

Dipped Products PLC [DIPD.N: LKR 55.10]
Emerging variants and anticipated growth in global industrial activities to drive DIPD's earnings

Recommendation: BUY

Target Price: LKR 75.60

Sector: Material

Dipped Products PLC- a subsidiary of Hayleys PLC, is one of the world's largest manufacturers of natural and synthetic based rubber gloves, catering to 5% of global demand. Four Sri lankan based manufacturing plants of DIPD that are specialized in industrial and household gloves and the plant in Thailand which is allocated for medial gloves production, together contribute to 66% of DIPD revenue. DIPD also derives approximately 34% of the revenue through Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC which are mainly engaged in tea and rubber plantation. FY21 was an unprecedented year for DIPD as its revenue grew by 52%YoY to LKR 46.3Bn and profits soared by 586% to a record high of LKR 5.8Bn driven largely by the performance in hand protection segment.

This was mainly supported by the record demand created in the market along with the start of the pandemic which also pushed the rubber gloves prices by 50%-60% amid limited availability of raw materials and production disruptions. Consequently, the group achieved a 70%YoY revenue growth in hand protection segment in FY21 through higher capacity utilization levels and acquisition of new customers.

Strong demand likely to sustain during FY22: We expect the demand for gloves across the board to sustain on the back of (i) improved economic activities fueling the demand for industrial gloves and (ii) surge in covid cases with the emergence of delta variant and aggressive vaccine drive to aid demand for medical gloves.

DIPD's core business; manufacturing household and industrial gloves, contributing to 70% of hand protection business, is expected to continue to grow least by a CAGR of 10% with the anticipation of industrial activities bouncing back to normal. The European region which contributes to 47% of DIPD's sales, recorded a strong rebound led by Italy with GDP expanding by 17.3%YoY (2.7%QoQ) in 2Q'21 whereas the GDP growth of USA was 6.5%YoY (3.2%QoQ) for the same period, indicating the pick-up in economic activities. In order to cater to the rising demand, DIPD also plans to expand its capacity by 12%, incurring a cost of LKR 3Bn in Sri Lanka by FY22E which will support in catering to both the newly acquired clients (DIPD managed to acquire 36 new customers from the USA and European region in FY21 itself) and existing customers.

Further, since majority of gloves manufacturers are mainly focused on manufacturing medical gloves, DIPD would be in a comfortable position to reap the benefits from the upcoming economic boost which would benefit its main revenue contributor- household and industrial gloves segments.

In terms of medical gloves segment, the inflated demand was expected to cool down with the accelerated vaccination drive, although the global rise in number of fully vaccinated patients with Delta variant suggests the opposite. Medical experts believe that the virus could linger for longer than expected as it is impossible to reach worldwide herd immunity due to vaccine shortages and vaccines being less effective against new variants. Further, the vaccine is likely to be an annual shot and some countries are already vaccinating the elderly population with a booster shot which would increase the demand for medical gloves. Thus, more orders in near term can also be expected especially due to the production disruptions caused by strict travel restrictions in Malaysia (contributes to 67% of global demand) and China (contributes to 10% of global demand) which can be catered through DIPD Thailand operations which had been operating uninterruptedly even during these tough times.

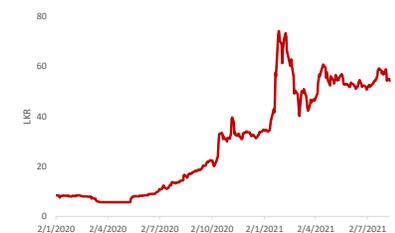
Key Statistics

Market Cap (LKR Bn)	32.9
Market Cap (USD Mn)	165.7
Issued Quantity (Mn)	598.6
Current Trading Range	54.50-56.60
52 week High/Low	14.40/74.22
YTD High/Low	34.00/74.22
Valuation	
Market PE (x)	9.9
Market PBV (x)	1.1
PE (x)	5.7
PBV (x)	2.0
Bloomberg Ticker	DIPD SL
GICS Industry Group	Materials

Note: Prices as at 20.08.2021 and adjusted for the share split of 1:10 which came into effect on 16.02.2021

Main shareholders as at 30.06.2021

Hayleys PLC	42.12%
Volanka (Pvt) Ltd	8.14%
Haycarb PLC	6.80%
Employees Provident Fund	4.89%
Seylan Bank PLC/ M.E.Amarasinghe	1.01%

