



AmInvestment Bank

## Company report

## TOP GLOVE CORP

(TOPG MK EQUITY, TPGC.KL)

15 Dec 2022

## Losses widened in 1QFY23

SELL

(Maintained)

## AmInvestment Bank

Team Coverage

03-2036 2290

## Rationale for report: Company results

Price	RM0.785
Fair Value	RM0.60
52-week High/Low	RM2.59/RM0.57

## Key Changes

Fair value	↔
EPS	⬇️

YE to Aug	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	5,572.5	5,458.2	7,644.1	9,623.2
Core net profit (RM mil)	408.0	(132.2)	245.2	313.2
FD Core EPS (sen)	5.1	(1.7)	3.1	3.9
FD Core EPS growth (%)	(94.7)	(132.4)	(285.5)	27.7
Consensus Net Profit (RM mil)	-	175.7	312.9	414.8
DPS (sen)	1.2	0.0	2.0	2.0
PE (x)	15.4	nm	25.6	20.1
EV/EBITDA (x)	7.2	26.5	8.3	7.1
Div yield (%)	1.5	(0.0)	2.5	2.5
ROE (%)	4.1	(2.4)	4.4	5.5
Net Gearing (%)	nm	nm	nm	nm

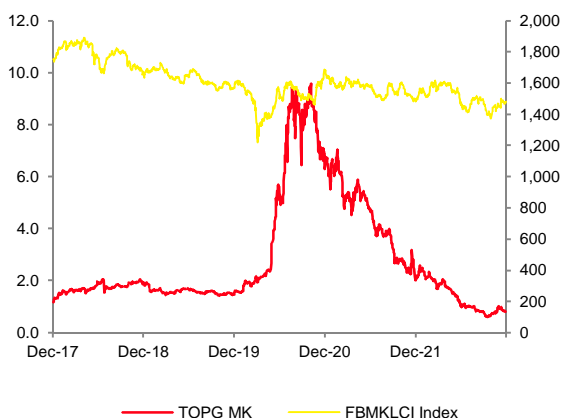
## Stock and Financial Data

Shares Outstanding (million)	8,007.3
Market Cap (RMmil)	6,285.7
Book Value (RM/share)	0.70
P/BV (x)	1.1
ROE (%)	4.1
Net Gearing (%)	nm

Major Shareholders	Tan Sri Dr Lim Wee Chai (34.7%)
	EPF (4.9%)
	OCBC Ltd (2.8%)

Free Float	44.2%
Avg Daily Value (RMmil)	65.0

Price performance	3mth	6mth	12mth
Absolute (%)	-	(23.8)	(60.8)
Relative (%)	(1.0)	(23.9)	(60.8)



## Investment Highlights

- We maintain our SELL call on Top Glove Corporation (Top Glove) with an unchanged fair value (FV) of RM0.60/share. This is pegged to a target FY24F PE of 20x, at parity to its 10-year average. There is no ESG-related FV adjustment based on our unchanged 3-star rating.
- Top Glove reported a 1QFY23 core net loss of RM134mil. This was below our expectations of a net loss of RM48.6mil for FY23F and consensus, which had predicted a net profit of RM176mil.
- The deviation came mainly from weaker than expected selling prices and demand, which resulted in a sub-optimal plant utilisation rate (PU).
- We are now expecting Top Glove to record a larger FY23F core net loss of RM132mil vs. RM48.6mil previously. We have reduced our assumptions on Top Glove's average selling price (ASP) and PU. However, we retain our FY24-25F earnings forecasts for Top Glove in view of improving supply and demand dynamics.
- No interim dividend has been declared this quarter, which is in line with our assumption. Top Glove has halted dividend payments in the short-term to preserve its cash reserves.
- On a QoQ basis, Top Glove registered a larger 1QFY23 core net loss of RM134mil (-7.6x) in tandem with the 36% drop in revenue. The weaker revenue was mainly due to an 8% decline in ASP and lower sales orders (-32%) as a result of customers holding off restocking activities. Losses also widened QoQ in 1QFY23 dragged by rising costs of gas, electricity and labour.
- The blended ASP was US\$21.5-22.5/1K pcs in 1QFY23, 8% lower than 4QFY22 (Exhibit 2). This was mainly due to aggressive pricing from local and regional competitors.
- Based on our channel checks, Malaysian glove makers are selling normal nitrile medical gloves at an ASP of US\$17-19/1K pcs in Dec vs. Chinese glove makers' US\$14-15/1K pcs (or US\$15-16/1K pcs inclusive of the 7.5% US-tariff). This implies that there could be further downside of US\$2-3/1K pcs for nitrile medical gloves.
- Top Glove's plant operated at a lower utilisation rate of 30% in 1QFY23 compared to 30-40% in 4QFY22 and 85-90% pre-pandemic (Exhibit 3). On a positive note, Top Glove received healthy orders for Dec 2022 and Jan 2023, which could increase the PU to 40%.

