

21 March 2024

# Top Glove Corporation

## Hoping to Turn Around in Two Quarters

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**TOPGLOV's 1HFY24 results missed expectations due to weak margins. It reiterated that the current business landscape remains challenging and it is hoping that it would return to profitability either in 4QFY24 or FY25. We now forecast a net loss of RM127m in FY24F (from a profit). No changes to our TP of RM0.75 and UNDERPERFORM call.**

TOPGLOV's 1HFY24 results disappointed, registering a net loss of RM109m compared to our full-year net profit forecast of RM40m and the full-year consensus net loss estimate of RM69m. The variance from our forecast was due to a lower-than-expected margins

**QoQ**, its 2QFY24 revenue rose 12% due to a higher sales volume (+18%) which more than offset lower ASP (-5%). Its EBITDA remains weak albeit improved from low base to RM31m compared to RM21m in 1QFY24 due to: (i) inability to fully pass cost through arising from higher input natural latex price (+15%) and nitrile butadiene rubber (+3%), and (ii) sustained poor economies of scale/cost absorption as its utilisation rate hovered at a depressed level of 45%. At the net level, its 2QFY24 losses narrowed marginally to RM51m compared to RM57m in 1QFY24. **YoY**, its 1HFY24 revenue fell 17% due to a lower ASP (-8%) and sales volume (-12%). At the net level, its 1HFY24 losses narrowed to RM109m compared to RM333m in 1HFY23. No dividend was declared this quarter as expected.

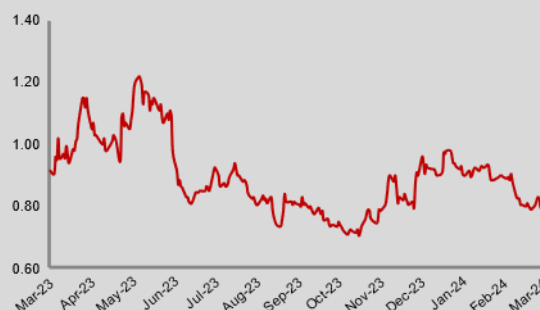
The key takeaways from the analysts briefing yesterday are as follows:

1. It reiterated that the current business landscape remains challenging and it is hoping that it would return to profitability in two quarters, either in 4QFY24 or FY25.
2. The Group is optimistic that the strong growth momentum will sustain, as customers continue replenishing their depleting glove stockpiles. The group continues to see MoM uptrend in sales volume in March 2024 and expect customers' replenishment activity to pick up in subsequent quarters, underpinned by inventory rebuilding from distributors, indicating early signs of potential recovery in demand. It has seen sales order rising 30%-40% MoM. However, we expect volatile quarterly sales order as distributors or buyers sees no urgency to place sizeable orders or hold substantial stocks as supply is plentiful and readily available.
3. Moving into 2QCY24, we expect input latex price to rise because of low production during the wintering months (between Dec till May), while nitrile butadiene rubber prices have moved up since 4QCY23 (YTD CY24: +8%). It indicated that it is increasing ASP starting from April 2024 due to the rising input costs, but stop short of revealing the quantum increase. On the contrary, industry players are mindful that the prospect of raising ASP further in subsequent quarters is challenging due to the current massive overcapacity situation, with only a handful of customers agreeing thus far. However, due to the current competitive pressure emanating from massive oversupply and low industry utilisation averaging 40%, customers can walk away and choose to buy from other players whenever there is an attempt to raise prices.

## UNDERPERFORM ↔

**Price:** RM0.86  
**Target Price:** RM0.75 ↔

### Share Price Performance



KLCI	1,535.79
YTD KLCI change	5.6%
YTD stock price change	-4.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK Equity
Market Cap (RM m)	6,887.1
Shares Outstanding	8,008.2
52-week range (H)	1.25
52-week range (L)	0.70
3-mth avg daily vol:	36,073,700
Free Float	42%
Beta	1.3

### Major Shareholders

Tan Sri Dr Lim Wee Chai	27.9%
Central Depository Pte Ltd	9.5%
Firstway United Corp	6.9%

### Summary Earnings Table

FY Aug (RM m)	2023A	2024F	2025F
Turnover	2257	3253	3424
PBT	-898	-95	145
<b>Net Profit / (loss)</b>	-927	-127	65
<b>Core NP</b>	-927	-127	65
Consensus NP	-	-69	171
Earnings Revision	-	-	-
EPS (sen)	-11.6	-1.6	0.8
EPS Growth (%)	(503.1)	(86.6)	(151.4)
NDPS (sen)	-5.7	0.0	0.4
BVPS (RM)	0.58	0.57	0.56
PER (x)	(7.8)	(58.3)	107.8
PBV (x)	1.6	1.6	1.6
Net gearing (x)	Net cash	Net cash	Net cash
Net Div. Yield (%)	-	-	0.4

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**Outlook.** The group expect the current challenging operating environment to persist and only expect a likelihood of a meaningful recovery to take place only sometime in 2025. We expect the operating environment to remain challenging in subsequent quarters, plagued by massive oversupply. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in CY26 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness. MARGMA projects 12%–15% growth in the global demand for rubber gloves annually from CY23, following an estimated 25% contraction to 300b pieces in CY23. We project the demand for gloves to rise by 30% in CY24 to 390b pieces (due to a low base effect in CY23) and resume its organic growth of 15% thereafter. This will result in an excess capacity of 212b pieces in CY24. The overcapacity still persists which means low prices and depressed plant utilisation will continue to plague the industry in CY24.

