GLOVE

AmInvestment Bank

Company Report

KOSSAN RUBBER

(KRI MK EQUITY, KRIB.KL)

25 Aug 2025

Tepid recovery ahead.

UNDERWEIGHT

(Maintained)

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Rationale for report: Company Result

Price	**RM1.23**
Fair Value	**RM1.00**
52-week High/Low	RM2.87/RM1.18

Key Changes

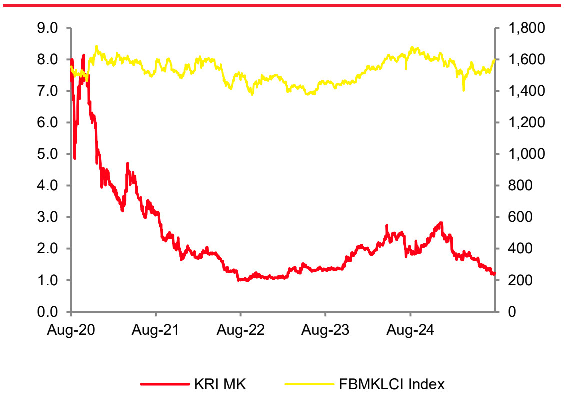
Fair value	
EPS	

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	1,916.2	2,092.7	2,462.3	2,994.9
Core net profit (RM mil)	118.3	134.5	157.3	163.8
FD Core EPS (sen)	4.6	5.3	6.2	6.4
FD Core EPS growth (%)	118.9	13.6	17.0	4.2
Consensus Net Profit (RM mil)	-	142.3	188.4	202.8
DPS (sen)	8.0	2.0	2.0	3.0
PE (x)	26.5	23.3	20.0	19.2
EV/EBITDA (x)	7.1	5.1	4.5	4.4
Div yield (%)	6.5	1.6	1.6	2.4
ROE (%)	3.2	3.6	4.2	4.2
Net Gearing (%)	0.0	0.0	0.0	0.0

Stock and Financial Data

Shares Outstanding (million)	2,551.6
Market Cap (RMmil)	3,138.5
Book Value (RM/Share)	1.44
P/BV (x)	0.9
ROE (%)	3.2
Net Gearing (%)	-
Major Shareholders	Kossan Holdings (35.3%) EPF (5.8%) Abrdn (5.6%)
Free Float	45.9
Avg Daily Value (RMmil)	7.7

Price performance	3mth	6mth	12mth
Absolute (%)	(26.8)	(35.6)	(35.7)
Relative (%)	(29.6)	(36.8)	(34.1)



Investment Highlights

We maintain Underweight on Kossan Rubber Industries Bhd (Kossan) with a lower TP of RM1.00 (from RM1.60), based on an unchanged target PE of 16x FY26F. We expect tepid recovery ahead due to stiff competition on the back of structural oversupply issue. Nevertheless, Kossan's downside is buffered by a solid net cash position of RM1.65bil (RM0.65/share), representing 53% of its market cap as at end-June 2025. Kossan's 1HFY25 core net profit rose 6.2% YoY to RM66.8mil but came in below expectations, making up only 36.0% and 46.9% of our and consensus full-year estimates. This is largely attributed to the double whammy in 2QFY25 with 10-day production half in April due to gas pipeline explosion in Putra Heights and deferment of US customer orders. Moving ahead, we expect volume to increase, but ASP to stay muted due to structural oversupply situation and aggressive capacity expansion by Chinese manufacturers in this region. Hence, we have cut our earnings forecasts for FY25F/FY26F/FY27F by 27%/39%/40% (Exhibit 2).

- **Maintain Underweight.** We maintain Underweight with a lower TP of RM1.00 (from RM1.60). Our TP of RM1.00 is based on a target FY26F PE of 16x, which is 1SD above the pre-pandemic average for FY15-FY19. The premium was justified as the company is still profitable with sturdy balance sheet. Kossan still has a healthy balance sheet with net cash position of RM1.65bil (RM0.65/share) as at end June 2025. At current price, the net cash makes up 53% of its market cap. We have cut our earnings forecasts for FY25F/FY26F/FY27F by 27%/39%/40% (Exhibit 2) to factor in weaker-than-expected ASP in the US.

