

Top Glove (TOPG MK)

Turnaround expected in FY25E

Still in the red but with lower core losses

TOPG's 1QFY25 core net loss of MYR5.8m (vs. MYR61m/MYR26m net loss in 1QFY24/4QFY24) was in line. 1QFY25 plant utilisation rate (UR) improved to 66% (from 60% in 4QFY24), but blended ASP declined by -2% QoQ. TOPG is confident to turnaround in FY25E on better sales volume and ASP. We maintain our FY25-27E earnings and MYR1.08 TP on 1.8x CY26E P/B. Reiterate SELL as we believe the positives have been more than priced in.

1QFY25: lower core net loss

Excluding MYR11.3m in non-operational net positives (such as fair value gain, unrealized forex gain, and PPE write-off), TOPG's 1QFY25 core net loss was MYR5.8m, versus our and consensus FY25E net profit forecasts of MYR124m and MYR139m, respectively. 1QFY25 core net loss was due to realized forex losses and the partial recognition of higher ASPs during the preceding quarter (Sep-Nov 2024). However, we expect stronger earnings ahead on higher plant UR and ASPs from increased US orders.

Key highlights from 1QFY25 results concall

1QFY25 sales volume rose 16% QoQ, while ASP declined 2% QoQ to ~USD19.3/k pcs. TOPG expects ASP to rise to USD21-22/k pcs from Mar 2025 (vs. our FY25E ASP assumption of USD22/k pcs) as pre-higher US tariff stocks deplete. Management projects sales to grow as orders from US shift to Malaysia due to higher tariffs on China-made gloves from Jan 2025. TOPG plans to increase capacity to 70b pcs p.a. (from 64b presently) by reopening idle plants, with current UR at 70%. It also aims to expand into Vietnam, producing both natural rubber and nitrile gloves.

Uncertainty remains on demand from non-US markets

We maintain our earnings forecasts. Our concerns remain with TOPG's significant exposure to the non-US markets, which accounted for 82% of its 1QFY25 sales volume (-2 ppt QoQ, compared to pre-pandemic level of 76%). We expect its Chinese counterparts to divert their US sales to these markets starting Jan 2025. For TOPG, regaining previous US customers or securing new ones may take up to six months due to the customers' audit process. Elsewhere, TOPG's proposed 1-for-20 bonus issue of up to 406m warrants (exercise price: MYR1.27/sh) is slated to be listed by Feb 2025.

FYE Aug (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue test	2,257	2,516	4,486	4,896	4,394
EBITDA	(122)	251	542	654	517
Core net profit	(492)	(182)	124	204	136
Core EPS (sen)	(6.1)	(2.3)	1.5	2.5	1.7
Core EPS growth (%)	nm	nm	nm	64.5	(33.1)
Net DPS (sen)	0.0	0.0	0.8	1.3	0.9
Core P/E (x)	nm	nm	85.2	51.8	77.5
P/BV (x)	1.3	1.6	2.3	2.2	2.2
Net dividend yield (%)	0.0	0.0	0.6	1.0	0.6
ROAE (%)	(18.0)	(1.3)	2.7	4.3	2.8
ROAA (%)	(6.5)	(2.6)	1.8	2.8	1.9
EV/EBITDA (x)	nm	27.1	18.5	14.8	18.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	139	230	382
MIBG vs. Consensus (%)	-	-	(11.0)	(11.1)	(64.3)

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SELL

Share Price	MYR 1.32
12m Price Target	MYR 1.08 (-17%)
Previous Price Target	MYR 1.08

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.

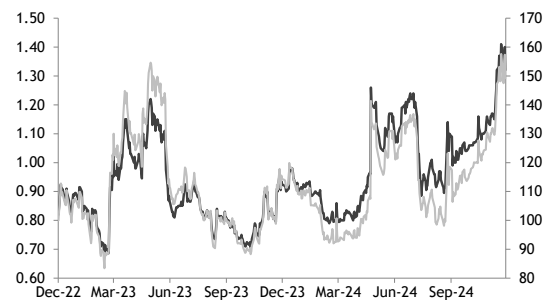
Statistics

52w high/low (MYR)	1.41/0.79
3m avg turnover (USDm)	7.0
Free float (%)	60.9
Issued shares (m)	8,212
Market capitalisation	MYR10.8B
	USD2.4B

Major shareholders:

LIM WEE CHAI	27.2%
Kumpulan Wang Persaraan	7.6%
Firstway United Corp.	6.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	14	20	46
Relative to index (%)	14	26	34

