

HLIB Research

PP 9484/12/2012 (031413)

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SELL (from Hold)

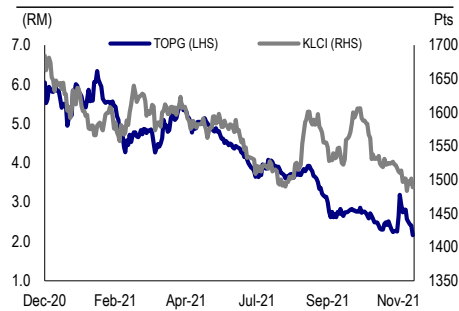
Target Price: RM1.56
Previously: RM2.80
Current Price: RM2.16

Capital upside	-27.8%
Dividend yield	1.9%
Expected total return	-25.9%

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	-6.1	-36.7	-68.1
Relative	-3.4	-33.2	-64.0

Stock information

Bloomberg ticker	TOPG MK
Bursa code	7113
Issued shares (m)	8,007
Market capitalisation (RM m)	17,295
3-mth average volume ('000)	30,842
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★★

Major shareholders

Lim Wee Chai	27.0%
Central Depository Pte Ltd	7.7%
Firstway United Corp	6.9%

Earnings summary

FYE (Aug)	FY21	FY22f	FY23f
PATMI – core (RM m)	7,678.2	644.8	877.3
EPS – core (sen)	95.9	8.1	11.0
P/E (x)	2.3	26.8	19.7

Top Glove

Weak start

Top Glove's 1Q22 revenue of RM1.58bn (-24% QoQ, -67% YoY) brought core PATAMI to RM173.6m (-69% QoQ, -93% YoY). Core PATAMI was arrived at after adjusting for foreign exchange impact amounting to -RM12.1m. The results came in below both our and street estimates, at 7% and 10% respectively, and the shortfall was due to lower-than-expected revenue and diminishing operating leverage. We cut our earnings forecast for FY22-23f by 39-73%, as we lower our revenue assumption to account for the weaker glove prices and lower utilization rate. Our TP is subsequently lowered to RM1.56 (from RM2.80 previously), and our TP implies a valuation of 17.3x (at mean of its 5-year pre-pandemic average) on its CY22f EPS of 9.0 sen. With that, we downgrade our recommendation on Top Glove to SELL.

Missing estimates. 1Q22 revenue of RM1.58bn (-24% QoQ, -67% YoY) brought core PATAMI to RM 173.6m (-69% QoQ, -93% YoY). Core PATAMI was arrived at after removing foreign exchange impact amounting to -RM12.1m. Results were below both our and consensus estimates, at 7% and 10% of full year forecast respectively. The shortfall in earnings was due to lower-than-expected revenue and diminishing operating leverage.

Dividend. Declared dividend of 1.2 sen per share, going ex on 24 Dec 2021. (3M21: 16.5 sen)

QoQ. The 24% decline in revenue was mainly due to falling ASPs (-32%), as sales volume was flat QoQ. The decline in nitrile glove sales volume (-14%), was neutralised by higher sales volume for both latex (+7%) and surgical gloves (+26%), supported by increased buying interest from developing countries as well as the resumption of elective surgeries. EBITDA margins were compressed by 15.2ppts QoQ, as the decline in ASP was much steeper than the decline in raw material prices (NBR price: -8%; NR price: -19%). As a result, core PATAMI fell 69% to RM173.6m.

YoY. Revenue was 67% lower YoY, due to the normalising ASP (Nitrile: -57%; Latex: -41%, Surgical: -40%; Vinyl: -49%) and softening demand. Weaker demand has resulted in lower sales volume (Nitrile: -49%; Latex: -13%, Surgical: -5%; Vinyl: -81%) across all glove variants. Diminishing operating leverage and lower utilization rate has led to EBITDA margins narrowing by 44.6ppts YoY. Subsequently, core PATAMI suffered a 92.6% slump to RM173.6m.

