

## HLIB Research

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## SELL (Maintain)

**Target Price:** RM0.53  
**Previously:** RM0.54  
**Current Price:** RM0.785

Capital upside	-32.5%
Dividend yield	0.6%
Expected total return	-31.9%

**Sector coverage:** Rubber Gloves

**Company description:** Top Glove is the biggest producer of rubber gloves in Malaysia by volume.

### Share price



Historical return (%)	1M	3M	12M
Absolute	-23.0	0.0	-60.8
Relative	-24.0	-1.0	-60.8

### Stock information

Bloomberg ticker	TOPG MK
Bursa code	7113
Issued shares (m)	8,007
Market capitalisation (RM m)	6,286
3-mth average volume ('000)	85,012
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

### Major shareholders

Lim Wee Chai	27.8%
Central Depository Pte Ltd	7.7%
Firstway United Corp	6.9%

### Earnings summary

FYE (Aug)	FY22	FY23f	FY24f
PATMI – core (RM m)	165.9	-274.2	74.4
EPS – core (sen)	2.7	-3.3	0.9
P/E (x)	28.6	NM	86.6

# Top Glove

## Deep in the red

Top Glove reported core LATAMI of -RM142.8m in 1QFY23 (4QFY22: -RM80.7m, 1QFY22: RM172.9m). The disappointing set of results came in below both our (RM175.7m) and consensus (RM175.2m) full year forecasts. Discrepancy in our forecast was due to lower-than-expected revenue and higher-than-expected operating costs. We cut our earnings forecasts for FY23f/24f to -RM274.2m/RM74.4m and introduce FY25f profit projection of RM182m. Considering that we are expecting Top Glove to report losses in FY23f, we deem our prior P/E valuation method to be no longer suiting. Therefore, we are changing our valuation methodology to a P/B based valuation instead. We ascribe a P/B multiple of 0.8x (close to -2SD of its 5-year pre-pandemic average) on its FY23f BVPS of RM0.66, arriving at a TP of RM0.53. Reiterate SELL.

**Fell short of expectations.** Top Glove reported core LATAMI of -RM142.8m in 1QFY23 (4QFY22: -RM80.7m, 1QFY22: RM172.9m). Results came in below both our (RM175.7m) and consensus (RM175.2m) full year estimates. The disappointment was due to lower-than-expected revenue and higher-than-expected operating costs. Core LATAMI was arrived at after adjusting EIs (mainly forex losses) totalling to RM25.4m.

**Dividend.** None declared (1QFY22 DPS: 1.2 sen).

**QoQ.** Revenue was 36.1% lower, due to softer ASPs (-8%) and weaker sales volume (-32%) amidst persistent demand-supply imbalance for gloves. ASPs for all variants of gloves recorded a decline, with the exception of surgical gloves that saw a 5% QoQ increase (supported by increase in surgeries performed). Despite lower latex concentrate (-19%) and nitrile butadiene (-13%) prices, the increase in natural gas costs and lower utilisation rate drove production cost per piece of glove higher. Utilization rate has fallen to c.30% (vs c.40-45% in 4QFY22). As a result of operating leverage effect, core LATAMI widened to -RM142.8m (vs 4QFY22 of -RM80.7m).

**YoY.** Revenue slid 60.7%, owing to weaker sales volume (-48%) and normalising ASPs (-34%). Softer glove demand also resulted in declining raw material prices (latex concentrate -7%, nitrile butadiene -49%). Despite falling raw material prices, lower utilisation rate (c.30% in 1QFY23 vs c.50% in 1QFY22) and higher operating costs (mainly labour costs and fuel costs) have compressed margins, leading to a core LATAMI of -RM142.8m (vs 1QFY22: RM172.9m).

**Outlook.** We believe Top Glove's initial plan to revise ASP upwards (to pass on part of the cost increase) in 1QFY23 was met with strong resistance from buyers, as evident by the 33% decline in nitrile glove sales volume. This also signifies that the competition is showing no signs of easing at the moment. Moving forward, Top Glove will focus on preserving its utilisation rates, with a target to achieve c.40% in 2QFY23. Although boosting utilisation rates would improve overall operational efficiency, we highlight that the higher expected volumes in the coming quarter would be achieved at the expense of ASPs.

**Forecast.** We cut our earnings forecasts for FY23f/24f to -RM274.2m/RM74.4m (from RM189.8m/RM384.5m), as we lower our utilisation rate assumption and raise operating cost. We also introduce FY25f profit projection of RM182m.

