

Mark Dynamics Indonesia (MARK)

Rapid expansion to reap maximum benefits

- The strength and flexibility of its balance sheet allow MARK to accelerate its capacity expansion 2 years ahead of its original plan to capitalize on supply tightness situation amid accelerating global gloves demand in the past 2 years. MARK stands to book record-high earnings of ~IDR500bn (+28% YoY) in FY22, implying an attractive 9x FY22 PE valuation (vs relative peers at ~11.5x) while generating more than 60% ROE. Plus, we can expect a much higher dividend payout ratio (vs. 50% in FY21) given its 1) low net leverage (1Q22 at 5.8%), 2) ample cash generation from operation and 3) minimal capex allocation this year.
- The global market of medical gloves is estimated to grow at a 13.2% CAGR pace from current USD21.8bn to USD29.8bn at the end of 2026. Rapid demand from Covid-19 pandemic will be replaced by the next growth driver from the growing need for early detection & diagnosis of diseases, steady rise in routine diagnostic tests, and development of healthcare infrastructure (i.e. hospitals and other care facilities) around the world.
- US remains the major revenue contributor for medical gloves manufacturers, but China & Asia-Pacific have the fastest growing regional markets. On the supply side, Malaysia represents ~60% of the world's disposable gloves production, followed by China with ~22% contribution.
- MARK is a leading porcelain-based glove mold manufacturer with the largest production capacity in the world at 2mn pieces per month from 3 factories domiciled in North Sumatra, Indonesia. MARK's rubber glove formers application ranges from medical, industrial, and household. MARK's customers include the world's leading gloves manufacturers such as Top Glove, Hartalega & Kossan (all from Malaysia), Sri Trang group (Thailand), Intco (China), etc.
- MARK has a strong balance sheet (as its net leverage never exceeded 30% since 2017) to be able to spend ~IDR450bn capex (from 2018 to 2021) to rapidly expand its production capacity by almost fourfold from 540k pieces per month in 2018 to 2mn pieces per month in early 2022.
- MARK managed to increase its ASP by 30% and 15% in FY20 and FY21, respectively, as key customers hastily speed up gloves production to keep up with demand. Further cost savings came from the implementation of a special gas price of USD6/mmbtu by Ministry of Energy & Mineral Resources (MoEMR) in mid-2020. These 2 factors improved MARK's GPM despite the more costly imported raw materials (i.e clay).
- Currently, MARK's production facilities run at ~95% of its total capacity rate of 2mn pieces per month, suggesting close to optimum gross & operating margins of 53% and 46%, respectively (both are all-time highs)
- MARK expects to generate 30% YoY revenue growth in FY22, mostly from volume rather than ASP. We believe that its revenue growth will normalize after 2022, given 1) lower margins experienced by its key customers in order to eliminate competition from smaller players and 2) limited increase in production capacity (after an aggressive capex in the past 3 years) as MARK assess demand going forward.
- Considering its revenue and the expected improvement in margins, MARK should be able to generate FY22 net profit of ~IDR500bn (+28% YoY). 1Q22 net profit was IDR125bn (+80% YoY).
- Considering normalizing profit after 2022, MARK plans to expand its business to pad its growth going forward with sanitary business using scrap materials as part of its zero-waste effort (currently under feasibility study) and chemical & pesticides products.