- **Earnings miss.** 1HFY25 core net profit rose 6.2% YoY to RM66.8mil but came in below expectations, making up only 36.0% and 46.9% of our and consensus full-year estimates, respectively. The YoY improvement was supported by higher average selling prices and lower production costs from improved efficiencies. Strong contributions from the glove and cleanroom divisions were offset by the Technical Rubber gloves segment, which was weighed down by weaker revenue and an unfavourable product mix with lower margins.

- **Double whammy in 2QFY25.** On a quarterly basis, 1QFY25 core net profit fell 12.6%, mainly due to a 10-day production halt in April following Gas Malaysia's supply shutdown caused by a pipeline explosion in Putra Heights. The decline was further exacerbated by global container shipment disruptions and the deferment of customer orders amid uncertainties over US tariff policies.

- **Volume to rise, but ASP to stay muted.** Sales volume is expected to recover as stock depletion from frontloading activities at end-CY2024 normalises. However, ASP is likely to remain subdued amid persistent structural oversupply, which continues to pressure glove manufacturers' pricing power.

EXHIBIT 1: 2QFY25 EARNINGS SUMMARY

FYE Dec (RM mil)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Turnover	**429.9**	**487.4**	**382.2**	**-21.6**	**-11.1**	**881.5**	**869.5**	**-1.4**
Operating costs	-379.9	-421.8	-326.4	-22.6	-14.1	-768.2	-748.2	-2.6
EBITDA	**50.0**	**65.6**	**55.8**	**-14.9**	**11.5**	**113.3**	**121.4**	**7.1**
Depreciation	-21.7	-25.4	-24.9	-1.8	14.8	-54.1	-50.3	-7.1
EBIT	**28.3**	**40.2**	**30.9**	**-23.2**	**9.0**	**59.2**	**71.1**	**20.1**
Net interest	**10.2**	**7.0**	**7.6**	**8.2**	**-25.8**	**20.4**	**14.6**	**-28.2**
-Interest expense	-0.1	-0.6	0.0	-94.1	-52.5	-0.1	-0.7	>100
-Interest income	10.3	7.7	7.6	-0.4	-26.1	20.5	15.3	-25.4
PBT	**38.6**	**47.2**	**38.5**	**-18.5**	**-0.2**	**79.6**	**85.7**	**7.7**
Tax	-6.4	-11.2	-7.1	-36.9	10.0	-15.4	-18.3	19.0
MI	-0.7	-0.4	-0.3	-31.6	-63.6	-1.3	-0.6	-51.4
Net Profit	**31.4**	**35.7**	**31.2**	**-12.6**	**-0.9**	**62.9**	**66.8**	**6.2**
Exceptional item	0.0	0.0	0.0	n/a	n/a	0.0	0.0	n/a
Core Net Profit	**31.4**	**35.7**	**31.2**	**-12.6**	**-0.9**	**62.9**	**66.8**	**6.2**
EPS (sen)	1.2	1.4	1.2	-12.1	-0.3	2.5	2.6	6.9
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
BV/share (RM)	1.5	1.4	1.4	0.3	-3.0	1.5	1.4	-3.0
Cash	2,069.7	1,587.7	1,658.3	4.4	-19.9	2,069.7	1,658.3	-19.9
Borrowings	23.4	4.0	6.1	50.6	-74.0	23.4	6.1	-74.0
Equity ex MI	3,852.4	3,672.2	3,644.8	-0.7	-5.4	3,852.4	3,644.8	-5.4
Net cash/(debt)	2,046.4	1,583.7	1,652.3	4.3	-19.3	2,046.4	1,652.3	-19.3
EBITDA margin (%)	11.6	13.5	14.6	1.1ppt	3.0ppt	12.9	14.0	1.1ppt
Pretax margin (%)	9.0	9.7	10.1	0.4ppt	1.1ppt	9.0	9.9	0.8ppt
Effective tax rate (%)	16.7	23.7	18.4	-5.4ppt	1.7ppt	19.3	21.3	2.0ppt
Net profit margin (%)	7.3	7.3	8.2	0.8ppt	0.8ppt	7.1	7.7	0.5ppt
Segmental Revenue (RM mil)								
Technical Rubber	49.9	45.7	43.6	-4.5	-12.6	98.9	89.4	-9.6
Gloves	353.0	415.7	315.1	-24.2	-10.7	732.6	730.8	-0.2
Clean-Room	27.0	26.0	23.4	-9.8	-13.2	50.0	49.4	-1.3
Segmental PBT (RM mil)								
Technical Rubber	10.5	4.9	3.4	-30.8	-67.8	19.4	8.3	-57.4
Gloves	22.1	36.3	31.8	-12.6	43.9	48.6	68.1	40.0
Clean-Room	2.5	4.4	1.9	-57.1	-22.8	4.9	6.4	29.8
Others	6.6	1.6	1.4	-9.6	-78.4	6.6	3.0	-54.7
Pretax margin (%)								
Technical Rubber	21.1	10.7	7.8	-2.9ppt	-13.3ppt	19.7	9.3	-10.4ppt
Gloves	6.3	8.7	10.1	1.3ppt	3.8ppt	6.6	9.3	2.7ppt
Clean-Room	9.2	17.1	8.1	-9.0ppt	-1.0ppt	9.8	12.9	3.1ppt

