



Top Glove Corporation Berhad

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

Maintain SELL

Gloomy FY23F Outlook

Revised Target Price: RM0.55
(Previously RM0.42)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings missed expectations**
- **Net loss continued in 2QFY23**
- **Elevated fuel costs in 2QFY23 on the back of increased natural gas tariff**
- **Revised earnings projection for FY23F-24F**
- **Maintain SELL with a revised TP of RM0.55 (from RM0.42)**

1HFY23 earnings missed expectations. Top Glove Corporation (Top Glove) reported a net loss of -RM299m in 1HFY23, after excluding a one-time-off item of RM33.9m. The results were below our expectation of a net profit of RM55.7m forecast for FY23F but above the consensus estimate of a net loss of -RM212.3m. The negative deviation was primarily due to the margin compression triggered by lower-than-expected sales and higher-than-expected input prices. No dividend was declared during the quarter.

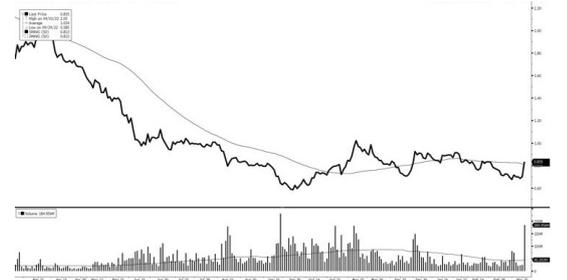
Net loss continued in 2QFY23. Top glove's 2QFY23 revenue fell -2.3%yoy to RM618m, mostly owing to decreased ASP (-4%qoq) despite better sales volume (+6%qoq). The decreased ASP emerged from an ongoing glove oversupply issue combined with weaker customer demand, resulting in a lower utilization rate (about 30-35%) at the production plants. In addition, the higher natural gas (+17%qoq), and electricity tariff have raised the manufacturing cost per unit. Hence, the margin deteriorated further from a net loss of -RM131.4m in 1QFY23 to a net loss of -RM167.7m in 2QFY23. On yearly basis, the revenue plunged -57.4%yoy to RM618m, owing mostly to underperformance in all geographical divisions, notably Malaysia, Thailand, China, and others. The reduced revenue combined with increased electricity and natural gas costs squeezed the margin. As such, the core earnings tumbled from a net profit of RM92.5m in 2QFY22 to a net loss of RM167.7m during the quarter.

1HFY23's earnings remained red. Cumulatively, the topline dropped from RM3.0b in 1HFY22 to RM1.25b during the quarter. The poor performance was mostly due to reduced ASP and sales volume on the back of the ongoing oversupply of gloves in the market as well as a lack of customer urgency to place an order. Likewise, higher energy and natural gas tariffs have hiked input and manufacturing costs per unit. The group's inability to raise the ASP has led to a cumulative net loss of -RM299m in 1HFY23, compared to a core PATANCI of RM265.4m in 1HFY22.

RETURN STATISTICS

Price @ 16 th Mar 2023 (RM)	0.84
Expected share price return (%)	-34.10
Expected dividend yield (%)	0.00
Expected total return (%)	-34.10

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.6	6.0
3 months	-7.7	22.4
12 months	-52.3	-46.1

INVESTMENT STATISTICS

FYE AUG (RM'm)	2023F	2024F	2025F
Revenue	2,522.6	3,613.9	4,095.7
EBITDA	(139.1)	433.1	680.5
Profit before tax (PBT)	(479.6)	89.0	311.1
Core PATANCI	(503.6)	69.4	244.4
Core EPS (sen)	(6.3)	0.9	3.1
Dividend Yield (%)	0.0	0.2	0.6
EBITDA	0.0	0.2	0.7

KEY STATISTICS

FBM KLCI	1,391.60
Issue shares (m)	8007.34
Estimated free float (%)	44.20
Market capitalizations (RM'm)	6,686.13
52-wk price range	RM0.56-RM2.1
3-mth average daily volume (m)	42.83
3-mth average daily value (RM'm)	34.93
Top Shareholders (%)	
Lim Wee Chai	27.79
Central Depository Pte Ltd/The	7.65
FIRSTWAY UNITED CORP	6.93

