

Company Result

13 December 2021

Top Glove Corporation Berhad

SELL

FY22: A gloomy start

Downgraded

Share Price	RM 2.16
Target Price	RM1.70

Result

Company Description

The Group manufactures a wide range of latex gloves. The Company's products include latex examination powdered, latex examination powderfree, nitrile examination gloves, soft nitrile examination gloves, vinyl examination gloves, surgical gloves, and others

Stock Data

Bursa / Bloomberg code	7113 / TOPG MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
FTSE4Good Index	Yes
ESG Rating	☆☆☆☆
Issued shares (m)	8007.11
Market cap. (RM'm)	17295.35
52-week price Range(RM)	2.15-7.00
Beta (against KLCI)	1.15
3-m Average Daily Volume	30.63
3-m Average Daily Value [^]	RM86.46m

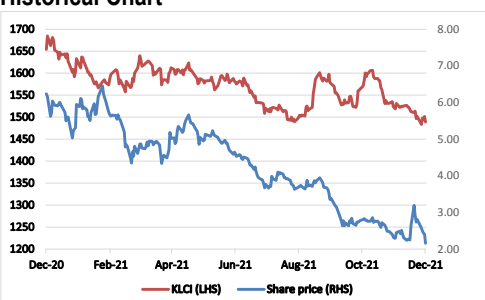
Share Performance

	1m	3m	12m
Absolute (%)	-6.1	-24.6	-68.6
Relative (%-pts)	-4.1	-33.3	-65.1

Major Shareholders

	%
Lim Wee Chai	26.96
Firstway United Corp	7.65
EPF	6.93
Estimated Free Float	43.84

Historical Chart



Source: Bloomberg

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- **Top Glove registered a net profit of RM185.7m during 1QFY22 which depleted 69.5% qoq and 92.1% yoy. On the same note, revenue stood at RM1.6b which slid 25.2% qoq and 66.7% yoy.**
- **Below estimates.** Top Glove's 3MFY22 net profit of RM185.7 was below our in-house and market estimates which merely account for 7.4% and 10.7% of full year earnings forecasts respectively. The subdued result was dented by lower average selling price (ASP) and sales volume.
- **First interim dividend declared.** The Group has declared a first single-tier dividend of 1.2sen/share during 1QFY22 which make out 9.4% from total dividend payout forecast for FY22F.

Comments

- **Higher operating cost eroded QoQ margin.** Top Glove revenue slumped 25.2% qoq given continued downtrend in blended average selling price (ASP) which slid 32% qoq (nitrile and natural rubber ASP 37% qoq and 28% qoq respectively) on top of disappointing sales volume following poor nitrile rubber sales volume (-14% qoq) despite higher sales volume in natural rubber (+7% qoq). The Group highlighted that higher sales volume from natural rubber given improved order from developing countries. Additionally, PBT margin was down by 18.1ppts resulted from higher operating cost due to lower utilisation rate despite lower raw material prices (natural latex prices: -8% qoq; nitrile latex price: -19% qoq). Utilisation rate ran at 55% during 1QFY22. Moving forward, the Group expects utilisation rate to run at 60% to 70% on the coming quarter given improved order from its customer mainly from the US as order is expected to recover in Dec'21/Jan'22.
- **Intense competition from new players added pressure to yearly growth performance.** Revenue and PBT dropped 66.7% yoy and 91.6% yoy respectively during 1QFY22 on the back of normalising ASP coupled with subdued sales volume (sales volume for nitrile gloves: -49% yoy, natural rubber gloves: -13% yoy; ASP for nitrile gloves: -57% yoy, natural rubber gloves: -41% yoy). Current pricing for nitrile gloves is c.USD25-USD30 while c.USD24-USD26 for natural rubber gloves. Major decline has shown in nitrile gloves pricing given massive production from new players which led to market pricing continue to decline thus prompting customers to continue to be cautious on their order replenishment.
- **Hong Kong dual listing update.** Management said that Top Glove's shareholder has approved Top Glove's Hong Kong Exchange (HKEX) listing plan during Extraordinary General

Meeting (EGM) which has been conducted recently. The dual listing plan is expected to take place in early CY22. To recap, the Group has resubmitted the HKEX listing application after Oct'21 as progress had been muted for several months due to the US ban issue that hit the Group's business operation.

