

20 September 2021

Top Glove Corporation

FY21 Below Expectations, ASP normalising

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FY21 PATAMI of RM7.9b (+349% YoY) came in below expectations at 92%/91% of our/consensus full-year forecasts. The negative variance from our forecast is due to lower-than-expected ASP. FY22E/FY23E net profits are downgraded by 32%/21% as we tweak our assumptions. We now assume ASP of USD32/USD29 per 1,000 pieces in our FY22E/FY23E earnings model. TP is also lowered from RM5.40 to RM3.60 based on 15x CY22E EPS of 24.0 sen (at -0.5 SD below pre-COVID 5-year forward historical mean). Reiterate OP.

QoQ, 4QFY21 revenue fell 49% due to lower ASP (-31%) and volume sales (-20%). The lower QoQ sales volume was due to the absence of sales to the U.S., following a temporary halt in shipments to the U.S. from Malaysia, in compliance with requirements of the U.S. Customs and Border Protection which has since been uplifted effective Sept 10 as well as customers adopting a 'wait and see' approach in anticipation of normalizing ASP and absence of restocking. EBITDA margin fell 27ppt to 38% from 65% due to raw material price not adjusting down as fast as the falling ASP and higher average cost due to production disruption from the pandemic. This brings 4QFY21 PATAMI to RM608m (-70%). A 4th interim and special dividend totalling 5.4 sen was declared, bringing FY21 DPS to 65.1 sen, below our estimate due to the poorer-than-expected results.

YoY, FY21 revenue rose 126% due to higher ASP (+130%) more than offsetting lower volume sales (-2%). This propelled FY21 PATAMI higher by 349%.

Outlook. Key takeaways from the conference call are as follow: (i) management expects ASP to normalise in 1HFY22, (ii) the group expects raw material nitrile cost to taper off in coming months, (iii) management confident of 10%-15% gloves demand growth per annum compared to pre-COVID of 8% due to the increased awareness of hygiene, and (iv) due to the higher cost of operations, raw material nitrile and social compliance costs, the group expects ASP to be higher than pre-COVID levels. Due to over-ordering in the past 15 months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. We highlight that some glove manufacturers are of the view that ASP will likely normalise at USD30/1,000 pieces considering that the cost structure has risen amongst others including social compliance costs. A quick check from its latest presentation slides revealed that the group has scaled down new capacity expansion by 14% in CY2022 which is positive towards a more disciplined capacity expansion. Post COVID-19, inventory restocking cycle is expected to spur demand coupled with increased usage arising from new users and increased hygiene awareness.

Our FY22E/FY23E net profits are downgraded by 32%/21% as follow; (i) FY22E – ASP cut from USD37 to USD32 per 1,000 pieces and reduce EBTDA margin to 28% from 34%; and (ii) FY23E – cut EBITDA margin assumption to 25% from 34% based on ASP of USD29/1,000 pieces. As comparison, the pre-Covid EBITDA margin was in the range of 14-18%

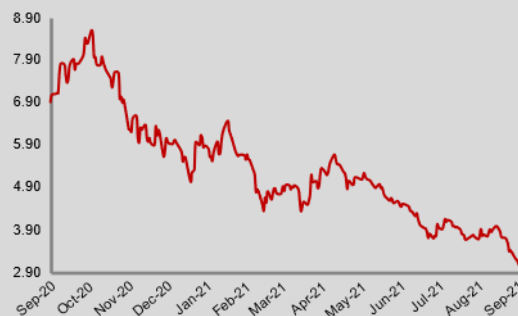
Reiterate OP. Correspondingly, we downgrade our TP from RM5.40 to RM3.60 based on 15x CY22E EPS of 24.0 sen (at -0.5 SD below pre-COVID 5-year forward historical mean). As we find the rationale to a HK listing questionable - a lower PE market and risk of dilutive impact being two concerns – we attach a 0.5 SD below mean PE to arrive at our TP.

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

OUTPERFORM ↔

Price: RM3.06
Target Price: RM3.60 ↓

Share Price Performance



KLCI	1,548.51
YTD KLCI change	-4.8%
YTD stock price change	-49.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK EQUITY
Market Cap (RM m)	24,501.6
Shares Outstanding	8,007.1
52-week range (H)	9.61
52-week range (L)	2.95
3-mth avg daily vol:	20,241,910
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)	2021A	2022E	2023E
Turnover	16403	10758	10509
PBT	10143	2737	2363
Net Profit (NP)	7871	2070	1765
Core NP	7871	2070	1765
Consensus NP	-	2975	1827
Earnings Revision	-	-32%	-21%
EPS (sen)	97.9	25.2	21.5
EPS growth (%)	328.4	(74.2)	(14.7)
NDPS (sen)	66.9	12.6	10.8
BVPS (RM)	0.74	0.80	0.91
PER (x)	3.1	12.1	14.2
PBV (x)	4.1	3.8	3.4
Net gearing (x)	Net Cash	Net	Net
		Cash	Cash
Net Div. Yield (%)	21.9	4.1	3.5

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Result Highlight								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Aug (RM m)	FY21	FY21	Chg %	FY20	Chg %	FY20	FY21	Chg %
Turnover	2,116.4	4,162.7	(49.2)	3,110.2	(32.0)	7,237.4	16,402.9	126.6
EBITDA	808.6	2,683.5	(69.9)	1,557.5	(48.1)	2,583.7	10,453.6	304.6
EBIT	730.7	2,604.0	(71.9)	1,492.1	(51.0)	2,348.5	10,145.1	332.0
PBT	729.5	2,603.5	(72.0)	1,487.7	(51.0)	2,165.6	10,142.6	368.4
PATAMI (NP)	607.9	2,036.1	(70.1)	1,177.6	(48.4)	1,752.6	7,870.8	349.1
EPS (sen)	7.6	24.8	(69.4)	14.5	485.3	22.0	97.9	345.7
EBITDA margin (%)	38.2	64.5		50.1		35.7	63.7	
PBT margin (%)	34.5	62.5		47.8		31.8	61.8	
NP margin (%)	28.7	48.9		37.9		25.8	48.0	
Effective tax rate (%)	13.4	20.7		18.6		17.3	21.3	

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	6.40	21,872	Y	03/2022	52%	-29%	49%	-42%	7.5	5.0	8.6	4.4	3.2	73.9%	11.9%	11.35	OP
KOSSAN RUBBER INDUSTRIES	2.60	6,634	Y	12/2021	106%	-34%	210%	-62%	6.1	2.0	5.2	2.8	1.4	93.0%	13.5%	5.00	OP
SUPERMAX CORP BHD	2.58	6,754	Y	06/2022	-24%	-30%	-47%	-51%	1.8	3.5	7.0	1.5	1.1	37.3%	9.7%	5.00	OP
TOP GLOVE CORP BHD	3.06	24,502	Y	08/2022	-34%	-2%	-74%	-15%	3.2	12.1	14.2	4.2	3.8	32.9%	4.1%	3.60	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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