Source: Company

Company profile

Kossan Rubber Industries Bhd is an investment holding company which manufactures and sells latex disposable gloves in Malaysia and internationally. It primarily sells Healthcare Gloves, Technical Rubber Products and Cleanroom Products. Kossan Rubber Industries Bhd was incorporated in 1979 and is headquartered in Shah Alam, Malaysia.

Investment thesis and catalysts

We have a UNDERWEIGHT recommendation on the stock as structural gloves oversupply situation will limit gloves players' pricing power, notwithstanding Chinese gloves manufacturers' expansion outside of China which will exacerbate the current oversupply situation. However, Kossan's downside is likely to be capped by its solid net cash position and the resilient contributions from its Technical Rubber Products (TRP) and cleanroom segments.

Valuation methodology

The stock is valued based on target FY26F PE of 16x, which is 1SD above the pre-pandemic average for FY15-FY19. The premium was justified as the company is still profitable with sturdy balance sheet. We reckon the fair valuation multiple should not be derived based on the period from 2020 onwards as it was distorted by pandemic-led earnings volatility.

Risk factors

Upside risks to our estimates include higher than expected glove demand, Chinese players begin scaling back their production, and Kossan paying out a huge special dividend from its massive cash pile.

EXHIBIT 2: CHANGE IN EARNINGS

		FY25F			FY26F			FY27F	
RMmil	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	2,193.8	2,092.7	-5%	2,951.8	2,462.3	-17%	3,667.6	2,994.9	-18%
Earnings	185.4	134.5	-27%	258.2	157.3	-39%	275.0	163.8	-40%
ASP for Glove and Cleanroom division (USD/ 1000 pcs)	22.9	21.5	-6.0%	24.9	22.0	-11.6%	25.0	22.0	-12.0%
Volume for Glove and Cleanroom division (bil pieces)	19.8	19.7	-0.7%	25.0	22.8	-8.8%	31.2	28.0	-10.3%
Margins for Glove and Cleanroom Division	11.0%	8.0%	-4.0ppt	11.5%	8.0%	-4.5ppt	11.5%	8.0%	-4.5ppt

