

# Top Glove (TOPG MK)

## ASP downtrend to continue

### Challenging ASP outlook; D/G to SELL

TOPG FY21 core net profit of MYR8.1b came in below our and consensus estimates. Management expects ASP to continue falling by -8% to -10% MoM in the coming quarters and will only stabilise in early 22. We lower our FY22/23 EPS forecasts by -75%/-53% after lowering our FY22/23 average ASP assumptions to USD25.5/21.4 per 1,000 pcs. We now value TOPG at MYR1.68 on a lower 12.7x CY23 PER (-1SD of historical mean [from -0.5SD previously], in line with Hartalega). D/G to SELL.

### Weaker-than-expected FY21 results

4QFY21 net profit of MYR608m (-48% YoY, -70% QoQ) brought FY21 core net profit to MYR8.1b (+3.6x YoY), making up 79%/94% of our and consensus full-year estimates. The weaker-than-expected earnings performance was dragged by lower sales volume and utilisation rate as well as lower ASP of USD65/k pcs (vs. our assumption of USD73/k pcs). A final DPS of 5.4sen was declared (FY21: 65.1sen, +452% YoY), translating into 66% dividend payout ratio.

### 4QFY21: Lower sales volume, utilisation rate & ASP

4QFY21 revenue declined by -49% QoQ, -32% YoY on lower sales volume (-20% QoQ, -33% YoY) due to: i) the USA's ban and seizure of its rubber gloves, ii) lower blended ASP of USD48/k pcs (-31% QoQ) and iii) lower utilisation rate on National Recovery Plan 1 and EMCO. Lower utilisation rate on production disruption and steeper decline in ASP versus raw material costs have led to lower operating margin. 4QFY21 EBITDA margin reduced to 37.4%, from 64% in 3QFY21.

### Earnings adjustments

TOPG expects ASP continue to fall by 8-10% MoM in the coming months and will only stabilize in early 2022. The impact of falling ASP will however be cushioned by higher sales volume with the resumption of sales to USA effective from 10 Sep 2021. We lower our FY22/23 earnings forecasts by 75%/53% to factor in: a) lower blended ASP -46%/-35% in FY22/23. We now assume FY22/FY23/FY24 ASP of USD25.5/21.4/21.4 per '000 pcs and b) lower number of shares of 8,207m (-7%) after the suspension of its Hong Kong (HKG) listing.

FYE Aug (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,236	16,403	8,661	9,358	10,550
EBITDA	2,568	9,727	2,112	1,826	2,163
Core net profit	1,867	7,871	1,262	1,021	1,215
Core EPS (sen)	23.3	97.9	15.4	12.4	14.8
Core EPS growth (%)	391.1	319.9	(84.3)	(19.1)	19.0
Net DPS (sen)	11.8	65.1	7.7	6.2	7.6
Core P/E (x)	37.6	4.1	19.9	24.6	20.7
P/BV (x)	11.4	4.4	3.2	3.0	2.8
Net dividend yield (%)	1.4	16.3	2.5	2.0	2.5
ROAE (%)	50.4	144.4	19.9	14.8	16.3
ROAA (%)	25.9	84.8	12.5	9.6	10.8
EV/EBITDA (x)	26.4	3.1	10.6	12.4	10.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,373	1,542	na
MKE vs. Consensus (%)	-	-	(46.8)	(33.8)	na

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# SELL

[Prior:HOLD]

Share Price MYR 3.06  
 12m Price Target MYR 1.68 (-43%)  
 Previous Price Target MYR 3.98

### Company Description

Top Glove is the world's biggest glove manufacturer with a balanced product mix in latex/nitrile examination gloves and non-examination gloves.

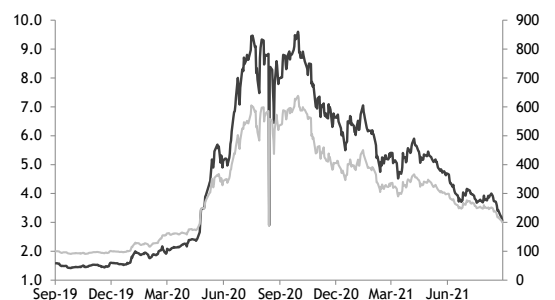
### Statistics

52w high/low (MYR) 9.60/3.06  
 3m avg turnover (USDm) 19.3  
 Free float (%) 55.0  
 Issued shares (m) 8,207  
 Market capitalisation MYR25.1B  
 USD6.0B