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Lower ASPs in 2QFY23. On quarterly basis, all product mix recorded lower ASP. In 2QFY23, the ASP for surgical gloves fell the greatest, by -9%qoq, followed by vinyl gloves (-8%qoq) and natural rubber gloves (-6%qoq). Meanwhile, nitrile gloves posted a -1%qoq drop in ASP in 2QFY23, compared to a -10%qoq decrease in 1QFY23. Moving forward, the group will lift the ASP for nitrile and natural rubber gloves to pass on some of the additional costs to the buyer. The price hike is slated to take effect in February 2023 and will be reflected in shipment orders placed between March and April 2023. We gather that certain local and Chinese glovemakers have implemented cost-pass-through mechanisms to alleviate the impact of higher input costs. Hence, we are cautiously optimistic about the success rate of price adjustment, but we think that the room for price raise is limited due to the continued glove oversupply problem, where consumers may easily move to other suppliers.

Increased sales volume in 2QFY23. The group reported a better sales volume of +6%qoq in 2QFY23 as compared to a reduced sales volume of -32%qoq in the previous quarter. The improved performance was supported by the customers' inventory replenishment activities. However, the group temporarily closed 14 factories during the quarter to enhance production efficiency and manage production costs per unit. Currently, the overall effective capacity is 80b pieces p.a. (total capacity is 100b pieces p.a.), with a utilization rate of 30-35%. Going forward, we are cognizant that the price revision may cause a slight fall in sales volume for 3QFY23, as certain customers may refuse to accept the price reduction.

Elevated fuel costs in 2QFY23 on the back of increased natural gas tariff. The group reported a lower raw material cost, contribution dropped from 38% in 1QFY23 to 36% in 2QFY23. This was backed by decreased average natural latex concentrate (-1%qoq) and nitrile latex (-6%qoq) prices. On the other hand, the +17%qoq rise in the natural gas tariff has offset the decreased raw material price, resulting in a fuel cost contribution of 18% of total production cost in 2QFY23, up from 15% in 1QFY23. Moving forward, the group anticipates that the latex price would reverse in 3QFY23 owing to decreased supply induced by the winter season. Meanwhile, the natural gas tariff is projected to be reduced in April 2023 because of the current decline in natural gas prices, which would have a lag impact on the natural gas tariff.

Revised earnings projection for FY23F-24F. Given that the earnings came in below our estimation, we reduced our earnings forecast for FY23F from a net profit of RM55.7m to a net loss of -RM503.6m. We also lowered our earnings forecast for FY24F by -46% and FY25F by -3%. This is after accounting for higher production costs per unit due to poor utilization and rising electricity tariffs, which more than offset the ASP adjustment. Meanwhile, we raised our blended ASPs for FY23F-25F from USD18.3—USD20/1k pieces to USD19.5—USD21.7/1k pieces. With a net loss expected in FY23F, we do not anticipate a dividend payout in FY23F.

Changed valuation method from PER to P/BV valuation method. Given that the earnings are expected to remain bumpy ahead, we think that the PER valuation method is inappropriate to reflect the outlook of the company. We changed our valuation method from PER to P/BV to better reflect the short-to-medium-term outlook.

Maintain SELL with a revised TP of RM0.55 (from RM0.42). Our revised **TP of RM0.55** is based on FY24F's BVPS of 86sen pegged to its 5-year historical -1.5 standard deviation P/BV of 0.64x. We maintain our **SELL** call on Top Glove. We remain **cautious** about Top Glove's FY24F outlook mainly due to the limited room to pass on the increased cost via price adjustments as customers can easily switch to other glovemakers that offer competitive prices. Besides, we think that the group may remain in the red for the next 1-2 quarters before attaining break-even due to the margin compression on the back of the ongoing oversupply of glove situation and rising input costs. **Potential upside risks** are: (i) increased ASP and sales volume; (ii) smaller players leaving the market and (iii) existing players shutting down some of their facilities to reduce the supply of gloves in the market. 

