

## Top Glove (TOPG MK)

# ASP outlook remains challenging

### Hit by lower ASP and sales volume

TOPG's 1QFY22 net profit of MYR186m was below our and consensus full-year estimates. Management expects ASP to continue falling but at a slower pace. It remains cautious and will defer some of the expansion plans. We lower our FY22/23/24 EPS forecasts by -27%/-5%/-4%. We now value TOPG at MYR1.61 on an unchanged 12.7x CY23 PER. SELL.

### Results below expectations

1QFY22 net profit of MYR186m (-92% YoY, -59% QoQ) accounted for 15%/11% of our and consensus full-year estimates. We attribute the weaker-than-expected earnings performance to lower-than-expected sales volume and utilisation rate as well as ASP. Also, the earnings gap was caused by the inclusion of prosperity tax in 1QFY22. A first interim DPS of 1.2sen has been declared (-93% YoY) in 1QFY22.

### Highlights from 1QFY22 concall

1QFY22 revenue declined by -24% QoQ, -67% YoY on: i) lower sales volume (-0.4% QoQ, -34% YoY) especially for nitrile and vinyl gloves due to rising competition, ii) lower blended ASP of USD32/k pcs (-33% QoQ; vs. our ASP assumption of USD34/k pcs for 1QFY22) and iii) lower utilisation rate of 55%. Lower utilisation rate and steeper decline in ASP versus raw material costs have led to lower EBITDA margin of 21% (-49ppt YoY, -12ppt QoQ). TOPG expects ASP to continue to fall but at a slower pace. The impact of falling ASP will however be cushioned by higher sales volume with improving sales order from the USA and lower raw material prices (nitrile latex price has declined by 47% since Sep 2021).

### Earnings adjustments

We lower our FY22/23/24 earnings forecasts by -26.7%/-4.6%/-4.1% to factor in: a) lower blended ASP -4%/-1%/-1% in FY22/23/24. We now assume FY22/FY23/FY24 ASP of USD24.4/21.2/21.2 per k pcs; and b) prosperity tax. We have not factored in additional number of shares of up to 794m from its Hong Kong listing, which is slated to be completed by early 22. The additional shares could dilute our EPS estimates by 9%.

FYE Aug (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	7,236	16,403	8,329	9,298	10,481
EBITDA	2,568	9,727	1,797	1,769	2,098
Core net profit	1,867	7,871	925	973	1,166
Core EPS (sen)	23.3	97.9	11.3	11.9	14.2
Core EPS growth (%)	391.1	319.9	(88.5)	5.2	19.7
Net DPS (sen)	11.8	65.1	5.6	5.9	7.2
Core P/E (x)	37.6	4.1	19.2	18.2	15.2
P/BV (x)	11.4	4.4	2.3	2.1	2.0
Net dividend yield (%)	1.4	16.3	2.6	2.7	3.4
ROAE (%)	50.4	144.4	14.8	14.4	16.0
ROAA (%)	25.9	84.8	9.3	9.3	10.6
EV/EBITDA (x)	26.4	3.1	8.5	8.7	7.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,653	1,248	1,259
MKE vs. Consensus (%)	-	-	(44.0)	(22.0)	(7.4)

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# SELL

Share Price	MYR 2.16
12m Price Target	MYR 1.61 (-24%)
Previous Price Target	MYR 1.68

### 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.

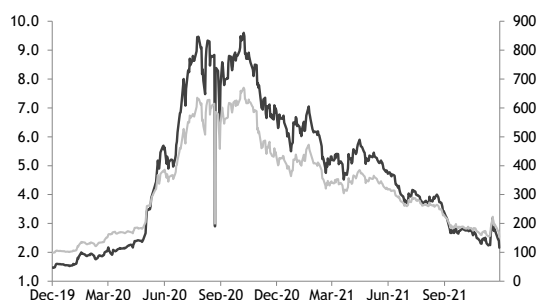
### Statistics

52w high/low (MYR)	7.05/2.16
3m avg turnover (USDm)	19.8
Free float (%)	55.1
Issued shares (m)	8,207
Market capitalisation	MYR17.7B
	USD4.2B

### Major shareholders:

LIM WEE CHAI	26.3%
Firstway United Corp.	6.8%
Employees Provident Fund	5.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(37)	(69)
Relative to index (%)	(4)	(33)	(66)

