

Top Glove (TOPG MK)

Remained in the red

Looking to breakeven by 4QFY24

TOPG's 2QFY24 core net loss of MYR58m (vs. MYR162m/56m net loss in 2QFY23/1QFY24) came in higher than expected. 2QFY24 plant utilisation rate improved to 40% (from 34% in 1QFY24, on 60b pcs total capacity), while blended ASP declined by 5% QoQ. We raise FY24 core net loss forecast by 24% but keep FY25/26 estimates. Our TP is unchanged at MYR0.80 on 1.4x FY25E PBV peg (-0.75SD to mean). SELL. Our preferred pick for the glove sector is HART MK (BUY; MYR2.67, TP: MYR3.02).

Hit by higher raw material costs

Excluding MYR7m non-operational items (e.g. FV gain on derivatives), TOPG's 2QFY24 core net loss was MYR58.2m, leading to a cumulative core net loss of MYR114.1m for 1HFY24 (vs. MYR343.2m core net loss in 1HFY23); the latter at 102%/259% of MIBG/consensus FY24 net loss forecasts of MYR112m/44m. We attribute the weaker set of results to higher raw material costs. This was despite an 18% QoQ increase in sales volume and better utilization rate of 40% in 2QFY24. ASP declined by 5% to USD17/k pieces in 2QFY24.

Key takeaways from results con-call

1) 2QFY24 EBITDA up by +38% QoQ due to higher sales volume and better utilization rate despite higher raw material costs and lower ASP; 2) Sales momentum has remained strong since Dec 2023, and TOPG expects sales to trend up further in the coming quarters. It remains optimistic about returning to profitability by 4QFY24. To break even, the utilization rate has to be $\geq 60\%$ (50% now) barring any unforeseen circumstances; 3) ASP is expected to increase in the coming quarters on higher raw material costs, and price hikes by its overseas counterparts will allow TOPG to follow suit.

Earnings adjustments

We raise FY24 core net loss forecast by 24% to account for higher raw material costs (+9%) but maintain FY25/FY26 net profit forecasts. Including MYR1.2b perpetual sukuk, TOPG's net gearing was largely unchanged at 0.13x in end-Feb 2023.

FYE Aug (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	5,572	2,257	3,589	4,489	5,220
EBITDA	630	(120)	198	576	827
Core net profit	165	(494)	(139)	142	328
Core EPS (sen)	2.0	(6.2)	(1.7)	1.8	4.1
Core EPS growth (%)	(98.0)	nm	nm	nm	130.9
Net DPS (sen)	1.2	0.0	0.0	0.9	2.1
Core P/E (x)	40.1	nm	nm	48.4	21.0
P/BV (x)	1.2	1.3	1.5	1.5	1.4
Net dividend yield (%)	1.5	0.0	0.0	1.0	2.4
ROAE (%)	3.9	(18.0)	(3.0)	3.1	7.0
ROAA (%)	1.8	(6.5)	(2.0)	2.0	4.5
EV/EBITDA (x)	9.7	nm	33.8	11.2	7.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(73)	190	346
MIBG vs. Consensus (%)	-	-	(91.8)	(25.3)	(5.1)

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SELL

Share Price	MYR 0.86
12m Price Target	MYR 0.80 (-6%)
Previous Price Target	MYR 0.80

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)	1.22/0.71
3m avg turnover (USDm)	6.1
Free float (%)	61.0
Issued shares (m)	8,208
Market capitalisation	MYR7.1B
	USD1.5B

Major shareholders:

LIM WEE CHAI	27.2%
Firstway United Corp.	6.8%
Kumpulan Wang Persaraan	3.2%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(4)	(5)	(5)
Relative to index (%)	(3)	(10)	(14)

Source: FactSet

Fig 1: Top Glove's quarterly results

FY Aug (MYR m)	Quarterly					Cumulative		
	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	6MFY24	6MFY23	%YoY
Turnover	550.3	618.0	(11.0)	493.5	11.5	1,043.8	1,250.5	(16.5)
EBITDA	29.0	(59.0)	>+100	21.0	38.1	50.0	(125.0)	>+100
Depreciation	(72.2)	(88.5)	18.4	(72.2)	0.1	(144.4)	(176.5)	18.2
EBIT	(43.2)	(147.5)	70.7	(51.2)	15.8	(94.4)	(301.5)	68.7
Net interest expense	(0.1)	1.5	>+100	(1.4)	90.5	(1.5)	3.9	>-100
Associates	0.0	(0.3)	NA	0.6	NA	0.6	(0.4)	>+100
Pretax profit	(43.1)	(145.9)	70.5	(52.9)	18.5	(95.9)	(297.6)	67.8
Tax	2.9	(9.0)	>+100	5.7	(48.3)	8.6	(15.0)	>+100
Minority interest	0.5	1.8	(69.5)	1.1	(49.7)	1.6	2.8	(41.5)
Perpetual Sukuk	(11.6)	(11.5)	(1.1)	(11.6)	0.0	(23.2)	(23.1)	(0.6)
PATMI	(51.2)	(164.7)	68.9	(57.7)	11.3	(108.9)	(332.9)	67.3
Core PATMI	(58.2)	(161.7)	64.0	(55.9)	(4.2)	(114.1)	(343.2)	66.8
			+/- ppt		+/- ppt			+/- ppt
EBITDA margin (%)	5.3	(9.5)	14.8	4.3	1.0	4.8	-10.0	14.8
Core PATMI margin (%)	(10.6)	(26.2)	15.6	(11.3)	0.7	-10.9	-27.4	16.5
Tax rate (%)	6.8	(6.2)	13.0	10.7	(3.9)	9.0	-5.0	14.0

