

13 September 2021

Top Glove Corporation

Overhang Removed with Ban Uplifted

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As per an announcement to Bursa Malaysia, Top Glove Malaysia is cleared and allowed to resume exporting and selling gloves to the U.S.A. following uplifting of the CBP ban effective 10 Sept 2021. In our view, the current share price weakness has already factored in the overly bearish take on the expected decline in ASP in coming quarters. FY21E/FY22E/FY23E net profits are downgraded by 7%/25%/31% as we tweak our assumptions. TP is also lowered marginally from RM5.60 to RM5.40 based on 16x CY22E EPS of 33.8 sen (at close to 5-year forward historical mean of 18x). We have raised our PER multiple from 12x to 16x since ASP have normalised faster-than-expected. Reiterate OP.

CBP ban uplifted, sale to US to resume. Top Glove announced that Top Glove Malaysia is cleared and allowed to resume exporting and selling gloves to U.S.A. following modification of the Finding by U.S. Customs and Border Protection (CBP) effective 10 September 2021. CBP affirmed that disposable gloves made by Top Glove in Malaysia factories would be admissible at all U.S. ports of entry as of 10 September 2021. This is a welcome news considering that North America sales of which US accounts for >90% typically accounts for 18-21% of the group's volume sales (3QFY21 North America accounts for 8%). Top Glove has embarked on a substantial investment programme to significantly improve the living quarters of its workers nationwide and is committed towards continually improving its workers' accommodations.

Outlook. Due to over-ordering over the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. In our view, the current share price level reflects an overly bearish reaction to expected decline in ASP in coming quarters ahead. We highlight that some glove manufacturers are of the view that ASP will likely normalise between USD30-35/1,000 pieces considering that the cost structure has risen amongst others including social compliance costs. A quick check from its latest presentation slides in its website revealed that the group has scaled down new capacity expansion by 14% in CY2021 which is positive. Post COVID-19, inventory restocking cycle is expected to spur demand coupled with increased usage arising from new users and increased hygiene awareness. According to Malaysian Rubber Glove Manufacturers Association, the strong demand for rubber gloves will last beyond 1Q 2022 with growth rate averaging between 15% and 20% going forward.

Our FY21E/FY22E/FY23E net profits are downgraded by 7%/25%/31% as follow; (i) FY21E - cut volume growth to 2% from 7%; (ii) FY22E - reduce EBITDA margin assumption to 34% from 41% and utilisation rate to 74% from 77%; and (iii) FY23E - reduce EBITDA margin assumption from 37% to 31% and cut volume growth to 5% from 9%.

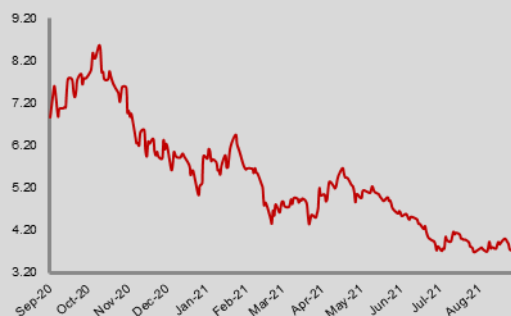
Reiterate OP. Correspondingly, we downgrade our TP from RM5.60 to RM5.40 based on 16x CY22E EPS of 33.8 sen (at close to 5-year pre-COVID forward historical mean of 18x). We have raised our PER multiple from 12x to 16x since ASP is normalising faster-than-expected. We believe the share price weakness is reflecting subsequent quarters of ASP weakness ahead and have discounted ASP moving towards normalisation.

A key downside risk to our call is lower-than-expected ASP in 2022.

OUTPERFORM ↔

Price : RM3.43
Target Price : RM5.40 ↓

Share Price Performance



KLCI	1,575.97
YTD KLCI change	-3.1%
YTD stock price change	-43.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK EQUITY
Market Cap (RM m)	27,464.2
Shares Outstanding	8,007.1
52-week range (H)	9.61
52-week range (L)	3.38
3-mth avg daily vol:	20,033,110
Free Float	48%
Beta	1.1

Major Shareholders

Tan Sri Dr Lim Wee Chai	26.9%
Firstway United Corp	6.9%
Employees Provident Fund	6.2%

Summary Earnings Table

FY Aug (RM m)	2021E	2022E	2023E
Turnover	17721	12277	10509
PBT	10775	3837	2845
Net Profit (NP)	8581	3029	2233
Core NP	8581	3029	2233
Consensus NP	8878	3384	2067
Earnings Revision	-7%	-25%	-31%
EPS (sen)	105.0	37.1	27.3
EPS growth (%)	359.6	(65.3)	(26.3)
NDPS (sen)	71.6	18.5	13.7
BVPS (RM)	0.85	1.04	1.18
PER (x)	3.3	9.3	12.5
PBV (x)	4.0	3.3	2.9
Net gearing (x)	Net Cash	Net	Net
		Cash	Cash
Net Div. Yield (%)	20.9	5.4	4.0

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Income Statement

FY Aug (RM m)	2019A	2020A	2021E	2022E	2023E
Revenue	4801.8	7,236.3	17,721	12,277	10,509
EBITDA	706.8	2,583.7	11,048	4,130	3,158
Depreciation	-156.6	(198.6)	(219)	(239)	(259)
PBT	430.7	2,301.4	10,775	3,837	2,845
Taxation	-57.1	(397.6)	(2,155)	(767)	(569)
MI	-3.0	(36.8)	(39)	(41)	(43)
Net Profit	370.6	1,867.0	8,581	3,029	2,233