Source: FactSet

Table 1: Top Glove's quarterly results

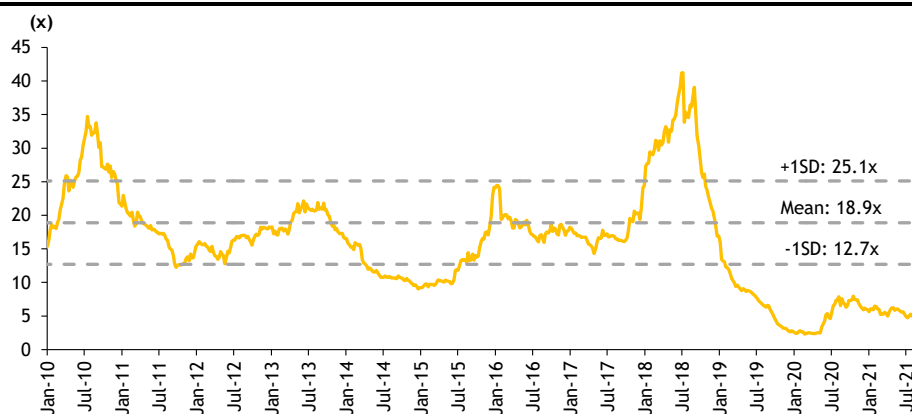
FY Aug (MYR m)	Quarterly				
	1QFY22	1QFY21	% YoY	4QFY21	% QoQ
Turnover	1,584.1	4,758.3	-66.7	2,075.0	-23.7
EBITDA	335.6	3,333.1	-89.9	683.5	-50.9
Depreciation	-83.6	-74.5	-12.2	-77.9	-7.3
EBIT	252.0	3,258.5	-92.3	622.0	-59.5
Net interest expense	7.5	10.4	-28.1	15.6	-52.1
Associates	-0.6	0.8	>-100	-0.2	>-100
Contribution to Covid-19 fund	-	-185.0	NA	0.0	NA
<b>Pretax profit</b>	<b>258.8</b>	<b>3,084.7</b>	<b>-91.6</b>	<b>621.0</b>	<b>-58.3</b>
Tax	-56.5	-697.4	91.9	-98.1	42.4
Minority interest	-3.9	-16.6	76.8	-10.6	63.5
Perpetual Sukuk	-12.8	-12.9	0.6	-12.9	1.1
<b>PATMI</b>	<b>185.7</b>	<b>2,357.8</b>	<b>-92.1</b>	<b>447.0</b>	<b>-58.5</b>
<b>Core PATMI</b>	<b>185.7</b>	<b>2,357.8</b>	<b>-92.1</b>	<b>447.0</b>	<b>-58.5</b>
			<b>+/- ppt</b>		<b>+/- ppt</b>
EBITDA margin (%)	21.2	70.0	-48.9	32.9	-11.8
Core PARMi margin (%)	11.7	49.6	-37.8	21.5	-9.8
Tax rate (%)	20.7	22.6	-1.9	15.8	4.9

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	19.2	18.2	15.2
Core P/E (x)	37.6	4.1	19.2	18.2	15.2
P/BV (x)	11.4	4.4	2.3	2.1	2.0
P/NTA (x)	13.6	5.1	2.6	2.4	2.3
Net dividend yield (%)	1.4	16.3	2.6	2.7	3.4
FCF yield (%)	3.5	20.1	6.2	2.2	3.6
EV/EBITDA (x)	26.4	3.1	8.5	8.7	7.3
EV/EBIT (x)	29.1	3.2	10.7	11.5	9.6
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	7,236.3	16,403.0	8,328.9	9,298.1	10,481.1
EBITDA	2,567.5	9,727.1	1,797.4	1,769.4	2,098.0
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	1,423.3	1,335.2	1,603.6
Net interest income / (exp)	(29.4)	57.7	10.1	17.9	(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	1,436.0	1,355.7	1,603.4
Income tax	(397.6)	(2,157.8)	(440.6)	(325.4)	(384.8)
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	925.3	973.4	1,165.5
Core net profit	1,867.0	7,870.9	925.3	973.4	1,165.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	2,883.2	2,508.7	3,118.1	3,000.0	3,029.6
Accounts receivable	798.8	685.6	348.1	388.6	438.1
Inventory	530.7	1,179.5	456.4	509.5	574.3
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	528.9
<b>Total assets</b>	<b>8,706.0</b>	<b>9,856.6</b>	<b>10,142.9</b>	<b>10,686.9</b>	<b>11,319.7</b>
ST interest bearing debt	314.2	312.7	421.7	421.7	421.7
Accounts payable	810.8	644.0	327.0	365.0	411.5
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>2,281.2</b>	<b>2,332.8</b>	<b>2,392.9</b>
Shareholders Equity	4,870.8	6,032.2	6,494.9	6,981.6	7,552.7
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>6,566.5</b>	<b>7,058.8</b>	<b>7,631.6</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>10,142.9</b>	<b>10,686.9</b>	<b>11,319.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	2,301.4	10,142.7	1,436.0	1,355.7	1,603.4
Depreciation & amortisation	235.3	308.5	374.1	434.2	494.5
Adj net interest (income)/exp	29.4	(3.5)	(10.1)	(17.9)	2.9
Change in working capital	864.2	(784.9)	743.6	(55.6)	(67.8)
Cash taxes paid	(230.4)	(1,841.1)	(440.6)	(325.4)	(384.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3,217.4	7,809.0	2,100.4	1,388.5	1,645.4
Capex	(765.2)	(1,348.6)	(1,000.0)	(1,000.0)	(1,000.0)
Free cash flow	2,452.2	6,460.3	1,100.4	388.5	645.4
Dividends paid	(374.3)	(5,507.6)	(462.7)	(486.7)	(594.4)
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	23.0	31.5	29.9
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>1,044.6</b>	<b>(330.3)</b>	<b>609.4</b>	<b>(118.1)</b>	<b>29.6</b>