**Maintain SELL, TP lowered to RM0.53.** We deem the P/E valuation method to be no longer feasible to value Top Glove, as we are expecting the company to be loss making in FY23f. Therefore, we change our valuation method to a P/B-based methodology instead, valuing it at a P/B multiple of 0.8x (at close to -2SD to its 5-year pre-pandemic average), on its FY23f BVPS of RM0.66. As a result, our TP is lowered slightly to RM0.53 (from RM0.54 previously). Maintain SELL on Top Glove.

## Top Glove Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Aug	FY21	FY22	FY23f	FY24f	FY25f
Cash	878.4	437.6	642.4	873.0	1,197.6
Receivables	566.3	258.8	294.4	406.9	507.5
Inventories	1,144.7	575.3	513.4	654.8	801.5
PPE	3,958.7	4,522.2	4,210.9	4,038.2	3,854.1
Others	3,234.3	2,322.9	2,312.9	2,303.5	2,294.4
<b>Assets</b>	<b>9,782.4</b>	<b>8,116.7</b>	<b>7,974.1</b>	<b>8,276.4</b>	<b>8,655.2</b>
Payables	692.4	459.4	450.1	563.7	691.7
Debt	458.7	399.1	349.1	449.1	549.1
Others	1411.2	465.0	465.0	465.0	465.0
<b>Liabilities</b>	<b>2,562.3</b>	<b>1,323.5</b>	<b>1,264.2</b>	<b>1,477.8</b>	<b>1,705.8</b>
Shareholder's equity	5,872.4	5,579.2	5,455.8	5,489.3	5,571.2
Minority interest	1,347.8	1,214.0	1,254.0	1,309.3	1,378.2
<b>Equity</b>	<b>7,220.2</b>	<b>6,793.2</b>	<b>6,709.8</b>	<b>6,798.6</b>	<b>6,949.4</b>

### Income Statement

FYE Aug	FY21	FY22	FY23f	FY24f	FY25f
Revenue	16,361.4	5,572.3	3,976.9	5,495.9	6,855.5
EBITDA	10,179.0	579.5	76.6	531.4	690.4
EBIT	9,890.5	253.7	-284.7	158.7	306.3
Finance cost	-4.2	-4.4	-3.9	-5.0	-6.1
Associates & JV	2.6	-3.7	0.0	0.0	0.0
Profit before tax	9,997.9	358.4	-285.6	158.1	306.0
Tax	-2,209.8	-76.8	51.4	-28.5	-55.1
Net profit	7,788.0	281.6	-234.2	129.6	250.9
Minority interest	-113.7	-56.0	-40.0	-55.3	-68.9
<b>Reported PATAMI</b>	<b>7,674.4</b>	<b>225.6</b>	<b>-274.2</b>	<b>74.4</b>	<b>182.0</b>
<b>Core PATAMI</b>	<b>7,638.4</b>	<b>165.9</b>	<b>-274.2</b>	<b>74.4</b>	<b>182.0</b>
Consensus			175.7	312.9	414.8
HLIB/Consensus			NM	24%	44%

### Cash Flow Statement

FYE Aug	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	10,033.8	358.4	-285.6	158.1	306.0
D&A	308.7	348.2	371.2	382.2	393.1
Working capital	-791.9	-92.1	17.0	-140.3	-119.4
Taxation	-1,840.1	-719.0	51.4	-28.5	-55.1
Others	116.4	283.4	0.0	0.0	0.0
<b>CFO</b>	<b>7,826.9</b>	<b>178.8</b>	<b>154.0</b>	<b>371.5</b>	<b>524.6</b>
Capex	-1,334.0	-949.4	-50.0	-200.0	-200.0
Others	-86.1	-1,081.8	0.0	0.0	0.0
<b>CFI</b>	<b>-1,247.9</b>	<b>132.4</b>	<b>-50.0</b>	<b>-200.0</b>	<b>-200.0</b>
Changes in debt	27.1	-18.9	-50.0	100.0	100.0
Shares issued	-356.7	-64.1	0.0	0.0	0.0
Dividends	-5,474.1	-528.6	150.8	-40.9	-100.1
Others	-1,098.7	-128.8	0.0	0.0	0.0
<b>CFF</b>	<b>-6,902.3</b>	<b>-740.3</b>	<b>100.8</b>	<b>59.1</b>	<b>-0.1</b>
<b>Net cash flow</b>	<b>-323.3</b>	<b>-429.1</b>	<b>204.8</b>	<b>230.6</b>	<b>324.6</b>
Forex & Others	-6.5	-12.6	0.0	0.0	0.0
Beginning cash	1,204.9	875.2	433.4	638.3	868.8
Ending cash	878.4	437.6	642.4	873.0	1,197.6