Balance Sheet

FY Aug (RM m)	2019A	2020A	2021E	2022E	2022E
PPE	2463.5	3034.8	3184.8	3334.8	3484.8
Subs. & Assoc.	252.2	183.7	183.7	183.7	183.7
Inventories	615.2	525.6	1287.2	891.8	763.4
Receivables	596.5	803.1	2469.6	2915.4	2915.4
Other assets	1562.6	2915.4	2581.9	4036.2	5206.3
Cash	158.8	1210.4	11673.7	12724.3	13719.8
Total Assets	5648.8	8672.9	3184.8	3334.8	3484.8
LT borrowings	1378.8	217.6	216.4	216.4	216.4
ST borrowings	1041.8	323.3	323.3	323.3	323.3
Payables	518.8	670.7	1642.4	1137.9	974.0
Other liabilities	266.1	1151.8	1151.8	1151.8	1151.8
Minorities	17.1	1320.6	1359.5	1400.0	1442.6
Net Assets	2426.2	4988.9	6980.3	8494.8	9611.5
Share capital	788.3	1675.7	1675.7	1675.7	1675.7
Reserves	1637.8	3313.2	5304.6	6819.1	7935.8
Equity	2426.2	4988.9	6980.3	8494.8	9611.5

Cashflow Statement

FY Aug (RM m)	2019A	2020A	2021E	2022E	2022E
Operating CF	509.0	3,171.3	8,814	3,265	2,475
Investing CF	(502.4)	(2,083)	(775)	(457)	(190)
Financing CF	(13.0)	(43.7)	(6,611)	(1,298)	(1,059)
Change In Cash	(6.4)	1,044.6	1,427	1,510	1,226

Financial Data & Ratios

FY Aug	2019A	2020A	2021E	2022E	2022E
Growth					
Turnover	13.9%	50.7%	144.9%	-30.7%	-14.4%
EBITDA	0.6%	265.6%	327.6%	-62.6%	-23.5%
Operating Profit	-8.0%	359.0%	361.1%	-64.1%	-25.5%
PBT	-17.6%	434.3%	368.2%	-64.4%	-25.9%
Core Net Profit	-14.5%	403.7%	359.6%	-64.7%	-26.3%

Profitability

EBITDA Margin	14.7%	35.7%	62.3%	33.6%	30.0%
Operating Margin	10.7%	32.5%	61.1%	31.7%	27.6%
PBT Margin	9.0%	31.8%	60.8%	31.3%	27.1%
Core Net Margin	7.7%	25.8%	48.4%	24.7%	21.3%
Effective Tax Rate	13.3	17.3	20.0	20.0	20.0
ROA	4.5%	24.8%	128.4%	55.9%	61.0%
ROE	15.3%	50.4%	143.4%	39.1%	24.7%

DuPont Analysis

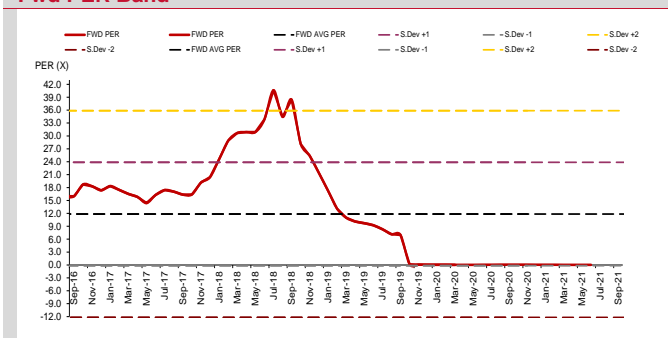
Net Margin (%)	7.7	25.8	48.4	24.7	21.3
Assets T/O (x)	1.2	1.2	0.7	1.0	1.3
ROE (%)	15.3	50.4	143.4%	39.1%	24.7%

Valuations

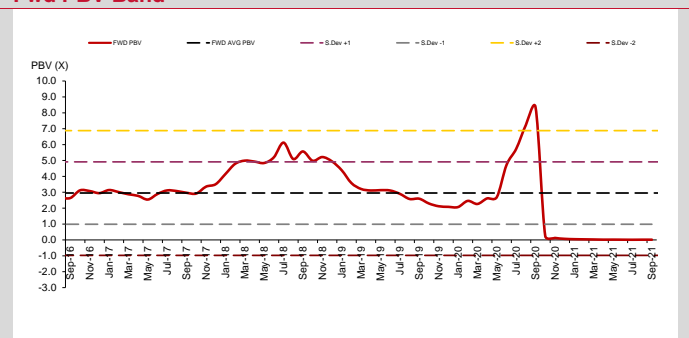
EPS (sen)	14.5	22.9	105.0	37.1	27.3
NDPS	8.5	11.4	71.6	18.5	13.7
BVPS (RM)	0.32	0.61	0.85	1.04	1.18
PER (x)	70.7	15.0	3.3	9.3	12.5
Net div (%)	2.5	3.3	20.9	5.4	4.0
P/BV (x)	10.8	5.6	4.0	3.3	2.9

Source: Kenanga Research, Bursa Malaysia

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.			
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	6.39	21,838	Y	03/2021	52%	-29%	49%	-42%	7.5	5.0	8.6	4.4	3.2	74%	12%	11.35	OP
KOSSAN RUBBER INDUSTRIES	2.82	7,196	Y	12/2021	106%	-34%	210%	-62%	6.6	2.1	5.6	3.0	1.5	93%	12%	5.00	OP
SUPERMAX CORP BHD	2.83	7,408	Y	06/2021	-24%	-30%	-47%	-51%	2.0	3.8	7.7	1.6	1.3	37%	9%	5.00	OP
TOP GLOVE CORP BHD	3.43	27,464	Y	08/2021	145%	-31%	360%	-65%	15.0	3.3	9.3	5.6	4.0	143%	21%	5.40	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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