Company Update| Friday, 22 July 2022

Top Glove Corporation Berhad

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

Maintain NEUTRAL

Tough times loom

Revised Target Price: RM1.01

(Previously RM1.04)

KEY INVESTMENT HIGHLIGHTS

- **Virtual meeting with Top Glove.**
- **Postponed capacity expansion plan**
- **ASPs bottoming the pre-pandemic levels**
- **Margin erosion continues**
- **Revised FY22-24 earnings forecast**
- **Maintain NEUTRAL with revised TP of RM1.01**

Virtual meeting with Top Glove. We had a virtual briefing with Top Glove management and remained wary towards its near-term prospect. Here are the key takeaways:

Deferred capacity expansion plan. Top Glove reported an average utilization rate of 50% in 9MFY22 due to the normalized global gloves demand. The rate is 37ppt lower than the pre-pandemic level of 87%. Management does not rule out the potential of horizontal consolidation as part of its expansion strategies, yet the mergers and acquisitions activities are not envisaged to be in the next 1-2 years. The group is now concentrating on vertical expansion by constructing its gamma sterilization plant and acquiring internal raw material supply. Management highlighted that the dual listing proposal on the Hong Kong Stock Exchange (HKEX) will remain on hold as overcoming the business challenge is the top priority.

ASPs bottoming the pre-covid levels. Management highlighted a weaker market demand for gloves compared to pre-pandemic years. This is primarily due to an oversupply situation in the industry amid intense competition from China, and aggressive capacity expansion by existing and newcomers during the pandemic. We also gather that buyers appear to be making fewer deals due to a more supply-driven industry where they can rapidly access the supplies. We are aware of risk of ASPs could fall to below pre-pandemic level at USD21-23/1000 pieces, prior to the normalisation of the imbalanced demand-supply dynamics. Note that the average ASPs have been declining nearly -60% from USD60-62/1000 pieces during the pandemic to USD24-26/1000 pieces in 9MFY22.

Margin erosion continues. Management guided the natural gas tariff to rise by nearly +13% beginning 1 July 2022, which accounted an additional +1.3% to the total cost in FY22F. The price for natural rubber latex anticipated to normalise after wintering season ends. Yet, we expect higher cost for chemicals, and packaging in the near term as it was imported in US Dollar. With a weaker demand and intense competition, we believe the margin deterioration likely to continue to in 2HCY22 amidst the inability to fully pass on the cost.

RETURN STATISTICS	
Price @21st July 2022 (RM)	1.00
Expected share price return (%)	1.42
Expected dividend yield (%)	2.15
Expected total return (%)	**+3.51**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.4	-6.9
3 months	-3.8	-35.9
12 months	-75.8	-74.7

KEY STATISTICS	
FBM KLCI	1450.32
Syariah compliant	Yes
Issue shares (m)	8,006.95
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	44.45
Market Capitalisation (RM'm)	8,007.19
52-wk price range	RM0.93- RM4.19
Beta vs FBM KLCI (x)	1.25
Monthly velocity (%)	0.19
Monthly volatility (%)	29.51
3-mth average daily volume (m)	40.68
3-mth average daily value (RM'm)	47.52
Top Shareholders (%)	
Lim Wee Chai	27.59
Central Depository Pte Ltd/The	7.65
FIRSTWAY UNITED CORP	6.93

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Revised FY22-24 earnings forecast. We cut our FY22-24F core PATANCI forecast by -2% for FY22F, -4% for FY23F, and -11% for FY24F. This is after factoring in a higher input cost (in terms of higher natural gas, packaging, chemical, and fuel cost) to better reflect margin compression. We also adjust our USD/MYR exchange rate assumption to be in line with MIDF's economists view of an average of 4.28 by end of 2022.

Reiterate NEUTRAL on Top Glove. We revised our **TP to RM1.01** (from RM1.04 previously). Our valuation is based on FY23F earnings of 5.0sen multiplied by PER multiple of 20.39x, in line with its current 5-year historical mean PE. We foresee the margin deterioration and declining ASPs will likely persist in the near term considering a weaker demand due to endemic transition. The group's net cash position could provide some protection towards the downside risk. Downside risks to our rating are: (i) a significant depreciation of RM against the US Dollar; (ii) a greater-than-anticipated decline in ASPs; and (iii) a sharp increase in raw material prices.

INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2020	FY2021	FY2022F	FY2023F	FY2024F
Revenue	**7237.4**	**16361.4**	**6634.0**	**7344.5**	**8505.2**
EBIT	2201.4	10035.4	487.5	561.6	735.6
PBT	2301.4	10155.9	430.8	499.5	664.6
PAT	1903.8	8005.1	345.9	401.0	533.6
PATANCI	**1778.2**	**7761.7**	**343.5**	**398.3**	**529.9**
Core PATANCI	**1778.2**	**7761.7**	**343.5**	**398.3**	**529.9**
EPS (sen)	23.1	98.6	4.3	5.0	6.6
EPS Growth (%)	385.5	327.6	-95.6	15.9	33.1
PBT margin (%)	31.8	62.1	6.5	6.8	7.8
PATANCI margin (%)	24.6	47.4	5.2	5.4	6.2
PER (x)	4.3	1.0	23.3	20.1	15.1
Dividend per share (sen)	11.8	65.1	2.2	2.5	3.3
Dividend yield (%)	11.8	65.1	2.2	2.5	3.3

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology