

Top Glove Corporation Berhad

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

Maintain BUY

Cherry on top

Adjusted Target Price: RM8.29
(Previously RM10.96)

KEY INVESTMENT HIGHLIGHTS


- **Announced special dividend of additional 20% for 2QFY21 until 4QFY21**
- **Near-term prospects intact**
- **Employee welfare under scrutiny and time is required for substantial improvement**
- **Maintain BUY with an adjusted TP of RM8.29 from RM10.96**

Announced special dividend of additional 20% for 2QFY21 till 4QFY21.

Top Glove announced that it will be increasing its dividend payout ratio from its usual 50% to 70% for the next three quarters in view of its anticipated exemplary financial performance for FY2021 coupled with strong cash flow. We are positively surprised by the announcement as this is higher than the 56% payout ratio announced in December in conjunction with the release of its 1QFY21 results. We believe that Top Glove will still be able to fulfil its capital requirements even with the higher payout ratio considering its improving operating cash flow. Hence, we increase our DPS assumption to 69.0sen from 55.0sen previously. This translates into a dividend yield of 12.5% for FY21E. That said, we maintain our FY22F payout assumption of 50% and DPS of 22.0 sen, which implies a decent yield of 4.0%.

Near-term prospects intact. We notice that sentiment for the glove companies has turned negative, accompanied by the flurry of news revolving Covid-19 vaccines but channel checks reveal that demand for gloves remain strong with positive momentum for average selling prices. Delivery time for nitrile gloves are expected to be more than one year. All things considered, we believe that Top Glove is on track to deliver record results in FY21E.

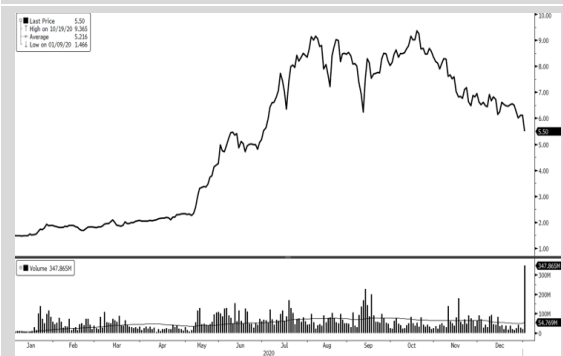
Employee welfare under scrutiny and time is required to show substantial improvement. We acknowledge that considerations on environment, social and governance (ESG) weigh higher in sustainable investing. The past issues Top Glove encountered had somewhat dampened some of its ESG aspects and we opine that the company may need some time to rectify them. Among others, the company has committed to improving its employees' accommodation by setting aside budget to purchase and/or build better housing for them.

Maintain BUY with an adjusted TP of RM8.29 (previously RM10.96). Our new TP is based on -0.5SD of 10-year PER mean of 18.9x as we take into consideration of the works that can be done to further improve its employee welfare. Our TP is pegged to an unchanged FY22F EPS of 43.8 sen. Since the correction of its share price, Top Glove is trading at a PER of 5.3x FY21E earnings and 12.5x FY22F earnings, which makes valuation attractive for a large cap. The sweetener is the bumper dividend for FY21E with an estimated yield of 12.5%. 

RETURN STATISTICS

Price @4 th January 2020 (RM)	5.50
Expected share price return (%)	50.6
Expected dividend yield (%)	4.0
Expected total return (%)	54.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-17.3	-17.3
3 months	-10.1	-41.4
12 months	253.3	250.3

KEY STATISTICS

FBM KLCI	1,602.57
Syariah compliant	Yes
Issue shares (m)	8124.49
Estimated free float (%)	49.70
Market Capitalisation (RM'm)	44,124.32
52-wk price range	RM1.51 - RM9.76
Beta vs FBM KLCI (x)	1.04
Monthly volatility (%)	17.40
3-mth average daily volume (m)	49.52
3-mth average daily value (RM'm)	378.07
Top Shareholders (%)	
Lim Wee Chai	26.20
Firstway United Corp	14.12
EPF	5.28

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INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2019	FY2020	FY2021E	FY2022F	FY2023F
Revenue	4,801.1	7,236.3	19,926.0	15,120.0	13,274.1
EBIT	505.9	2,296.5	10,093.9	4,332.9	2,624.9
PBT	423.6	2,301.4	9,803.9	4,112.8	2,431.7
PAT	367.5	1,903.8	8,529.4	3,578.2	2,115.6
PATANCI	364.7	1,867.0	8,462.8	3,550.2	2,099.1
Core PATANCI	364.4	1,782.4	8,462.8	3,550.2	2,099.1
EPS (sen)	14.2	23.1	104.5	43.8	25.9
EPS Growth (%)	-15.0	62.0	353.3	-58.0	-40.9
PBT margin (%)	8.8	31.8	49.2	27.2	18.3
PATANCI margin (%)	7.6	25.8	42.5	23.5	15.8
PER (x)	38.6	23.9	5.3	12.5	21.2
Dividend per share (sen)	7.5	11.8	69.0	22.0	13.0
Dividend yield (%)	1.4	2.1	12.5	4.0	2.4

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.