



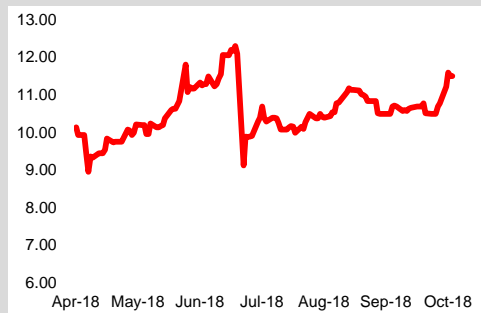
DESCRIPTION

The world's largest glove maker with over 2,000 customers across 195 countries.

12-month Target Price RM10.00
Current Price RM11.50
Expected Return -13.0%

Market Main
Sector Rubber Gloves
Bursa Code 7113
Bloomberg Ticker TOPG MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 6.32-12.48
3-Month Average Vol ('000) 3,546.8

SHARE PRICE PERFORMANCE

Table with 4 columns: Metric, 1M, 3M, 6M. Rows: Absolute Returns, Relative Returns.

KEY STOCK DATA

Market Capitalisation (RMm) 14,698.8
No. of Shares (m) 1,278.2

MAJOR SHAREHOLDERS

Table with 2 columns: Shareholder Name, %. Rows: Tan Sri Lim Wee Chai, EPF, KWAP.

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A Decent Year

Top Glove held their 4QFY18 results briefing yesterday, hosted by its Chairman, Tan Sri Lim Wee Chai. The Group's revenue and net profit grew 23.6% and 32.0% YoY in FY18 respectively.

§ FY18. To recap, Top Glove's FY18 revenue and net profit grew 23.6% and 32.0% YoY respectively. The robust performance was mainly driven by i) sales volume growth (+26% YoY) with high utilisation rate (90%), ii) improvement in operational efficiency and hence, lower cost, iii) higher sales of latex glove with lower natural rubber latex price, and iv) higher ASP which offset the external factors impact.

§ Improvement in operational efficiency. The Group's EBITDA margin has improved by 2.2 ppts to 16.4% mainly attributable to the improvement in operational efficiency through digitalization and automation via the application of Internet of Things (IoT), robotics and automated real time manufacturing system.

§ Product mix. In term of product mix, latex gloves continued to account for the bulk at 51% (latex powdered: 31%, latex powder-free: 20%), followed by nitrile glove at 36%, vinyl / TPE / CPE glove at 11% and surgical glove at 2%.

§ Demand mainly driven by developing regions. By geography, the bulk of the group's sales growth in FY18 was mainly driven by developing regions (72%). This was led by Asia ex-Japan (+58.0%), Eastern Europe (+39.6%), Middle East (+38.7%) as well as Africa (+35.3%).

We believe the growth was contributed by the rising healthcare awareness and hygiene standards in developing regions, the switching trends towards disposable glove and the vinyl glove supply disruption in China.

§ **No impairment required, based on 5-year DCF projection.** Sensitivity analysis based on different levels of WACC (i.e. 6.4%, 7.4% and 8.5%) and terminal growth rate (i.e. with 1.375% of terminal growth rate and without terminal growth) were carried out for Aspion's goodwill impairment test, and all the tests came out with same results showing that no impairment provision is required. The net projected profit for the impairment test range from RM40m (FY19F) to RM65m (FY23F). Note that impairment provision is required to be conducted every financial year end. With the help of technology and Group's track record and experience in turning around loss-making glove factories, Top Glove is confident in its ability to enhance Aspion's contribution going forward via the allocation of additional resources from Top Glove team, further improvement of glove production process, synergies and cost savings.