Prosperity Tax and tax on foreign-source income (FSI). Currently Top Glove has 8 income-generating entities involved in glove manufacturing and management expects the full year impact of Prosperity Tax to be c.RM10m in FY22. Management also highlighted that the additional tax charges could be partially offset against tax incentives and reinvestment allowances that the group enjoys. As for FSI, we understand that Top Glove's Thailand and China operations will be undergoing capacity expansion, hence the income are likely to be kept at abroad for the purpose of expansion, rather than being remitted back to Malaysia and hence we expect minimal impact on the FSI tax.

Outlook. Going forward, NBR prices are expected to continue trending lower, due to (i) additional incoming capacity, and (ii) tapering demand of nitrile gloves; while latex prices are expected to increase in the coming months due to the La Niña phenomenon, followed by wintering period. ASPs are also expected to continue declining, by a lower quantum of 5% MoM, as glove prices have fallen closer to pre-Covid levels. (Current nitrile glove ASP: USD25-30 per thousand pcs; Pre-pandemic nitrile glove ASP: c.USD21 per thousand pcs). With ASPs inching closer to pre-pandemic levels, glove buyers are now more willing to gradually replenish their

inventories. Coupled with a continued recovery in sales to the US market, Top Glove expects a 10% QoQ growth in sales volume in 2Q22.

Forecast. We cut our core PATAMI projections for FY22-23F by 39-73%, as we impute lower utilization rate and lower ASP assumption in our forecasts. Our reported PATAMI forecast for FY22 is c.RM10m lower, as we factor in the potential impact arising from the Prosperity Tax (treated as an EI).

Downgrade to SELL, TP: RM1.56. Following our earnings revision, our TP on Top Glove is subsequently lowered to RM1.56, representing a PE multiple of 17.3x (at mean of its 5-year pre-pandemic average) on its CY22f EPS of 9.0 sen. With that, we downgrade our rating on Top Glove to SELL. Upside risks to our TP and rating includes (i) surge in Omicron cases triggering a spike in glove volumes, (ii) sharp decline in raw material prices, and (iii) substantial depreciation of the Ringgit against USD.

Top Glove Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Aug	FY20	FY21	FY22f	FY23f	FY24f
Cash	1,208.6	878.4	1,852.1	2,330.9	3,073.6
Receivables	798.8	566.3	285.7	333.9	366.0
Inventories	530.7	1,144.7	869.7	998.5	1,073.8
PPE	3,010.2	3,958.7	3,813.2	3,655.5	3,485.6
Others	3,157.6	3,234.3	3,225.7	3,217.4	3,209.5
Assets	8,706.0	9,782.4	10,046.3	10,536.3	11,208.5
Payables	810.8	692.4	699.6	804.8	871.5
Debt	540.5	458.7	358.7	308.7	408.7
Others	1163.7	1411.2	1411.2	1411.2	1411.2
Liabilities	2,515.1	2,562.3	2,469.5	2,524.7	2,691.4
Shareholder's equity	4,870.8	5,872.4	6,194.8	6,589.6	7,051.3
Minority interest	1,320.1	1,347.8	1,382.0	1,422.0	1,465.9
Equity	6,190.9	7,220.2	7,576.8	8,011.6	8,517.2

Income Statement

FYE Aug	FY20	FY21	FY22f	FY23f	FY24f
Revenue	7,237.4	16,361.4	6,847.7	8,005.0	8,773.6
EBITDA	2,332.0	10,179.0	1,170.0	1,434.1	1,640.5
EBIT	2,144.4	9,890.5	824.5	1,076.4	1,270.6
Finance cost	-34.4	-4.2	-7.2	-6.2	-8.2
Associates & JV	-1.4	2.6	0.0	0.0	0.0
Profit before tax	2,165.6	10,001.7	822.1	1,079.2	1,273.6
Tax	-376.7	-2,209.8	-143.0	-161.9	-203.8
Net profit	1,788.8	7,791.9	679.1	917.3	1,069.8
Minority interest	-36.2	-113.7	-34.2	-40.0	-43.9
Core PATAMI	1,752.6	7,678.2	644.8	877.3	1,025.9
Reported PATAMI	1,754.3	7,710.3	654.8	877.3	1,025.9
Consensus			1,737.0	1,298.0	1,349.0
HLIB/Consensus			37%	68%	76%