Top Glove: 2QFY23 Result Summary

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	618.0	632.5	1,449.3	(57.4)	(2.3)	1,250.5	3,033.4	(58.8)
Operating expenses	(785.8)	(792.8)	(1,356.7)	(42.1)	(0.9)	(1,578.6)	(2,723.7)	(42.0)
Other operating income	20.6	6.3	14.4	43.6	226.7	27.0	49.3	(45.3)
Operating profit (EBIT)	(147.2)	(154.0)	107.0	(237.5)	(4.4)	(301.1)	359.0	(183.9)
Net finance income/(cost)	1.5	2.4	4.9	(68.6)	(35.8)	3.9	12.4	(68.1)
Share of results of an associate	(0.3)	(0.1)	0.4	(182.9)	237.0	(0.4)	(0.3)	57.0
Profit before tax (PBT)	(145.9)	(151.6)	112.3	(230.0)	(3.8)	(297.6)	371.1	(180.2)
Profit After tax (PAT)	(155.0)	(157.6)	102.3	(251.4)	(1.7)	(312.6)	304.7	(202.6)
PATANCI	(164.7)	(168.2)	87.5	(288.1)	(2.1)	(332.9)	273.3	(221.8)
Core PATANCI	(167.7)	(131.4)	92.5	(281.3)	27.6	(299.0)	265.4	(212.7)
Core EPS (sen)	(2.1)	(1.6)	1.2	(281.4)	27.6	(3.7)	3.3	(212.7)
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Revenue Growth	(2.3)	(36.1)	(8.5)	6.2	33.8	97.7	91.5	6.2
Core PATANCI Growth	27.6	62.8	(46.5)	74.2	(35.2)	127.6	53.5	74.2
Operating Profit Margin	(23.8)	(24.3)	7.4	(31.2)	0.5	(24.1)	11.8	(35.9)
PBT Margin	(23.6)	(24.0)	7.7	(31.4)	0.4	(23.8)	12.2	(36.0)
Core PATANCI Margin	(27.1)	(20.8)	6.4	(33.5)	(6.4)	(23.9)	8.7	(32.7)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	Net Debt	0.3	2.0	n.m.	n.m.	Net Debt	(2.0)	n.m.
Effective tax rate (%)	(6.2)	(3.9)	8.9	(15.0)	(2.3)	(5.0)	17.9	(22.9)