Company Notes

Manufacturing

May 31, 2022

12M rating **N-R**

12M TP

Upside

Stock Data

JCI (May 30)	7,037
Stock price (May 30, IDR)	1,205
Market cap (IDR bn)	4,579
Shares outstanding (mn)	3,800
52-week high/low (IDR)	1,380 / 835
6M avg. daily turnover (IDR bn)	13.3
Free float (%)	17.5

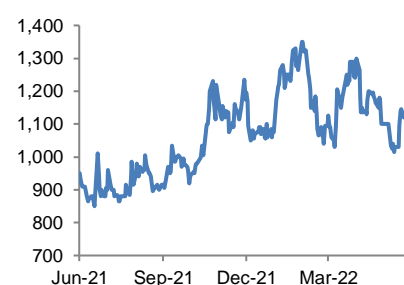
Major shareholders (%)

Tecable Co. Ltd	78.8
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Performance

	1M	6M	12M
Absolute (%)	(1.3)	(0.9)	26.3
Relative to JCI (%)	12.5	(4.8)	8.9

MARK price trend



Source: Bloomberg

Edward Tanuwijaya

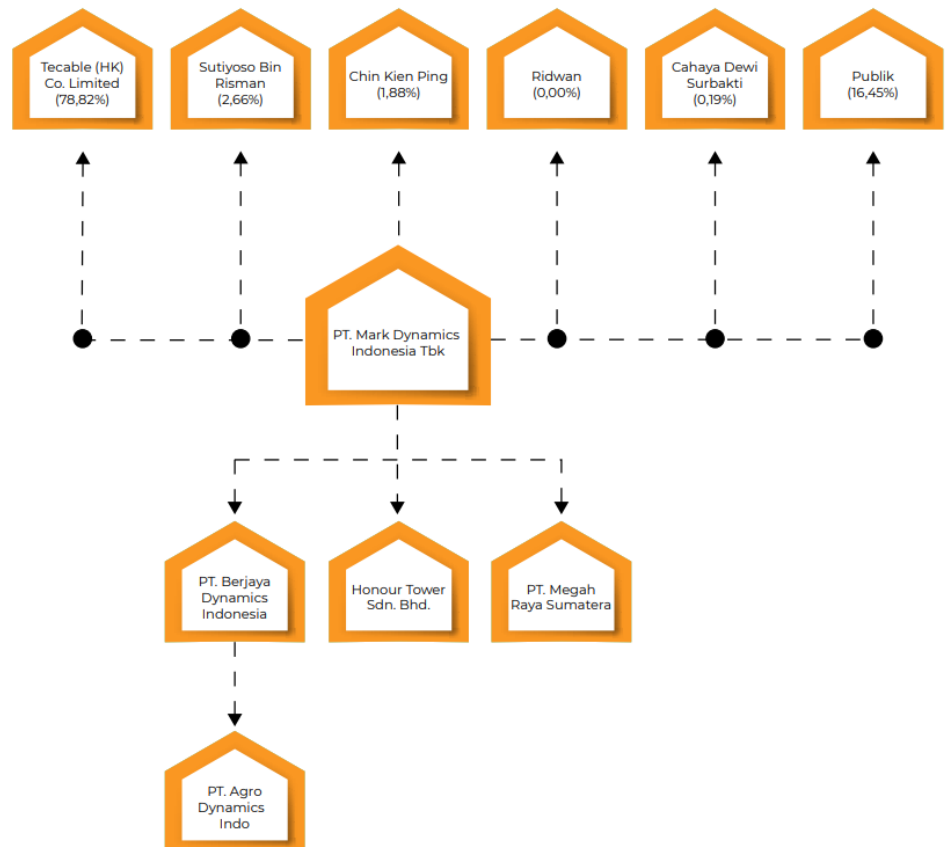
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Table 1. MARK financials summary

	2018A	2019A	2020A	2021A	1Q22A
Sales (USD mn)	325.5	361.5	565.4	1,193.5	361.2
GP (USD mn)	145.1	156.4	236.8	606.6	205.0
OP (USD mn)	109.4	128.2	183.5	515.0	171.0
NP (USD mn)	81.9	88.0	144.0	392.2	125.1
EBITDA (USD mn)	118.1	137.8	202.1	536.2	173.2
Net debt (USD mn)	39.2	86.1	122.9	30.7	50.7
OP margin (%)	33.6	35.5	32.5	43.2	47.3
ROE (%)	40.5	32.8	40.8	68.3	
Dividend yield (%)	1.8	1.5	1.8	4.8	
EPS (IDR)	21.6	23.2	37.9	103.2	32.9
chg. (% YoY)	74.1	7.5	63.6	172.3	
BPS (IDR)	62.6	78.7	107.8	195.7	228.6
DPS (IDR)	7.0	7.0	15.0	50.0	
PE (x)	18.4	19.5	22.2	10.4	
PB (x)	6.4	5.7	7.9	5.5	
EV/EBITDA (x)	13.1	13.1	16.4	7.7	