- **Bleak outlook ahead.** Looking forward, the Group believes ASP is in a transition period to move into pre-Covid-19 pricing level. Despite continued decline in nitrile glove and natural rubber glove pricing, Top Glove believes demand from surgical gloves to offset the decline in nitrile glove and natural rubber glove, benefiting from its diversified glove range that enable fast adaption to rapidly changing market. Additionally, the Group also deferred its expansion plan at this juncture in order to cope with the imbalance of global gloves supply and demand. Overall, we deem business outlook for Top Glove to remain challenging as ASP to continue to decline given pricing pressure from existing as well as new players. Moreover, we expect US order will take more time to recover amid current wait-and-see approach in replenish orders pursuant to continued downtrend in ASP.

Earnings Outlook/Revision

- **We slash our FY22F and FY23F net earnings forecasts by 64% yoy and 68.8% respectively to account for lower sales volume and ASP as well as additional tax from Cukai Makmur.**

Valuation & Recommendation

- **Downgrade to SELL from HOLD with a lower target price of RM1.70 (RM2.74 previously) following our earnings downgrade.** Our target price is now pegged at 15.3x FY22F PER of 11.1sen (30.8sen previously), higher than its 5-years -1 standard deviation of 8.7x. Our valuation is assigned to FY22F, considering the impact of earnings normalisation after exponential yet exceptional strong profit growth in FY21 pursuant to the pandemic.

Figure 1: Quarterly Result

Year ending 31 August	1QFY22	4QFY21	1QFY21	QoQ	YoY
	RMm	RMm	RMm	%	%
Revenue	1,584.1	2,116.4	4,758.3	-25.2%	-66.7%
Operating profit	260.6	730.7	3,084.8	-64.3%	-91.6%
PBT	258.8	729.5	3,084.7	-64.5%	-91.6%
PAT	202.4	631.5	2,387.3	-67.9%	-91.5%
Net profit	185.7	607.9	2,357.8	-69.5%	-92.1%
Margin (%)				<i>ppts</i>	<i>ppts</i>
Operating margin	16.5%	34.5%	64.8%	(18.1)	(48.4)
PBT margin	16.3%	34.5%	64.8%	(18.1)	(48.5)
PAT margin	12.8%	29.8%	50.2%	(17.1)	(37.4)
Net profit margin	11.7%	28.7%	49.6%	(17.0)	(37.8)

Source: Company, JF Apex

Figure 2: Financial Summary

Year ended 31 Aug	FY18	FY19	FY20	FY21	FY22F	FY23F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	4,214.0	4,801.8	7,237.4	16,403.0	7,422.0	6,392.4
EBIT	556.3	507.4	2,201.4	10,144.2	1,353.6	719.0
PBT	524.7	423.6	2,165.6	10,142.7	1,350.6	717.0
PAT	434.0	367.6	1,788.8	7,984.8	913.9	489.4
Net profit	430.3	367.5	1,752.6	7,870.9	910.9	486.4
Margin (%)						
EBIT margin	13.2%	10.6%	30.4%	61.8%	18.2%	11.2%
PBT margin	12.5%	8.8%	29.9%	61.8%	18.2%	11.2%
PAT margin	10.3%	7.7%	24.7%	48.7%	12.3%	7.7%
Net profit margin	10.2%	7.7%	24.2%	48.0%	12.3%	7.6%
Growth (%)						
Revenue growth	23.6%	13.9%	50.7%	126.6%	-54.8%	-13.9%
Gross Profit growth	41.8%	-8.8%	333.9%	360.8%	-86.7%	-46.9%
PBT growth	37.0%	-19.3%	411.2%	368.4%	-86.7%	-46.9%
PAT growth	32.1%	-15.3%	386.6%	346.4%	-88.6%	-46.5%
Net profit growth	30.9%	-14.6%	376.9%	349.1%	-88.4%	-46.6%
Net gearing	85.6%	46.5%	-10.8%	-9.5%	-10.0%	-10.4%
ROA	13.7%	13.7%	22.0%	79.9%	8.5%	4.1%
ROE	19.8%	19.8%	30.2%	106.6%	11.3%	5.5%
EPS (sen)	5.2	4.5	23.3	95.9	11.1	5.9
EPS Growth (%)	30.9%	-14.6%	420.5%	311.5%	-88.4%	-46.6%
P/E	41.2	48.2	9.3	2.3	19.5	36.5
DPS (sen)	9.3	10.3	11.8	65.1	5.5	3.0
Dividend Payout	177.4%	230.0%	50.6%	67.9%	50.0%	50.0%
Dividend yield (%)	4.3%	4.8%	5.5%	30.1%	2.6%	1.4%

Source: Company, JF Apex

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STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

*capital gain + dividend yield

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

ESG RECOMMENDATIONS

- ☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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