

Top Glove (TOPG MK)

Not out of the woods yet

Results below expectations

TOPG's 2QFY23 core net loss of MYR177.9m (+8.6% QoQ; MYR87.5m net profit in 2QFY22) were below expectations. Plant utilisation rate remained low at 32% no thanks to stiff competition especially from China. Management intends to raise ASP by another USD1-2/k pcs. We expect TOPG to report losses in FY23 and FY24 and will only turnaround in FY25. We now value TOPG at MYR0.57 on 0.8x FY24E PBV (vs. MYR0.35, on 13x CY24E PER) with the change in valuation methodology due to anticipated losses in the medium-term. Reiterate SELL.

Losses deepens; hit by lower ASP and utilization rate

Excluding MYR8.9m fair value gain from investment securities, TOPG's core net loss expanded to MYR342m in 1HFY23, exceeding MIBG/consensus FY23E (full-year) net loss forecasts of MYR323m/271m. The weaker-than-expected 2QFY23 results were dragged by TOPG's low utilisation rate of 32% based on effective capacity (vs. our assumption of 35% for 2QFY23). 2QFY23's losses were also due to lower ASP (-34% YoY, -8% QoQ) and higher energy costs, partially offset by higher sales volume (+6% QoQ).

Key takeaways from 2QFY23 concall

1) TOPG has raised its selling price by +USD1-2/k pcs since Feb 2023 to recoup its operating losses due to higher energy and electricity costs. It is looking to raise ASP by another +USD1-2/k pcs in coming months. In our view, this could be at the expense of its plant utilisation rate (32% now) given the stiff competition and oversupply issue, 2) TOPG will continue to focus on strengthening/optimising its cost structure and it has shut down 14 inefficient factories so far, and 3) TOPG does not expect any impairment losses in the coming quarters in view of higher ASP.

Earnings adjustments

We now expect FY23 net loss to expand to MYR507m (+56%), continuing into FY24 with a MYR154m loss (vs. MYR204m net profit previously) and TOPG to only turnaround in FY25 (but we have lowered net profit est. by 73%). This is after factoring in: i) lower avg. plant utilisation rate of 33%/50%/60%, from 40%/60%/65% for FY23/24/25E and ii) higher blended ASP assumption of USD21/22/23 per 1k pcs (from USD20/21/22) for FY23/24/25E. As at end-Feb 2023, TOPG had MYR272m net cash or MYR0.03/sh. To preserve cash, TOPG has halted dividend payment.

FYE Aug (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	16,361	5,573	3,150	4,377	5,160
EBITDA	10,467	698	(199)	284	599
Core net profit	7,895	236	(507)	(154)	71
Core EPS (sen)	98.2	2.9	(6.2)	(1.9)	0.9
Core EPS growth (%)	321.2	(97.1)	nm	nm	nm
Net DPS (sen)	63.8	1.2	0.0	0.0	0.4
Core P/E (x)	4.1	28.0	nm	nm	97.2
P/BV (x)	4.4	1.0	1.1	1.1	1.1
Net dividend yield (%)	16.0	1.5	0.0	0.0	0.5
ROAE (%)	141.4	4.1	(9.5)	(3.1)	1.4
ROAA (%)	85.1	2.6	(6.6)	(2.1)	1.0
EV/EBITDA (x)	2.9	8.7	nm	24.3	11.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	0.4	net cash
Consensus net profit	-	-	(336)	135	313
MIBG vs. Consensus (%)	-	-	(50.9)	(214.4)	(77.5)

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SELL

Share Price	MYR 0.84
12m Price Target	MYR 0.57 (-31%)
Previous Price Target	MYR 0.35

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.