Cash Flow Statement

FYE Aug	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	2,165.6	10,033.8	822.1	1,079.2	1,273.6
D&A	245.4	308.7	354.1	365.9	377.8
Working capital	1,269.7	-791.9	562.9	-71.9	-40.6
Taxation	-229.9	-1,840.1	-143.0	-161.9	-203.8
Others	4.9	116.4	0.0	0.0	0.0
CFO	3,455.6	7,826.9	1,596.0	1,211.4	1,407.0
Capex	-806.4	-1,334.0	-200.0	-200.0	-200.0
Others	1,563.1	-86.1	0.0	0.0	0.0
CFI	-2,369.5	-1,247.9	-200.0	-200.0	-200.0
Changes in debt	-1,102.2	27.1	-100.0	-50.0	100.0
Shares issued	-1,196.8	-356.7	0.0	0.0	0.0
Dividends	-371.8	-5,474.1	-322.4	-482.5	-564.3
Others	2,628.7	-1,098.7	0.0	0.0	0.0
CFF	-42.1	-6,902.3	-422.4	-532.5	-464.3
Net cash flow	1,044.0	-323.3	973.6	478.8	742.7
Forex & Others	1.3	-6.5	0.0	0.0	0.0
Beginning cash	159.7	1,204.9	875.2	1,848.8	2,327.7
Ending cash	1,208.6	878.4	1,852.1	2,330.9	3,073.6

Valuation & Ratios

FYE Aug	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	21.9	95.9	8.1	11.0	12.8
P/E (x)	9.9	2.3	26.8	19.7	16.9
EV/EBITDA (x)	7.7	1.8	14.7	11.6	9.8
DPS (sen)	18.5	65.1	4.0	6.0	7.0
Dividend yield (%)	8.6	30.1	1.9	2.8	3.3
BVPS (RM)	0.6	0.7	0.8	0.8	0.9
P/B (x)	3.6	2.9	2.8	2.6	2.5
EBITDA margin	32.2%	62.2%	17.1%	17.9%	18.7%
EBIT margin	29.6%	60.4%	12.0%	13.4%	14.5%
PBT margin	29.9%	61.1%	12.0%	13.5%	14.5%
Net margin	24.2%	46.9%	9.4%	11.0%	11.7%
ROE	36.0%	130.8%	10.4%	13.3%	14.5%
ROA	20.1%	78.5%	6.4%	8.3%	9.2%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Assumptions

FYE Aug	FY22f	FY23f	FY24f
Utilization rate	68%	82%	84%
MYRUSD	4.15	4.16	4.16

Figure #1 **Quarterly results comparison**

FYE Aug (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)	3MFY21	3MFY22	YoY(%)
Revenue	4,758.3	2,075.0	1,584.1	-23.7	-66.7	4,758.3	1,584.1	-66.7
EBITDA	3,155.5	767.2	344.2	-55.1	-89.1	3,155.5	344.2	-89.1
EBIT	3,084.8	689.3	260.6	-62.2	-91.6	3,084.8	260.6	-91.6
PBT	3,082.7	682.9	246.8	-63.9	-92.0	3,082.7	246.8	-92.0
PAT	2,385.3	584.8	190.3	-67.5	-92.0	2,385.3	190.3	-92.0
Core PATAMI	2,355.9	561.3	173.6	-69.1	-92.6	2,355.9	173.6	-92.6
Core EPS (Sen)	29.4	7.0	2.2	-69.1	-92.6	7.4	2.3	-68.8
EBITDA margin (%)	66.3	37.0	21.7	-15.2	-44.6	66.3	21.7	-44.6
EBIT margin (%)	64.8	33.2	16.4	-16.8	-48.4	64.8	16.4	-48.4
PBT margin (%)	64.8	32.9	15.6	-17.3	-49.2	64.8	15.6	-49.2
Core PATMI margin (%)	49.5	27.1	11.0	-16.1	-38.5	49.5	11.0	-38.5

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