



Top Glove Corporation Berhad

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

On the Lookout for High Tide that Stayed Low

Downgrade to SELL*(Previously NEUTRAL)***Revised Target Price: RM0.82***(Previously RM0.87)*

KEY INVESTMENT HIGHLIGHTS

- **Missed expectations, continued core net loss**
- **Reduced core net loss in 3QFY24**
- **Core earnings remained in red albeit narrower in 9MFY24**
- **Cut FY24-26F core PATANCI lower**
- **Downgrade to SELL (previously NEUTRAL) and revised TP to RM0.82 (previously RM0.87)**

Missed expectations, continued core net loss. Top Glove reported a core net loss of -RM182.3m for 9MFY24, after excluding a one-off item of RM124.1m. This was well-below ours/consensus full-year FY24 forecasts of RM54m/RM144m, respectively. The underperformance was mainly due to lower-than-expected sales volume amidst weaker-than-expected demand and shipment delayed and higher-than-expected raw material prices and natural gas tariffs. No dividend was declared for the quarter.

Reduced core net loss in 3QFY24. On a quarterly basis, revenue increased by 3.1%qoq to RM636.9m, mainly driven by higher nitrile glove sales volume and better ASP for NR latex gloves in 3QFY24. Shipment delayed was due to port congestion and is expected to continue into 4QFY24. Core net loss decreased from -RM167.7m in 2QFY24 to -RM59.7m in 3QFY24, primarily due to higher sales volume, improved ASPs, lower production costs from higher utilization, and manpower rationalization. On a yearly basis, the core net loss narrowed to -RM59.7m in 3QFY24 from -RM115m in 3QFY23, driven by a +20%yoy revenue growth, higher sales volume, optimized workforce, lower production costs, and increased ASPs.

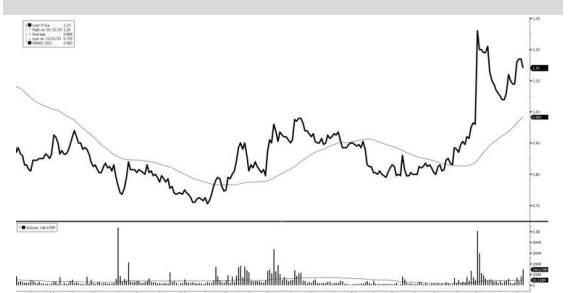
Core earnings remained in red albeit narrower in 9MFY24. Cumulatively, 9MFY24 revenue fell by -6%yoy to RM1.68b, despite stable sales volume due to a different glove product mix. Core earnings recorded a net loss of -RM182.3m in 9MFY24, but this was an improvement from the core net loss of -RM414m in 9MFY23. This was largely supported by higher sales volume, better utilization rates, lower production costs, and slightly higher bargaining power for ASPs via raw material pass-through.

Cut FY24-26F core PATANCI lower. Given the earnings miss, we have slashed our core PATANCI forecasts by -156.4%, -16.7%, and -8.2% for FY24, FY25, and FY26, respectively. This reflects lower sales volume and ASPs (amid continuous intense competition and shipment delayed), as well as higher raw material and natural gas tariff costs.

RETURN STATISTICS

Price @ 19 th Jun 2024 (RM)	1.14
Expected share price return (%)	-28.1
Expected dividend yield (%)	0.0
Expected total return (%)	-28.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.2	-3.4
3 months	43.8	39.4
12 months	25.7	8.7


INVESTMENT STATISTICS

FYE AUG (RM'm)	2024F	2025F	2026F
Revenue	2,710.9	3,557.6	4,364.2
EBITDA	329.5	521.0	675.5
Profit before tax (PBT)	(7.6)	180.4	303.9
Core PATANCI	(30.6)	137.1	231.0
Core EPS (sen)	(0.4)	1.7	2.9
DPS (sen)	0.0	0.7	1.2
Dividend Yield (%)	0.0	0.6	0.9

KEY STATISTICS

FBM KLCI	1599.79
Issue shares (m)	8,008.16
Estimated free float (%)	38.29
Market capitalizations (RM'm)	9,210.91
52-wk price range	RM0.7 - RM1.31
3-mth average daily volume (m)	47.78
3-mth average daily value (RM'm)	50.17
Top Shareholders (%)	
Lim Wee Chai	27.91
Central Depository Pte Ltd/The	9.52
FIRSTWAY UNITED CORP	6.93

