

HLIB Research

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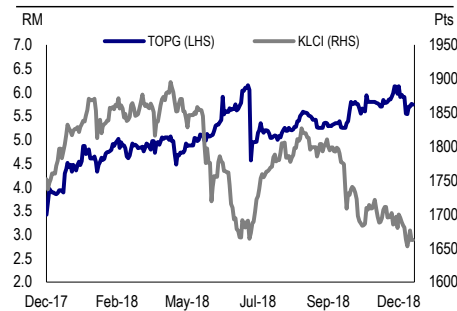
HOLD (Maintain)

Target Price: **RM6.26**
Previously: **RM4.96**
Current Price: **RM5.74**

Capital upside	9.1%
Dividend yield	1.5%
Expected total return	10.6%

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	-1.7	9.3	65.9
Relative	2.2	20.1	77.2

Stock information

Bloomberg ticker	TOPG MK
Bursa code	7113
Issued shares (m)	2,556
Market capitalisation (RM m)	14,674
3-mth average volume ('000)	6,994
SC Shariah compliant	Yes

Major shareholders

Lim Wee Chai	28.9%
EPF	6.2%
Firstway Utd Corp	5.0%

Earnings summary

FYE (Aug)	FY18	FY19f	FY20f
PATMI – core (RM m)	433.6	486.0	571.8
EPS – core (sen)	16.9	19.0	22.3
P/E (x)	33.9	30.2	25.7

Top Glove

A respectable start

Top Glove's 1QFY19 core PATAMI of RM117.7m (+13.4% YoY) was within ours and consensus expectations. We adjust our FY20 estimates by 5.6% to account for the roll out of the new capacity. We also introduce our FY21 numbers. We roll our valuation into FY20. Our TP increases to RM6.26 and is based on FY20 earnings pegged to a higher PE multiple of 28x (from 25x), a 25% discount to Hartalega's 1SD above 3 year mean PER (37x). We deem this re-rating justifiable due to (i) the prospects of higher USD moving forward, and (ii) the lower NR prices YoY being a boon for Top Glove due to its more diversified product mix, along with (iii) its pending inclusion into the KLCI, which should provide share price support. We also note that the onslaught of capacity expansion sector wide in 2019 may welcome downward pressure on ASP especially from the nitrile segment.

Within expectations: 1QFY19 core PATAMI came in at RM117.7m (+13.4% YoY), accounting for 23.7% of ours and 22.8% of consensus estimates. We deem the results to be within expectations.

Dividend. No dividends were declared during the quarter under review.

QoQ. Revenue grew +3.7% on the back of marginally higher blended volumes (c. +1%) partially offset by lower volumes from the vinyl glove segment as demand normalized. EBITDA margin improved marginally by 0.2 pts to 15.6% due to lower nitrile prices (-4% to USD1.26/kg) and NR prices (-11% to RM3.78/kg). Subsequently, core PATAMI improved by 5.7% to RM117.7m (from RM111.4m) on the back of a lower tax expense (-24.5%) QoQ.

YoY. Revenue grew +34.5% to RM1.26bn (from RM938.1m) from higher volumes sold (+19%) on the back of an enlarged capacity. Despite this PBT margin eroded by 1.8 pts YoY to 11.2% (from 13%) on the back of higher interest cost due to M&A and organic expansion. Despite core PATAMI growing +13.4% YoY, margins declined by 1.3 pts YoY due to a higher effective tax rate (21.3% vs. 13.1% in 1Q18) due to a deferred tax liability provision of RM5.7m.

Capacity expansion. In FY19 Top Glove will add c.8.8bn pieces in capacity bringing its total installed capacity to an estimated 69.3bn pieces in FY19 with the bulk of the capacity to come in 2H19.

Forecast. We adjust our earnings FY19 earnings by -2.3% to account for higher depreciation and general book keeping in tandem with the recent release of the FY18 annual report. Our FY20 numbers increases by 5.6% to account for the roll out of the new capacity. We also introduce our FY21 estimates.

Maintain HOLD, TP: RM6.26. We take this opportunity to roll our valuation into FY20. Consequently, our TP increases to RM6.26 (from RM4.96). Our TP is based on FY20 earnings pegged to a higher PE multiple of 28x (from 25x), a 25% discount to Hartalega's 1SD above 3 year mean PE (37x). We deem this re-rating justifiable due to (i) the prospects of higher USD moving forward, and (ii) the lower NR prices YoY being a boon for Top Glove due to its more diversified product mix, along with (iii) its pending inclusion into the KLCI, which should provide share price support. We also note that the onslaught of capacity expansion sector wide in 2019 may welcome downward pressure on ASP especially from the nitrile segment.

