

Top Glove Corporation Berhad

(7113 | TOPG MK) Health Care | Health Care Equipment & Services

Poised for record year


KEY INVESTMENT HIGHLIGHTS

- **Earnings above our expectation**
- **Strong earnings in 9MFY20 on higher sales of gloves and lower raw material prices**
- **Poised for record year**
- **Earnings estimate revised upwards**
- **Downgrade to Neutral from Buy with a revised TP of RM17.30**

Earnings above our expectation. Top Glove's 9MFY20 core net profit of RM596.3m came in within consensus' but beat our expectation, meeting 114% of our full year forecast. The positive deviation could be attributed to the stronger-than-expected sales of gloves and the lower-than-expected raw material prices. Meanwhile, Top Glove declared an interim dividend of 10 sen per share.

Strong earnings in 9MFY20. On sequential basis, 3QFY20 earnings surged to RM365m (+195%qoq) mainly attributed to higher sales of gloves and lower raw material prices. Sales quantity of nitrile gloves and natural rubber gloves increased by 27%qoq and 25%qoq respectively as Covid-19 pandemic has led to strong demand for gloves. Besides, higher ASP and lower raw material prices had also boosted earnings in 3QFY20. Meanwhile, 9MFY20 core net profit was higher at RM596.3m (+99%yoy), boosted by higher ASP of gloves, higher sales quantity and lower raw material prices. That has led to PBT margin expansion in 9MFY20 to 16.4% from 9.7% in 9MFY19.

Poised for record year. Earnings outlook for Top Glove remains positive as we gather that ASP of gloves will be higher in 4Q20 as demand for gloves remains strong. Note that Top Glove revises its ASP on monthly basis in line with prevailing market prices and rakes it higher percentage of spot sales with higher spot market price. Besides, new gloves production capacity of Top Glove is expected to grow by 36% from 73.8bil pcs in 3QFY20 to 100.4bil pcs in 4QFY21. Hence, we revise our FY20/21/22F earnings by +97.3%/+74.2%/+54.1% and expect Top Glove to post record profit in FY20.

Downgrade to Neutral from Buy with a revised TP of RM17.30. Corresponding to the upward revisions in earnings, our TP for Top Glove is revised to RM17.31 (previously RM6.63), pegging 45x PER at FY21 EPS of 38.5sen. We value Top Glove at its upcycle PER of +2SD 3-year historical mean PER in view of the positive outlook for gloves demand. While we like Top Glove for its positive earnings outlook and solid balance sheet of net cash position, we think that the positives have been largely priced in. Hence, we are downgrading our call on Top Glove to Neutral from Buy. 

Downgrade to NEUTRAL

(Previously BUY)

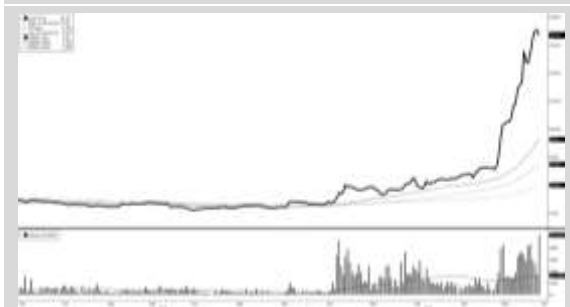
Revised Target Price: RM17.30

(Previously RM6.63)

RETURN STATISTICS

Price @11 June 2020 (RM)	16.70
Expected share price return (%)	3.6
Expected dividend yield (%)	1.2
Expected total return (%)	4.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	109.0	85.2
3 months	158.9	133.8
12 months	230.7	250.5

KEY STATISTICS

FBM KLCI	1,557.25
Syariah compliant	Yes
Issue shares (m)	2559.81
Estimated free float (%)	50.25
Market Capitalisation (RM'm)	44409.56
52-wk price range	RM4.21 - RM18
Beta vs FBM KLCI (x)	0.72
Monthly velocity (%)	0.00
Monthly volatility (%)	17.40
3-mth average daily volume (m)	16.41
3-mth average daily value (RM'm)	169.45
Top Shareholders (%)	
Lim Wee Chai	25.93
FIRSTWAY UNITED CORP	6.92
Employees Provident Fund Board	4.80

Analyst(s)

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INVESTMENT STATISTICS

Financial year ending 31st August (in RM'm, unless otherwise stated)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	4220.7	4801.1	8085.7	8038.2	7480.2
PBT	522.8	423.6	1201.0	1141.5	1062.3
PATANCI	428.8	364.7	1036.7	985.4	917.0
EPS (sen)	16.7	14.2	40.5	38.5	35.8
EPS Growth (%)	29.7	-15.0	184.3	-4.9	-6.9
PBT margin (%)	12.4	8.8	14.9	14.2	14.2
PATANCI margin (%)	10.2	7.6	12.8	12.3	12.3
PER (x)	99.8	117.3	41.3	43.4	46.7
Dividend per share (sen)	8.0	7.5	20	19	18
Dividend yield (%)	0.5	0.4	1.2	1.2	1.1

Source: Company, MIDFR

Table 1: Top Glove's quarterly earnings review

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	3QFY20	2QFY20	3QFY19	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	1,688.3	1,229.8	1,190.2	41.8	37.3	4,127.2	3,612.2	14.3
Operating expenses	(1,271.3)	(1,091.6)	(1,101.1)	15.5	16.5	(3,439.7)	(3,239.6)	6.2
Other operating income	12.9	11.2	15.1	(14.8)	15.0	33.4	36.7	(9.0)
Finance costs	(5.8)	(18.2)	(20.0)	(71.2)	(68.2)	(42.7)	(58.6)	(27.2)
Share of results of associates	(2.1)	(0.8)	(1.9)	nm	>(100)	(0.3)	(1.1)	(70.3)
Profit Before Tax	422.0	130.4	82.2	413.2	223.7	677.8	349.6	93.9
Taxation	(72.0)	(14.4)	(7.1)	920.9	401.2	(100.0)	(56.1)	78.5
Profit After Tax	350.0	116.0	75.2	365.5	201.7	577.8	293.5	96.8
Non-controlling interests	2.1	0.3	0.5	308.8	549.8	2.8	3.0	(7.5)
PATAMI	347.9	115.7	74.7	365.9	200.7	575.0	290.5	97.9
Core PATAMI	365.0	123.6	89.5	307.8	195.3	596.3	299.6	99.0
Basic EPS (sen)	8.9	4.5	2.9	203.8	96.3	17.7	10.9	62.3
PBT margin (%)	25.0	10.6	6.9	261.8	135.8	16.4	9.7	69.7
PAT margin (%)	20.7	9.4	6.3	228.2	119.8	14.0	8.1	72.3
PATAMI margin (%)	20.6	9.4	6.3	228.5	119.1	13.9	8.0	73.2
Effective tax rate (%)	17.1	11.0	8.6	99.0	54.8	14.8	16.0	(7.9)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.