



TOP GLOVE CORP

(TOPG MK EQUITY, TPGC.KL)

13 Sep 2021

ESG concerns allayed but ASP still declining

HOLD

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2290

Rationale for report: Company update

Price	RM3.40
Fair Value	RM3.77
52-week High/Low	RM9.61/RM3.38

Key Changes

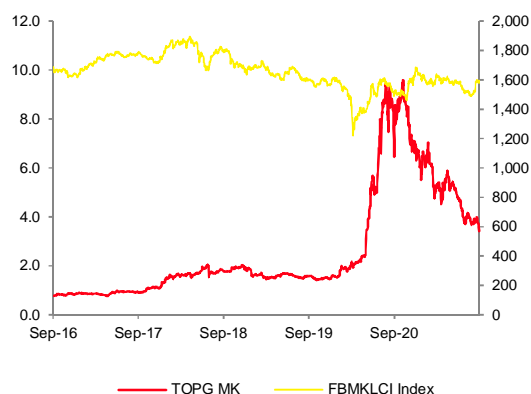
Fair value	↕
EPS	↔

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	2,801.8	1,510.9
FD Core EPS (sen)	21.5	97.0	31.8	17.2
FD Core EPS growth (%)	418.4	351.5	(67.2)	(46.1)
Consensus Net Profit (RM mil)	-	-	520.7	572.5
DPS (sen)	10.9	66.0	16.0	9.0
PE (x)	15.8	3.5	10.7	19.8
EV/EBITDA (x)	10.3	1.8	4.7	7.9
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)	27,213.9
Book Value (RM/share)	0.79
P/BV (x)	4.3
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)	79.8

Price performance	3mth	6mth	12mth
Absolute (%)	(28.9)	(33.7)	(51.9)
Relative (%)	(28.8)	(31.8)	(54.4)



Investment Highlights

- **We maintain HOLD on Top Glove with a higher fair value (FV) of RM3.77 (vs. RM3.66/share previously).** Top Glove has announced that it is now allowed to sell its Malaysia-made gloves to the US. This is a positive development as it indicates that ESG concerns have been alleviated. We have accordingly upgraded our ESG rating to 3 stars from 2 stars for Top Glove.
- **To resume selling gloves to US.** We gather that the approval was granted to Top Glove Malaysia to sell its gloves in the US as the US Customs and Border (CBP) now believes that Top Glove's disposable gloves are no longer produced or manufactured in any part with forced labour.
- **We are positive on the news.** The news could boost Top Glove's share price as it may potentially improve the ESG perception towards the company.
- **Earnings estimates maintained.** Pending the 4QFY21 results due on 17 Sep, we maintain our earnings estimates for FY21/FY22/FY23 at RM8.54bil/RM2.80bil/RM1.51bil. Our key assumptions for blended gloves ASP for FY21/FY22/FY23 are US\$87.50/US\$30.50/US\$26.50.
- **ESG score increased to 3 stars from 2 stars.** We have raised our ESG score for "occupational safety + health" and "employee training + wellbeing" to 3 stars. The previous rating for these two categories is 2 stars.
- **FV raised to RM3.77 from RM3.66.** Our FV is based on unchanged 14x PE on CY22F FD EPS. We ascribe a higher FV after removing the previous 3% ESG-adjusted discount. For companies with a 3-star ESG rating, we do not assign a premium or discount to the stock PE valuation.
- **Nevertheless, we maintain HOLD as the positive news from the ESG perspective is offset by the prospect of lower ASP.** Due to higher incoming supply of gloves in the near term, we believe that ASP should decline in 3Q and 4Q of 2021. As a result, the positive impact from the removal of the CBP ban is offset by lower earnings for FY22 and FY23.

EXHIBIT 1: 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			
ASP (USD/1000 pcs)	23.0	40.4	65.3	81.5	64.6	50.0	30.5	26.5
QoQ changes %		76%	62%	25%	-21%	-23%		

