



## Company report

AmInvestment Bank

www.amequities.com.my

03-2036 2290

# TOP GLOVE CORP

(TOPG MK EQUITY, TPGC.KL)

10 June 2021

*Weak sales volume and ASPs plague earnings*

## HOLD

(Maintained)

**Rationale for report: Company results/update**

Price	RM4.78
Fair Value	RM4.45
52-week High/Low	RM9.77/RM4.45

### Key Changes

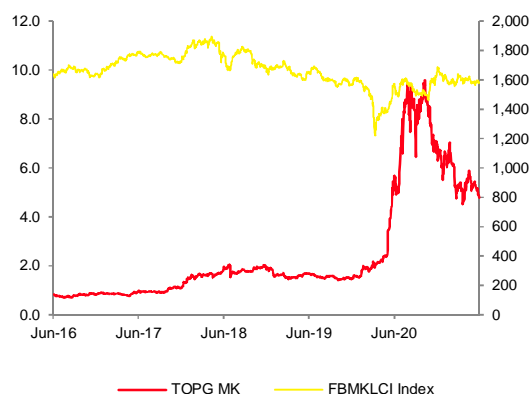
Fair value	↕
EPS	↔

YE to Aug	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	7,236.3	26,694.1	10,234.1	8,741.2
Core net profit (RM mil)	1,890.6	8,536.1	2,805.5	1,512.9
FD Core EPS (sen)	21.5	97.0	31.9	17.2
FD Core EPS growth (%)	418.4	351.5	(67.1)	(46.1)
Consensus Net Profit (RM mil)	-	9,877.0	4,090.0	2,513.0
DPS (sen)	10.9	66.0	16.0	9.0
PE (x)	22.2	4.9	15.0	27.8
EV/EBITDA (x)	14.6	2.8	7.4	12.3
Div yield (%)	2.3	13.6	3.3	1.9
ROE (%)	42.9	73.6	15.9	8.1
Net Gearing (%)	0.0	0.0	0.0	0.0

### Stock and Financial Data

Shares Outstanding (million)	8,004.1
Market Cap (RM mil)	38,259.6
Book Value (RM/share)	0.79
P/BV (x)	6.1
ROE (%)	42.9
Net Gearing (%)	-
Major Shareholders	Tan Sri Dr Lim Wee Chai (35.3%) EPF (6.3%) KWAP (3.6%)
Free Float	4,138.1
Avg Daily Value (RM mil)	142.5

Price performance	3mth	6mth	12mth
Absolute (%)	(5.2)	(32.6)	(12.5)
Relative (%)	(4.4)	(31.1)	(14.2)



### Investment Highlights

- We maintain HOLD on Top Glove with a lower fair value (FV) of RM4.45 (vs. RM5.24/share previously). Our FV is based on a reduced PER of 17x on CY22F FD EPS, incorporating an ESG-adjusted discount of 3% for our rating of two stars (Exhibit 7).
- Our current PER of 17x (previously 20x) is slightly below -1 standard deviation of Top Glove's pre-pandemic 5-year PER of 24.7x. We believe that share price will only start reflecting a PER closer to average as glove ASP starts to stabilise. We reduce our PE assumption due to the following reasons:
  1. **Uncertainties over the lifting of the US Customs and Border Protection's (CBP) sanctions.** The recent glove seizures stand in stark contrast with the company's seemingly convincing progress towards resolving the issue.
  2. **A shrinking US customer base, post-sanctions.** Even with re-entry into the high-premium US market, we believe that it would be challenging for Top Glove due to its previous ban as the group's market share may have been taken by peers that currently remain operational in the US.
  3. **A lasting but gradually decreasing volume of local cases, following a reintroduction of the lockdown.** The local lockdown, while harsh, is an effective means of controlling cases until the effects of vaccination efforts kick in, repressing sentiment-driven upward price fluctuations.
  4. **Similarly, countries have grown more cautious and are more equipped to handle future surges.** Japan, India, France and Turkey have since reported significant reduction in case numbers over the past few months. Following a year into the pandemic, the respective governments have demonstrated effective means in dealing with these surges (though noticeably only when the situation becomes dire). In future, we expect such governments to react swifter and decisively in avoiding identically rampant scenarios.
- Thus, in the absence of lasting rerating catalysts, we expect a slow and steady decline in Top Glove's share price over the course of the next three quarters. While the eventual lifting of US sanction will likely cause a notable sentiment-driven upswing, we believe that it too will peter in the face of waning average selling prices (ASP) and general glove demand.

