

Equity Beat

2QFY10 Results Review

Top Glove Corp. Bhd

Stronger-than-expected margin lifted earnings

Maintain TRADING BUY

Revised Target Price (TP): RM13.80 (from RM12.30)

- Top Glove's 2QFY10 earnings grew +8.2%qoq and +95.9%yoy to RM70.5m. For 1HFY10, the figure accounted for 61.7% and 57.5% respectively of our and street estimate. Stronger-than-expected earnings margin was the major reason that the actual number beat our forecast.
- Following the adjustment of better cost passing power (raise to 70% from 60% previously); we revise upwards our EBIT margin assumption by 0.6%-pts to 15.6%, translating into FY10 EPS revision by +12.4% to 81.3 sen.
- We are maintaining our Trading Buy call for Top Glove with higher Target Price of RM13.80, derived from 17x revised EPS10.


STOCK INFO

Price (17 Mar 10)	RM12.56	KLCI	1,301.95
Issued shares (mil)	307.45	Bursa / Bloomberg	7113 / TOPG MK
Par Value (RM)	0.50	Board / Sector	Main/ Glove
Market cap. (RM'm)	3,861.53	Syariah Compliant	Yes
Price over NA	4.05x		
52-wk price Range	RM4.66 – RM12.64	Major Shareholders	
Beta (against KLCI)	0.76	Lim Wee Chai	28.85%
3-mth Avg Daily Vol	0.99m	Top Glove Holdings	5.23%
3-mth Avg Daily Value	RM12.4m	Matthews Int. Capital	5.19%

Another strong quarter. Revenue in 2QFY10 continued to register an encouraging growth of +8%qoq and +47.1%yoy to RM509.9m. This was mainly due to better glove sales volumes (approximately +3%qoq or >30%yoy) and higher average selling price (about +6.8%qoq or +11.9%yoy). Management indicated that the emerging markets, which provided better margin than that in the developed countries, contributed bulk of the growth.

Margin sustained despite an increase in raw material costs. Despite higher average latex price of RM648.6 per kg (+31.3%qoq or +72.3%yoy) in 2QFY10, Top Glove's EBIT margin improved to 18.6% from 18.5% and 13.8% respectively in 1QFY10 and 2QFY09. We believe that this is a testimony of Top Glove's better cost passing power of up to 90-100% additional costs to its customers and effective implementation of the cost saving measures. Going forward, management expects EBITDA margin to sustain at about 19-20% for FY10 (FY09: 18.8%).

Expansion plans on track, with 5 new factories are targeted to be completed by FY11. All in, Top Glove's total production capacity will increase by additional 8.25b pieces of glove or about +25%. (Refer Table 1 for more details).

Reaffirm Trading Buy with a higher Target Price. Following the conservative adjustment of better cost passing power to 70% (60% previously); we revise upwards our EBIT margin assumption by 0.6%-pts to 15.6%, translating into FY10 EPS revision by +12.4% to 81.3 sen. We however maintain our PER valuation at 17x, which is already at par with our in-house PER target for KLCI. With that, we raised our Target Price (TP) for Top Glove to RM13.80 from RM12.30 previously with unchanged Trading Buy recommendation. Another share price catalyst is the potential bonus issue; taking into account Top Glove's retained earnings were 3.5x share capital as at 2QFY10. 

FYE Aug	FY07	FY08	FY09	FY10F
Revenue (RM'm)	1,228.8	1,377.9	1,531.9	2,067.5
EBIT (RM'm)	132.3	143.9	231.1	322.3
Pretax Profit (RM'm)	118.6	134.6	221.6	321.3
Net Profit (RM'm)	89.6	110.1	169.2	247.4
EPS (sen)	29.4	36.1	55.6	81.3
EPS growth (%)	14.2%	22.9%	53.7%	46.2%
PER(x)	42.7	34.7	22.6	15.5
Net Dividend (sen)	9.2	11.0	22.0	24.4
Net Dividend Yield (%)	0.7%	0.9%	1.8%	1.9%

