

09 April 2021

# Top Glove Corporation

## Workers' Welfare Uplifted

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In a well organised analysts' briefing, TOPGLOV assured of its efforts to continuously improve workers' accommodation as well as uplifting the Withhold Release Order (WRO) with the U.S. Customs and Border Protection (CBP), by completing additional rectification and verification works immediately. A pleasant surprise in the briefing was Mr Andy Hall giving his support and assurance that TOPGLOV is committed and has shown positive improvements in workers' welfare. TP remains at RM6.80 based on unchanged 13x CY22E EPS. Reiterate OP.

**Positive progress on ILO and workers' hostels improvement.** In an analysts' briefing, Top Glove updated that it had made positive progress with regards to forced labour issues in terms of remediation fees and workers' hostels improvements which were further endorsed by Mr Andy Hall (independent migrant workers rights specialist). Top Glove has clarified with US CBP that no new additional issues on forced labour have been discovered. CBP has requested Top Glove to carry out additional rectification and verification work in relation to the earlier findings, which Top Glove is currently working on to address and fully remediate the identified issues expeditiously. The additional rectification and verification works are to: (i) identity documents retained by recruitment agents to be returned to the workers, which affects less than one percent of its workers, and (ii) remediation for workers who did not manage to come to Malaysia to work due to Covid-19-related lockdowns. Based on Impactt (independent consultant's) assessment, the following forced labour indicators were no longer present in the group's direct operations including abuse of vulnerability, restriction of movement, abusive working and living conditions, excessive overtime and withholding of wages. The key positive development here by Impactt is that there was no systemic forced labour following Top Glove's ongoing effort. Out of the 11 key International Labour Organisation (ILO) Forced Labour Indicators, 6 has been closed or achieved the passing mark. Plans are already in place to rectify the remaining 5 forced labour indicators of which progress have been made. By next week, another indicator i.e. remaining balance remediation of payment (debt bondage) will be achieved. Mr Andy Hall has given his blessings that Top Glove's leadership have shown effort and commitment to effectively remediate remaining forced labour indicators from the company's direct operations and supply chain. During the briefing, Top Glove also reiterated its commitment towards continually improving its workers' accommodations, in accordance to the Act 446: Employees' Minimum Standards of Housing, Accommodations and Amenities Act 1990. The group has relocated some workers to alternative accommodations in December 2020 and has submitted applications for Certificate for Accommodation (CFA). The approval and issuance of the CFA by the government is being done progressively. Top Glove has embarked on a substantial investment programme to significantly improve the living quarters of its workers nationwide.

**Outlook.** ASP trend is expected to soften albeit at a slower pace on the back of still robust demand. In the 2QFY21 results' briefing, the group highlighted that nitrile glove ASP is expected to decline 3-5% m-o-m or adjusted down to be in line with peers. Management is of the view that ASP is unlikely to fall off a cliff despite average lead time being reduced from 300 days in early Jan 2021 to 170 days currently compared to 20-30 days pre-COVID-19. Post Covid-19, inventory restocking cycle is expected to spur demand coupled with increased usage arising from new users and increased hygiene awareness.

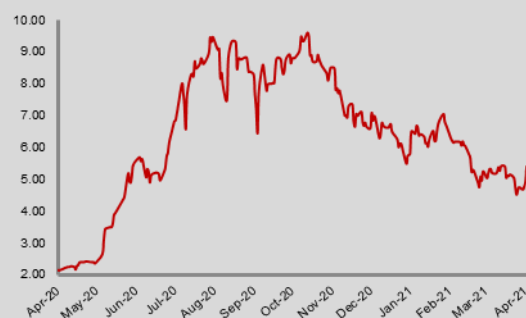
**Reiterates OP.** TP is RM6.80 based on 13x CY22E EPS of 52.4 sen (at close to -1.0SD of 5-year forward historical mean). Our target PER is at a 30% discount to normalised 5-year pre-Covid-19 historical forward mean averaging 16-18x. In our view, from the perspective of a long-term investor, we still see significant value being derived from Malaysian glove players which commands 65-68% of global market share.

