



TOP GLOVE CORP

(TOPG MK EQUITY, TPGC.KL)

13 Dec 2021

Dragged by low ASP and utilization rate

HOLD

(Maintained)

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03-20362025

Rationale for report: Company results

Price	RM2.16
Fair Value	RM1.95
52-week High/Low	RM7.00/RM2.15

Key Changes

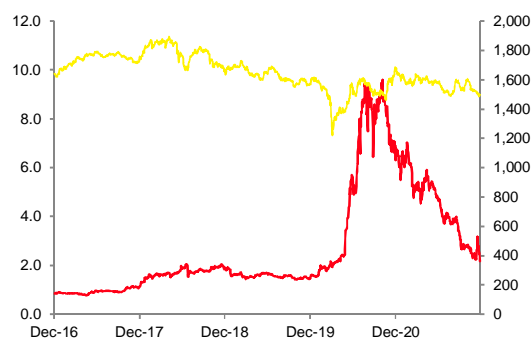
Fair value	⬇️
EPS	⬇️

YE to Aug	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	16,403.0	7,037.8	8,856.8	9,831.3
Core net profit (RM mil)	7,870.9	654.9	898.1	1,057.5
FD Core EPS (sen)	89.5	7.4	10.2	12.0
FD Core EPS growth (%)	322.0	(91.7)	37.1	17.8
Consensus Net Profit (RM mil)	-	1737	1253	1278
DPS (sen)	11.0	4.0	5.0	6.0
PE (x)	2.4	29.0	21.2	18.0
EV/EBITDA (x)	1.6	14.5	10.8	8.8
Div yield (%)	2.3	0.8	1.0	1.2
ROE (%)	115.6	8.8	11.4	12.7
Net Gearing (%)	0.0	0.0	0.0	0.0

Stock and Financial Data

Shares Outstanding (million)	8,004.1
Market Cap (RM mil)	17,288.9
Book Value (RM/share)	0.91
P/BV (x)	2.4
ROE (%)	115.7
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)	86.2

Price performance	3mth	6mth	12mth
Absolute (%)	(36.7)	(53.4)	(68.1)
Relative (%)	(33.2)	(50.7)	(64.0)



— TOPG MK — FBMKLCI Index

Investment Highlights

- **We maintain HOLD on Top Glove with a lower fair value (FV) of RM1.95 (vs. RM2.60/share previously). Our valuation methodology is unchanged, using PER of 18x on CY23F EPS. There is no ESG-related FV adjustment based on our 3-star rating.**
- **Earnings missed expectations.** Top Glove's 1QFY22 earnings of RM186mil made up only 11% of our and consensus full-year estimates. Overall, its results missed expectations due to lower-than-expected gloves average selling price (ASP) of US\$32/1,000 pieces and a weaker-than-expected utilization rate of 55%.
- **1QFY22 earnings dropped 92% YoY and 70% QoQ.** The drop in earnings is due to lower ASP and higher operating cost caused by its weak utilization rate and volume. The ASP decline is in line with the more intense competition in the market where supply has increased as existing players expand their capacities and new players enter the market.
- **Dividend of 1.2 sen announced.** Payment date will be on 10 Jan 2022 with the ex-date on 24 Dec 2021.
- **FY22 earnings estimates cut by 60% to RM655mil.** We have also reduced our earnings estimates by 21% for FY23. Our key assumptions for blended gloves ASP for FY22/FY23 are now US\$22.1/US\$23.0 (previously US\$25.4/US\$23.0). For FY22, we have factored in the prosperity tax impact. We have also assumed lower utilization rates of 65% and 78% for FY22 and FY23 respectively.
- **Tough near-term outlook.** Top Glove expects a challenging business environment in the immediate term as competition intensified amidst reduced demand and higher supply. Although its near-term outlook is tough, we believe that its long-term prospects remain bright as we anticipate Top Glove's volume growth returning to 8–10% annually after the recent decline in volume.
- **Lower FV at RM1.95.** We cut our FV to RM1.95 due to lower earnings estimates for CY23. Our PE is unchanged at 18x.
- **Maintain HOLD call; ESG score maintained at 3 stars.** The ASP downtrend should cause earnings to decline QoQ in 2QFY22. However, Top Glove is in a strong net cash position of RM1.38bil.

EXHIBIT 1: QUARTERLY RESULTS

YE to Aug	1QFY21	4QFY21	1QFY22	QoQ %	YoY %	1QFY21	1QFY22	YTD %
Revenue	4,759.3	2,116.4	1,584.1	-25.1%	-66.7%	4,759.3	1,584.1	-66.7%
EBIT	3,074.3	714.8	252.0	-64.7%	-91.8%	3,074.3	252.0	-91.8%
Pretax profit	3,085.5	729.5	258.8	-64.5%	-91.6%	3,085.5	258.8	-91.6%
Taxation	(690.3)	(98.1)	(56.5)	-42.4%	-91.8%	(690.3)	(56.5)	-91.8%
Minority Interest	(16.5)	(10.6)	(3.9)	-63.5%	-76.7%	(16.5)	(3.9)	-76.7%
Net Profit	2,378.6	620.9	198.5	-68.0%	-91.7%	2,378.6	198.5	-91.7%
Net Profit to Shareholders	2,349.2	607.9	185.7	-69.5%	-92.1%	2,349.2	185.7	-92.1%
Core EPS (sen)	27.0	7.1	2.5	-64.9%	-90.8%	27.0	2.5	-90.8%
Net gearing (x)	net cash	net cash	net cash			net cash	net cash	
EBIT margin (%)	64.6%	33.8%	15.9%			64.6%	15.9%	
PBT margin (%)	64.8%	34.5%	16.3%			64.8%	16.3%	
Net profit margin (%)	50.0%	29.3%	12.5%			50.0%	12.5%	
Effective tax rate (%)	22.4%	13.4%	21.8%			22.4%	21.8%	

