

Top Glove Corporation Berhad

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

Maintain BUY

Minimal impact from US detention order

Unchanged Target Price: RM26.12


KEY INVESTMENT HIGHLIGHTS

- **Products from two subsidiaries placed under US detention order**
- **Neutral on the news as issue should resolve within 2 weeks**
- **Muted earnings impact**
- **Earnings estimate maintained**
- **Maintain BUY with unchanged TP of RM26.12**

Two subsidiaries placed under US detention order. Top Glove announced that the US Customs and Border Protection (CBP) had placed a detention order on disposable gloves manufactured by two of its subsidiaries, namely Top Glove Sdn Bhd and TG Medical Sdn Bhd on 15th July 2020. Top Glove revealed that there is a possibility that this may be related to foreign labour issues whereby the reimbursement cost is estimated in the range of RM20m to RM50m.

Neutral on the news as issue should resolve within 2 weeks. We are neutral on the news as Top Glove are reaching out to the CBP through their office in US and engaging a third-party independent consultant to work towards a speedy resolution of the matter within an estimated 2 weeks. The shipments detained can be released once the detention order lifted. We gather that US accounts for about 25% of Top Glove's sales volume while the two subsidiaries that have been placed under detention order accounted for 12.5% of its total sales. Meanwhile, Top Glove will continue ship stocks to the US and park at free trade zone. In a worst-case scenario, Top Glove could ship the stocks to other countries as demand for gloves is strong amid the Covid-19 pandemic.

Muted earnings impact. Earnings impact from the detention order is expected to be muted as Top Glove is confident to resolve the issue within 2 weeks. Besides, the estimated reimbursement cost of RM20m to RM50m to resolve the issue is minimal considering estimated earnings of >RM1b in FY20. Hence, we make no changes to our earnings forecast for FY20-22F.

Maintain BUY with unchanged TP of RM26.12. We maintain our **TP** for Top Glove at **RM26.12**, pegging FY21F EPS of 60.8sen at PER of 43x. We value Top Glove at its upcycle PER of +1SD 3-year historical mean PER in view of the positive outlook for gloves demand. We believe the positive earnings outlook for Top Glove is unfazed by the detention order as demand for gloves remains strong with average selling price of gloves remains on uptrend. Hence, we maintain our **BUY** call on Top Glove. 

RETURN STATISTICS

Price @16 July 2020 (RM)	21.24
Expected share price return (%)	22.9
Expected dividend yield (%)	1.1
Expected total return (%)	24.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	25.48	21.73
3 months	22.36	159.14
12 months	328.26	351.19

KEY STATISTICS

FBM KLCI	1573.31
Syariah compliant	Yes
Issue shares (m)	2559.81
Estimated free float (%)	50.74
Market Capitalisation (RM'm)	53133.63
52-wk price range	RM4.21 - RM25.1
Beta vs FBM KLCI (x)	1.19
Monthly velocity (%)	0.00
Monthly volatility (%)	17.40
3-mth average daily volume (m)	21.86
3-mth average daily value (RM'm)	330.51
Top Shareholders (%)	
Lim Wee Chai	25.73
FIRSTWAY UNITED CORP	6.84
Employees Provident Fund Board	4.73

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	8364.5	11129.8	9756.8
PBT	522.8	423.6	1328.1	1803.2	1483.2
PATANCI	428.8	364.7	1146.4	1556.5	1280.3
EPS (sen)	16.7	14.2	44.7	60.7	50.0
EPS Growth (%)	29.7	-15.0	214.4	35.8	-17.7
PBT margin (%)	12.4	8.8	15.9	16.2	15.2
PATANCI margin (%)	10.2	7.6	13.7	14.0	13.1
PER (x)	126.9	149.2	47.5	35.0	42.5
Dividend per share (sen)	8.0	7.5	22	30	25
Dividend yield (%)	0.4	0.4	1.1	1.4	1.2

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.