



AmInvestment Bank

## Company report

## TOP GLOVE CORP

(TOPG MK EQUITY, TPGC.KL)

16 Jan 2023

No demand lift from China despite Covid outbreak

SELL

(Maintained)

AmInvestment Bank

Team Coverage

03-2036 2280

Rationale for report: Company update

Price RM0.83  
Fair Value RM0.60  
52-week High/Low RM2.47/RM0.57

## Key Changes

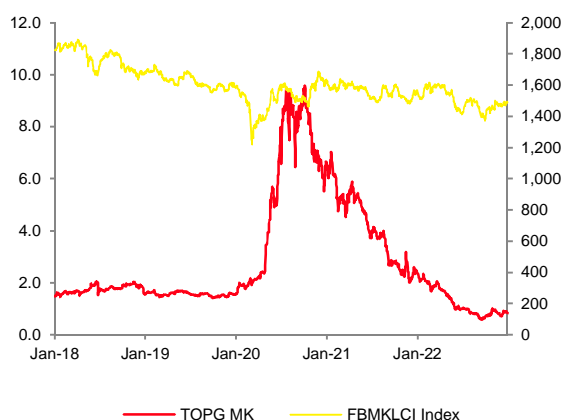
Fair value ⇄  
EPS ↕

| YE to Aug                     | FY22    | FY23F   | FY24F   | FY25F   |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil)              | 5,572.5 | 4,089.0 | 7,644.1 | 9,623.2 |
| Core net profit (RM mil)      | 408.0   | (349.6) | 245.2   | 313.2   |
| FD Core EPS (sen)             | 5.1     | (4.4)   | 3.1     | 3.9     |
| FD Core EPS growth (%)        | (94.7)  | (185.7) | 170.1   | 27.7    |
| Consensus Net Profit (RM mil) | -       | -180.7  | 177.0   | 293.6   |
| DPS (sen)                     | 1.2     | -       | 2.0     | 2.0     |
| PE (x)                        | 16.2    | nm      | 26.9    | 21.1    |
| EV/EBITDA (x)                 | 7.5     | nm      | 8.8     | 7.5     |
| Div yield (%)                 | 1.5     | -       | 2.4     | 2.4     |
| ROE (%)                       | 4.1     | (6.5)   | 4.6     | 5.8     |
| Net Gearing (%)               | nm      | nm      | nm      | nm      |

## Stock and Financial Data

|                              |  |
|------------------------------|--|
| Shares Outstanding (million) | 8,007.3  |
| Market Cap (RMmil)           | 6,606.0  |
| Book Value (RM/share)        | 0.70   |
| P/BV (x)                     | 1.2  |
| ROE (%)                      | 4.1  |
| Net Gearing (%)              | nm   |
| Major Shareholders           | Tan Sri Dr Lim Wee Chai (34.7%)<br>EPF (4.9%)<br>OCBC Ltd (2.8%) |
| Free Float                   | 44.2   |
| Avg Daily Value (RMmil)      | 60.5   |

| Price performance | 3mth | 6mth   | 12mth  |
|-------------------|------|--------|--------|
| Absolute (%)      | 19.6 | (19.1) | (64.7) |
| Relative (%)      | 10.6 | (23.3) | (63.3) |



## 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.
- Following a recent meeting with management, we increased FY23F loss by 2.6x to RM349.6mil due to lower plant utilisation (PU) assumptions given the lower-than-expected PU in Dec 2022 and Jan 2023. However, we maintain FY24F-25F earnings on expectations that demand could improve by the middle of 2023.
- These are the salient highlights from the meeting:
  - Demand for Malaysian medical rubber gloves from China has not increased despite the recent spike in Covid cases in the country, mainly due to China's local supply being more than enough to cater to its domestic demand.
  - PU remained sluggish in Dec 2022 and Jan 2023 at 25%, similar to 1QFY23. This is lower than 40% guided in the most recent analyst briefing. Hence, we believe the losses in the upcoming 2QFY23 results will be similar to 1QFY23.
  - Top Glove maintained its guidance that customers could start replenishing stockpiles in 2QCY23, which is consistent with similar guidance from Hartalega Holdings.
  - According to *The Edge*, HARPS Holdings acquired Semperit AG Holding's medical rubber glove manufacturing segment for EUR115mil. Notwithstanding the group's current low PU and strong net cash position RM359mil as at 30 Nov 2022, management affirmed no intention of engaging in any merger-and-acquisition (M&A) activities to resolve the current oversupply scenario.
  - To recap, the medical rubber glove industry experienced oversupply in the aftermath of the H1N1 pandemic, especially in 2011. Although there were slight M&A consolidation activities back then, the oversupply was resolved by the liquidation of minor players. We note that Top Glove did not acquire smaller players until 2014.
  - By Dec 2025, Top Glove retains its target capacity of 115bil pcs/annum from 100bil pcs/annum currently, while aiming to decommission 2 old and inefficient factories (5% of its current capacity). We view the decommissioning plans positively since this will lower the cost of production and slightly improve the supply-demand dynamics in the industry.
- The stock currently trades at a FY24F PE of 27x, which is 35% above its 10-year average of 20x. We believe this is unjustified given the unabated challenges of an oversupplied sector globally, which could translate to persistent losses over the next 2 quarters.