Share Price Performance


Analyst: Nisali Ranaweera

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DIPD to benefit from currency weakness: DIPD's hand protection segment's main costs include raw material, where rubber accounts to 70% of the total cost. The contribution of synthetic and natural rubber generally accounts to 30:70, where the synthetic rubber is mainly sourced via imports, exposing DIPD to currency and global commodity price fluctuations. The other main cost which is energy (accounts to <10% of COS) is also similarly exposed to currency weakness. Although this could push the cost of production up, DIPD has managed to hedge the risk by sourcing natural rubber from small holders for favourable terms. Moreover, currency depreciation works in favor of DIPD specially given 100% of DIPD's revenue is generated via USD, overshadowing the negative impact arising through production.

Likely drop in average selling prices to exert some pressure on gross margins in FY22E:

During FY21 overwhelming demand, limited manufacturing capacity, insufficient raw materials, production disruptions and supply chain constraints pushed the average selling prices of rubber gloves by 50%-60%. Although this expanded DIPD's GP margins to 26% levels from 15% levels in FY20, we believe there could be some pressure given that the major global players are in the process of increasing capacity and demand too moderating resulting in average selling prices of gloves to dip. However, we do not believe the selling prices to revert to pre-pandemic levels anytime soon with the increased awareness of health and hygiene. Moreover, DIPD is also focusing on high value-added gloves which are more eco-friendly and which could also help in minimizing the impact.

Valuation: We estimate DIPD's equity holder's profit to reach LKR 6.8Bn (32%YoY) in FY22E supported by continuous demand for gloves, capacity expansion and LKR depreciation. We expect the profits to remain at these levels despite further pressure on selling prices, as weaknesses in LKR could easily overshadow the negative impact arising from price pressure. Using DCF valuation method we have derived a 12M target price of LKR 75.60, a upside of 37% and along with a dividend yield of 7% DIPD should generate a total return of >40%. Further, for our valuation we used a sample of global peers (India, Korea, Thailand and China) which have similar market capitalization. These global peers trade at relatively higher multiple, ranging from 8.2x to 58.6x. Even after considering the closest global peers, the average PE hovers around 11.9x which is still 52% discount to DIPD's earnings multiples. Hence, we strongly believe that DIPD warrants to trade at relatively higher multiple. Thus, we recommend BUY.

Earnings multiples of closest global peers hovers from 8.2x-58.6x

Company	Country of Origin	PE (x)
Dipped Products Plc	Sri Lanka	8.57
Tamilnadu Petroproducts Ltd	India	9.94
Noroo Holdings Co Ltd	Korea	18.29
Kangnam Jevisco Co Ltd	Korea	8.28
Ester Industries Ltd	India	15.40
Tae Kyung Industrial Co Ltd	Korea	16.77
Goel Corp Ltd	India	16.62
Siam Pan Group Public Co Ltd	Thailand	12.60
Andhra Petrochemicals Ltd	India	17.52
National Peroxide Ltd	India	58.62
Transpek Industry Ltd	India	54.22

Earnings Forecast

YE 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue (LKR Mn)	28,485	30,089	30,563	46,387	67,134	73,627	78,695
YoY growth (%)	17%	6%	2%	52%	45%	10%	7%
Equity Holder's Profit (LKR Mn)	495	868	748	5,164	6,852	7,233	7,611
YoY growth (%)	-13%	53%	-31%	586%	32%	6%	5%
Reported EPS (LKR)	8.3	14.5	12.5	8.6	11.4	12.1	12.7
EPS on current no. of shares(LKR)	0.8	1.5	1.2	8.6	11.4	12.1	12.7
DPS (LKR)	0.3	0.5	0.4	2.9	3.9	4.2	4.5
BVPS (LKR)	16.3	17.4	18.6	26.1	35.1	44.5	54.3
Ratios (%)							
Dividend Payout(%)	36%	31%	32%	34%	34%	35%	35%
Dividend Yield (%)	0.5%	0.8%	0.7%	5.3%	7.1%	7.7%	8.1%
ROE (%)	5%	8%	7%	33%	33%	27%	23%
PE (x)	66.6	38.0	44.1	6.4	4.8	4.6	4.3
PBV (x)	3.4	3.2	3.0	2.1	1.6	1.2	1.0

Note : BVPS & DPS are adjusted to the current number of shares

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