- **Top Glove's 9MFY21 core net profit of RM7.26bil made up 85% and 74% of our and consensus forecasts respectively. This is in line with our estimates and as such, we maintain our FY21/FY22/FY23 forecasts.**
- **We believe that another sharp earnings decline will occur in the following quarter for the following reasons:**
  1. **The MCO 3.0-imposed 60% workforce limitations disrupting production.** We assume this will be somewhat offset by Top Glove's sizeable inventory.
  2. **Sharper declines in ASP as non-US markets are heavily competitive.** These markets are currently saturated by Chinese and emerging players (which are similarly likely to fall short of the CBP's requirements).
  3. **Lower overall demand from western countries as a result of vaccination efforts.** As an indicator, glove lead times, formerly 6 months long in the past quarter, have since subsided to 30–50 days. Top Glove no longer provides spot orders.

#### Financial results

- **Top Glove's 3QFY21 revenue fell by 22% QoQ to RM4.2bil, underpinned by a fall in sales volume and ASP. Similarly, the poor sales dragged core net profit to RM2.0bil (-29% QoQ) in 3QFY21. Net profit margin was squeezed to 49.2% (-4.4 ppt QoQ) in 3QFY21.**
- **Sales volume shrank by 4% QoQ and 9% YoY to 14.6bil pieces in 3QFY21, despite a higher production capacity and a lack of factory outbreaks in the scale of past quarters.** This is primarily due to lower sales in the north America region (-68% QoQ).
- **However, we reckon that the poor sales situation is exacerbated by two other factors: higher number of order cancellations and buyers adopting a wait-and-see approach, problems which its peers are also facing.** Potential buyers adopt a wait-and-see approach for glove prices to drop, while stronger order cancellations signify stronger bargaining power from the customers. In the coming quarters, we doubt that any resultant potential surge in sales from this approach would be able to offset the continual declines in ASP.
- **Top Glove recorded a fall of ~21% QoQ in blended ASP to US\$65/1,000 pcs (Exhibit 2) in 3QFY21. We predict a drop of US\$5.00 in each month for the next quarter, in line with market prices.** In contrast, Top Glove's peers that are still operational in the US are expected to have their earnings peak in the coming quarter, alongside reporting their best ever glove ASP.
- **Top Glove declared a total dividend payment of 18.0 sen/share for the quarter, bringing the total up to 59.7 sen/share thus far (Exhibit 3).** As with the last quarter, a special dividend of 20% has been declared for 3QFY21 in addition to Top Glove's usual dividend of 50%.

#### Other updates

- **The group has not made changes to its expansion plans, and is still on track to meet its goal of 111bil pcs per annum capacity by end-2021F (Exhibit 4).**
- **Top Glove is still proceeding with its HKEX listing, which will take place after its issues with the CBP are resolved. In addition to less uncertainty, we believe the group intends to ride the price upswing upon the lifting of the sanction for a more positive listing outcome.** The revised listing of 793.5mil new shares (making up only 53% of the originally planned listing volume), is anticipated to raise up to RM4.2bil. We have already adjusted our EPS calculations to consider future share base increments.
- **In the past year, Top Glove has made considerable progress in migrant workers' welfare. The group has submitted its appeal to the CBP in May and is awaiting further clarification.** Top Glove is now shifting its focus towards strengthening its environmental and governance framework – striving for zero-carbon emission factories, reduced gas and water consumption. **We maintain our 2-star ESG rating on Top Glove until the sanctions in the USA have been lifted.**