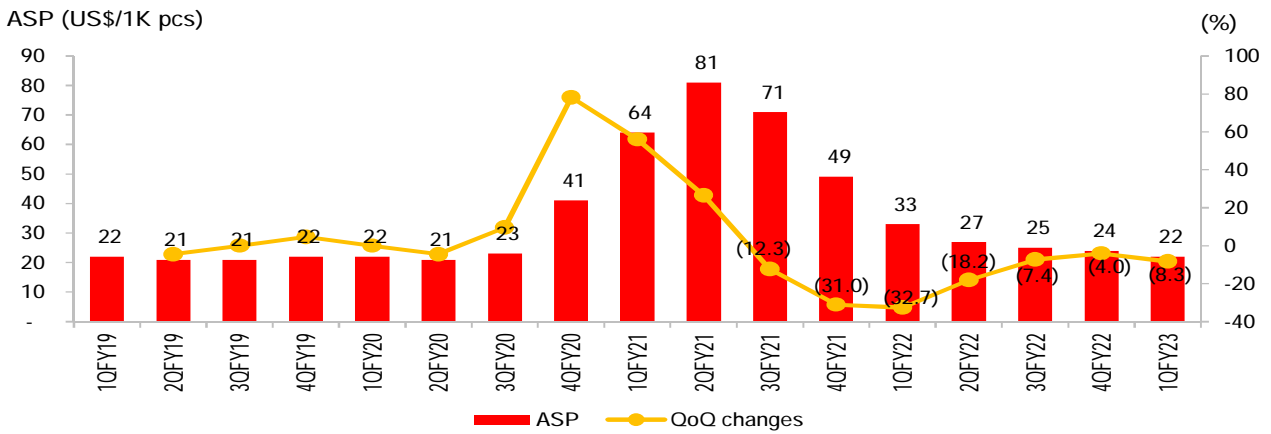
- Top Glove's EBITDA swung into the red in 1QFY23 due to the sub-optimal PU, which increased the unit cost of production. Going forward, we believe that Top Glove would be focusing on improving the utilisation rate of its plant instead of raising prices. We reckon that this would result in stiff price competition as other glove makers in Malaysia try to maintain their market share.
- On a positive note, Top Glove guided that the customer replenishment cycle will take place from 2QCY23 onwards as inventories are depleting. This would increase the PU by 10 to 20 percentage points.
- The stock currently trades at a FY24F PE of 25x, which is 25% above its 10-year average. We believe this is unjustified in view of ongoing challenges remain unabated.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
<b>Turnover</b>	<b>1,584.1</b>	<b>1,449.3</b>	<b>1,464.6</b>	<b>990.1</b>	<b>632.5</b>	<b>(36.1)</b>	<b>(60.1)</b>
Operating costs	(1,207.3)	(1,191.5)	(1,307.4)	(996.5)	(664.3)	33.3	45.0
<b>EBITDA</b>	<b>376.8</b>	<b>257.8</b>	<b>157.2</b>	<b>77.9</b>	<b>(31.8)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
Depreciation	(83.6)	(85.8)	(89.0)	(89.7)	(88.0)	1.9	(5.3)
<b>EBIT</b>	<b>293.2</b>	<b>172.0</b>	<b>68.3</b>	<b>(11.8)</b>	<b>(119.8)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
<b>Net interest</b>	<b>7.5</b>	<b>4.9</b>	<b>3.1</b>	<b>4.0</b>	<b>2.4</b>	<b>(40.7)</b>	<b>(67.9)</b>
-Interest expense	(1.1)	(0.9)	(1.0)	(1.3)	(1.9)	(42.5)	(78.0)
-Interest income	8.5	5.8	4.1	5.4	4.3	(19.9)	(49.5)
<b>Profit before EI</b>	<b>300.7</b>	<b>176.9</b>	<b>71.4</b>	<b>(7.7)</b>	<b>(117.4)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
Exceptional item	41.2	65.0	30.9	34.9	34.1	(2.1)	(17.2)
Associates contribution	(0.6)	0.4	(2.0)	(1.4)	(0.1)	93.5	85.4
<b>PBT</b>	<b>258.8</b>	<b>112.3</b>	<b>38.4</b>	<b>(44.0)</b>	<b>(151.6)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
Tax	(56.5)	(9.9)	(9.1)	2.3	(6.0)	(>100)	89.4
Perpetual Sukuk	(12.8)	(13.2)	(12.4)	(11.7)	(11.6)	1.1	9.2
MI	(3.9)	(1.6)	(1.6)	0.9	1.0	11.7	126.1
<b>Net Profit</b>	<b>185.7</b>	<b>87.5</b>	<b>15.3</b>	<b>(52.6)</b>	<b>(168.2)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
<b>Core Net Profit</b>	<b>226.9</b>	<b>152.5</b>	<b>46.2</b>	<b>(17.7)</b>	<b>(134.1)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
<b>EPS (sen)</b>	<b>2.8</b>	<b>1.9</b>	<b>0.6</b>	<b>(0.2)</b>	<b>(1.6)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>
<b>DPS (sen)</b>	<b>1.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>n/a</b>	<b>n/a</b>
<b>BV/share (RM)</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>(2.9)</b>	<b>(2.9)</b>
<b>Cash &amp; Cash Equivalents</b>	<b>1,817.1</b>	<b>1,328.6</b>	<b>1,003.7</b>	<b>950.4</b>	<b>742.5</b>	<b>(21.9)</b>	<b>(59.1)</b>
<b>Borrowings</b>	<b>439.1</b>	<b>429.2</b>	<b>440.8</b>	<b>399.1</b>	<b>383.0</b>	<b>(4.0)</b>	<b>(12.8)</b>
<b>Equity ex Perpetual Sukuk &amp; MI</b>	<b>5,609.7</b>	<b>5,621.4</b>	<b>5,644.4</b>	<b>5,590.3</b>	<b>5,421.2</b>	<b>(3.0)</b>	<b>(3.4)</b>
Net cash/(debt)	1,378.0	899.4	562.9	551.3	359.5	(34.8)	(73.9)
EBITDA margin (%)	23.8	17.8	10.7	7.9	(5.0)	-12.9ppt	-28.8ppt
Pretax margin (%)	16.3	7.7	2.6	(4.4)	(24.0)	-19.5ppt	-40.3ppt
Effective tax rate (%)	21.8	8.9	23.7	5.2	(3.9)	-9.2ppt	-25.8ppt
Net profit margin (%)	11.7	6.0	1.0	(1.8)	(26.6)	-24.8ppt	-38.3ppt