KEY FORECAST TABLE

FYE Aug (RM m)	2017A	2018A	2019F	2020F	2021F	CAGR
Revenue	3,409.2	4,214.0	4,701.4	5,203.3	5,497.1	12.7%
Pre-tax Profit	383.1	522.7	633.4	701.1	741.5	18.0%
Net Profit	328.6	433.6	529.3	585.8	619.6	17.2%
EPS (Sen)	26.1	34.4	41.6	46.1	48.7	16.8%
P/E (x)	44.0	33.4	27.6	25.0	23.6	
DPS (Sen)	14.5	17.0	20.7	22.9	24.2	
Dividend Yield (%)	1.3	1.5	1.8	2.0	2.1	

Source: Company, PublicInvest Research estimates

Figure 1: Blueprint for Expansion

Manufacturing	Country	Glove type	Number of production lines	Capacity (pieces per annum)
Current:				
Glove : 32 glove factories		All	648 lines	60.5 bn
Expansion in progress : Glove				
F32 1 st Phase (Early 2019)	Malaysia	Nitrile	22 lines	2.2 bn
F32 2 nd Phase (End 2019)	Malaysia	Nitrile	12 lines	1.2 bn
F33 New Block (Early 2019)	Malaysia	Nitrile	12 lines	1.2 bn
F5A New Block (End 2019)	Malaysia	Nitrile	20 lines	2.0 bn
F8A New Factory (Early 2020)	Thailand	Nitrile/Latex	32 lines	3.2 bn
Total expansion			98 lines	9.8 bn
Total by 2020: 34 glove factories			746 lines	70.3 bn
Current:				
F35CD Condom Factory		Latex	1 line	0.1 bn
Latex Processing				
Top Glove: 2 latex plants	Sourcing majority of the latex requirements			

Malaysia

- Headquarters
- 29 Glove Factories
- 2 Chemical Factories
- 1 Glove Former
- 1 Packaging factory
- 1 Dental dam factory
- 1 Condom factory

Producing:

- 1) Latex & nitrile examination gloves
- 2) Surgical, household, cleanroom,
- 3) CPE/TPE gloves
- 4) Former & Chemical Manufacturing
- 5) Dental Dam
- 6) Condom

Thailand

- 2 Latex Plants
- 2 Glove Factories

Producing:

