



AmInvestment Bank

Company report

TOP GLOVE CORP

(TOPG MK EQUITY, TPGC.KL)

20 May 2020

Diversified customer base a boon for selling prices

BUY

(Upgraded)

Nafisah Azmi

nafisah-azmi@ambankgroup.com

03-2036 2250

Rationale for report: Company update

Price	RM10.48
Fair Value	RM12.23
52-week High/Low	RM10.78/RM4.21

Key Changes

Fair value	↑
EPS	↑

YE to Aug	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	4,801.1	8,227.3	8,227.0	7,026.0
Core net profit (RM mil)	364.7	1,044.3	948.0	600.3
FD Core EPS (sen)	14.2	40.8	37.0	23.4
FD Core EPS growth (%)	(16.1)	186.4	(9.2)	(36.7)
Consensus Net Profit (RM mil)		592.2	656.7	600.7
DPS (sen)	7.1	20.4	18.5	11.7
PE (x)	73.6	25.7	28.3	44.7
EV/EBITDA (x)	41.4	19.1	20.4	28.5
Div yield (%)	0.7	1.9	1.8	1.1
ROE (%)	14.8	37.2	27.5	15.1
Net Gearing (%)	88.9	61.6	39.3	26.9

Stock and Financial Data

Shares Outstanding (million)	2,559.8
Market Cap (RM mil)	26,826.7
Book Value (RM/share)	1.00
P/BV (x)	10.5
ROE (%)	14.8
Net Gearing (%)	88.9
Major Shareholders	Lim Wee Chai (34.1%) EPF (5.0%) KWAP (3.8%)
Free Float	0.6
Avg Daily Value (RM mil)	88.6

Price performance	3mth	6mth	12mth
Absolute (%)	93.0	128.3	112.1
Relative (%)	107.9	157.4	139.2



Investment Highlights

- We raise our recommendation on Top Glove Corporation (Top Glove) to BUY from HOLD with a higher fair value of RM12.23/share (RM6.28/share previously).
- Our valuation is based on 33x FY21F EPS. Our multiple is at a premium of the stock's average forward PE of 25x (pre-Covid-19).
- We increase our earnings forecasts by 98% for FY20F, 95% for FY21F and by 20% for FY22F. This is underpinned by increased demand as the Covid-19 pandemic persists, assuming it lasts another 12 months. We estimate that Top Glove's net margins to be around 12.7% in FY20F, 11.5% in FY21F and 8.5% in FY22F.
- We believe Top Glove is one of the largest beneficiaries of the Covid-19 pandemic due to its highly diversified customer base, which allows the company more freedom for selling price adjustments.
- Top Glove's expansion plans, as shown in Exhibit 1, remain intact. Its production capacity is expected to grow by around 20% YoY to 76bil pieces per annum in FY20F, 10% to 86bil pieces in FY21F and 7% to 96bil pieces in FY22F.
- We are increasing our sales volume assumption by 6% for FY20F and 5% for FY21F as plant utilisation is expected to be maxed out at 95–100% levels in FY20F before tapering in FY21F where we assume 85% utilisation rate.
- We also raise our ASP assumption by 45% to US\$29 in FY20F, 40% to US\$28 in FY21F and 18% to US\$24 in FY22F.
- Recall that during the previous major pandemic outbreak, Top Glove's earnings and share price were affected. At the start of the 2009–2010 H1N1 pandemic, Top Glove's share price was RM0.73 and it rose to RM1.80 by the end as shown in Exhibit 1.
- Previously during the H1N1 pandemic, Top Glove's revenue and net profit expanded 36.0% and 38.6% respectively in FY10 as demand soared. This resulted in a 0.3ppt improvement in net margins (11.8% in FY10).
- Top Glove's 1-year average trading P/E was 11.2x before the WHO declared H1N1 as a pandemic. Its P/E peaked at 20.2x (+7.2SDs) in April 2010.
- We like Top Glove for its: (1) expansionary plans; (2) focus and continual efforts in improving quality and operational efficiencies; and (3) position as the world's largest rubber glove manufacturer.

EXHIBIT 1: EXPANSION PLANS

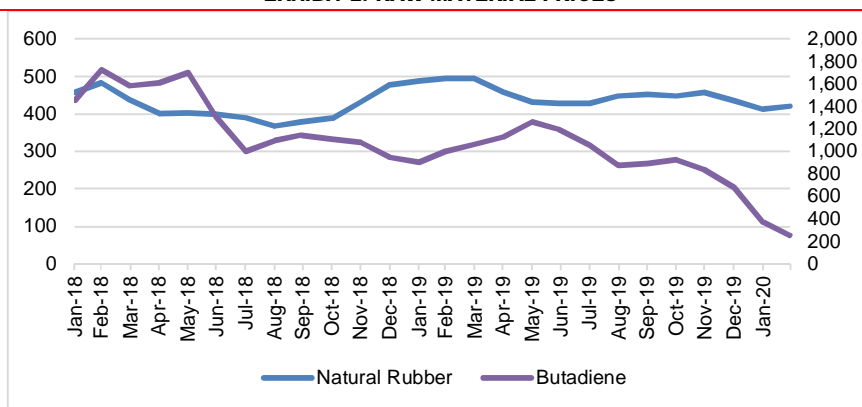
 Continuous Growth in Manufacturing Capabilities						Existing facilities Total: 44 factories
Factories	To commence production by (Calendar quarter)	Location	Glove type	Number of production lines	Capacity (pcs per annum)	
Current: 34 glove factories			All	700 lines	73.8 bn	
Expansion in progress : Glove						
F40 New Factory 1 st Phase	3 rd quarter 2020	Klang, Malaysia	Nitrile	22 lines	2.7 bn	Malaysia <ul style="list-style-type: none"> Headquarters 31 Glove Factories 3 Chemical Factories 1 Glove Former 2 Packaging Factories 1 Dental Dam Factory 1 Condom Factory Producing: 1) Latex & Nitrile Examination Gloves 2) Surgical, Household, Cleanroom Gloves 3) CPE/TPE Gloves 4) Former & Chemical Manufacturing 5) Dental Dam 6) Condom
F41 New Factory 1 st Phase (Block 1)	3 rd quarter 2020	Binh Duong, Vietnam	PVC	20 lines	2.0 bn	
F35CD New Factory (Block A)	4 th quarter 2020	Klang, Malaysia	Surgical	12 lines	1.2 bn	
F37D Lines Refurbishment	4 th quarter 2020	Kluang, Malaysia	Nitrile	6 lines	0.8 bn	
F8A New Factory 1 st Phase	4 th quarter 2020	Sadao, Thailand	Nitrile	28 lines	3.5 bn	
Total new capacity in CY2020				88 lines	10.2 bn	
F40 2 nd Phase	1 st quarter 2021	Klang, Malaysia	Nitrile	16 lines	2.2 bn	Thailand <ul style="list-style-type: none"> 2 Latex Concentrate Plants 2 Glove Factories Producing: 1) Latex Examination Gloves 2) Latex Concentrate
F41 1 st Phase (Block 2)	4 th quarter 2021	Binh Duong, Vietnam	PVC	20 lines	2.0 bn	
F45 New Factory 1 st Phase	4 th quarter 2021	Ipoh, Malaysia	Nitrile	20 lines	2.8 bn	
Total new capacity in CY2021				56 lines	7.0 bn	
F45 2 nd Phase	1 st quarter 2022	Ipoh, Malaysia	Nitrile	12 lines	1.7 bn	
F42 New Factory 1 st Phase (Block 1)	2 nd quarter 2022	Banting, Malaysia	Nitrile	24 lines	3.4 bn	
Total new capacity in CY2022				36 lines	5.1 bn	
Total new capacity from expansion in CY2020 to CY2022				180 lines	22.3 bn	China <ul style="list-style-type: none"> 1 Glove Factory Producing: 1) Vinyl Gloves
Grand total by December 2022 : 40 glove factories				880 lines	96.1 bn	

Plans for further expansion beyond 2022 are in place, aimed at achieving 10% to 15% growth per annum to meet increasing global demand.

