

Top Glove Corporation Berhad

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

Maintain BUY

Proposes two-for-one bonus issue

Revised Target Price: RM27.94

Previously RM26.12

KEY INVESTMENT HIGHLIGHTS


- **Proposes two-for-one bonus issue of shares**
- **We are positive on the bonus issue**
- **Bonus issue to enhance affordability of shares**
- **Positive earnings outlook intact**
- **Earnings estimate maintained**
- **Maintain BUY with a revised TP of RM27.94**

Proposes two-for-one bonus issue of shares. Top Glove proposes to undertake bonus issue involves the issuance of up to 5,476,974,322 bonus shares on the basis of two bonus shares for one existing new ordinary share. The entitlement date will be determined and announced later. The proposed bonus issue is expected to be completed by third quarter of CY2020.

We are positive on the bonus issue. We view the bonus issue positively as it would improve trading liquidity of the Top Glove shares. Under maximum scenario, the enlarged issued share capital after the proposed bonus issue will increase to 8.2bil shares from 2.7bil shares. The bonus issue also allows Top Glove to reward its existing shareholders.

Enhance affordability of shares. The bonus issue is expected to enhance affordability of Top Glove shares. We estimate that theoretical ex-bonus issue price, assuming yesterday's closing price, to be at RM8.15, making the stocks more affordable to retail investors. Hence, we think that the bonus issue will make Top Glove shares more attractive to investors.

Positive earnings outlook intact. We continue to expect positive earnings outlook for Top Glove despite the recent news on the detention order from US as Top Glove is confident to resolve the issue within 2 weeks. Earnings of Top Glove is expected to underpin by the higher average selling price (ASP) of gloves as demand for gloves remains strong amid Covid-19 pandemic.

Maintain BUY with a revised TP of RM27.94. We make no changes to our earnings forecast for FY20/21/22F as the bonus issue is not expected to have effect on earnings of Top Glove. Nevertheless, we revise our TP for Top Glove to **RM27.94** from RM26.12 as we peg FY21F EPS of 60.8sen at a higher PER of 46x (previously 43x) in view of the improved trading liquidity. We value Top Glove slightly above its upcycle PER of +1SD 3-year mean PER due to the resilient demand for gloves and enhanced trading liquidity. Hence, we maintain our **BUY** call on Top Glove. 

RETURN STATISTICS

| | |
|----------------------------------|-------------|
| Price @20 July 2020 (RM) | 24.82 |
| Expected share price return (%) | 12.6 |
| Expected dividend yield (%) | 1.2 |
| Expected total return (%) | 13.8 |

SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 61.2 | 52.8 |
| 3 months | 54.2 | 231.9 |
| 12 months | 432.6 | 455.7 |

KEY STATISTICS

| | |
|----------------------------------|-----------------|
| FBM KLCI | 1589.45 |
| Syariah compliant | Yes |
| Issue shares (m) | 2559.81 |
| Estimated free float (%) | 50.74 |
| Market Capitalisation (RM'm) | 66,942.98 |
| 52-wk price range | RM4.21 - RM26.1 |
| Beta vs FBM KLCI (x) | 1.20 |
| Monthly velocity (%) | 8.17 |
| Monthly volatility (%) | 17.40 |
| 3-mth average daily volume (m) | 23.26 |
| 3-mth average daily value (RM'm) | 366.94 |
| Top Shareholders (%) | |
| Lim Wee Chai | 25.73 |
| Firstway United Corp | 6.84 |

Analyst(s)

Jessica Low Jze Tieng
 Jessica.low @midf.com.my
 03-21738391

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) | 148.3 | 174.4 | 55.5 | 40.9 | 49.7 |
| Dividend per share (sen) | 8.0 | 7.5 | 22 | 30 | 25 |
| Dividend yield (%) | 0.3 | 0.3 | 0.9 | 1.2 | 1.0 |

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. |