EXHIBIT 1: PB BAND CHART



EXHIBIT 2: PE BAND CHART

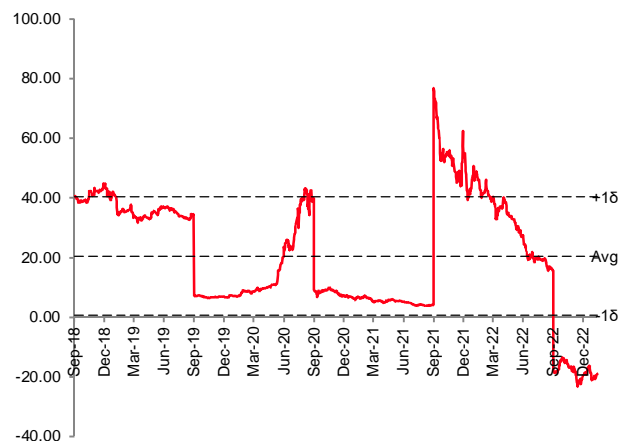


EXHIBIT 3: ESG MATRIX

|                                  |   |   |   |  |  |
|----------------------------------|---|---|---|--|--|
| <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     | ★ | ★ | ★ |  |  |

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmInvestment Bank

## EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Aug)    | FY21             | FY22           | FY23F          | FY24F          | FY25F          |
|--|------------------|----------------|----------------|----------------|----------------|
| Revenue                                | 16,361.4         | 5,572.5        | 4,089.0        | 7,644.1        | 9,623.2        |
| EBITDA                                 | 10,276.4         | 869.9          | (44.3)         | 745.6          | 873.4          |
| Depreciation/Amortisation              | (308.7)          | (348.2)        | (353.5)        | (384.1)        | (424.9)        |
| Operating income (EBIT)                | 9,967.8          | 521.7          | (397.8)        | 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>(382.1)</b> | <b>377.1</b>   | <b>463.9</b>   |
| Taxation                               | (2,209.8)        | (73.2)         | 76.4           | (75.4)         | (92.8)         |
| Minorities/pref dividends              | (62.3)           | (6.1)          | 6.3            | (6.3)          | (7.7)          |
| <b>Net profit</b>                      | <b>7,710.3</b>   | <b>236.0</b>   | <b>(349.6)</b> | <b>245.2</b>   | <b>313.2</b>   |
| <b>Core net profit</b>                 | <b>7,704.3</b>   | <b>408.0</b>   | <b>(349.6)</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        | 4,260.2        | 4,487.6        | 4,832.5        |
| 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>5,525.0</b> | <b>5,752.4</b> | <b>6,097.3</b> |
| Cash & equivalent                      | 878.4            | 444.1          | 457.4          | 471.1          | 485.3          |
| Stock                                  | 1,144.7          | 564.0          | 667.8          | 1,083.6        | 1,368.3        |
| Trade debtors                          | 566.3            | 236.1          | 431.6          | 737.4          | 876.6          |
| Other current assets                   | 1,756.3          | 847.2          | 661.6          | 181.6          | (164.3)        |
| <b>Total current assets</b>            | <b>4,345.8</b>   | <b>2,091.4</b> | <b>2,218.4</b> | <b>2,473.8</b> | <b>2,565.9</b> |
| Trade creditors                        | 692.4            | 426.4          | 548.0          | 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          | 93.9           | 139.1          | 170.6          |
| <b>Total current liabilities</b>       | <b>2,198.5</b>   | <b>941.8</b>   | <b>966.3</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>5,240.7</b> | <b>5,325.7</b> | <b>5,478.8</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           | 0.65           | 0.67           | 0.68           |
| Cash Flow (RMmil, YE 31 Aug)           | FY21             | FY22           | FY23F          | FY24F          | FY25F          |
| Pretax profit                          | 10,033.8         | 365.5          | (382.1)        | 377.1          | 463.9          |
| Depreciation/Amortisation              | 308.7            | 348.2          | 353.5          | 384.1          | 424.9          |
| Net change in working capital          | (324.9)          | 573.0          | (107.7)        | 133.2          | 181.8          |
| Others                                 | (2,190.7)        | (1,151.1)      | 458.0          | (117.5)        | (135.9)        |
| <b>Cash flow from operations</b>       | <b>7,826.9</b>   | <b>135.5</b>   | <b>321.6</b>   | <b>776.8</b>   | <b>934.7</b>   |
| Capital expenditure                    | (1,348.6)        | (918.9)        | (327.1)        | (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>(324.6)</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                         | (5,507.6)        | (547.3)        | -              | (160.1)        | (160.1)        |
| Others                                 | (1,422.5)        | (174.1)        | -              | -              | -              |
| <b>Cash flow from financing</b>        | <b>(6,903.0)</b> | <b>(740.3)</b> | <b>7.8</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)         | (26.6)         | 86.9           | 25.9           |
| EBITDA growth (%)                      | 324.1            | (91.5)         | (105.1)        | 1,782.0        | 17.1           |
| Pretax margin (%)                      | 61.3             | 6.6            | (9.3)          | 4.9            | 4.8            |
| Net profit margin (%)                  | 47.1             | 4.2            | (8.6)          | 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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