## EXHIBIT 1: QUARTERLY RESULTS

YE to Aug	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	QoQ %	YoY %	9MFY20	9MFY21	YTD %
Revenue	1,688.3	3,109.1	4,759.3	5,364.6	4,162.7	-22.4%	146.6%	4,127.2	14,286.6	246.2%
<b>EBIT</b>	<b>420.0</b>	<b>1,647.8</b>	<b>3,074.3</b>	<b>3,706.5</b>	<b>2,587.4</b>	<b>-30.2%</b>	<b>516.0%</b>	<b>708.1</b>	<b>9,368.2</b>	<b>1223.0%</b>
Pretax profit	422.0	1,647.2	3,085.5	3,724.1	2,603.5	-30.1%	516.9%	677.8	9,413.2	1288.7%
Taxation	(72.0)	(297.5)	(690.3)	(830.4)	(539.1)	-35.1%	648.9%	(100.0)	(2,059.8)	1958.9%
Minority Interest	(2.1)	(34.0)	(16.5)	(19.9)	(15.6)	-21.7%	629.6%	(2.8)	(52.1)	1760.4%
Net Profit	347.9	1,315.6	2,378.6	2,873.9	2,048.8	-28.7%	488.9%	575.0	7,301.3	1169.8%
<b>Core Net Profit</b>	<b>350.0</b>	<b>1,349.6</b>	<b>2,349.2</b>	<b>2,861.0</b>	<b>2,036.2</b>	<b>-28.8%</b>	<b>481.7%</b>	<b>577.8</b>	<b>7,262.9</b>	<b>1157.0%</b>
Core EPS (sen)	4.0	15.0	27.0	32.7	23.3	-28.7%	488.9%	6.5	83.0	1169.8%
Net gearing (x)	net cash	net cash	net cash	net cash	net cash			net cash	net cash	
EBIT margin (%)	24.9%	53.0%	64.6%	69.1%	62.2%			17.2%	65.6%	
PBT margin (%)	25.0%	53.0%	64.8%	69.4%	62.5%			16.4%	65.9%	
Net profit margin (%)	20.6%	42.3%	50.0%	53.6%	49.2%			13.9%	51.1%	
Effective tax rate (%)	17.1%	18.1%	22.4%	22.3%	20.7%			14.8%	21.9%	

Source: Top Glove, AmInvestment Bank Bhd

## EXHIBIT 2: HISTORICAL ASP AND FUTURE ASSUMPTIONS

	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21F	FY22F	FY23F
Revenue (mil)	1,688	3,109	4,759	5,365	4,163			
Sales Volume (bil pcs)	17.1	18.0	17.7	16.3	15.6			
USD/MYR	4.30	4.28	4.12	4.04	4.13			
<b>ASP (USD/1000 pcs)</b>	<b>23.0</b>	<b>40.4</b>	<b>65.3</b>	<b>81.5</b>	<b>64.6</b>	<b>50.0</b>	<b>30.5</b>	<b>26.5</b>
<b>QoQ changes %</b>		<b>76%</b>	<b>62%</b>	<b>25%</b>	<b>-21%</b>	<b>-23%</b>		

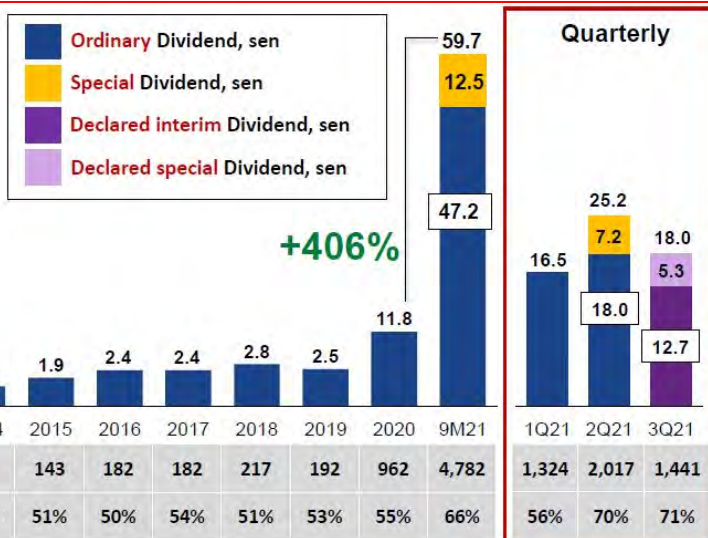
Source: Top Glove, AmInvestment Bank Bhd

## EXHIBIT 3: DIVIDEND PAYOUT HISTORY

- In addition to existing dividend policy of 50%, Top Glove is committed to a Special Dividend of 20% for 2QFY21 to 4QFY21.