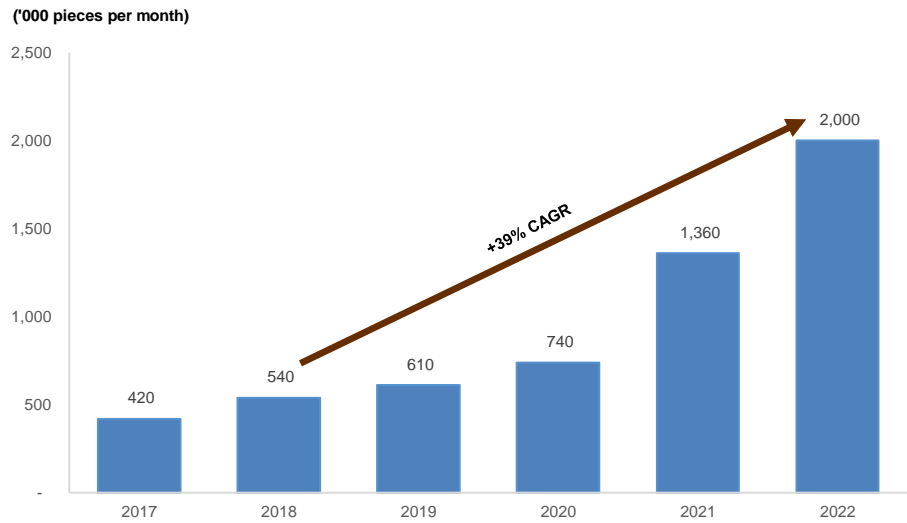
Source: Bloomberg, KISI

Fig 1. MARK corporate structure



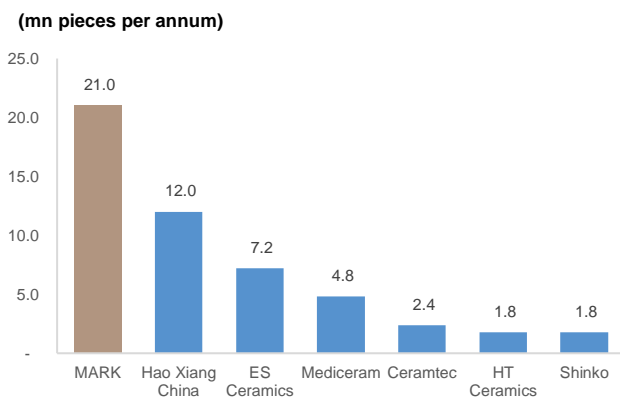
Source: Company, KISI

Fig 2. MARK's capacity expansion



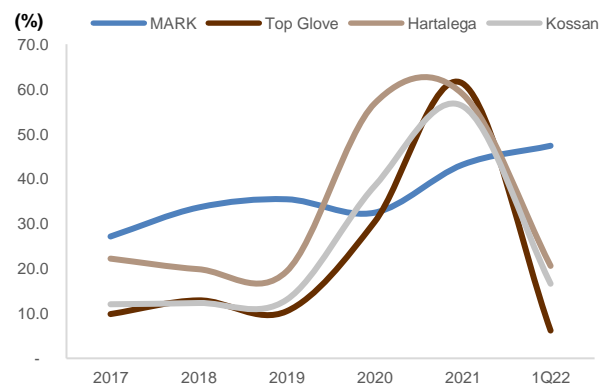
Source: Company, KISI

Fig 3. MARK's capacity vs. global competitors



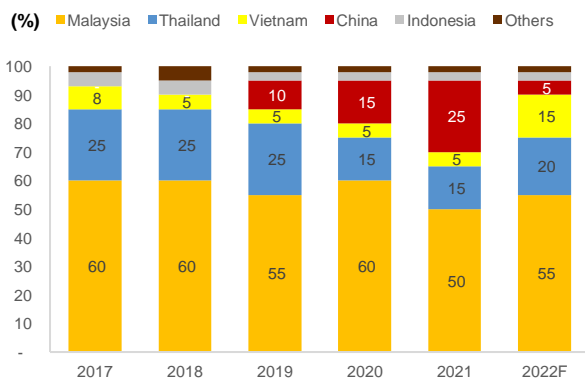
Source: Company

Fig 4. MARK's OP margins trend vs. key customers



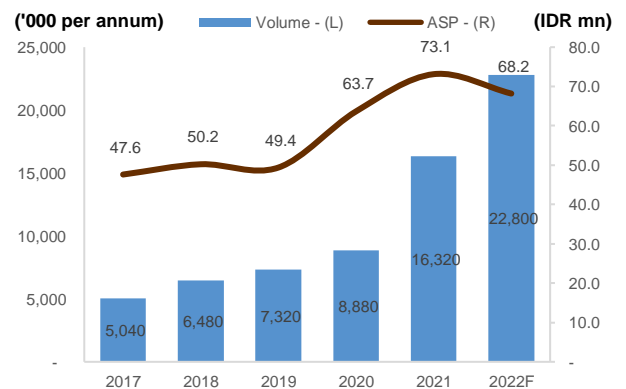