- 1) Latex examination gloves
- 2) Latex concentrate

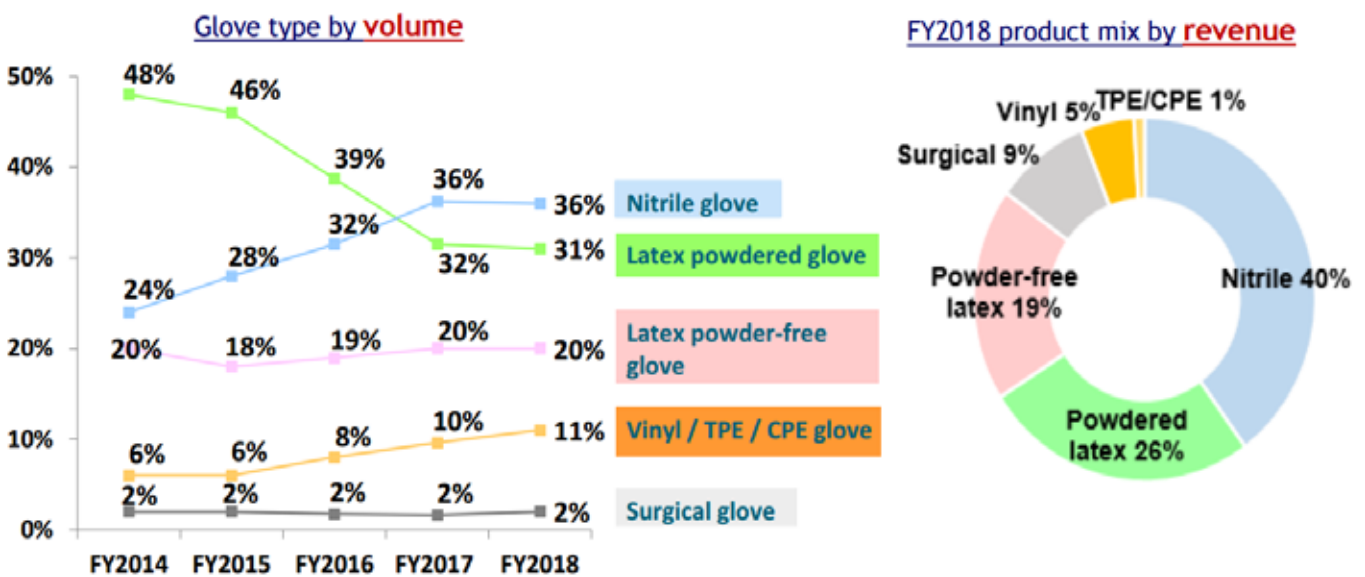
China

- 1 Glove Factory

Producing:

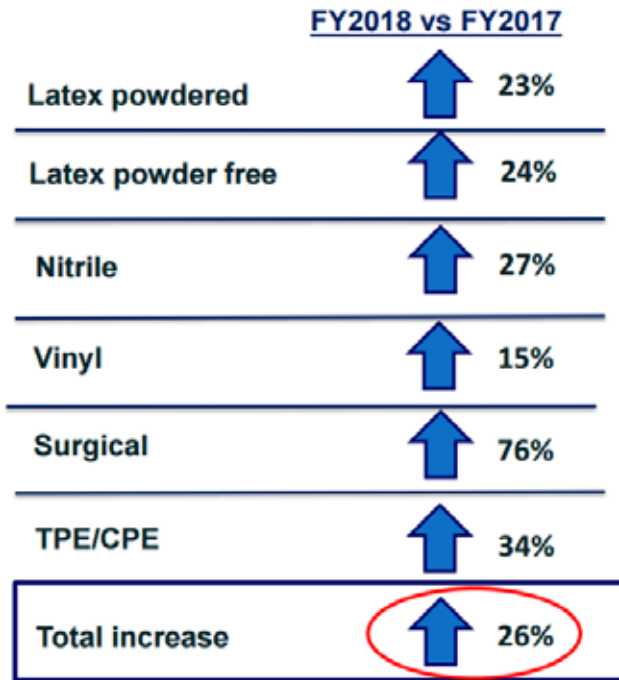
- 1) Vinyl gloves

Source: Company

Figure 2: Product Mix


Source: Company

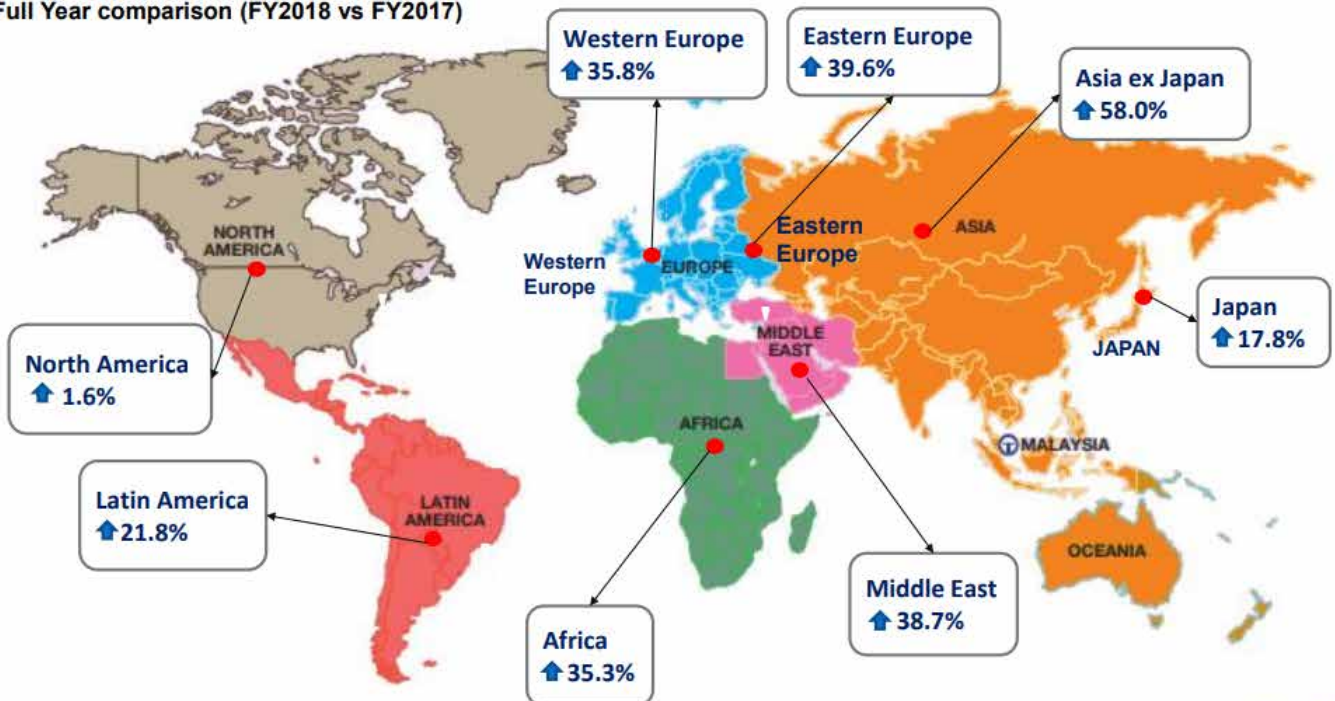
Figure 3: FY18 Sales Volume Growth – By Glove Type