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Downgrade to SELL (previously NEUTRAL) and revised TP to RM0.82 (previously RM0.87). Our revised TP of **RM0.82** is based on a forward BVPS FY25F of 78.1sen (from BVPS FY24F of 79.8sen) that pegged to updated 2-year historical -0.5SD P/BV of 1.05x (from 1.09x). While we note some improvement in sales volume due to customer replenishment activities, we remain cautious about ongoing shipment delays likely continuing into 4QFY24 due to prolonged port congestion. We believe intense competition from existing Chinese glove makers and new entrants from the pandemic era could result in evenly distributed orders among existing players with competitive ASPs. We believe there is a possibility of delays in passing costs to customers, despite the better bargaining power of suppliers, as ASP adjustments now follow raw material price trends. Hence, we downgrade Top Glove to **SELL** from Neutral. **Potential upside risks are:** (i) stronger-than-expected ASP and sales volume; and (ii) lower-than-expected raw material and natural gas tariff cost. 

Top Glove: 3QFY24 Result Summary

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	636.9	618.0	530.6	20.0	3.1	1,680.7	1,781.2	(5.6)
Operating expenses	(671.2)	(785.8)	(649.7)	3.3	(14.6)	(1,833.2)	(2,228.4)	(17.7)
Other operating income	89.5	20.6	(17.6)	(609.8)	333.5	115.2	9.4	1,124.9
Operating profit (EBIT)	55.2	(147.2)	(136.7)	(140.4)	(137.5)	(37.3)	(437.8)	(91.5)
Net finance income/(cost)	0.8	1.5	0.6	35.2	(46.4)	(0.7)	4.6	(114.6)
Profit before tax (PBT)	58.6	(145.9)	(138.8)	(142.2)	(140.1)	(37.4)	(436.4)	(91.4)
Taxation	3.2	(9.0)	18.2	(82.5)	(135.1)	11.8	3.2	273.5
Profit After tax (PAT)	61.7	(155.0)	(120.6)	(151.2)	(139.8)	(25.6)	(433.2)	(94.1)
PATANCI	50.7	(164.7)	(130.9)	(138.7)	(130.8)	(58.2)	(463.8)	(87.4)
Core PATANCI	(59.7)	(167.7)	(115.0)	(48.1)	(64.4)	(182.3)	(414.0)	(56.0)
Core EPS (sen)	(0.7)	(2.1)	(1.4)	(48.1)	(64.4)	(2.3)	(5.2)	(56.0)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+(-) ppts	+(-) ppts			+(-) ppts
Operating Profit Margin	8.7	(23.8)	(25.8)	34.4	32.5	(2.2)	(24.6)	22.4
PBT Margin	9.2	(23.6)	(26.2)	35.4	32.8	(2.2)	(24.5)	22.3
Core PATANCI Margin	(9.4)	(27.1)	(21.7)	12.3	17.8	(10.8)	(23.2)	12.4
Ratios & Valuation				+(-) ppts	+(-) ppts			+(-) ppts
Net debt/total equity (%)	0.1	0.1	0.1	(0.0)	(0.0)	0.1	0.1	(0.0)
Effective tax rate (%)	(5.4)	(6.2)	13.1	(18.5)	0.8	31.6	0.7	30.8

Source: Company, MIDFR

Top Glove: Geographical Breakdown

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue (External):								
Malaysia	567.8	565.1	460.1	23.4	0.5	1,491.3	1,573.6	(5.2)
Thailand	28.1	26.1	45.0	(37.5)	8.0	90.4	113.0	(20.0)
China	2.6	1.5	1.6	64.1	74.9	7.9	6.5	20.7
Others	38.3	25.3	23.9	60.3	51.3	91.1	88.1	3.4
Total	636.9	618.0	530.6	20.0	3.1	1,680.7	1,781.2	(5.6)
Operating Profit/(Loss):								
Malaysia	57.8	(235.5)	12.2	374.5	(124.6)	(17.2)	(342.6)	(95.0)
Thailand	(2.5)	(26.5)	(1.7)	51.5	(90.4)	(6.0)	(36.5)	(83.5)
China	0.2	(3.1)	(2.4)	(106.9)	(105.4)	(1.4)	(7.2)	(80.2)
Others	2.3	(27.4)	9.5	(75.4)	(108.6)	(5.0)	(38.2)	(86.9)
Total	57.8	(292.4)	17.7	227.3	(119.8)	(29.7)	(424.4)	(93.0)
Operating profit/ (Loss) margin:								
Malaysia	10.2	(41.7)	2.6	7.5	51.9	(1.2)	(21.8)	20.6
Thailand	(9.0)	(101.6)	(3.7)	(5.3)	92.5	(6.7)	(32.3)	25.6
China	6.4	(207.7)	(150.9)	157.2	214.0	(18.0)	(109.7)	91.8
Others	6.1	(108.2)	39.9	(33.8)	114.3	(5.5)	(43.4)	37.9
Total	9.1	(47.3)	3.3	5.7	56.4	(1.8)	(23.8)	22.1