Source: Company

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



Source: Bloomberg, Company data, Maybank IBG Research

Risk statement

Risk factors for our earnings estimates, target price and rating for TOPG are: (i) aggressive capacity expansion from the Chinese counterparts; (ii) an aggressive pricing strategy from the Chinese counterparts due to their relatively lower production costs supported by lower energy costs; (iii) spikes in raw material prices that are unable to be fully passed on; (iv) prolonged price wars and oversupply issues; and (v) further impairment on its idle factories.

FYE 31 Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	70.6	nm	nm	48.4	21.0
Core P/E (x)	40.1	nm	nm	48.4	21.0
P/BV (x)	1.2	1.3	1.5	1.5	1.4
P/NTA (x)	1.1	1.2	1.4	1.4	1.3
Net dividend yield (%)	1.5	0.0	0.0	1.0	2.4
FCF yield (%)	nm	nm	0.6	5.2	8.2
EV/EBITDA (x)	9.7	nm	33.8	11.2	7.4
EV/EBIT (x)	21.7	nm	nm	24.8	12.1
INCOME STATEMENT (MYR m)					
Revenue	5,572.3	2,257.0	3,589.4	4,488.8	5,220.5
EBITDA	629.8	(119.6)	197.9	576.0	827.3
Depreciation	(348.4)	(343.0)	(310.3)	(316.1)	(321.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	281.4	(462.7)	(112.4)	259.9	505.3
Net interest income / (exp)	19.9	3.4	(6.7)	(6.5)	(6.3)
Associates & JV	(3.7)	(5.8)	(5.8)	(5.8)	(5.8)
Exceptionals	60.8	(433.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	358.4	(898.0)	(124.9)	247.7	493.3
Income tax	(76.8)	11.0	30.0	(59.4)	(118.4)
Minorities	(5.9)	6.9	2.1	0.6	0.2
Perpetual securities	(50.2)	(46.6)	(46.6)	(46.6)	(46.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	225.6	(926.6)	(139.5)	142.3	328.5
Core net profit	164.7	(493.7)	(139.5)	142.3	328.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	950.9	944.6	926.2	1,157.4	1,506.8
Accounts receivable	258.8	196.3	166.7	208.5	242.4
Inventory	575.3	300.2	370.6	463.4	538.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	4,522.2	3,931.7	3,721.4	3,505.2	3,283.3
Intangible assets	1,005.3	864.5	864.5	864.5	864.5
Investment in Associates & JVs	9.4	3.6	3.6	3.6	3.6
Other assets	794.9	840.1	1,038.7	1,034.3	1,021.5
Total assets	8,116.7	7,080.8	7,091.6	7,236.9	7,461.0
ST interest bearing debt	306.1	540.4	676.1	676.1	676.1
Accounts payable	459.4	283.7	295.9	370.0	430.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	93.0	14.1	14.1	14.1	14.1
Other liabilities	465.0	324.0	328.0	329.0	332.0
Total Liabilities	1,323.5	1,162.1	1,314.4	1,389.2	1,452.5
Shareholders Equity	5,579.2	4,707.2	4,567.7	4,638.8	4,799.8
Minority Interest	38.3	35.9	33.8	33.2	33.0
Total shareholder equity	5,617.5	4,743.0	4,601.5	4,672.0	4,832.8
Perpetual securities	1,175.7	1,175.7	1,175.7	1,175.7	1,175.7
Total liabilities and equity	8,116.7	7,080.8	7,091.6	7,236.9	7,461.0
CASH FLOW (MYR m)					
Pretax profit	358.4	(898.0)	(124.9)	247.7	493.3
Depreciation & amortisation	348.4	343.0	310.3	316.1	321.9
Adj net interest (income)/exp	(723.5)	185.3	6.7	6.5	6.3
Change in working capital	90.5	71.0	(89.6)	(59.5)	(47.2)
Cash taxes paid	0.0	0.0	30.0	(59.4)	(118.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	178.8	131.1	138.3	457.1	661.7
Capex	(954.3)	(297.0)	(100.0)	(100.0)	(100.0)
Free cash flow	(775.5)	(165.9)	38.3	357.1	561.7
Dividends paid	(547.3)	0.0	0.0	(71.1)	(167.5)
Equity raised / (purchased)	0.5	0.8	0.0	0.0	0.0
Perpetual securities	(169.8)	(46.6)	(46.6)	(46.6)	(46.6)
Change in Debt	(18.9)	141.5	0.0	0.0	0.0
Other invest/financing cash flow	26.3	22.7	(11.8)	(8.2)	1.8
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(428.2)	(158.2)	(20.2)	231.2	349.4