FYE 31 Aug	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	50.7	126.7	(49.2)	11.6	12.7
EBITDA growth	272.0	278.9	(81.5)	(1.6)	18.6
EBIT growth	370.9	303.8	(84.9)	(6.2)	20.1
Pretax growth	443.3	340.7	(85.8)	(5.6)	18.3
Reported net profit growth	412.0	321.6	(88.2)	5.2	19.7
Core net profit growth	412.0	321.6	(88.2)	5.2	19.7
<b>Profitability ratios (%)</b>					
EBITDA margin	35.5	59.3	21.6	19.0	20.0
EBIT margin	32.2	57.4	17.1	14.4	15.3
Pretax profit margin	31.8	61.8	17.2	14.6	15.3
Payout ratio	50.7	66.5	50.0	50.0	51.0
<b>DuPont analysis</b>					
Net profit margin (%)	25.8	48.0	11.1	10.5	11.1
Revenue/Assets (x)	0.8	1.7	0.8	0.9	0.9
Assets/Equity (x)	1.8	1.6	1.6	1.5	1.5
ROAE (%)	50.4	144.4	14.8	14.4	16.0
ROAA (%)	25.9	84.8	9.3	9.3	10.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	29.0	23.1	40.8	20.9	20.8
Days receivable outstanding	34.6	16.3	22.3	14.3	14.2
Days inventory outstanding	45.2	45.6	45.4	23.3	23.4
Days payables outstanding	50.8	38.8	27.0	16.7	16.8
Dividend cover (x)	2.0	1.5	2.0	2.0	2.0
Current ratio (x)	2.0	2.1	2.1	2.1	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.5	4.0	4.4	4.6	4.7
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	12.0	10.8	9.5
Net debt/ (net cash)	(2,342.7)	(2,050.0)	(2,550.4)	(2,432.3)	(2,461.9)

Source: Company; Maybank

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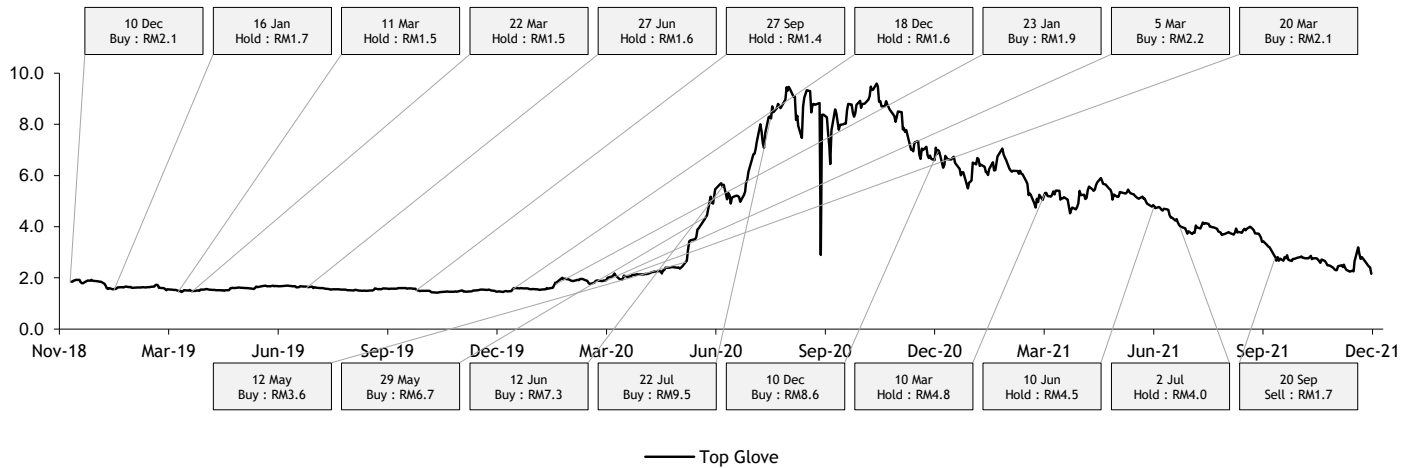
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