Source: Company

Figure 4: FY18 Sales Volume Growth – by region

Full Year comparison (FY2018 vs FY2017)



Source: Company

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KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Aug (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	3,409.2	4,214.0	4,701.4	5,203.3	5,497.1
Finance Costs	-6.3	-35.3	-33.2	-29.8	-26.5
Pre-tax Profit	383.1	522.7	633.4	701.1	741.5
Income Tax	-54.7	-85.4	-101.3	-112.2	-118.6
Effective Tax Rate (%)	14.3	16.3	16.0	16.0	16.0
Minorities	0.1	-3.7	-2.8	-3.1	-3.3
Net Profit	328.6	433.6	529.3	585.8	619.6

Growth

Revenue	18%	24%	12%	11%	6%
Pre-tax Profit	-13%	36%	21%	11%	6%
Net Profit	-9%	32%	22%	11%	6%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Aug (RM m)	2017A	2018A	2019F	2020F	2021F
Property, Plant & Equipment	1,523.4	2,082.2	1,959.4	2,084.4	2,194.1
Cash and Cash Equivalents	240.1	164.2	149.5	113.7	128.7
Receivables, deposits and prepayment	419.3	671.3	527.5	583.8	616.8
Other Assets	753.4	2,355.8	2,115.5	2,155.8	2,179.1
Total Assets	2,936.3	5,273.4	4,751.9	4,937.8	5,118.7
Payables	418.8	485.3	492.2	545.4	576.6
Borrowings	376.4	2,213.2	1,490.2	1,326.8	1,163.4
Deferred tax	66.3	88.8	66.3	66.3	66.3
Other Liabilities	71.5	71.0	78.0	81.1	84.4
Total Liabilities	933.0	2,858.3	2,126.6	2,019.6	1,890.7
Shareholders' Equity	2,003.3	2,415.1	2,625.3	2,918.2	3,228.0
Total Equity and Liabilities	2,936.3	5,273.4	4,751.9	4,937.8	5,118.7

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Aug	2017A	2018A	2019F	2020F	2021F
Book Value Per Share	1.6	1.9	2.1	2.3	2.5
NTA Per Share	1.6	0.9	1.1	1.4	1.6
EPS (Sen)	26.1	34.4	41.6	46.1	48.7
DPS (Sen)	14.5	17.0	20.7	22.9	24.2
Payout Ratio (%)	55.4	50.1	50.0	50.0	50.0
ROA (%)	11.2	8.2	11.2	11.9	12.2
ROE (%)	16.4	18.0	20.3	20.2	19.3

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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