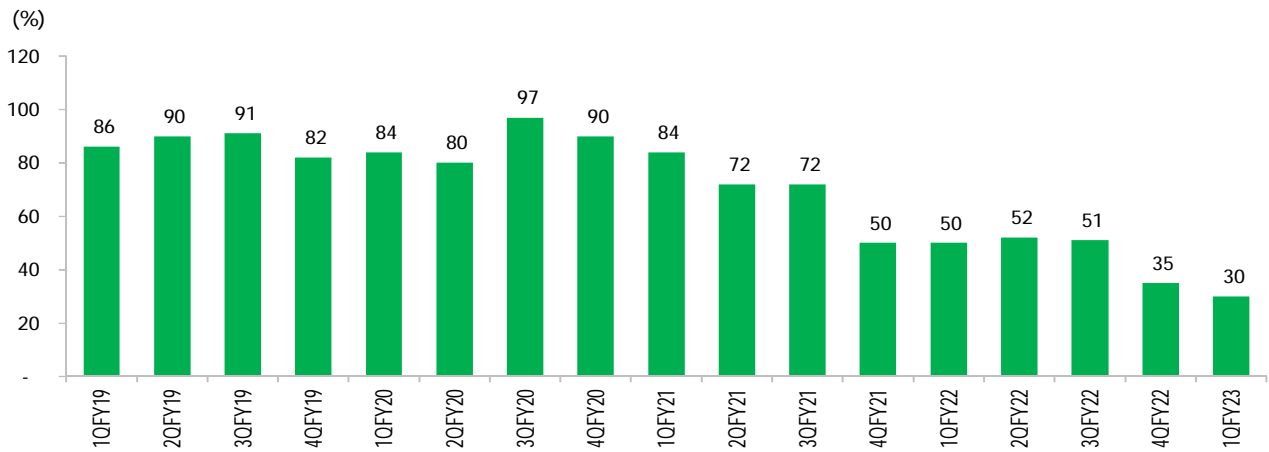
Source: AmlInvestment Bank/Bursa Malaysia/Top Glove