### Major shareholders:

LIM WEE CHAI 26.3%  
 Firstway United Corp. 6.8%  
 Employees Provident Fund 6.0%

### Price Performance



— Top Glove - (LHS, MYR) — Top Glove / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(19)	(34)	(61)
Relative to index (%)	(20)	(33)	(62)

Source: FactSet

Table 1: Top Glove's quarterly results

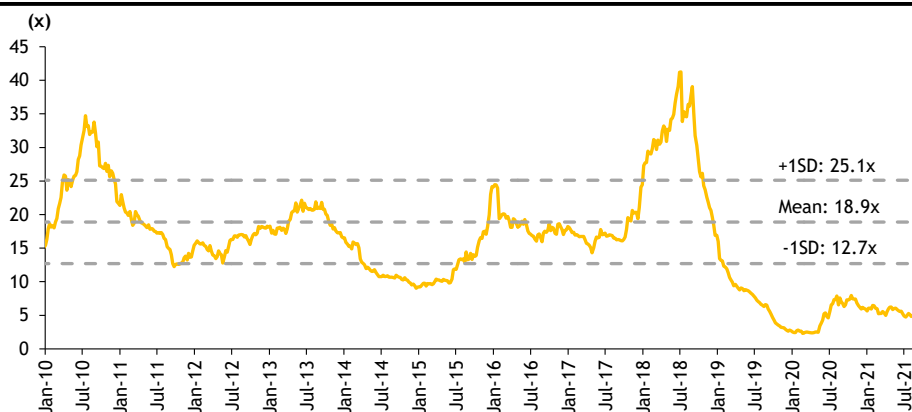
FY Aug (MYR m)	Quarterly					Cumulative		
	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	FY21	FY20	%YoY
Turnover	2,116.4	3,110.2	-32.0	4,162.7	-49.2	16,403.0	7,237.4	>+100
EBITDA	792.0	1,542.0	-48.6	2,666.9	-70.3	10,575.9	2,419.9	>+100
Depreciation	-77.9	-75.5	-3.1	-79.5	2.0	-308.5	-245.4	-25.7
EBIT	714.1	1,466.5	-51.3	2,587.4	-72.4	10,267.4	2,174.5	>+100
Net interest expense	15.6	22.3	-30.2	15.4	1.1	57.7	-7.6	>+100
Associates	-0.2	-1.1	85.8	0.7	>-100	2.6	-1.4	>+100
Contribution to Covid-19 fund	-	-	NA	0.0	NA	-185.0	-	NA
Pretax profit	729.5	1,487.7	-51.0	2,603.5	-72.0	10,142.7	2,165.6	>+100
Tax	-98.1	-276.7	64.6	-539.1	81.8	-2,157.8	-376.7	>-100
Minority interest	-10.6	-7.8	-34.7	-15.6	32.3	-62.6	-10.6	>-100
Perpetual Sukuk	-12.9	-25.6	49.5	-12.7	-2.2	-51.4	-25.6	>-100
PATMI	607.9	1,177.6	-48.4	2,036.2	-70.1	7,870.9	1,752.6	>+100
Core PATMI	607.9	1,177.6	-48.4	2,036.2	-70.1	8,055.9	1,752.6	>+100
			<i>+/- ppt</i>		<i>+/- ppt</i>			<i>+/- ppt</i>
EBITDA margin (%)	37.4	49.6	-12.2	64.1	-26.6	64.5	33.4	31.0
Core PARMi margin (%)	28.7	37.9	-9.1	48.9	-20.2	49.1	24.2	24.9
Tax rate (%)	22.1	18.6	3.5	20.7	1.4	21.3	17.4	3.9

Source: Company

## Risk statement

There are several risk factors to our earnings estimates, target price and rating for TOPG. Abrupt changes in the momentum of input costs (i.e. latex, NBR) and intense competition may lead to lower earnings for TOPG. Additionally, sharp appreciation of MYR against USD will also negatively affect its earnings, for almost the entire Group's revenue is derived in USD.