Source: Company, MIDFR

Top Glove: Geographical Breakdown

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue (External):								
Malaysia	565.1	548.4	1,224.4	(53.8)	3.1	1,113.5	2,622.8	(57.5)
Thailand	26.1	41.9	125.4	(79.2)	(37.8)	67.9	232.3	(70.8)
China	1.5	3.5	11.6	(87.2)	(57.1)	4.9	19.5	(74.6)
Others	25.3	38.8	87.9	(71.2)	(34.8)	64.2	158.8	(59.6)
Total	618.0	632.5	1,449.3	(57.4)	(2.3)	1,250.5	3,033.4	(58.8)
Operating Profit:								
Malaysia	(235.5)	(119.3)	76.9	(406.3)	97.4	(354.8)	306.2	(215.9)
Thailand	(26.5)	(8.3)	24.4	(208.6)	217.3	(34.8)	61.6	(156.5)
China	(3.1)	(1.7)	0.2	(1,363.9)	82.7	(4.8)	(0.2)	2,039.9
Others	(27.4)	(20.3)	11.3	(342.0)	34.8	(47.7)	5.8	(917.6)
Total	(292.4)	(149.6)	112.8	(359.2)	95.4	(442.1)	373.4	(218.4)
Operating profit margin:								
Malaysia	(41.7)	(21.8)	6.3	(47.9)	(19.9)	(31.9)	11.7	(43.5)
Thailand	(101.6)	(19.9)	19.4	(121.0)	(81.6)	(51.2)	26.5	(77.8)
China	(207.7)	(48.8)	2.1	(209.8)	(158.9)	(96.5)	(1.1)	(95.4)
Others	(108.2)	(52.4)	12.9	(121.1)	(55.8)	(74.4)	3.7	(78.1)
Total	(47.3)	(23.7)	7.8	(55.1)	(23.7)	(35.4)	12.3	(47.7)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	16,361.4	5,572.3	2,522.6	3,613.9	4,095.7
Gross Profit	11,102.1	953.4	(235.2)	460.5	703.4
EBITDA	10,282.4	690.4	(139.1)	433.1	659.4
EBIT	9,973.8	342.2	(493.5)	73.7	246.1
Net finance (expenses)/income	57.4	19.9	14.0	15.3	15.6
Profit before tax (PBT)	10,033.8	358.4	(479.6)	89.0	261.7
Income tax expense	(2,209.8)	(76.8)	(24.0)	(19.6)	(56.1)
Profit After tax (PAT)	7,824.0	281.6	(503.6)	69.4	205.6
PATANCI	7,710.3	225.6	(503.6)	69.4	205.6
Core PATANCI	7,845.7	493.2	(503.6)	69.4	205.6
Core EPS (sen)	97.5	6.2	(6.3)	0.9	2.6
DPS (sen)	65.1	1.2	0.0	0.2	0.5
BVPS (sen)	89.7	84.8	81.9	86.0	87.1
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Property, plant, and equipment	3,958.7	4,522.2	4,558.3	4,618.7	4,633.5
Intangible assets	1,008.8	1,005.3	1,001.3	1,147.5	1,170.5
Total Non-current assets	5,436.7	6,005.6	6,039.7	6,264.3	6,316.3
Inventories	1,144.7	575.3	385.1	440.3	473.7
ST - Trade and other receivables	566.3	258.8	261.5	374.6	424.5
Cash and cash equivalents	2,508.4	950.9	731.8	754.8	769.9
Total current assets	4,345.8	2,111.1	1,622.5	1,884.5	1,997.2
Total Assets	9,782.4	8,116.7	7,662.2	8,148.8	8,313.5
Total Equity	7,220.2	6,793.2	6,562.2	6,888.2	6,978.9
LT Loans and borrowings	146.0	93.0	95.3	97.8	100.1
Total Non-current liabilities	363.8	327.0	322.6	390.9	415.7
ST Trade and other payables	692.4	459.4	343.8	393.1	422.9
ST Loans and borrowings	312.7	306.1	313.8	322.0	329.6
Total Current Liabilities	2,198.5	996.5	777.4	869.7	918.9
Total Liabilities	2,562.3	1,323.5	1,100.0	1,260.5	1,334.6
Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	10,033.8	358.4	(479.6)	89.0	261.7
Cash flow from operations	7,826.9	178.8	(63.7)	310.6	638.4
Cash flow from investing	(1,247.9)	132.4	(376.9)	(407.5)	(416.6)
Cash flow from financing	(6,902.3)	(740.3)	446.3	110.7	(212.7)
Net cash flow	(323.3)	(429.1)	5.7	13.8	9.1
(+/-) Adjustments	(6.5)	(12.6)	0.0	0.0	0.0
Net cash/(debt) b/f	1,204.9	875.2	433.4	439.1	452.9
Net cash/(debt) c/f	875.2	433.4	439.1	452.9	462.0
Key Metrics	2021A	2022A	2023E	2024F	2025F
Effective tax rate (%)	22.0	21.4	5.0	22.0	21.4
Dividend Yield (%)	78.0	1.4	0.0	0.2	0.6
PER (x)	0.9	29.6	(13.3)	96.4	32.5
Cash/Market Capitalization (sen)	37.3	14.2	10.9	11.3	11.5
Cash/share (sen)	31.2	11.9	9.1	9.4	9.6
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross Profit Margin (%)	67.9	17.1	(9.3)	12.7	17.2
EBITDA Margin (%)	62.8	12.4	(5.5)	12.0	16.1
EBIT Margin (%)	61.0	6.1	(19.6)	2.0	6.0
Core PATANCI Margin (%)	48.0	8.9	(20.0)	1.9	5.0

Source: Bloomberg, 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 news flow.
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.

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