Source: Top Glove, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

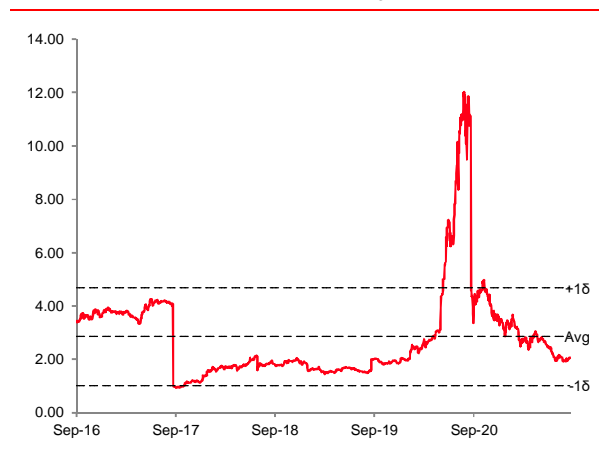


EXHIBIT 3: PE BAND CHART

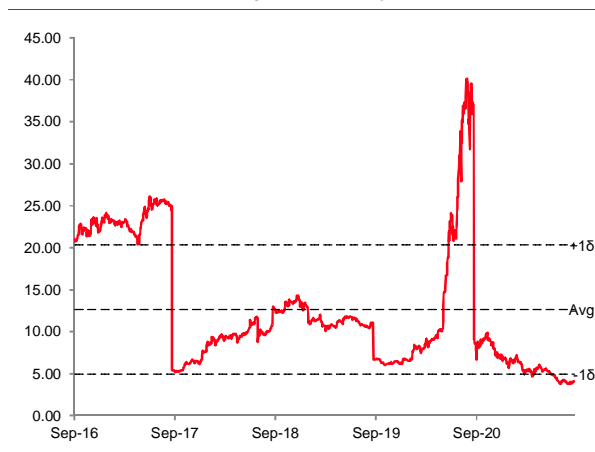


EXHIBIT 4: PREVIOUS ESG MATRIX

Overall	★	★			
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-star

Source: AmlInvestment Bank Bhd

EXHIBIT 5: NEW ESG MATRIX

Overall	★	★	★		
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-star

Source: AmlInvestment Bank Bhd

EXHIBIT 6: 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
Exceptional items	-	-	-	-	-
Pretax profit	423.6	2,325.0	11,170.4	3,671.3	1,979.8
Taxation	(56.0)	(397.6)	(2,457.5)	(811.3)	(437.5)
Minorities/pref dividends	(2.9)	(36.8)	(176.8)	(58.1)	(31.4)
Net profit	364.7	1,890.6	8,536.1	2,801.8	1,510.9
Core net profit	364.7	1,890.6	8,536.1	2,801.8	1,510.9
Balance Sheet (RMmil, YE 31 Aug)	FY19	FY20	FY21F	FY22F	FY23F
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
Other long-term assets	413.1	364.3	374.9	385.8	397.1
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	8,739.6	7,874.4
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
Other current assets	150.8	1,722.5	1,851.3	1,742.3	1,732.4
Total current assets	1,538.7	4,261.6	14,545.3	12,584.9	11,403.0
Trade creditors	492.4	670.7	2,254.5	921.8	946.1
Short-term borrowings	1,041.3	323.3	338.3	366.1	380.5
Other current liabilities	58.1	984.8	1,292.2	1,387.6	1,492.5
Total current liabilities	1,591.8	1,978.8	3,884.9	2,675.6	2,819.2
Long-term borrowings	1,379.4	217.4	224.0	230.7	237.6
Other long-term liabilities	162.9	167.0	160.6	160.6	160.6
Total long-term liabilities	1,542.3	384.5	384.6	391.3	398.2
Shareholders' funds	2,537.0	6,284.1	16,912.9	18,307.1	19,026.2
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
Cash Flow (RMmil, YE 31 Aug)	FY19	FY20	FY21F	FY22F	FY23F
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
Others	(167.7)	1,198.0	(932.9)	660.1	(1,335.4)
Cash flow from operations	526.2	3,171.3	8,133.1	7,000.6	1,632.5
Capital expenditure	(623.7)	(765.2)	(2,500.0)	(2,525.0)	(2,550.3)
Net investments & sale of fixed assets	-	-	-	-	-
Others	130.2	(1,317.8)	292.9	(41.0)	(42.2)
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	(1,496.2)	886.5
Equity raised/(repaid)	-	-	4,170.0	-	-
Dividends paid	(204.4)	(961.9)	(5,806.4)	(1,407.6)	(791.8)
Others	812.9	733.2	-	-	-
Cash flow from financing	(34.6)	(43.7)	73.3	(2,903.8)	94.7
Net cash flow	(1.8)	1,044.6	5,999.3	1,530.8	(865.2)
Net cash/(debt) b/f	163.9	164.9	1,209.5	7,208.9	8,739.6
Net cash/(debt) c/f	164.9	1,209.5	7,208.9	8,739.6	7,874.4
Key Ratios (YE 31 Aug)	FY19	FY20	FY21F	FY22F	FY23F
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	22.1	22.1
Dividend payout (%)	56.1	50.9	68.0	50.2	52.4
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

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