## Top Glove: Historical 1-year forward PER mean (2014-2018; pre-Covid-19)



Source: Bloomberg, company data, Maybank Kim Eng

FYE 31 Aug	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	13.8	6.1	19.9	24.6	20.7
Core P/E (x)	37.6	4.1	19.9	24.6	20.7
P/BV (x)	11.4	4.4	3.2	3.0	2.8
P/NTA (x)	13.6	5.1	3.6	3.4	3.1
Net dividend yield (%)	1.4	16.3	2.5	2.0	2.5
FCF yield (%)	3.5	20.1	5.6	1.8	2.8
EV/EBITDA (x)	26.4	3.1	10.6	12.4	10.4
EV/EBIT (x)	29.1	3.2	12.9	16.2	13.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	7,236.3	16,403.0	8,660.7	9,357.7	10,549.7
EBITDA	2,567.5	9,727.1	2,112.0	1,826.0	2,163.1
Depreciation	(235.3)	(308.5)	(374.1)	(434.2)	(494.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,332.3	9,418.6	1,737.9	1,391.8	1,668.6
Net interest income / (exp)	(29.4)	57.7	12.6	23.7	(2.9)
Associates & JV	(1.4)	2.6	2.6	2.6	2.6
Exceptionals	0.0	(185.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,301.4	10,142.7	1,753.2	1,418.1	1,668.4
Income tax	(397.6)	(2,157.8)	(420.8)	(340.3)	(400.4)
Minorities	(11.2)	(62.6)	(18.8)	(5.6)	(1.7)
Perpetual securities	(25.6)	(51.4)	(51.4)	(51.4)	(51.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,867.0	7,870.9	1,262.3	1,020.8	1,215.0
Core net profit	1,867.0	7,870.9	1,262.3	1,020.8	1,215.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	2,883.2	2,508.7	3,267.5	3,188.8	3,249.1
Accounts receivable	798.8	685.6	362.0	391.1	440.9
Inventory	530.7	1,179.5	474.6	512.8	578.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3,010.2	4,021.8	4,647.7	5,213.5	5,719.1
Intangible assets	1,012.3	1,008.8	1,008.8	1,008.8	1,008.8
Investment in Associates & JVs	10.4	13.1	15.7	18.4	21.0
Other assets	460.3	439.2	548.1	548.1	521.9
<b>Total assets</b>	<b>8,706.0</b>	<b>9,856.6</b>	<b>10,324.4</b>	<b>10,881.4</b>	<b>11,538.8</b>
ST interest bearing debt	314.2	312.7	421.7	421.7	421.7
Accounts payable	810.8	644.0	340.0	367.4	414.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	226.3	146.0	146.0	146.0	146.0
Other liabilities	1,164.0	1,374.0	1,387.0	1,400.0	1,414.0
<b>Total Liabilities</b>	<b>2,515.1</b>	<b>2,476.3</b>	<b>2,294.2</b>	<b>2,335.2</b>	<b>2,395.6</b>
Shareholders Equity	4,870.8	6,032.2	6,663.4	7,173.8	7,769.1
Minority Interest	24.9	52.8	71.6	77.2	78.9
<b>Total shareholder equity</b>	<b>4,895.6</b>	<b>6,085.0</b>	<b>6,735.0</b>	<b>7,251.0</b>	<b>7,848.0</b>
Perpetual securities	1,295.3	1,295.3	1,295.3	1,295.3	1,295.3
<b>Total liabilities and equity</b>	<b>8,706.0</b>	<b>9,856.6</b>	<b>10,324.4</b>	<b>10,881.4</b>	<b>11,538.8</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	2,301.4	10,142.7	1,753.2	1,418.1	1,668.4
Depreciation & amortisation	235.3	308.5	374.1	434.2	494.5
Adj net interest (income)/exp	29.4	(3.5)	(12.6)	(23.7)	2.9
Change in working capital	864.2	(784.9)	724.6	(40.0)	(68.3)
Cash taxes paid	(230.4)	(1,841.1)	(420.8)	(340.3)	(400.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3,217.4	7,809.0	2,415.8	1,445.7	1,694.3
Capex	(765.2)	(1,348.6)	(1,000.0)	(1,000.0)	(1,000.0)
Free cash flow	2,452.2	6,460.3	1,415.8	445.7	694.3
Dividends paid	(374.3)	(5,507.6)	(631.1)	(510.4)	(619.6)
Equity raised / (purchased)	178.1	57.9	0.0	0.0	0.0
Perpetual securities	(25.6)	(51.4)	(51.4)	(51.4)	(51.4)
Change in Debt	(1,115.0)	27.1	0.0	0.0	0.0
Other invest/financing cash flow	(17.7)	112.4	25.6	37.3	36.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,044.6	(330.3)	758.9	(78.8)	60.3