Source: Bloomberg, KISI

Fig 5. MARK's revenue by country



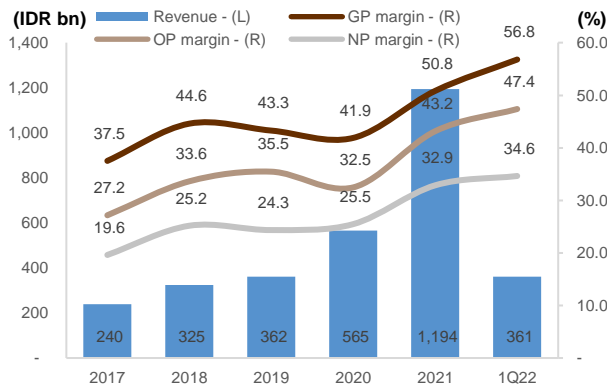
Source: Company, KISI

Fig 6. MARK's production vol. & ASP



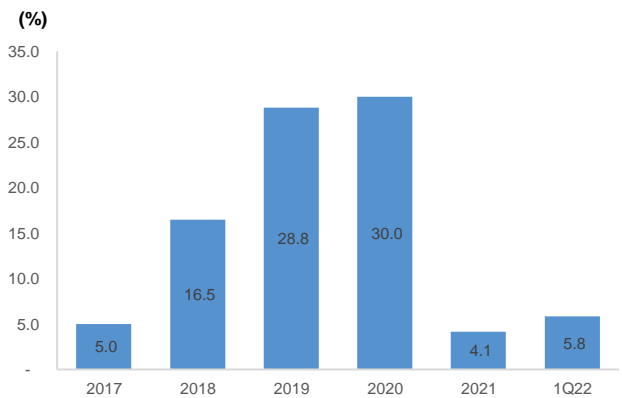
Source: Company, KISI
Note: ASP is based on KISI estimate

Fig 7. MARK's revenue & margins trend



Source: Company, KISI

Fig 8. MARK's net gearing trend



Source: Company, KISI

Fig 9. MARK customers



Source: Company, KISI

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