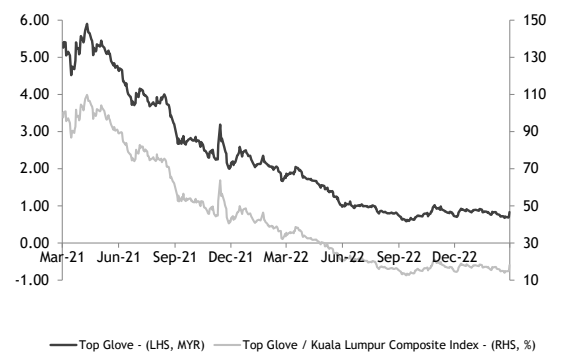
Statistics

52w high/low (MYR)	2.05/0.59
3m avg turnover (USDm)	7.6
Free float (%)	61.4
Issued shares (m)	8,207
Market capitalisation	MYR6.9B
	USD1.5B

Major shareholders:

LIM WEE CHAI	27.1%
Firstway United Corp.	6.8%
Bank of Singapore Ltd.	2.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	15	(52)
Relative to index (%)	5	21	(47)

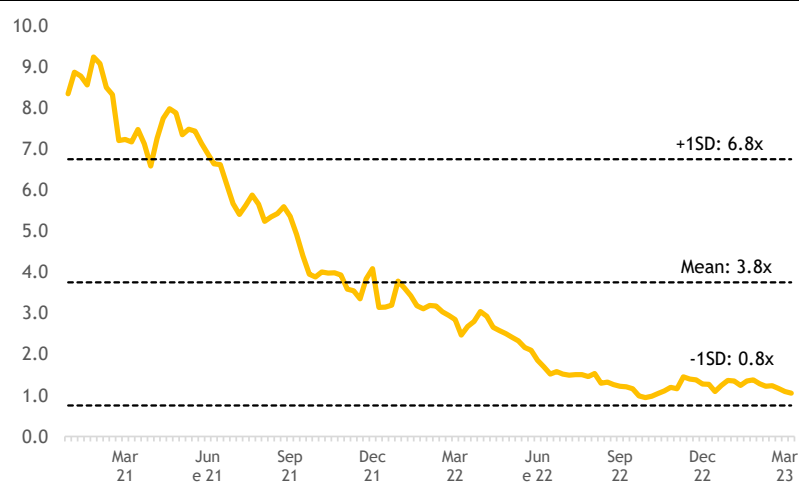
Source: FactSet

Fig 1: Top Glove's quarterly results

FY Aug (MYR m)	Quarterly					Cumulative		
	2QFY23	2QFY22	% YoY	1QFY23	% QoQ	1HFY23	1HFY22	%YoY
Turnover	618.0	1,449.3	-57.4	632.5	-2.3	1,250.5	3,060.4	-59.1
EBITDA	-58.7	192.8	>-100	-65.9	11.0	-124.6	528.5	>-100
Depreciation	-88.5	-85.8	-3.1	-88.0	-0.5	-176.5	-169.5	-4.2
EBIT	-147.2	107.0	>-100	627.0	>-100	-301.1	1,247.0	>-100
Net interest expense	1.5	4.9	-68.6	2.4	-35.7	3.9	12.4	-68.1
Associates	-0.3	0.4	>-100	-0.1	>-100	-0.4	-0.3	-57.0
Pretax profit	-145.9	112.3	-230.0	-151.6	3.8	-297.6	371.1	>-100
Tax	-9.0	-9.9	9.0	-6.0	-51.2	-15.0	-66.4	77.4
Minority interest	1.8	-1.6	>+100	1.0	79.1	2.8	-5.4	>+100
Perpetual Sukuk	-11.5	-13.2	13.1	-11.6	1.1	-23.1	-26.0	11.2
PATMI	-164.7	87.5	>-100	-168.2	2.1	-332.9	273.3	>-100
Core PATMI	-177.9	87.5	>-100	-163.9	-8.6	-341.8	273.3	>-100
			+/- ppt		+/- ppt			+/- ppt
EBITDA margin (%)	-9.5	13.3	-22.8	-10.4	0.9	-10.0	17.3	-27.2
Core PATMI margin (%)	-28.8	6.0	-34.8	-25.9	-2.9	-27.3	8.9	-36.3
Tax rate (%)	-6.2	8.9	-15.0	-3.9	-2.3	-5.0	17.9	-22.9

Source: Company

Fig 2: Top Glove's 1-year forward PBV (2021-2023)



Source: Bloomberg, company data, Maybank IBG Research

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 revenue is derived in USD.