**Forecasts.** We now forecast a net loss of RM127m in FY24 (from RM40m profit) as we reduce our EBITDA margin to 6% from 10%. We maintain our FY25F numbers.

**Valuations.** However, we maintain our TP of RM0.75 based on 1.3x FY24F BVPS, at a 40% discount to the sector's average of 1.7x seen during the last downturns in 2008-2011 and 2014-2015 as we believe the current downturn could go down in history as one of the deepest ever. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3). Maintain **UNDERPERFORM**.

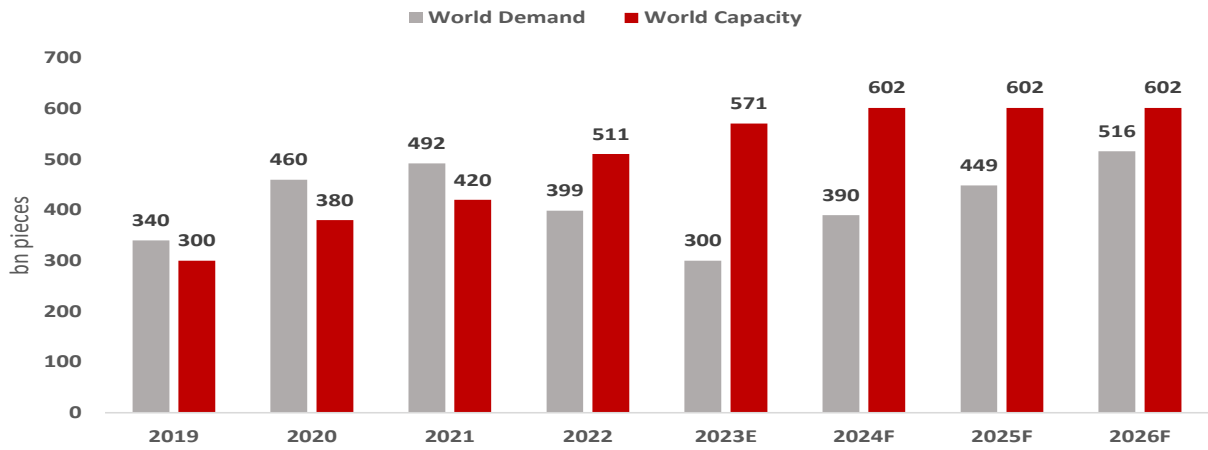
**Key risks to our recommendation include:** (i) certain Chinese glove giants stop predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), leading to a strong earnings rebound for the sector, (ii) stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, (iii) industry consolidation reducing competition among players, and (iv) epidemic and pandemic occurrences.

### Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Aug (RM m)	FY24	FY24	Chg %	FY23	Chg %	FY23	FY24	Chg %
Turnover	550.3	493.5	11.5	618.0	(11.0)	1,250.5	1,043.8	(16.5)
EBITDA / (LBITDA)	30.6	21.3	43.4	(54.3)	(156.3)	(115.9)	51.9	(144.8)
EBIT (LBIT)	(41.6)	(50.9)	(18.3)	(142.8)	(70.9)	(292.4)	(92.5)	(68.4)
PBT / (LBT)	(43.1)	(52.9)	(18.5)	(145.9)	(70.5)	(297.6)	(95.9)	(67.8)
Net profit / (loss)	(51.2)	(57.7)	(11.3)	(164.7)	(68.9)	(332.9)	(108.9)	(67.3)
EPS / (LPS) (sen)	-0.6	-0.7	(87.5)	(2.0)	(64.9)	-4.2	-1.4	(67.3)
EBITDA margin (%)	5.6	4.3		-8.8		-9.3	5.0	
PBT margin (%)	-7.8	-10.7		-23.6		-23.8	-9.2	
NP margin (%)	-9.3	-11.7		-26.6		-26.6	-10.4	
Effective tax rate (%)	NM	NM		-6.2		NM	NM	

Source: Company, Kenanga Research, Bursa Malaysia

**Estimated Global Demand/Supply - Excess Supply over CY22-CY25**



Source: Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	☆		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	☆	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★		
	Automation & Innovation	★	★	★	☆	
	Energy Efficiency	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Legal & Regulatory Compliance	★				
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
HARTALEGA HOLDINGS BHD	UP	2.67	2.33	-13%	9,152	Y	03/2024	1.2	1.5	-81%	19%	215.1	180.8	1.9	0.9%	0.0	0.0%
KOSSAN RUBBER INDUSTRIES	UP	1.93	1.48	-23%	4,937	Y	12/2024	4.7	4.9	140%	5%	41.5	39.5	1.3	3.1%	2.0	1.0%
SUPERMAX CORP BHD	UP	0.855	0.840	-2%	2,326	N	06/2024	(0.2)	0.7	-103%	265%	N.A.	122.4	0.5	-0.1%	0.0	0.0%
TOP GLOVE CORP BHD	UP	0.860	0.750	-13%	7,059	Y	08/2024	(1.6)	0.8	-114%	-49%	N.A.	107.8	1.5	-2.7%	0.0	0.0%

Source: 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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