

10 December 2020

Top Glove Corporation

1QFY21 Beat Expectations

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

1QFY21 PATAMI of RM2,376m (+84% QoQ; 2,000% YoY) came in at 36%/26% of our/consensus full-year forecasts. The positive variance from our forecast is due to higher-than-expected ASP. Hence, we raised our FY21E net profit by 40% to account for higher ASP. However, we maintain our TP of RM10.68 based on 11.5x CY21E raised EPS of 92.9 sen (at close to -1.0 SD below 5-year historical forward mean). We lowered our target PER as we believe that its earnings growth will moderate towards more sustainable levels beyond FY21. Despite this, there remains ample upside to our target price of RM10.68. Reiterate Outperform.

QoQ, 1QFY21 revenue rose 53% due largely to higher ASP (+53%) and a flat sales volume (+0.05%). The flattish QoQ volumes sale was due to the temporary closure of Klang Meru factories as a result of the COVID-19 EMCO. Correspondingly, PBT margin improved by 12.8ppt to 65% compared to 52.2% in 4QFY20 due to higher ASP which flowed straight down to bottom-line. This brings 1QFY21 PATAMI to RM2,376m (+84%). A 1st interim dividend of 16.5 sen (56% of pay-out which exceeds its 50% policy implying the incorporation of special dividend) was declared which came in above our expectation.

YoY, 1QFY21 revenue rose 293% due to higher volume sales (+34%) and ASP (+193%). The Group's improved profit was also attributed to productivity enhancements which it has continued to embark on, while the Group's utilisation levels remained at close to 100% amplified production efficiency which reaped superior economies of scale. This propelled 1QFY21 PATAMI higher by 2,000%.

Salient points from the result conference call. Management is confident of robust demand over the next two years due to continuous acute shortage and surging cases of COVID-19 in Europe and US. Case in point, US stockpile dropped from 16.9 billion pieces in December 2019 to 2 billion pieces in October 2020. Post COVID-19, inventory restocking cycle is expected to spur demand coupled with increased usage arising from new users and increased hygiene awareness. Looking ahead into 2QFY21, we highlight that TOPGLOV's ASP in 2QFY21 is expected to jump by 30% QoQ, with higher volumes (+10% from new capacities) and product mix skewed towards higher margin nitrile gloves. Efforts to source for more worker accommodations and to improve existing ones have been ongoing for which the Group has already invested RM70m. In addition, the Group has spent RM20m purchasing 100 units of apartments over the past two months and is also renting more houses for its workers. Over the medium term, the group has earmarked approximately RM100m to be invested in workers' facilities and accommodation, which includes building mega hostels in Klang and Banting with a combined capacity of 7,300 pax fully equipped with a suite of amenities and facilities. So far 8,357 workers or 94% of those tested positive and recovered, or negative are ready to resume work. Presently, its Klang factories' utilisation is slowly ramping up with the first stage re-opening of seven factories with stage two re-opening of another seven factories next week.

Raised FY21E net profit by 40% after hiking our ASP from USD55/1,000 pieces to USD70/1,000 pieces and assuming 80% utilisation or 75b pieces volume sales (taking into account of the temporary production loss in Klang factories). Our FY22E ASP assumption remains conservatively pegged at USD40/1,000 pieces.

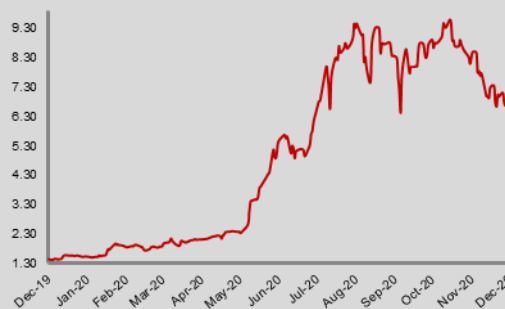
Reiterate OP. However, we maintain our TP of RM10.68 based on 11.5x CY21E (vs. 15x previously) on raised EPS of 92.9 sen (at close to -1.0SD below 5-year historical forward mean). We lowered our PER rating as we believe valuations are already pegged to supernormal earnings; hence, moderation in earnings momentum beyond this phase should be factored in. Its merits are: (i) resilient earnings base due to its pricing power and sheer capacity size in the industry, and (ii) solid earnings growth averaging >100% in FY21 compared to PER of 6x.

A key downside risk to our call is lower-than-expected ASP.

OUTPERFORM ↔

Price: **RM6.84**
Target Price: **RM10.68** ↔

Share Price Performance



KLCI	1,646.53
YTD KLCI change	3.6%
YTD stock price change	336.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK EQUITY
Market Cap (RM m)	54,848.0
Shares Outstanding	8,018.7
52-week range (H)	9.77
52-week range (L)	1.44
3-mth avg daily vol:	65,716,020
Free Float	49%
Beta	1.0

Major Shareholders

Tan Sri Dr Lim Wee Chai	26.1%
Firstway United Corp	6.9%
Employees Provident Fund	5.6%

Summary Earnings Table

FY Aug (RM m)	2020A	2021E	2022E
Turnover	7236.3	22071	13514
PBT	2301.4	11719	5178.1
Net Profit (NP)	1867.0	9336.5	4101.9
Core NP	1867.0	9336.5	4101.9
Consensus NP	-	8,614	3,450
Earnings Revision	-	+40%	-
EPS (sen)	22.9	114.3	50.2
EPS growth (%)	57.6	400.1	(56.1)
NDPS (sen)	11.8	57.4	25.1
BVPS (RM)	0.61	1.09	1.34
PER (x)	29.9	6.0	13.6
PBV (x)	11.2	6.3	5.1
Net gearing (x)	Net Cash	Net	Net
		Cash	Cash
Net Div. Yield (%)	1.7	8.4	3.7

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Result Highlight					
	4Q	1Q	QoQ	1Q	YoY
FY Aug (RM m)	FY20	FY21	Chg %	FY20	Chg %
Turnover	3,109.1	4,759.3	53.1	1,209.1	293.6
EBITDA	1,693.1	3,167.0	87.1	196.0	1,516.0
EBIT	1,627.6	3,096.3	90.2	141.6	2,086.9
PBT	1,623.6	3,095.5	90.7	125.5	2,367.5
PATAMI (NP)	1,292.0	2,375.8	83.9	111.4	2,032.2
EPS (sen)	15.8	2,375.8	87.4	1.4	2,080.2
EBITDA margin (%)	54.5	66.5		16.2	
PBT margin (%)	52.2	65.0		10.4	
NP margin (%)	41.6	49.9		9.2	
Effective tax rate (%)	18.3	22.3		10.9	

Source: Company, Kenanga Research, Bursa Malaysia

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	14.66	50,248	Y	03/2021	158%	48.1%	564%	75.7%	112.3	17.3	9.8	19.2	13.5	92.6%	3.5%	26.22	OP
KOSSAN RUBBER INDUSTRIES	5.82	14,886	Y	12/2020	72.9%	60.0%	358%	111%	66.2	14.5	6.8	10.4	6.8	56.8%	1.7%	9.36	OP
SUPERMAX CORP BHD	7.75	20,350	Y	06/2021	229%	-27%	510%	-41%	40.6	6.7	11.4	13.3	6.0	125%	6.1%	12.00	OP
TOP GLOVE CORP BHD	6.84	54,848	Y	08/2021	205%	-39%	400%	-56%	29.9	6.0	13.6	11.2	6.3	135%	8.4%	10.68	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