FYE 31 Aug	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	6.2	67.4	nm	nm	97.2
Core P/E (x)	4.1	28.0	nm	nm	97.2
P/BV (x)	4.4	1.0	1.1	1.1	1.1
P/NTA (x)	5.1	1.1	1.3	1.3	1.3
Net dividend yield (%)	16.0	1.5	0.0	0.0	0.5
FCF yield (%)	19.7	nm	nm	nm	3.1
EV/EBITDA (x)	2.9	8.7	nm	24.3	11.4
EV/EBIT (x)	3.0	17.4	nm	nm	42.3
INCOME STATEMENT (MYR m)					
Revenue	16,361.4	5,572.5	3,149.6	4,377.2	5,160.0
EBITDA	10,467.4	697.8	(198.7)	284.4	598.8
Depreciation	(308.7)	(348.2)	(398.6)	(418.1)	(437.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	10,158.8	349.7	(597.4)	(133.7)	161.1
Net interest income / (exp)	57.4	19.5	2.2	1.4	1.7
Associates & JV	2.6	(3.7)	(3.7)	(3.7)	(3.7)
Exceptionals	(185.0)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	10,033.8	365.5	(598.9)	(136.0)	159.0
Income tax	(2,209.8)	(73.2)	143.7	32.6	(38.2)
Minorities	(62.3)	(6.1)	(1.8)	(0.5)	(0.2)
Perpetual securities	(51.4)	(50.2)	(50.2)	(50.2)	(50.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7,710.3	236.0	(507.2)	(154.1)	70.5
Core net profit	7,895.3	236.0	(507.2)	(154.1)	70.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,508.7	950.4	534.6	404.5	514.3
Accounts receivable	685.6	236.1	133.4	185.4	218.6
Inventory	1,179.5	564.0	318.8	443.0	522.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,021.8	4,502.9	4,574.3	4,456.1	4,318.4
Intangible assets	1,008.8	1,005.3	1,005.3	1,005.3	1,005.3
Investment in Associates & JVs	13.1	9.4	5.7	5.7	5.7
Other assets	439.2	797.2	844.1	859.6	878.8
Total assets	9,856.6	8,065.3	7,416.2	7,359.8	7,463.3
ST interest bearing debt	312.7	306.1	336.2	336.2	337.2
Accounts payable	644.0	426.4	241.0	335.0	394.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	146.0	93.0	93.0	93.0	93.0
Other liabilities	1,374.0	435.0	447.0	450.0	457.0
Total Liabilities	2,476.3	1,260.7	1,117.0	1,214.1	1,282.2
Shareholders Equity	6,032.2	5,590.3	5,083.1	4,929.0	4,964.3
Minority Interest	52.8	38.6	40.4	40.9	41.1
Total shareholder equity	6,085.0	5,628.9	5,123.5	4,970.0	5,005.4
Perpetual securities	1,295.3	1,175.7	1,175.7	1,175.7	1,175.7
Total liabilities and equity	9,856.6	8,065.3	7,416.2	7,359.8	7,463.3
CASH FLOW (MYR m)					
Pretax profit	10,033.8	365.5	(598.9)	(136.0)	159.0
Depreciation & amortisation	308.7	348.2	398.6	418.1	437.8
Adj net interest (income)/exp	(3.5)	(4.4)	(2.2)	(1.4)	(1.7)
Change in working capital	(784.9)	60.4	162.5	(82.3)	(51.5)
Cash taxes paid	(1,841.1)	(719.4)	143.7	32.6	(38.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	7,700.2	135.5	107.5	234.7	509.2
Capex	(1,348.6)	(918.9)	(470.0)	(300.0)	(300.0)
Free cash flow	6,351.6	(783.4)	(362.5)	(65.3)	209.2
Dividends paid	(5,507.6)	(528.6)	0.0	0.0	(35.3)
Equity raised / (purchased)	57.9	0.5	0.0	0.0	0.0
Perpetual securities	(51.4)	(50.2)	(50.2)	(50.2)	(50.2)
Change in Debt	27.1	(138.5)	0.0	0.0	1.0
Other invest/financing cash flow	112.4	38.0	(5.2)	(14.6)	(15.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(439.0)	(432.1)	(417.9)	(130.1)	109.8