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)
Revenue	938.1	1,216.9	1,262.0	3.7	34.5
EBITDA	139.5	187.4	196.3	4.8	40.7
EBIT	108.2	144.3	148.6	3.0	37.4
PBT	122.0	142.0	141.9	(0.1)	16.3
PAT	106.0	102.0	111.7	9.5	5.4
Core PATMI	103.8	111.4	117.7	5.7	13.4
Reported PATMI	105.5	101.6	110.1	8.3	4.3
Core EPS (sen)	4.1	4.4	4.6	5.7	13.4
EBITDA margin (%)	14.9	15.4	15.6		
EBIT margin (%)	11.5	11.9	11.8		
PBT margin (%)	13.0	11.7	11.2		
PATMI margin (%)	11.1	9.2	9.3		

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Aug	FY17	FY18	FY19f	FY20f	FY21f
Cash	240.1	164.2	395.0	479.4	517.1
Receivables	419.3	671.3	608.1	655.0	714.3
Inventories	315.8	513.7	458.3	483.8	526.0
PPE	1,523.4	2,082.2	2,230.7	2,391.1	2,634.5
Others	437.7	1,842.0	1,836.3	1,835.7	1,836.1
Assets	2,936.3	5,273.4	5,528.5	5,845.1	6,227.9
Payables	418.8	485.3	499.5	527.3	573.2
Debt	415.8	915.9	2,213.2	2,213.2	2,213.2
Others	89.2	1457.1	159.8	159.8	159.8
Liabilities	923.8	2,858.3	2,872.4	2,900.3	2,946.2
Shareholder's eq	2,003.3	2,404.5	2,643.0	2,928.9	3,262.5
Minority interest	9.2	10.6	13.1	15.9	19.3
Equity	2,012.5	2,415.1	2,656.1	2,944.8	3,281.7

Cash Flow Statement

FYE Aug	FY17	FY18	FY19f	FY20f	FY20f
Profit before tax	383.1	522.7	574.5	675.8	786.3
D&A	111.8	146.0	181.5	194.5	198.9
Working capital	(272.0)	(198.5)	104.5	(100.2)	(147.4)
Taxation	(65.5)	(36.8)	(86.0)	(101.2)	(117.7)
Others	(6.3)	(35.3)	14.3	41.2	74.3
CFO	151.2	398.2	788.8	710.1	794.3
Capex	(482.9)	(458.4)	(329.0)	(354.3)	(441.6)
Others	306.2	(1,233.3)	(14.0)	(14.5)	(17.6)
CFI	(176.7)	(1,691.7)	(314.9)	(339.8)	(424.0)
Changes in debt	(28.6)	1,471.7	-	-	-
Dividends	(181.7)	(196.1)	(243.0)	(285.9)	(332.6)
Others	(2.9)	(9.1)	-	-	-
CFF	(206.6)	1,284.6	(243.0)	(285.9)	(332.6)
Net cash flow	(0.9)	(63.0)	230.8	84.4	37.7
Forex	17.8	(12.9)	-	-	-
Others	-	-	-	-	-
Beginning cash	223.2	240.1	164.2	395.0	479.4
Ending cash	240.1	164.2	395.0	479.4	517.1

Income Statement

FYE Aug	FY17	FY18	FY19f	FY20f	FY21f
Revenue	3,409.2	4,214.0	4,699.3	5,061.4	5,520.1
EBITDA	458.3	653.6	757.5	871.3	983.1
EBIT	346.5	507.5	576.0	676.8	784.2
Finance cost	(6.3)	(35.3)	(22.5)	(22.0)	(18.9)
Associates & JV	(1.0)	1.7	1.3	1.3	1.3
Profit before tax	383.1	522.7	574.5	675.8	786.3
Tax	(54.7)	(85.4)	(86.0)	(101.2)	(117.7)
Net profit	328.4	437.3	488.5	574.6	668.5
Minority interest	(0.1)	(3.7)	(2.4)	(2.9)	(3.3)
Core PATMI	328.3	433.6	486.0	571.8	665.2
Exceptionals	(3.7)	14.3	-	-	-
Reported PATMI	324.6	447.9	486.0	571.8	665.2
Consensus Core PATMI	NA	NA	515.8	573.2	648.8
HLIB/Consensus	NA	NA	-6%	0%	3%

Valuation & Ratios

FYE Aug	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	12.8	16.9	19.0	22.3	26.0
P/E (x)	44.7	33.9	30.2	25.7	22.1
EV/EBITDA (x)	32.3	25.6	21.8	18.8	16.7
DPS (sen)	7.3	7.3	8.5	11.2	13.0
Dividend yield	1.3	1.3	1.5	1.9	2.3
BVPS (RM)	0.8	0.9	1.0	1.1	1.3
P/B (x)	7.3	6.1	5.6	5.0	4.5
EBITDA margin	13.4	15.5	16.1	17.2	17.8
EBIT margin	10.2	12.0	12.3	13.4	14.2
PBT margin	11.2	12.4	12.2	13.4	14.2
Net margin	9.6	10.4	10.4	11.4	12.1
ROE	16.2	18.6	18.4	19.5	20.4
ROA	11.2	8.2	8.8	9.8	10.7
Net gearing	6.8	85.2	68.8	59.2	52.0

Assumptions

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Utilization rate (%)	80.0	85.0	80.0	80.0	80.0
MYRUSD	4.2	4.1	4.2	4.2	4.2

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next -12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next -12 months.