HLIB Research
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Research Team
research@hlib.hongleong.com.my
(603) 2083 1723

Chan Jit Hoong, CFA, CPA
jhchan@hlib.hongleong.com.my
(603) 2083 1722

Top Glove

Dragged by lower volume

HOLD (from Buy)

Target Price:	**RM2.80**
Previously:	**RM4.00**
Current Price:	**RM3.06**

Capital upside	-8.5%
Dividend yield	4.8%
Expected total return	-3.7%

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	-22.1	-34.1	-61.2
Relative	-23.7	-32.4	-62.2

Stock information

Bloomberg ticker	TOPG MK
Bursa code	7113
Issued shares (m)	8,007
Market capitalisation (RM m)	24,502
3-mth average volume ('000)	20,869
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★★

Major shareholders

Lim Wee Chai	26.9%
Firstway Utd Corp	6.9%
EPF	6.2%

Earnings summary

FYE (Aug)	FY21	FY22f	FY23f
PATMI – core (RM m)	7,837.4	2,376.6	1,438.9
EPS – core (sen)	95.5	29.0	17.5
P/E (x)	3.2	10.6	17.5

FY21 core net profit of RM7.8bn (+327% YoY) came in below our and consensus expectations at 90% and 91% respectively, due to lower-than-expected revenue. We lower our FY22-23F earnings estimates by c.30%, as we impute a lower assumption for utilisation rate, taking into account that the recovery in sales to US will be gradual and not immediate. We also lowered our ASP assumption further, given the less aggressive cut previously. Possibility of a windfall tax remains a key uncertainty which we reckon will keep sentiment cautious on glove makers. Our TP is subsequently lowered to RM2.80, pegged to an unchanged PE multiple of 11x (at its 3-year historical mean) on its CY22F EPS of 25.5 sen. Downgrade to HOLD given limited upside.

Missing estimates. 4QFY21 core net profit of RM602.7m (-70% QoQ, -51% YoY) brought full year FY21 core net profit to RM7.8bn (+327% YoY). The performance came in below both our and consensus projections at 90% and 91% respectively and the discrepancy in our forecast was due to lower-than-expected revenue, given the reduction in sales volume and declining ASPs. Core net profit of RM602.7m was arrived at after removing foreign exchange impact that amounts to RM5.2m in 4QFY21.

Dividend. Declared dividend of 5.4 sen per share (final dividend 3.8 sen + special dividend 1.6 sen), going ex on 1st October 2021. This brings full-year FY21 cumulative dividend to 65.1 sen per share (FY20: 11.8 sen per share).

QoQ. The temporary halt in shipment to US and production disruption arising from movement controls have led to lower sales volume (-20% QoQ) during the quarter. Coupled with the falling ASPs (-32% QoQ), revenue was down by 49% QoQ, while core net profit declined by 70% QoQ, on the back of diminishing operating leverage.

YoY. Revenue was 32% lower YoY, as demand for gloves has begun to normalise, following the mass rollout of vaccination globally. Lower sales volume (-33% YoY) was partly attributed to the US CBP ban, therefore, the quantum of decline in nitrile glove's sales volume (-48% YoY) was much larger than the decline in latex glove sales volume (-15% YoY), as there are lesser latex glove exports to the US market. In tandem with the lower revenue, core net profit was 50% weaker YoY.

YTD. Burgeoning demand for gloves in FY21 has resulted in a 146% YoY increase in blended ASPs. Despite the flattish sales volume YoY (due to the same reasons as mentioned above), full-year sales revenue jumped by 127% YoY. Core net profit was 327% higher YoY due to stronger operating leverage.

Outlook. With the US CBP ban being lifted, shipments to the US could begin as soon as end-September, given the availability of ready stock. ASP wise, management is still projecting 8-10% MoM decline, in line with market pricing trend and is expecting glove prices to stabilize by January CY22. The possibility of a windfall tax remains a key uncertainty which we reckon will keep sentiment cautious on glove makers.

Forecast. We cut our earnings projections for FY22-23F by c.30% as we impute a lower utilization rate assumption, taking into account that the recovery in sales volume to US will be gradual and not immediate. We have also lowered our ASP assumption further, given the less aggressive cut in ASP previously.

Downgrade to HOLD, TP: RM2.80. Following our earnings adjustment, our TP is subsequently lowered to RM2.80, based on a PE multiple of 11x (at its 3-year historical mean) on its CY22 EPS of 25.5 sen. Downgrade to HOLD given limited upside.

Figure #1 Financial forecast summary

FYE Aug (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	4,801.1	7,237.4	16,403.0	9,748.4	9,381.7
EBITDA	645.5	2,386.1	10,452.7	3,127.5	2,023.6
EBIT	456.7	2,144.4	10,144.2	2,893.0	1,779.3
PBT	423.6	2,165.6	10,109.2	2,897.2	1,798.7
PAT	367.5	1,788.8	7,951.3	2,393.2	1,485.8
PATAMI – Core	364.7	1,752.6	7,837.4	2,344.4	1,438.8
Core EPS (sen)	4.6	21.9	97.9	29.3	18.0
P/E (x)	67.2	14.0	3.1	10.5	17.0
EV/EBITDA (x)	34.2	10.0	2.2	7.7	12.0
DPS (sen)	2.4	12.0	61.5	14.6	9.9
Yield (%)	0.8	3.9	20.1	4.8	3.2
BVPS (RM/share)	0.3	0.6	0.8	1.1	1.2
P/B (x)	9.7	5.0	4.1	2.8	2.6
ROE (%)	14.4	36.0	129.9	27.1	15.4
Net Gearing (%)	88.9	Net Cash	Net Cash	Net Cash	Net Cash

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Figure #2 Quarterly results comparison

FYE Aug (RM m)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY(%)
Revenue	3,110.2	4,162.7	2,116.4	-49.2	-32.0	7,237.4	16,403.0	126.6
EBITDA	1,557.5	2,687.4	808.6	-69.9	-48.1	2,446.8	10,452.7	327.2
EBIT	1,492.1	2,604.1	730.7	-71.9	-51.0	2,201.4	10,144.2	360.8
PBT	1,551.0	2,583.1	724.3	-72.0	-53.3	2,250.2	10,109.2	349.3
PAT	1,274.3	2,044.0	626.2	-69.4	-50.9	1,873.4	7,951.3	324.4
Core PATAMI	**1,240.9**	**2,015.7**	**602.7**	**-70.1**	**-51.4**	**1,837.2**	**7,837.4**	**326.6**
Core EPS (Sen)	15.5	25.2	7.5	-70.1	-51.4	7.4	97.8	1,213.2
EBITDA margin (%)	50.08	64.56	38.21			33.81	63.72	
EBIT margin (%)	47.97	62.56	34.53			30.42	61.84	
PBT margin (%)	49.87	62.05	34.22			31.09	61.63	
Core PATMI margin (%)	39.90	48.42	28.48			25.38	47.78	

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Hong Leong Investment Bank Berhad (10209-W)
Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +10% 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.

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OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
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UNDERWEIGHT	Sector expected to underperform the market over the next -12 months.

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