Page 9/24

Source: Company

EXHIBIT 2: RAW MATERIAL PRICES



Source: Company, AmInvestment Bank Bhd, Bloomberg

EXHIBIT 3: PEER COMPARISON

	Recomm.	FV (RM)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth %		P/E (x)		ROE* (%)	NDPS* (sen)	DY* (%)	Estimated Capacity (bil pieces)		
					FY20F	FY21F	FY20F	FY21F	FY20F	FY21F				CY19F	CY20F	CY21F
Top Glove	BUY	12.23	26,826.7	Aug	40.8	37.0	186.4	-9.2	25.7	28.3	37.2	20.4	1.9	70.1	81.9	91.4
Hartalega#	UNDERWEIGHT	7.37	30,796.4	Mar	20.6	17.0	56.9	-17.5	44.4	53.8	27.0	12.3	1.3	36.5	41.2	44.6
Kossan	BUY	6.07	7,955.0	Dec	23.6	22.5	32.7	-4.7	26.4	27.7	19.9	9.4	1.5	31.5	34.5	34.5
Simple Average							92.0	-10.5	32.2	36.6				138.1	157.6	170.5
Weighted Average							106.9	-12.5	34.6	40.2						

*FY20 #FY20F and FY21F refer to FY21F and FY22F

Source: Company, AmInvestment Bank Bhd, Bloomberg

EXHIBIT 4: PB BAND CHART

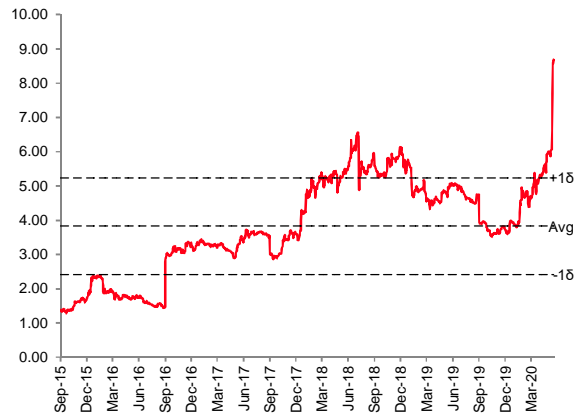


EXHIBIT 5: PE BAND CHART

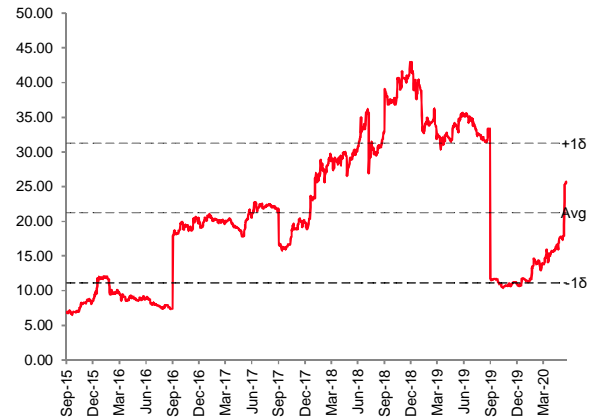


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	4,214.5	4,801.1	8,227.3	8,227.0	7,026.0
EBITDA	711.3	702.0	1,504.3	1,386.8	981.8
Depreciation/Amortisation	(161.4)	(206.8)	(221.5)	(236.3)	(249.8)
Operating income (EBIT)	550.0	495.3	1,282.8	1,150.6	732.0
Other income & associates	1.7	(2.7)	-	-	-
Net interest	(23.1)	(69.0)	(54.7)	(35.7)	(26.0)
Exceptional items	-	-	-	-	-
Pretax profit	528.6	423.6	1,228.1	1,114.9	706.0
Taxation	(90.7)	(56.0)	(184.2)	(167.2)	(105.9)
Minorities/pref dividends	(3.7)	(2.9)	0.4	0.4	0.2
Net profit	434.2	364.7	1,044.3	948.0	600.3
Core net profit	434.2	364.7	1,044.3	948.0	600.3
Balance Sheet (RMmil, YE 31 Aug)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	2,228.7	2,480.0	2,950.1	2,922.6	2,825.3
Intangible assets	1,304.5	1,256.4	1,011.4	1,011.4	1,011.4
Other long-term assets	116.4	401.3	401.3	401.3	401.3
Total non-current assets	3,649.6	4,137.7	4,362.8	4,335.3	4,237.9
Cash & equivalent	164.8	165.8	490.8	849.2	1,193.7
Stock	508.2	629.9	736.6	752.1	671.7
Trade debtors	646.2	592.2	1,012.0	1,012.0	864.2
Other current assets	106.4	63.5	63.5	63.5	63.5