## 3QFY21 dividend of 18.0 sen per share

- Dividend Ex date : 23/6/2021
- Payment date : 7/7/2021



Note: Dividend per share has been adjusted for the bonus issues

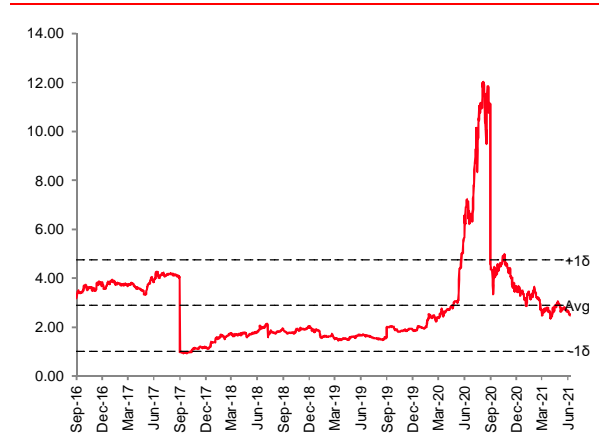
Source: Top Glove, AmInvestment Bank Bhd

**EXHIBIT 4: CAPACITY EXPANSION**

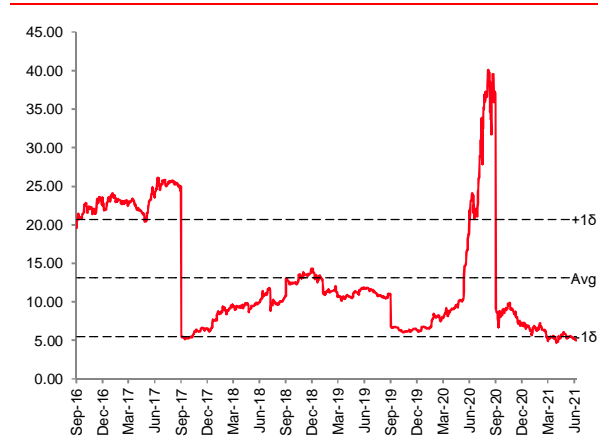
Period	Added Capacity, bil pcs per annum	Total Capacity, bil pcs per annum	% capacity growth
Current		100.0	
end-CY21	11.0	111.0	11%
end-CY22	30.0	138.0	24%
end-CY23	37.0	175.0	27%
end-CY24	30.0	205.0	17%

Source: Top Glove, AmInvestment Bank Bhd

**EXHIBIT 5: PB BAND CHART**



**EXHIBIT 6: PE BAND CHART**



**EXHIBIT 7: ESG MATRIX**

<b>Overall</b>	★	★			
Biological preservation	★	★			
Water + energy conservation	★	★			
Pollution + waste regulation	★	★			
Sustainable sourcing	★	★	★		
Occupational safety + health	★	★			
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★			
Volunteering + charitable giving	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-stars