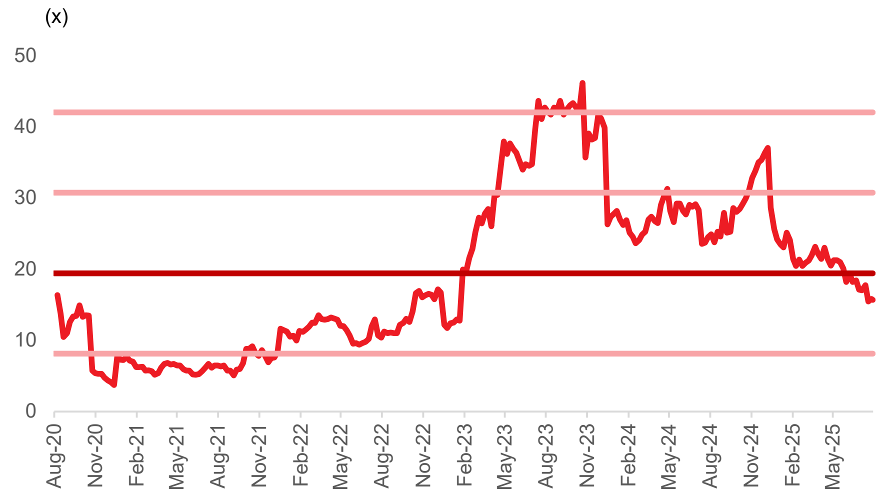
Source: AmInvestment Bank Bhd

EXHIBIT 3: VALUATIONS

Target PE (x)	16x
FY26 EPS	6.2 (from 10.1)
ESG premium	-
12-month target price	1.00 (from 1.60)

Source: AmInvestment Bank Bhd

EXHIBIT 4: PE BAND CHART



Source: Bloomberg

EXHIBIT 5: ESG RATING

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Overall carbon emissions	CO2 target reduction	15%	*	*	*			0.023 tonnes CO2e/1,000 pcs gloves
2	Scope 1 GHG Emissions	Co2 reduction	15%	*	*	*			19.9% increase YoY
3	Scope 2 GHG Emissions	Co2 reduction	15%	*	*	*			19.9% increase YoY
4	Scope 3 GHG Emissions	Co2 reduction	15%	*	*	*			35.6% increase YoY
5	Energy and emissions	Reduce/Optimise energy	15%	*	*	*			total energy consumption increased 19.3% YoY
6	Water and effluent management	Optimise water consumption	15%	*	*	*			18.4% of water was sourced from reclaimed water, 81.6% from municipal suppliers.
7	Waste management	Waste Generation Intensity	10%	*	*	*	*		Waste generation intensity for gloves decreased 21% YoY from 0.70 to 0.55 kg/1,000 pieces of gloves
	Weighted score for evironmental assessment		**100%**	*	*	*			
	Social assessment								
1	Health, safety & well-being	number of high-consequence work-related injuries	20%	*	*	*			24, up 41% YoY
2	Employee training	No of training hours	20%	*	*	*			108,059 training hours delivered (18.2 per employee on average).
3	Women in workforce	% of total workforce	20%	*	*	*			22% in workforce. Low female participation is reasonable for a manufacturing company.
4	Procurement sourcing from local	% of total procurement	20%	*	*				No disclosure in this perspective.
5	Contribution to the well-being of	CSR initiatives	20%	*	*	*			Invested RM729,046 with 58,683 beneficiaries
	Weighted score for social		**100%**	*	*	*			
	Governance assessment								
1	Board age diversity	% under 60 years old	15%	*	*	*			56%
2	Board women representation	% of total board directors	15%	*	*				22% representation lower than minimum 30% recommended by MCCG.
3	Directors with tenure below 6	% below 6 years category	15%	*	*				11%
4	Independent board directors	% of total board directors	15%	*	*				44% - independent non-exec, slightly lower than min 50% recommended by MCCG.
5	Remuneration to directors	% of total staff costs	20%	*	*	*			RM13.3mil - 4% of FY24 staff costs
6	Corruption investigations	Confirmed incidents	20%	*	*	*	*	*	0 cases in FY2024
	Weighted score for		**100%**	*	*	*			
	Environmental score		40%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		30%	*	*	*			
	Overall ESG Score		**100%**	*	*	*			