Total current assets	1,425.6	1,451.4	2,303.0	2,676.7	2,793.2
Trade creditors	499.7	492.4	1,228.9	1,228.8	1,049.4
Short-term borrowings	882.6	1,041.3	1,026.3	1,011.3	996.3
Other current liabilities	68.8	58.1	58.1	58.1	58.1
Total current liabilities	1,451.0	1,591.8	2,313.3	2,298.2	2,103.8
Long-term borrowings	1,330.4	1,379.4	1,356.7	1,334.1	1,311.5
Other long-term liabilities	94.7	159.7	159.7	159.7	159.7
Total long-term liabilities	1,425.0	1,539.1	1,516.5	1,493.8	1,471.2
Shareholders' funds	2,378.5	2,537.0	3,073.1	3,809.4	4,146.0
Minority interests	15.3	17.2	17.2	17.2	17.2
BV/share (RM)	0.94	1.00	1.21	1.50	1.63
Cash Flow (RMmil, YE 31 Aug)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	528.6	423.6	1,228.1	1,114.9	706.0
Depreciation/Amortisation	161.4	206.8	221.5	236.3	249.8
Net change in working capital	(292.4)	(41.5)	209.9	(15.5)	48.7
Others	3.4	(56.1)	(129.6)	(131.5)	(79.9)
Cash flow from operations	400.9	532.7	1,530.0	1,204.1	924.6
Capital expenditure	(458.8)	(623.7)	(275.0)	(275.0)	(225.0)
Net investments & sale of fixed assets	(1,260.9)	12.0	-	-	-
Others	11.0	107.6	-	-	-
Cash flow from investing	(1,708.7)	(504.1)	(275.0)	(275.0)	(225.0)
Debt raised/(repaid)	1,471.2	(643.9)	(37.6)	(37.6)	(37.6)
Equity raised/(repaid)	12.0	829.0	-	-	-
Dividends paid	(201.6)	(220.1)	(521.7)	(473.6)	(299.9)
Others	(21.6)	11.1	(54.7)	(35.7)	(26.0)
Cash flow from financing	1,260.1	(24.0)	(614.0)	(547.0)	(363.6)
Net cash flow	(47.7)	4.7	641.0	382.2	336.1
Net cash/(debt) b/f	240.1	158.7	159.7	803.5	1,188.5
Net cash/(debt) c/f	187.6	166.2	803.5	1,188.5	1,527.4
Key Ratios (YE 31 Aug)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	23.6	13.9	71.4	-	(14.6)
EBITDA growth (%)	46.9	(1.3)	114.3	(7.8)	(29.2)
Pretax margin (%)	12.5	8.8	14.9	13.6	10.0
Net profit margin (%)	10.3	7.6	12.7	11.5	8.5
Interest cover (x)	23.8	7.2	23.5	32.2	28.2
Effective tax rate (%)	17.2	13.2	15.0	15.0	15.0
Dividend payout (%)	50.0	50.0	50.0	50.0	50.0
Debtors turnover (days)	46	47	36	45	49
Stock turnover (days)	36	43	30	33	37
Creditors turnover (days)	40	38	38	55	59

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.