Source: Company, Forecasts by MIDFR

Top Glove Corp: 2QFY10 RESULTS SUMMARY

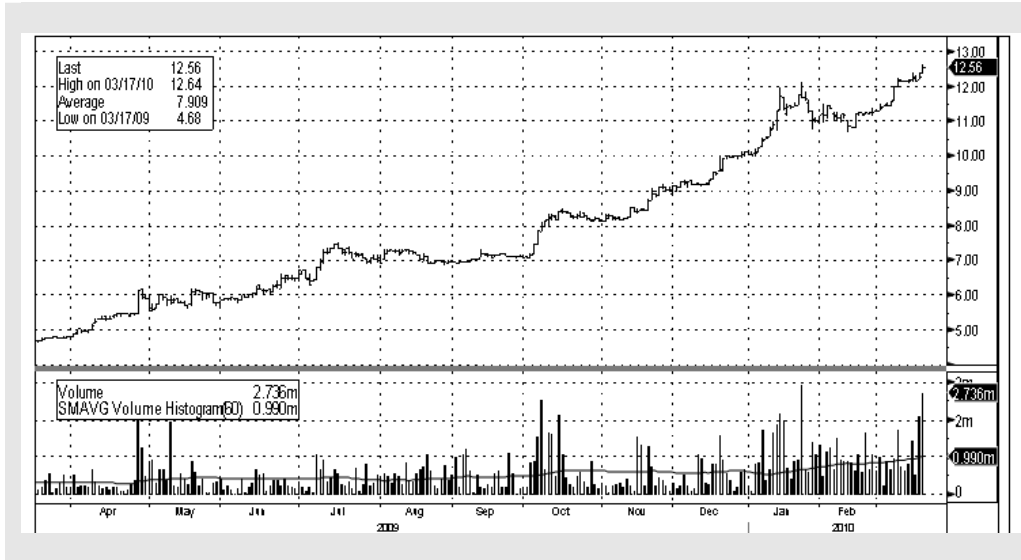
FYE Aug (RM'm)	Quarterly Results			Cumulative		Comments
	2Q10	%YoY	%QoQ	1HFY10	%YoY	
Revenue	509.9	47.1%	8.0%	982.2	34.1%	Driven by strong demand on glove and higher average selling price.
Operating expenses	-417.6	39.1%	7.9%	-804.8	25.4%	
Other op income	2.7	86.1%	26.2%	4.8	60.5%	
EBIT	94.9	98.9%	8.8%	182.1	94.0%	Due to good cost control, management efficiency and better cost passing power.
Finance costs	-0.1	-96.7%	-80.9%	-0.5	-90.6%	Due to the reduction in borrowing.
Associate	-1.0	95.1%	>100%	-1.1	75.0%	
Pre-tax profit	93.9	109.1%	8.4%	180.5	104.7%	
Tax	-21.6	>100%	7.6%	-41.7	>100%	
MI	-1.7	>100%	29.3%	-3.1	>100%	
Net profit	70.5	95.9%	8.2%	135.7	93.5%	
Basic EPS (sen)	23.5	92.6%	7.3%	45.4	90.6%	
Diluted EPS (sen)	23.5	92.5%	8.3%	45.4	90.6%	
		+/- ppts	+/- ppts		+/- ppts	
EBIT margin (%)	18.6%	4.8	0.2	18.5%	5.7	As above.
Tax rate (%)	23.0%	3.6	-0.2	23.1%	3.3	

Source: Company, MIDFR

Table 1: Capacity Expansion Plans

<u>Glove Factories:</u>			
	Target completion	No of lines	Capacity p.a. (bil of pieces)
F18 (Banting)	June 10	8	0.75
F21 (Klang)	Jul 10	16	1.50
F7 (Sadao, Thailand)	Dec 10	16	1.50
F22 (Klang)	Mar 11	16	1.50
F23 (Ipoh)	May 11	32	3.00
	Total	88	8.25

DAILY PRICE CHART



Zulkifli Hamzah
Belford Chang
Chang.kz@midf.com.my
03-2173 8392

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.