TOP GLOVE CORPORATION BERHAD

***Maintain* SELL**

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

Fire broke out at Top Glove's Lukut factory

***Unchanged* Target Price: RM0.55**

DEVELOPMENT

- Based on oriental daily news, Top Glove's plant in Lukut, Negeri Sembilan caught fire last night. No one was injured. However, production equipment and inventory were severely damaged.

OUR VIEW

- According to the news, the fire started at 5 a.m. yesterday and took nearly 3 hours to extinguish. Almost 60% of the production facility was damaged. We gather that the fire was caused by a broken oil pipe.
- The factory has a production capacity of 3.2b pieces of nitrile gloves. Note that the group's total production capacity is 80b pieces of gloves with an average utilization rate of 32% as of 1QCY23. Hence the impact on the total production capacity is minimal given that the company can move orders to other factories. The company is currently assessing damage to the plant, machinery, and inventory.
- The group has fire insurance for the factory, which could be sufficient to compensate for the damage. However, we are cognizant that the process for filing an insurance claim typically involves a lengthy reimbursement process.
- Given the current oversupply of gloves and the low average utilisation rate at the manufacturing plant, we believe the group can easily switch the order to other factories. We make no changes to our forecast, for now, pending more information about the damages.
- Maintain **SELL** with an unchanged target price of **RM0.55**. We remain cautious about Top Glove's FY24F outlook mainly due to the limited room to pass on the increased cost via greater price hikes 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.
- Our target price is premised on unchanged FY24F's BVPS of 86sen against its 5-year historical -1.5 standard deviation P/BV of 0.64x.

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 (%)	67.8	1.3	0.0	0.2	0.5
P/BV ratio (x)	1.07	1.13	1.17	1.12	1.10
Cash/Market Capitalization (sen)	32.5	12.4	9.5	9.8	10.0
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

SHARE PRICE CHART



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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