

**HLIB Research**

PP 9484/12/2012 (031413)

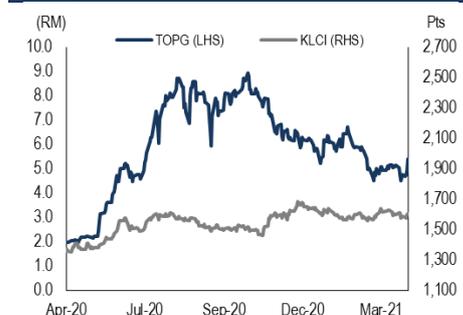
**Gan Huan Wen**
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**(603) 2083 1726**
**BUY** (Maintain)

**Target Price: RM7.00**
**Previously: RM7.00**
**Current Price: RM5.40**

Capital upside	29.6%
Dividend yield	16.4%
Expected total return	46.0%

**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	-10.6	-18.5	177.4
Relative	-12.6	-16.9	108.7

**Stock information**

Bloomberg ticker	TOPG MK
Bursa code	7113
Issued shares (m)	8,002
Market capitalisation (RM m)	43,289
3-mth average volume ('000)	47,902
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

**Major shareholders**

Lim Wee Chai	27.4%
Firstway United Corp	7.1%
EPF	6.5%

**Earnings summary**

FYE (Aug)	FY20	FY21f	FY22f
PATAMI – core (RM m)	1,804.3	10,609.5	5,340.6
EPS – core (sen)	21.5	132.4	66.6
P/E (x)	25.2	4.1	8.1

# Top Glove

## Update on US CBP issues

Top Glove held a briefing concerning the CBP's findings on forced labour to outline the actions taken to rectify labour issues. Top Glove actions include remediation payments to workers, improving internal labour policies and upgrading workers accommodations. We are positive on these efforts from Top Glove concerning worker rights. We maintain our BUY with unchanged TP of RM7.00.

Top Glove held a briefing giving an update on the US Customs Border Protection (CBP) withhold release order (WRO) issue. Apart from management, migrant worker rights activist Andy Hall was also invited to speak at the briefing.

**11 forced labour indicators.** Of the 11 forced labour indicators flagged up by the International Labour Organization (ILO) previously, Top Glove have shown significant improvement, rectifying 6 issues and making significant improvements in the other 5 (Figure #5). With regards to the remaining five indicators, Top Glove have outlined actions to resolve these:

- **Retention of identity documents:** Top Glove have requested that Indonesian recruitment agents return workers' identity documents.
- **Deception:** As this was in regards to recruiting agents advertising false claims in job advertisements, Top Glove will ensure job advertisements made by recruiting agents will be factual going forward. Additionally, Top Glove have revised the payment terms to ensure agents have upfront payment for processing candidates.
- **Debt bondage:** On 2 Apr 2021, Top Glove made lump sum payments to workers for the remaining payments owed.
- **Physical and sexual violence & intimidation:** Made enhancements to various policies, will launch town hall style meetings, social dialogue sessions for workers to air their grievances and organise training sessions on workplace bullying policies.

**Planned improvement in worker accommodations.** With regards to Act 446 (Minimum Standards of Housing, Accommodations and Amenities), Top Glove plans on spending RM70m on large hostels in Klang and Banting, with the combined capacity of 7,300. Additionally, Top Glove have recently purchased an apartment in Klang for RM95m with a capacity of 2,700 workers.

**Andy Hall says Top Glove improving.** To recap, Andy Hall is an independent migrant worker rights specialist who had previously raised concerns about Top Glove's labour practises. Hall shared that he is greatly encouraged by the actions and plans made by Top Glove's senior management, acknowledging Top Glove as one of the leading glove players in terms of social compliance currently. Hall even called into question the fairness of the CBP's findings that Top Glove have been found to use forced labour in their practices.

**Withhold Release Order.** These developments are positive concerning the CBP's withhold release order (WRO) being lifted in due course. While Top Glove shared that they are in constant dialogue with the CBP, they have halted all shipments from Malaysia to the US for the time being, in compliance with the CBP's findings.