FYE 31 Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(65.9)	(59.5)	59.0	25.1	16.3
EBITDA growth	(94.0)	nm	nm	191.1	43.6
EBIT growth	(97.2)	nm	nm	nm	94.4
Pretax growth	(96.4)	nm	nm	nm	99.2
Reported net profit growth	(97.1)	nm	nm	nm	130.9
Core net profit growth	(97.9)	nm	nm	nm	130.9
Profitability ratios (%)					
EBITDA margin	11.3	nm	5.5	12.8	15.8
EBIT margin	5.1	nm	nm	5.8	9.7
Pretax profit margin	6.4	nm	nm	5.5	9.4
Payout ratio	43.7	0.0	0.0	50.0	51.0
DuPont analysis					
Net profit margin (%)	4.0	nm	nm	3.2	6.3
Revenue/Assets (x)	0.7	0.3	0.5	0.6	0.7
Assets/Equity (x)	1.5	1.5	1.6	1.6	1.6
ROAE (%)	3.9	(18.0)	(3.0)	3.1	7.0
ROAA (%)	1.8	(6.5)	(2.0)	2.0	4.5
Liquidity & Efficiency					
Cash conversion cycle	56.0	43.6	23.1	22.9	23.9
Days receivable outstanding	30.5	36.3	18.2	15.0	15.5
Days inventory outstanding	68.7	48.4	36.2	38.9	41.7
Days payables outstanding	43.2	41.0	31.3	31.1	33.3
Dividend cover (x)	2.3	nm	nm	2.0	2.0
Current ratio (x)	2.1	1.8	1.8	2.0	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	6.1	6.1	5.4	5.2	5.1
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)	na	135.3	na	40.3	80.8
Debt/EBITDA (x)	0.6	nm	3.5	1.2	0.8
Capex/revenue (%)	17.1	13.2	2.8	2.2	1.9
Net debt/ (net cash)	(551.8)	(390.1)	(235.9)	(467.2)	(816.5)

Source: Company; Maybank IBG Research

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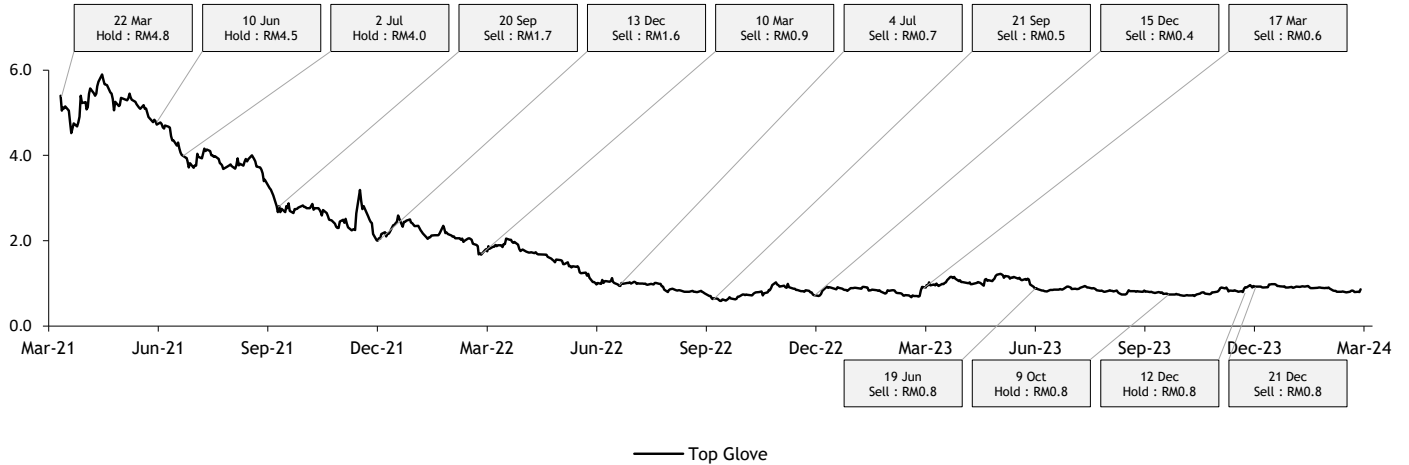
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