**Downside risk to our call is** lower-than-expected ASP in 2H 2021.

## OUTPERFORM ↔

Price : RM5.40  
Target Price : RM6.80 ↔

### Share Price Performance



KLCI	1,602.40
YTD KLCI change	-1.5%
YTD stock price change	-11.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK EQUITY
Market Cap (RM m)	42,130.1
Shares Outstanding	7,801.9
52-week range (H)	9.77
52-week range (L)	2.14
3-mth avg daily vol:	40,535,840
Free Float	47%
Beta	1.1

### Major Shareholders

Tan Sri Dr Lim Wee Chai	26.1%
Firstway United Corp	6.9%
Employees Provident Fund	6.3%

### Summary Earnings Table

FY Aug (RM m)	2020A	2021E	2022E
Turnover	7236.3	24780	14676
PBT	2301.4	13665	6053
<b>Net Profit (NP)</b>	1867.0	10893	4802
<b>Core NP</b>	1867.0	10893	4802
Consensus NP	-	10559	4090
Earnings Revision	-	-	-
EPS (sen)	22.9	133.3	58.8
EPS growth (%)	57.6	483.5	(55.9)
NDPS (sen)	11.8	86.5	29.4
BVPS (RM)	0.61	0.99	1.28
PER (x)	23.6	4.1	9.2
PBV (x)	8.8	5.5	4.2
Net gearing (x)	Net Cash	Net	Net
		Cash	Cash
Net Div. Yield (%)	2.2	16.0	5.4

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## Income Statement

FY Aug (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	4214.0	4801.8	7,236.3	24,780	14,676
EBITDA	702.4	706.8	2,583.7	13,938	6,345
Depreciation	-146.0	-156.6	(198.6)	(219)	(239)
PBT	522.7	430.7	2,301.4	13,665	6,053
Taxation	-85.4	-57.1	(397.6)	(2,733)	(1,211)
MI	-3.7	-3.0	(36.8)	(39)	(41)
Net Profit	433.6	370.6	1,867.0	10,893	4,802

## Balance Sheet

FY Aug (RM m)	2018A	2019A	2020A	2021E	2022E
PPE	2082.2	2463.5	3034.8	3184.8	3334.8
Subs. & Assoc.	188.9	252.2	183.7	183.7	183.7
Inventories	513.7	615.2	525.6	1800.0	1066.1
Receivables	747.6	596.5	803.1	2750.0	1628.7
Other assets	1576.8	1562.6	2915.4	2469.6	2809.7
Cash	164.2	158.8	1210.4	3638.1	5923.9
Total Assets	5273.4	5648.8	8672.9	14026.2	14946.8
LT borrowings	1359.1	1378.8	217.6	216.4	216.4
ST borrowings	854.2	1041.8	323.3	323.3	323.3
Payables	485.3	518.8	670.7	2296.7	1360.2
Other liabilities	159.8	266.1	1151.8	1151.8	1167.6
Minorities	10.6	17.1	1320.6	1959.5	1400.0
Net Assets	2404.5	2426.2	4988.9	8078.5	10479.2
Share capital	787.7	788.3	1675.7	1675.7	1675.7
Reserves	1616.8	1637.8	3313.2	6402.8	8803.5
Equity	2404.5	2426.2	4988.9	8078.5	10479.2

## Cashflow Statement

FY Aug (RM m)	2018A	2019A	2020A	2021E	2022E
Operating CF	344.1	509.0	3,171.3	11,119.0	5,018.6
Investing CF	(1,691.7)	(502.4)	(2,083.0)	(768.5)	(437.8)
Financing CF	1,284.6	(13.0)	(43.7)	(7,867.0)	(2,239)
Change In Cash	(63.0)	(6.4)	1,044.6	2,483.5	2,341.6