Source: Top Glove, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

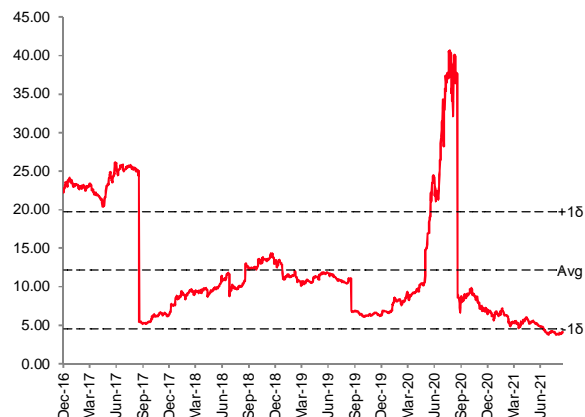


EXHIBIT 4: ESG MATRIX

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

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Aug)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	7,236.3	16,403.0	7,037.8	8,856.8	9,831.3
EBITDA	2,577.4	10,391.5	1,052.3	1,415.4	1,733.9
Depreciation/Amortisation	(221.5)	(308.5)	(285.3)	(324.5)	(364.1)
Operating income (EBIT)	2,355.9	10,083.0	767.0	1,090.8	1,369.7
Other income & associates	(1.4)	2.6	2.9	3.2	3.5
Net interest	(29.4)	57.0	77.4	68.0	(4.9)
Exceptional items	-	-	-	-	-
Pretax profit	2,325.0	10,142.7	847.3	1,162.0	1,368.3
Taxation	(397.6)	(2,157.8)	(187.3)	(256.8)	(302.4)
Minorities/pref dividends	(36.8)	(62.6)	(5.2)	(7.2)	(8.4)
Net profit	1,865.0	7,870.9	654.9	898.1	1,057.5
Core net profit	1,865.0	7,870.9	654.9	898.1	1,057.5
Balance Sheet (RMmil, YE 31 Aug)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	3,034.8	4,021.8	4,056.1	4,519.7	4,951.7
Intangible assets	1,012.3	1,008.8	1,039.1	1,070.2	1,102.3
Other long-term assets	364.3	389.3	400.6	412.2	424.2
Total non-current assets	4,411.4	5,419.9	5,495.7	6,002.2	6,478.2
Cash & equivalent	1,210.4	878.3	2,346.1	2,318.7	2,424.9
Stock	525.6	1,179.5	506.1	636.9	706.9
Trade debtors	803.1	685.6	294.2	370.2	410.9
Other current assets	1,722.5	1,693.3	1,482.0	1,523.0	1,545.0
Total current assets	4,261.6	4,436.7	4,628.3	4,848.8	5,087.8
Trade creditors	670.7	644.0	704.2	873.5	949.1
Short-term borrowings	323.3	312.7	152.6	161.8	172.4
Other current liabilities	984.8	1,170.2	1,248.2	1,334.1	1,428.6
Total current liabilities	1,978.8	2,126.9	2,105.0	2,369.3	2,550.0
Long-term borrowings	217.4	146.0	150.4	154.9	159.5
Other long-term liabilities	167.0	203.4	185.4	185.4	185.4
Total long-term liabilities	384.5	349.4	335.8	340.3	344.9
Shareholders' funds	6,284.1	7,327.5	7,630.4	8,088.6	8,618.3
Minority interests	25.6	25.6	25.6	25.6	-
BV/share (RM)	0.79	0.91	0.87	0.92	-
Cash Flow (RMmil, YE 31 Aug)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	2,325.0	10,142.7	847.3	1,162.0	1,368.3
Depreciation/Amortisation	221.5	308.5	285.3	324.5	364.1
Net change in working capital	(573.3)	(348.6)	1,414.4	7.3	37.3
Others	1,198.0	(2,293.7)	1,697.1	(292.5)	(205.9)
Cash flow from operations	3,171.3	7,809.0	4,244.2	1,201.3	1,563.9
Capital expenditure	(765.2)	(1,348.6)	(780.4)	(788.2)	(796.1)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(1,317.8)	112.4	(21.5)	(41.6)	(42.8)
Cash flow from investing	(2,083.0)	(1,236.3)	(801.9)	(829.7)	(838.9)
Debt raised/(repaid)	185.0	27.1	(1,623.5)	41.0	(91.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(961.9)	(965.8)	(351.9)	(439.9)	(527.9)
Others	733.2	(5,964.3)	-	-	-
Cash flow from financing	(43.7)	(6,903.0)	(1,975.4)	(398.9)	(618.8)
Net cash flow	1,044.6	(330.3)	1,466.8	(27.3)	106.2
Net cash/(debt) b/f	164.9	1,209.5	879.2	2,346.1	2,318.7
Net cash/(debt) c/f	1,209.5	879.2	2,346.1	2,318.7	2,424.9
Key Ratios (YE 31 Aug)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	50.7	126.7	(57.1)	25.8	11.0
EBITDA growth (%)	267.1	303.2	(89.9)	34.5	22.5
Pretax margin (%)	32.1	61.8	12.0	13.1	13.9
Net profit margin (%)	25.8	48.0	9.3	10.1	10.8
Interest cover (x)	80.1	nm	nm	nm	279.3
Effective tax rate (%)	17.1	21.3	22.1	22.1	22.1
Dividend payout (%)	51.6	12.3	53.7	49.0	49.9
Debtors turnover (days)	35	17	25	14	14
Stock turnover (days)	29	19	44	24	25
Creditors turnover (days)	29	15	35	33	34

Source: Company, AmInvestment Bank Bhd estimates

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