780.0	5,693.9
Payables	193.0	253.2	320.3	378.0	426.9
Debt	507.2	574.5	641.9	641.9	641.9
Others	73.3	98.5	98.5	98.5	98.5
Liabilities	773.5	926.2	1,060.8	1,118.5	1,167.4
Shareholder's equity	1,316.5	1,424.3	2,034.8	3,708.9	4,616.7
Minority interest	27.4	26.7	42.2	84.7	107.7
Equity	1,343.9	1,451.0	2,077.0	3,793.6	4,724.5

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	249.3	276.4	1,278.0	3,504.5	1,900.6
D&A	77.0	90.5	97.9	119.2	134.4
Working capital	-62.7	-45.6	-275.1	-462.8	176.8
Taxation	-57.8	-63.0	-245.0	-671.9	-364.4
Others	-70.2	-60.6	0.0	0.0	0.0
CFO	135.7	197.6	855.8	2,489.0	1,847.4
Capex	-314.9	-221.6	-264.0	-440.5	-365.1
Others	0.0	1.6	0.0	0.0	0.0
CFI	-314.9	-219.9	-264.0	-440.5	-365.1
Changes in debt	112.1	38.4	67.4	0.0	0.0
Dividends	-70.8	-76.9	-407.0	-1,116.0	-605.3
Others	70.8	76.9			
CFF	112.1	38.4	-339.6	-1,116.0	-605.3
Net cash flow	-67.2	16.1	252.3	932.4	877.1
Forex	0.0	-0.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	210.3	146.3	162.2	414.5	1,346.9
Ending cash	146.3	162.2	414.5	1,346.9	2,224.0

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	1,957.4	2,217.2	4,061.4	6,777.0	5,616.7
EBITDA	310.3	380.1	1,403.1	3,649.1	2,053.8
EBIT	238.2	289.6	1,305.1	3,529.9	1,919.4
Finance cost	-11.3	-15.6	-28.2	-28.2	-28.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Profit before tax	229.6	276.4	1,278.0	3,504.5	1,900.6
Tax	-44.0	-52.2	-245.0	-671.9	-364.4
Net profit	185.6	224.2	1,033.0	2,832.6	1,536.2
Minority interest	-1.6	-3.1	-15.5	-42.5	-23.0
Core PATMI	184.1	225.9	1,017.5	2,790.1	1,513.1
Consensus			1,075.0	2,271.0	1,077.0
HLIB/Consensus			94.7%	122.9%	140.5%

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	7.2	8.8	39.8	109.1	59.2
P/E (x)	55.5	45.3	10.1	3.7	6.8
EV/EBITDA (x)	31.2	28.0	7.5	2.6	4.2
DPS (sen)	2.8	3.0	15.9	43.6	23.7
Dividend yield	0.7%	0.8%	4.0%	10.9%	5.9%
BVPS (RM)	0.51	0.56	0.80	1.45	1.81
P/B (x)	7.8	7.2	5.0	2.8	2.2
EBITDA margin	15.9%	17.1%	34.5%	53.8%	36.6%
EBIT margin	12.2%	13.1%	32.1%	52.1%	34.2%
PBT margin	11.7%	12.5%	31.5%	51.7%	33.8%
Net margin	9.4%	10.2%	25.1%	41.2%	26.9%
ROE	14.0%	15.9%	50.0%	75.2%	32.8%
ROA	8.7%	9.5%	33.1%	58.4%	26.6%
Net gearing	0.28	0.29	0.11	Net Cash	Net Cash

Assumptions

FYE Dec	FY20f	FY21f	FY21f
MYRUSD	4.20	4.00	4.20
Utilisation rate (%)	95%	93%	85%

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.