Source: AmInvestment Bank Bhd

## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,801.1	7,236.3	26,694.1	10,234.1	8,741.2
EBITDA	702.0	2,577.4	11,449.1	4,066.1	2,514.5
Depreciation/Amortisation	(206.8)	(221.5)	(289.7)	(415.3)	(542.2)
Operating income (EBIT)	495.3	2,355.9	11,159.4	3,650.8	1,972.3
Other income & associates	(2.7)	(1.4)	(1.6)	(1.7)	(1.9)
Net interest	(69.0)	(29.4)	12.6	22.2	9.4
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	423.6	2,325.0	11,170.4	3,671.3	1,979.8
Taxation	(56.0)	(397.6)	(2,457.5)	(807.7)	(435.6)
<b>Minorities/pref dividends</b>	<b>(2.9)</b>	<b>(36.8)</b>	<b>(176.8)</b>	<b>(58.1)</b>	<b>(31.4)</b>
Net profit	364.7	1,890.6	8,536.1	2,805.5	1,512.9
Core net profit	364.7	1,890.6	8,536.1	2,805.5	1,512.9
<b>Balance Sheet (RMmil, YE 31 Aug)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	2,480.0	3,034.8	5,245.1	7,354.9	9,362.9
Intangible assets	1,256.4	1,012.3	1,042.7	1,074.0	1,106.2
<b>Other long-term assets</b>	<b>413.1</b>	<b>364.3</b>	<b>374.9</b>	<b>385.8</b>	<b>397.1</b>
Total non-current assets	4,149.5	4,411.4	6,662.7	8,814.6	10,866.2
Cash & equivalent	165.8	1,210.4	7,208.9	8,743.4	7,880.2
Stock	629.9	525.6	2,194.0	841.2	718.5
Trade debtors	592.2	803.1	3,291.1	1,261.7	1,077.7
<b>Other current assets</b>	<b>150.8</b>	<b>1,722.5</b>	<b>1,851.3</b>	<b>1,742.3</b>	<b>1,732.4</b>
Total current assets	1,538.7	4,261.6	14,545.3	12,588.6	11,408.8
Trade creditors	492.4	670.7	2,254.5	921.8	946.1
Short-term borrowings	1,041.3	323.3	338.3	366.2	380.6
<b>Other current liabilities</b>	<b>58.1</b>	<b>984.8</b>	<b>1,292.2</b>	<b>1,387.6</b>	<b>1,492.5</b>
Total current liabilities	1,591.8	1,978.8	3,884.9	2,675.6	2,819.3
Long-term borrowings	1,379.4	217.4	224.0	230.7	237.6
<b>Other long-term liabilities</b>	<b>162.9</b>	<b>167.0</b>	<b>160.6</b>	<b>160.6</b>	<b>160.6</b>
<b>Total long-term liabilities</b>	<b>1,542.3</b>	<b>384.5</b>	<b>384.6</b>	<b>391.3</b>	<b>398.2</b>
Shareholders' funds	2,537.0	6,284.1	16,912.9	18,310.7	19,031.9
Minority interests	17.2	25.6	25.6	25.6	25.6
BV/share (RM)	1.00	0.79	1.93	2.08	2.17
<b>Cash Flow (RMmil, YE 31 Aug)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	423.6	2,325.0	11,170.4	3,671.3	1,979.8
Depreciation/Amortisation	206.8	221.5	289.7	415.3	542.2
Net change in working capital	63.5	(573.3)	(2,394.1)	2,253.9	445.9
<b>Others</b>	<b>(167.7)</b>	<b>1,198.0</b>	<b>(932.9)</b>	<b>667.5</b>	<b>(1,331.4)</b>
Cash flow from operations	526.2	3,171.3	8,133.1	7,008.0	1,636.5
Capital expenditure	(623.7)	(765.2)	(2,500.0)	(2,525.0)	(2,550.3)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>130.2</b>	<b>(1,317.8)</b>	<b>292.9</b>	<b>(41.0)</b>	<b>(42.2)</b>
Cash flow from investing	(493.5)	(2,083.0)	(2,207.1)	(2,566.0)	(2,592.5)
Debt raised/(repaid)	(643.0)	185.0	1,709.7	(1,499.9)	884.5
Equity raised/(repaid)	-	-	4,170.0	-	-
Dividends paid	(204.4)	(961.9)	(5,806.4)	(1,407.6)	(791.8)
<b>Others</b>	<b>812.9</b>	<b>733.2</b>	-	-	-
<b>Cash flow from financing</b>	<b>(34.6)</b>	<b>(43.7)</b>	<b>73.3</b>	<b>(2,907.5)</b>	<b>92.7</b>
<b>Net cash flow</b>	<b>(1.8)</b>	<b>1,044.6</b>	<b>5,999.3</b>	<b>1,534.5</b>	<b>(863.2)</b>
<b>Net cash/(debt) b/f</b>	<b>163.9</b>	<b>164.9</b>	<b>1,209.5</b>	<b>7,208.9</b>	<b>8,743.4</b>
Net cash/(debt) c/f	164.9	1,209.5	7,208.9	8,743.4	7,880.2
<b>Key Ratios (YE 31 Aug)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	13.9	50.7	268.9	(61.7)	(14.6)
EBITDA growth (%)	(1.3)	267.1	344.2	(64.5)	(38.2)
Pretax margin (%)	8.8	32.1	41.8	35.9	22.6
Net profit margin (%)	7.6	26.1	32.0	27.4	17.3
Interest cover (x)	7.2	80.1	nm	nm	nm
Effective tax rate (%)	13.2	17.1	22.0	22.0	22.0
Dividend payout (%)	56.1	50.9	68.0	50.2	52.3
Debtors turnover (days)	47	35	28	81	49
Stock turnover (days)	43	29	19	54	33
Creditors turnover (days)	38	29	20	57	39

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.