**EXHIBIT 2: TOP GLOVE AVERAGE SELLING PRICE TREND**



Source: Top Glove, AmlInvestment Bank

**EXHIBIT 3: TOP GLOVE PLANT UTILISATION RATE**

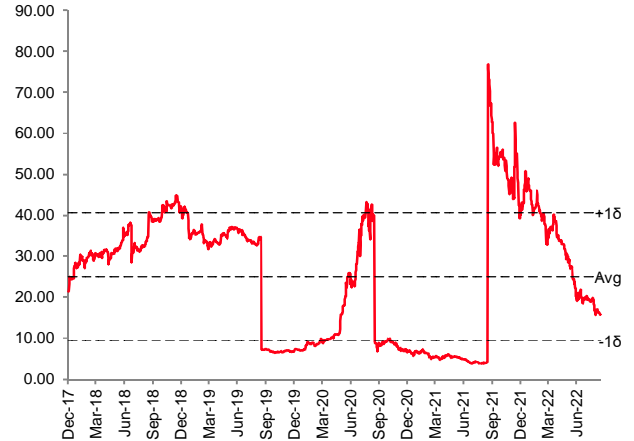


Source: Top Glove, AmlInvestment Bank

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



**EXHIBIT 6: ESG MATRIX**

<b>Overall</b>	★	★	★		
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★			
Sustainable sourcing	★	★	★		
Occupational safety + health	★	★	★		
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmInvestment Bank

## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	16,361.4	5,572.5	5,458.2	7,644.1	9,623.2
EBITDA	10,276.4	869.9	236.2	751.6	879.4
Depreciation/Amortisation	(308.7)	(348.2)	(356.4)	(390.0)	(431.0)
Operating income (EBIT)	9,967.8	521.7	(120.3)	361.5	448.5
Other income & associates	2.6	(3.7)	(3.7)	(3.7)	(3.7)
Net interest	57.4	19.5	19.4	19.3	19.1
Exceptional items	6.0	(172.0)	-	-	-
<b>Pretax profit</b>	<b>10,033.8</b>	<b>365.5</b>	<b>(104.6)</b>	<b>377.1</b>	<b>463.9</b>
Taxation	(2,209.8)	(73.2)	20.9	(75.4)	(92.8)
Minorities/pref dividends	(62.3)	(6.1)	1.7	(6.3)	(7.7)
<b>Net profit</b>	<b>7,710.3</b>	<b>236.0</b>	<b>(132.2)</b>	<b>245.2</b>	<b>313.2</b>
<b>Core net profit</b>	<b>7,704.3</b>	<b>408.0</b>	<b>(132.2)</b>	<b>245.2</b>	<b>313.2</b>
Balance Sheet (RMmil, YE 31 Aug)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	4,169.4	4,709.1	4,366.7	4,588.2	4,927.1
Intangible assets	1,008.8	1,005.3	1,005.3	1,005.3	1,005.3
Other long-term assets	258.5	259.5	259.5	259.5	259.5
<b>Total non-current assets</b>	<b>5,436.7</b>	<b>5,973.9</b>	<b>5,631.6</b>	<b>5,853.1</b>	<b>6,191.9</b>
Cash & equivalent	878.4	444.1	457.4	471.1	485.3
Stock	1,144.7	564.0	825.6	1,083.6	1,368.3
Trade debtors	566.3	236.1	576.2	737.4	876.6
Other current assets	1,756.3	847.2	697.4	378.5	38.6
<b>Total current assets</b>	<b>4,345.8</b>	<b>2,091.4</b>	<b>2,556.5</b>	<b>2,670.7</b>	<b>2,768.8</b>
Trade creditors	692.4	426.4	677.4	877.7	1,106.2
Short-term borrowings	312.7	306.1	324.5	344.0	364.6
Other current liabilities	1,193.4	209.3	111.6	139.1	170.6
<b>Total current liabilities</b>	<b>2,198.5</b>	<b>941.8</b>	<b>1,113.5</b>	<b>1,360.8</b>	<b>1,641.3</b>
Long-term borrowings	146.0	93.0	95.8	98.6	101.6
Other long-term liabilities	217.8	225.9	226.4	226.8	227.3
<b>Total long-term liabilities</b>	<b>363.8</b>	<b>318.9</b>	<b>322.1</b>	<b>325.4</b>	<b>328.9</b>
<b>Shareholders' funds</b>	<b>5,872.4</b>	<b>5,590.3</b>	<b>5,538.2</b>	<b>5,623.3</b>	<b>5,776.3</b>
Minority interests	1,295.3	1,175.7	1,175.7	1,175.7	1,175.7
BV/share (RM)	0.73	0.70	0.69	0.70	0.72
Cash Flow (RMmil, YE 31 Aug)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	10,033.8	365.5	(104.6)	377.1	463.9
Depreciation/Amortisation	308.7	348.2	356.4	390.0	431.0
Net change in working capital	(324.9)	573.0	(298.7)	127.2	175.8
Others	(2,190.7)	(1,151.1)	397.9	(117.5)	(135.9)
<b>Cash flow from operations</b>	<b>7,826.9</b>	<b>135.5</b>	<b>351.1</b>	<b>776.8</b>	<b>934.7</b>
Capital expenditure	(1,348.6)	(918.9)	(436.7)	(611.5)	(769.9)
Net investments & sale of fixed assets	-	-	-	-	-
Others	100.7	1,090.7	2.5	-	-
<b>Cash flow from investing</b>	<b>(1,247.9)</b>	<b>171.8</b>	<b>(434.2)</b>	<b>(611.5)</b>	<b>(769.9)</b>
Debt raised/(repaid)	27.1	(18.9)	7.8	8.6	9.5
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(5,214.0)	(96.1)	80.1	(160.1)	(160.1)
Others	(1,716.1)	(625.3)	-	-	-
<b>Cash flow from financing</b>	<b>(6,903.0)</b>	<b>(740.3)</b>	<b>87.9</b>	<b>(151.5)</b>	<b>(150.7)</b>
<b>Net cash flow</b>	<b>(323.9)</b>	<b>(433.0)</b>	<b>4.8</b>	<b>13.7</b>	<b>14.1</b>
<b>Net cash/(debt) b/f</b>	<b>1,209.5</b>	<b>885.6</b>	<b>452.6</b>	<b>457.4</b>	<b>471.1</b>
<b>Net cash/(debt) c/f</b>	<b>885.6</b>	<b>452.6</b>	<b>457.4</b>	<b>471.1</b>	<b>485.3</b>
Key Ratios (YE 31 Aug)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	126.1	(65.9)	(2.1)	40.0	25.9
EBITDA growth (%)	324.1	(91.5)	(72.9)	218.2	17.0
Pretax margin (%)	61.3	6.6	(1.9)	4.9	4.8
Net profit margin (%)	47.1	4.2	(2.4)	3.2	3.3
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	22.0	20.0	20.0	20.0	20.0
Dividend payout (%)	67.6	40.7	nm	65.3	51.1
Debtors turnover (days)	13	40	39	35	33
Stock turnover (days)	79	56	58	59	59
Creditors turnover (days)	48	48	48	48	48

Source: Company, AmlInvestment Bank Bhd estimates

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