Source: AmInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	1,591.0	1,916.2	2,092.7	2,462.3	2,994.9
EBITDA	101.5	216.8	287.5	318.5	328.9
Depreciation/Amortisation	(108.6)	(102.4)	(136.9)	(138.1)	(139.2)
Operating income (EBIT)	(7.1)	114.4	150.6	180.4	189.8
Other income & associates	-	-	-	-	-
Net interest	37.2	42.9	30.0	30.8	30.3
Exceptional items	40.7	-	-	-	-
Pretax profit	**34.5**	**157.3**	**180.6**	**211.2**	**220.0**
Taxation	(18.2)	(36.5)	(43.3)	(50.7)	(52.8)
Minorities/pref dividends	(3.0)	(2.4)	(2.8)	(3.2)	(3.4)
Net profit	**13.3**	**118.3**	**134.5**	**157.3**	**163.8**
Core net profit	54.1	118.3	134.5	157.3	163.8

Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	1,294.4	1,492.1	1,505.2	1,517.1	1,528.0
Intangible assets	4.9	4.9	4.9	4.9	4.9
Other long-term assets	103.4	113.3	113.3	113.3	113.3
Total non-current assets	**1,402.7**	**1,610.4**	**1,623.5**	**1,635.4**	**1,646.2**
Cash & equivalent	2,094.6	1,666.7	1,733.8	1,762.8	1,743.7
Stock	239.2	244.5	314.7	370.2	450.3
Trade debtors	248.4	364.3	326.7	384.4	467.5
Other current assets	217.4	221.8	221.8	221.8	221.8
Total current assets	**2,799.6**	**2,497.2**	**2,597.0**	**2,739.2**	**2,883.3**
Trade creditors	192.0	225.9	252.6	297.2	361.5
Short-term borrowings	10.2	59.3	57.8	57.8	57.8
Other current liabilities	11.5	21.1	21.1	21.1	21.1
Total current liabilities	**213.7**	**306.2**	**331.5**	**376.1**	**440.4**
Long-term borrowings	0.3	-	1.4	1.4	1.4
Other long-term liabilities	125.4	134.1	134.1	134.1	134.1
Total long-term liabilities	**125.6**	**134.1**	**135.5**	**135.5**	**135.5**
Shareholders' funds	**3,836.0**	**3,644.8**	**3,728.2**	**3,834.4**	**3,921.7**
Minority interests	27.0	22.5	25.3	28.5	31.9
BV/share (RM)	1.51	1.44	1.47	1.51	1.55

Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	34.5	157.3	180.6	211.2	220.0
Depreciation/Amortisation	108.6	102.4	136.9	138.1	139.2
Net change in working capital	63.5	(94.0)	(6.0)	(68.7)	(98.9)
Others	(3.9)	(40.1)	(43.3)	(50.7)	(52.8)
Cash flow from operations	**202.8**	**125.7**	**268.1**	**229.9**	**207.4**
Capital expenditure	(87.0)	(303.1)	(150.0)	(150.0)	(150.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(75.2)	132.1	-	-	-
Cash flow from investing	**(162.1)**	**(171.0)**	**(150.0)**	**(150.0)**	**(150.0)**
Debt raised/(repaid)	(61.8)	49.1	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(306.2)	(51.0)	(51.0)	(76.5)
Others	(3.7)	(10.8)	-	-	-
Cash flow from financing	**(65.5)**	**(267.9)**	**(51.0)**	**(51.0)**	**(76.5)**
Net cash flow	**(24.9)**	**(313.2)**	**67.1**	**28.9**	**(19.1)**
Net cash/(debt) b/f	**1,348.0**	**1,271.3**	**976.1**	**1,043.2**	**1,072.1**
Net cash/(debt) c/f	**1,335.6**	**954.5**	**1,043.2**	**1,072.1**	**1,053.0**

Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	(32.1)	20.4	9.2	17.7	21.6
EBITDA growth (%)	(67.2)	113.7	32.6	10.8	3.3
Pretax margin (%)	2.2	8.2	8.6	8.6	7.3
Net profit margin (%)	0.8	6.2	6.4	6.4	5.5
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	52.8	23.2	24.0	24.0	24.0
Dividend payout (%)	765.3	172.5	38.0	32.4	46.7
Debtors turnover (days)	60	58	60	53	52
Stock turnover (days)	60	46	49	51	50
Creditors turnover (days)	45	40	42	41	40

Source: Company, AmInvestment Bank Bhd estimates

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