**Forecast.** Unchanged.

**Maintain BUY, TP: RM7.00.** We are positive on these efforts from Top Glove concerning worker rights. We maintain our BUY with unchanged TP of RM7.00.

## Top Glove Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Cash	165.8	1,208.6	1,637.5	3,906.1	5,116.7
Receivables	592.2	798.8	1,989.2	1,386.4	1,210.1
Inventories	629.9	530.7	917.5	904.6	924.7
PPE	2,480.0	3,010.2	5,002.4	6,170.3	7,052.5
Others	1,820.3	3,157.6	2,993.2	2,993.6	2,993.9
<b>Assets</b>	<b>5,688.2</b>	<b>8,706.0</b>	<b>12,539.9</b>	<b>15,361.1</b>	<b>17,297.9</b>
Payables	492.4	810.8	1,030.2	1,015.8	1,038.3
Debt	2,420.7	540.5	540.5	540.5	540.5
Others	221.0	1163.7	1163.7	1163.7	1163.7
<b>Liabilities</b>	<b>3,134.1</b>	<b>2,515.1</b>	<b>2,734.5</b>	<b>2,720.1</b>	<b>2,742.5</b>
Shareholder's eq	2,537.0	6,166.0	9,553.4	12,274.7	14,112.5
Minority interest	17.2	24.9	252.0	366.3	442.8
<b>Equity</b>	<b>2,554.1</b>	<b>6,190.9</b>	<b>9,805.4</b>	<b>12,641.0</b>	<b>14,555.4</b>

### Cash Flow Statement

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Profit before tax	430.7	2,133.2	13,159.3	6,819.1	4,563.1
D&A	195.0	253.0	412.1	508.2	580.7
Working capital	-3.3	-1,112.2	-1,796.5	630.0	133.9
Taxation	-56.8	-230.4	-2,322.6	-1,364.1	-912.9
Others	-79.3	2,127.7	397.3	-70.4	3.4
<b>CFO</b>	<b>486.5</b>	<b>3,171.3</b>	<b>9,849.5</b>	<b>6,522.7</b>	<b>4,368.2</b>
Capex	-632.2	-2,351.8	-2,403.7	-1,675.4	-1,462.3
Others	129.8	-268.8	-41.6	-41.6	-41.6
<b>CFI</b>	<b>-502.4</b>	<b>-2,083.0</b>	<b>-2,362.2</b>	<b>-1,633.8</b>	<b>-1,420.7</b>
Changes in debt	192.3	-1,115.0	50.0	50.0	50.0
Shares issued	0.3	1,471.1	0.0	0.0	0.0
Dividends	-217.4	-371.8	-7,108.4	-2,670.3	-1,786.8
Others	-11.8	0.0	0.0	0.0	0.0
<b>CFF</b>	<b>-13.0</b>	<b>-15.7</b>	<b>-7,058.4</b>	<b>-2,620.3</b>	<b>-1,736.8</b>
<b>Net cash flow</b>	<b>-6.4</b>	<b>1,072.6</b>	<b>429.0</b>	<b>2,268.6</b>	<b>1,210.6</b>
Forex & Others	8.0	-29.8	0.0	0.0	0.0
Beginning cash	164.2	165.8	1,208.6	1,637.5	3,906.1
Ending cash	165.8	1,208.6	1,637.5	3,906.1	5,116.7

### Income Statement

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Revenue	4,801.8	7,237.4	20,699.0	14,427.2	12,591.9
EBITDA	658.6	2,397.4	13,527.8	7,294.4	5,111.0
EBIT	463.6	2,144.4	13,115.7	6,786.3	4,530.3
Finance cost	-79.3	-29.4	25.3	14.5	14.5
Associates & JV	-1.7	-1.4	-1.4	-1.4	-1.4
Profit before tax	430.7	2,133.2	13,159.3	6,819.1	4,563.1
Tax	-57.1	-376.7	-2,322.6	-1,364.1	-912.9
Net profit	373.6	1,756.5	10,836.7	5,455.0	3,650.2
Minority interest	-3.0	-36.8	-227.1	-114.3	-76.5
<b>Core PATMI</b>	<b>370.6</b>	<b>1,804.3</b>	<b>10,609.5</b>	<b>5,340.6</b>	<b>3,573.7</b>
Consensus			10,559.0	4,090.0	2,460.0
HLIB/Consensus			100.5%	130.6%	145.3%