Source: Kenanga Research, Bursa Malaysia

## Financial Data & Ratios

FY Aug	2018A	2019A	2020A	2021E	2022E
<b>Growth</b>					
Turnover	23.6%	13.9%	50.7%	242.4%	-40.8%
EBITDA	39.9%	0.6%	265.6%	439.4%	-54.5%
Operating Profit	42.5%	-8.0%	359.0%	484.2%	-55.5%
PBT	36.4%	-17.6%	434.3%	493.8%	-55.7%
Core Net Profit	30.3%	-14.5%	403.7%	483.5%	-55.9%

## Profitability

EBITDA Margin	16.7%	14.7%	35.7%	56.2%	43.2%
Operating Margin	13.2%	10.7%	32.5%	55.4%	41.6%
PBT Margin	12.4%	9.0%	31.8%	55.1%	41.2%
Core Net Margin	10.3%	7.7%	25.8%	44.0%	32.7%
Effective Tax Rate	16.3	13.3	17.3	20.0	20.0
ROA	4.4%	4.0%	21.7%	143.2%	75.7%
ROE	19.7%	15.3%	50.4%	166.7%	51.7%

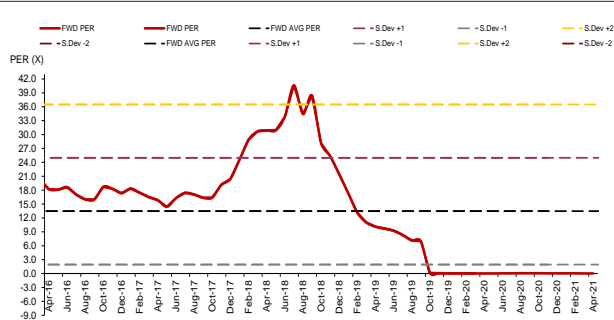
## DuPont Analysis

Net Margin (%)	10.3	7.7	25.8	44.0	32.7
Assets T/O (x)	1.3	1.2	1.2	0.6	1.0
ROE (%)	19.7%	15.3%	50.4%	166.7%	51.7%

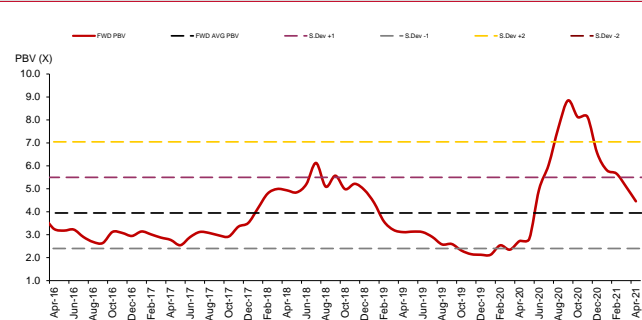
## Valuations

EPS (sen)	5.7	14.5	22.9	133.3	58.8
NDPS	8.5	8.5	11.4	86.5	29.4
BVPS (RM)	0.31	0.32	0.61	0.99	1.28
PER (x)	31.5	111.3	23.6	4.1	9.2
Net div (%)	1.6	1.6	2.1	16.0	5.4
P/BV (x)	17.2	17.0	8.8	5.5	4.2

## Fwd PER Band



## Fwd PBV Band



Source: Kenanga Research, Bloomberg

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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.			
<b>RUBBER GLOVES</b>																	
HARTALEGA HOLDINGS BHD	10.14	34,750	Y	03/2021	181%	36%	655%	55%	77.7	10.5	6.8	13.3	8.9	103%	5.7%	17.00	OP
KOSSAN RUBBER INDUSTRIES	3.66	9,339	Y	12/2021	106%	-34%	147%	-52%	8.6	3.5	7.3	3.9	2.2	80%	8.2%	6.00	OP
SUPERMAX CORP BHD	4.87	12,748	Y	06/2021	254%	-25%	674%	-46%	25.5	3.3	6.2	8.4	3.1	137%	10.1%	7.80	OP
TOP GLOVE CORP BHD	5.40	43,222	Y	08/2021	242%	-41%	483%	-56%	23.6	4.1	9.2	8.8	5.5	167%	16.0%	6.80	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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