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	5,572.3	2,257.2	2,710.9	3,557.6	4,364.2
Gross Profit	953.4	64.3	669.8	1,096.6	1,437.6
EBITDA	690.4	(968.8)	329.5	521.0	675.5
EBIT	342.2	(899.2)	(15.6)	187.5	310.5
Net finance (expenses)/income	19.9	4.6	8.0	(7.1)	(6.6)
Profit before tax (PBT)	358.4	(900.4)	(7.6)	180.4	303.9
Income tax expense	(76.8)	14.9	(23.0)	(43.3)	(72.9)
Profit After tax (PAT)	281.6	(885.5)	(30.6)	137.1	231.0
PATANCI	225.6	(925.2)	(30.6)	137.1	231.0
Core PATANCI	493.2	(526.2)	(30.6)	137.1	231.0
Core EPS (sen)	6.2	(6.6)	(0.4)	1.7	2.9
DPS (sen)	1.2	0.0	0.0	0.7	1.2
BVPS (sen)	84.8	74.0	73.1	78.1	83.1
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	4,522.2	3,893.1	3,639.6	3,732.4	3,890.5
Intangible assets	1,005.3	864.5	934.4	1,103.6	1,218.4
Total Non-current assets	6,005.6	5,373.5	5,202.2	5,486.3	5,783.6
Inventories	575.3	301.5	410.3	493.3	586.7
ST - Trade and other receivables	258.8	182.6	266.5	348.8	427.9
Cash and cash equivalents	437.6	285.4	291.4	340.3	375.7
Total current assets	2,111.1	1,688.0	1,909.8	2,174.6	2,417.6
Total Assets	8,116.7	7,061.6	7,112.0	7,660.9	8,201.2
Total Equity	6,793.2	5,926.1	5,858.2	6,255.6	6,652.9
LT Loans and borrowings	93.0	14.1	14.3	14.4	14.6
Total Non-current liabilities	327.0	211.6	228.0	270.6	301.9
ST Trade and other payables	459.4	265.3	339.1	407.7	484.9
ST Loans and borrowings	306.1	540.4	545.8	551.2	556.7
Total Current Liabilities	996.5	923.9	1,025.8	1,134.7	1,246.4
Total Liabilities	1,323.5	1,135.5	1,253.8	1,405.3	1,548.3
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	358.4	(900.4)	(7.6)	180.4	303.9
Cash flow from operations	178.8	121.0	212.0	460.9	645.8
Cash flow from investing	132.4	(383.3)	(319.5)	(439.2)	(538.3)
Cash flow from financing	(740.3)	94.8	118.9	27.3	(72.1)
Net cash flow	(429.1)	(167.5)	11.3	48.9	35.4
(+/-) Adjustments	(12.6)	14.0	0.0	0.0	0.0
Net cash/(debt) b/f	875.2	433.4	280.0	291.4	340.3
Net cash/(debt) c/f	433.4	280.0	291.4	340.3	375.7
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	21.4	1.7	24.0	24.0	24.0
Dividend Yield (%)	1.1	0.0	0.0	0.6	1.0
PER (x)	40.4	9.9	(298.1)	66.6	39.5
Net Cash/Market Capitalisation (%)	0.4	Net Debt	Net Debt	Net Debt	Net Debt
Cash/share (sen)	0.0	0.0	0.0	0.1	0.1
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	17.1	2.8	24.7	30.8	32.9
EBITDA Margin (%)	12.4	(42.9)	12.2	14.6	15.5
EBIT Margin (%)	6.1	(39.8)	(0.6)	5.3	7.1
Core PATANCI Margin (%)	8.9	(23.3)	(1.1)	3.9	5.3

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