### Valuation & Ratios

FYE Aug	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	93.5	2.7	-3.3	0.9	2.2
P/E (x)	0.8	28.6	NM	86.6	35.4
EV/EBITDA (x)	0.6	10.2	76.9	11.1	8.5
DPS (sen)	65.1	1.2	0.0	0.5	1.2
Dividend yield (%)	82.9	1.5	0.0	0.6	1.6
BVPS (RM)	0.7	0.7	0.7	0.7	0.7
P/B (x)	1.1	1.2	1.2	1.2	1.2
EBITDA margin	62.2%	10.4%	1.9%	9.7%	10.1%
EBIT margin	60.4%	4.6%	-7.2%	2.9%	4.5%
PBT margin	61.1%	6.4%	-7.2%	2.9%	4.5%
Net margin	46.9%	4.0%	-6.9%	1.4%	2.7%
ROE	130.7%	4.0%	-5.0%	1.4%	3.3%
ROA	78.5%	2.8%	-3.4%	0.9%	2.1%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

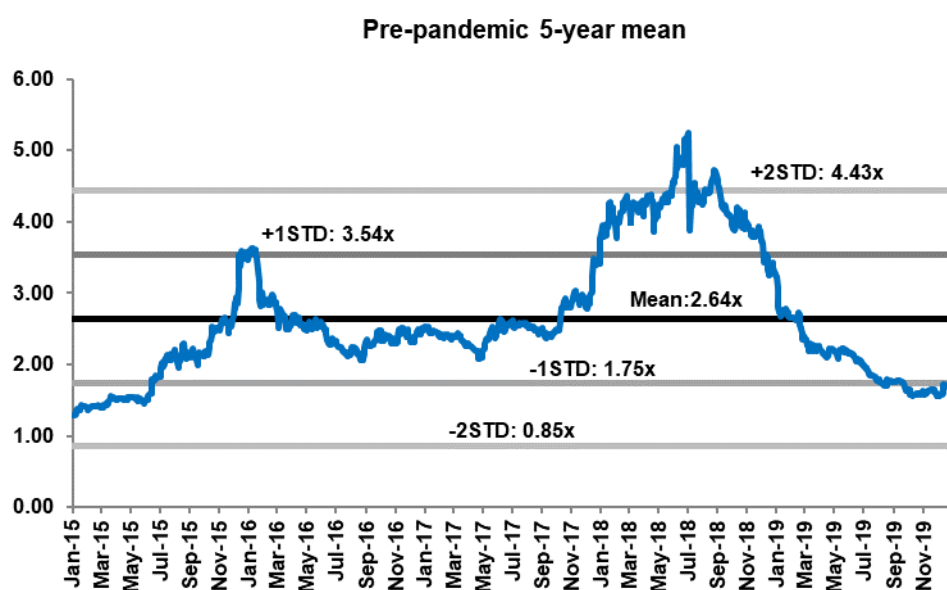
### Assumptions

FYE Aug	FY23f	FY24f	FY25f
Utilization rate	45%	60%	70%
MYRUSD	4.34	4.30	4.25

**Figure #1** Quarterly results comparison

FYE Aug (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	1,611.1	990.1	632.5	-36.1	-60.7
EBITDA	331.4	20.3	-36.2	NM	NM
EBIT	247.8	-69.4	-124.2	79.0	NM
PBT	246.1	-72.1	-126.2	75.0	NM
PAT	189.6	-69.8	-132.2	89.3	NM
<b>Core PATAMI</b>	<b>172.9</b>	<b>-80.7</b>	<b>-142.8</b>	<b>-77.0</b>	<b>NM</b>
Core EPS (Sen)	2.1	-1.0	-1.7	-77.0	NM
EBITDA margin (%)	20.6	2.1	-5.7	-7.8	-26.3
EBIT margin (%)	15.4	-7.0	-19.6	-12.6	-35.0
PBT margin (%)	15.3	-7.3	-20.0	-12.7	-35.2
Core PATMI margin (%)	10.7	-8.1	-22.6	-14.4	-33.3

**Figure #2** P/B Band, CY15 to CY19



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<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12-months.
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