FYE 31 Aug	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	50.7	126.7	(47.2)	8.0	12.7
EBITDA growth	272.0	278.9	(78.3)	(13.5)	18.5
EBIT growth	370.9	303.8	(81.5)	(19.9)	19.9
Pretax growth	443.3	340.7	(82.7)	(19.1)	17.7
Reported net profit growth	412.0	321.6	(84.0)	(19.1)	19.0
Core net profit growth	412.0	321.6	(84.0)	(19.1)	19.0
<b>Profitability ratios (%)</b>					
EBITDA margin	35.5	59.3	24.4	19.5	20.5
EBIT margin	32.2	57.4	20.1	14.9	15.8
Pretax profit margin	31.8	61.8	20.2	15.2	15.8
Payout ratio	50.7	66.5	50.0	50.0	51.0
<b>DuPont analysis</b>					
Net profit margin (%)	25.8	48.0	14.6	10.9	11.5
Revenue/Assets (x)	0.8	1.7	0.8	0.9	0.9
Assets/Equity (x)	1.8	1.6	1.5	1.5	1.5
ROAE (%)	50.4	144.4	19.9	14.8	16.3
ROAA (%)	25.9	84.8	12.5	9.6	10.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	29.0	23.1	40.3	21.2	20.9
Days receivable outstanding	34.6	16.3	21.8	14.5	14.2
Days inventory outstanding	45.2	45.6	45.8	23.8	23.6
Days payables outstanding	50.8	38.8	27.3	17.0	16.9
Dividend cover (x)	2.0	1.5	2.0	2.0	2.0
Current ratio (x)	2.0	2.1	2.2	2.2	2.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.5	4.0	4.5	4.7	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	79.2	na	na	na	nm
Debt/EBITDA (x)	0.2	0.0	0.3	0.3	0.3
Capex/revenue (%)	10.6	8.2	11.5	10.7	9.5
Net debt/ (net cash)	(2,342.7)	(2,050.0)	(2,699.9)	(2,621.1)	(2,681.4)

Source: Company; Maybank

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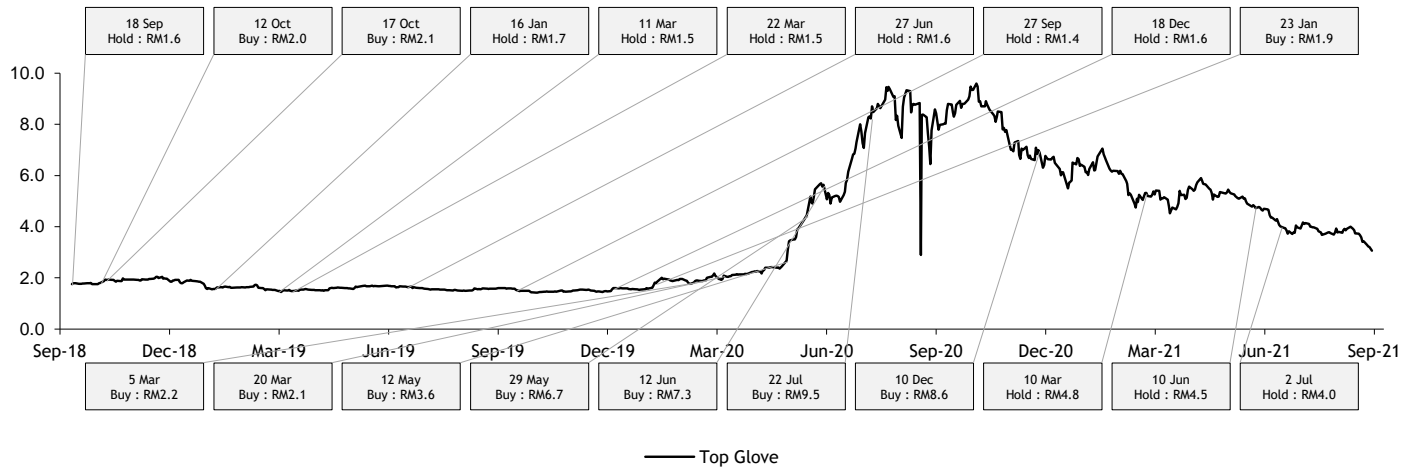
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