### Valuation & Ratios

FYE Aug	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	14.5	21.5	132.4	66.6	44.6
P/E (x)	37.3	25.2	4.1	8.1	12.1
EV/EBITDA (x)	79.1	20.4	3.6	6.4	8.8
DPS (sen)	7.5	11.8	88.7	33.3	22.3
Dividend yield (%)	1.4	2.2	16.4	6.2	4.1
BVPS (RM)	0.3	0.8	1.2	1.5	1.8
P/B (x)	17.0	7.0	4.5	3.5	3.1
EBITDA margin	13.7%	33.1%	65.4%	50.6%	40.6%
EBIT margin	9.7%	29.6%	63.4%	47.0%	36.0%
PBT margin	9.0%	29.5%	63.6%	47.3%	36.2%
Net margin	7.7%	24.9%	51.3%	37.0%	28.4%
ROE	14.6%	29.3%	111.1%	43.5%	25.3%
ROA	6.5%	20.7%	84.6%	34.8%	20.7%
Net gearing	88.9%	N Cash	N Cash	N Cash	N Cash

### Assumptions

FYE Aug	FY21f	FY22f	FY23f
Utilization rate	97%	88%	86%
MYRUSD	4.00	4.20	4.20

**Figure #1** Improvements made on forced labour indicators

Forced Labour Indicators vs Impact assessment	Investigation close 28/08/2020	CAP* verification October 2020	CAP* verification January 2021	Accommodation inspection March 2021
1. Abuse of vulnerability	Orange	Green	Green	Green
2. Retention of identity documents	Dark Yellow	Pale Yellow	Pale Yellow	Pale Yellow
3. Restriction of movement	Dark Yellow	Green	Green	Green
4. Excessive overtime	Orange	Green	Green	Green
5. Abusive working and living conditions	Orange	Pale Yellow	Pale Yellow	Green
6. Deception	Orange	Pale Yellow	Pale Yellow	Pale Yellow
7. Isolation	Green	Green	Green	Green
8. Debt bondage	Red	Pale Yellow	Pale Yellow	Pale Yellow
9. Withholding of wages	Dark Yellow	Green	Green	Green
10. Physical and sexual violence	Red	Pale Yellow	Pale Yellow	Pale Yellow
11. Intimidation	Dark Yellow	Pale Yellow	Pale Yellow	Pale Yellow

Note: 6 A Green  
+ 5 B Pale Yellow  
11 Indicators

Key:

- A Green = All issues closed
- B Pale Yellow = Further progress made
- C Light Yellow = Significant progress made on issues
- D Dark Yellow = Critical issues present but isolated / or in supply chain
- E Orange = Critical issues present, but progress is being made
- F Red = Critical issues requiring immediate action

Note: The indicator of A to F is added in for easy reference

Impactt Report, 16 Mar 2021, ILO Indicators in Top Glove operations

**Figure #2** Top Glove valuation methodology

FYE Aug	FY21	FY22
FCFE	7,495.8	4,897.3
Risk free rate	2.7%	
Market risk premium	6.5%	
Discount rate	9.2%	
Value of FY21-22 discounted cash flows	10,971.2	
PE multiple	15	-17% to pre-pandemic 5-year average PE (2015-2019)
Sustainable net profit	3,573.7	FY23 net profit
Net Cash	4,062.9	
Target Equity Value	56,199.8	
No. of shares	8,009.9	
<b>TP (RM)</b>	<b>7.00</b>	

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
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