FYE 31 Aug	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	126.1	(65.9)	(43.5)	39.0	17.9
EBITDA growth	307.7	(93.3)	nm	nm	110.6
EBIT growth	335.6	(96.6)	nm	nm	nm
Pretax growth	336.0	(96.4)	nm	nm	nm
Reported net profit growth	313.0	(96.9)	nm	nm	nm
Core net profit growth	322.9	(97.0)	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	64.0	12.5	nm	6.5	11.6
EBIT margin	62.1	6.3	nm	nm	3.1
Pretax profit margin	61.3	6.6	nm	nm	3.1
Payout ratio	66.6	41.7	0.0	0.0	50.0
DuPont analysis					
Net profit margin (%)	47.1	4.2	nm	nm	1.4
Revenue/Assets (x)	1.7	0.7	0.4	0.6	0.7
Assets/Equity (x)	1.6	1.4	1.5	1.5	1.5
ROAE (%)	141.4	4.1	(9.5)	(3.1)	1.4
ROAA (%)	85.1	2.6	(6.6)	(2.1)	1.0
Liquidity & Efficiency					
Cash conversion cycle	23.1	56.1	32.9	21.4	23.5
Days receivable outstanding	16.3	29.8	21.1	13.1	14.1
Days inventory outstanding	45.6	68.3	48.2	34.0	38.6
Days payables outstanding	38.8	41.9	36.5	25.7	29.2
Dividend cover (x)	1.5	2.4	nm	nm	2.0
Current ratio (x)	2.1	2.2	1.7	1.6	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	4.0	6.4	6.6	6.1	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	0.4	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	0.5	net cash
Net interest cover (x)	na	na	nm	93.3	na
Debt/EBITDA (x)	0.0	0.6	nm	1.5	0.7
Capex/revenue (%)	8.2	16.5	14.9	6.9	5.8
Net debt/ (net cash)	(2,050.0)	(551.3)	(105.4)	24.6	(84.1)

Source: Company; Maybank IBG Research

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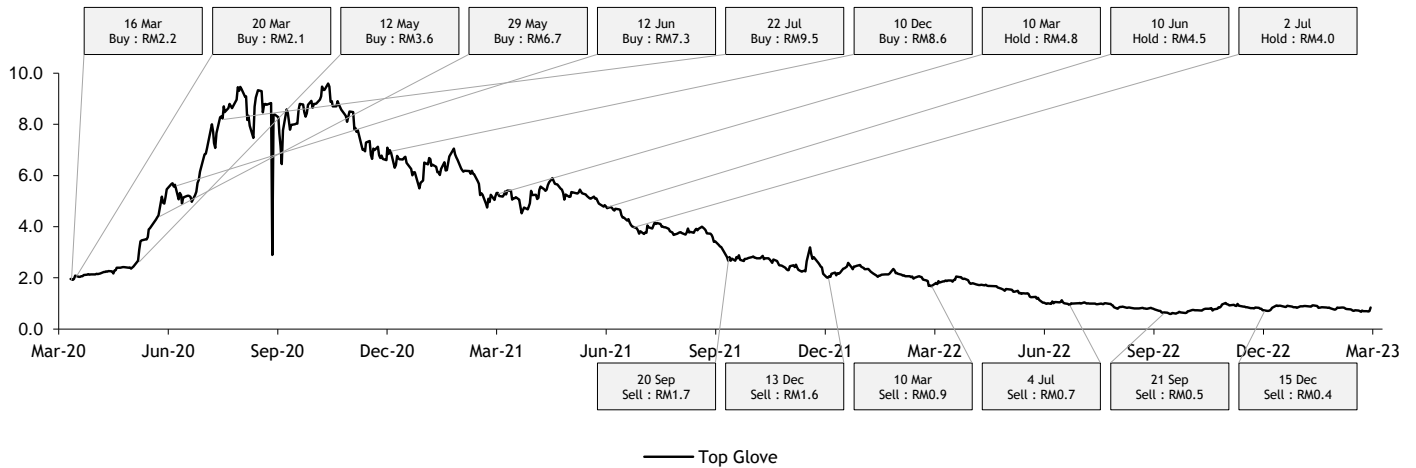
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