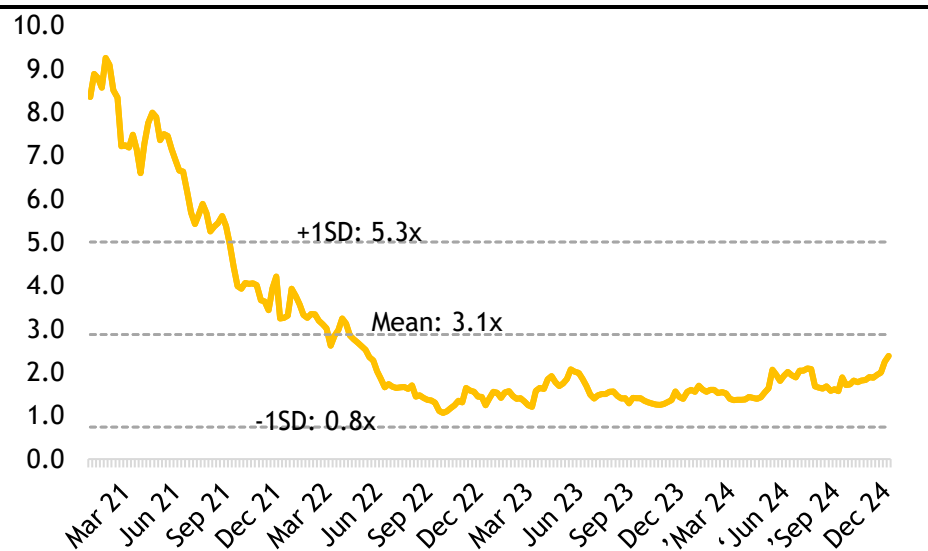
Source: FactSet

Fig 1: Top Glove's quarterly results

FY Aug (MYR m)	Quarterly				
	1QFY25	1QFY24	% YoY	4QFY24	% QoQ
Turnover	885.9	493.5	79.5	835.3	6.1
EBITDA	88.0	20.0	>+100	32.0	>+100
Depreciation	(73.7)	(72.2)	(2.1)	(70.7)	(4.3)
EBIT	14.3	(52.2)	>+100	(38.7)	>+100
Net interest expense	1.2	(1.4)	>+100	3.6	(66.8)
Associates	0.0	0.6	(100.0)	0.0	NA
Pretax profit	19.4	(52.9)	>+100	4.1	>+100
Tax	(2.7)	5.7	>-100	3.4	>-100
Minority interest	0.5	1.1	(56.3)	0.5	(11.0)
Perpetual Sukuk	(11.7)	(11.6)	(1.1)	(11.6)	1.1
PATMI	5.5	(57.7)	>+100	(3.6)	>+100
Core PATMI	(5.8)	(61.0)	90.4	(26.2)	77.6
			+/- ppt		+/- ppt
EBITDA margin (%)	9.9	4.1	5.9	3.8	6.1
Core PATMI margin (%)	(0.7)	(12.4)	11.7	(3.1)	2.5
Tax rate (%)	13.8	10.7	3.0	(82.0)	95.7

Source: Company

Fig 2: Top Glove's 1-year forward PBV



Source: Bloomberg, Company data, Maybank IBG Research

Risk statement

Risk factors for our earnings estimates, target price and SELL rating for TOPG are: (i) stronger-than-expected orders from the USA market; (ii) higher-than-expected utilisation rate and ASPs; (iii) entry into new markets that will drive sales volume growth.

FYE 31 Aug	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	nm	nm	85.2	51.8	77.5
Core P/E (x)	nm	nm	85.2	51.8	77.5
P/BV (x)	1.3	1.6	2.3	2.2	2.2
P/NTA (x)	1.2	1.5	2.1	2.1	2.0
Net dividend yield (%)	0.0	0.0	0.6	1.0	0.6
FCF yield (%)	nm	nm	2.4	4.2	3.7
EV/EBITDA (x)	nm	27.1	18.5	14.8	18.2
EV/EBIT (x)	nm	nm	44.7	29.4	41.6
INCOME STATEMENT (MYR m)					
Revenue	2,257.2	2,516.0	4,485.7	4,895.8	4,394.0
EBITDA	(122.1)	251.0	542.1	653.8	517.3
Depreciation	(343.0)	(287.5)	(318.2)	(324.0)	(290.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(465.1)	(36.5)	223.9	329.8	226.5
Net interest income / (exp)	3.4	2.9	(2.2)	(2.0)	15.8
Associates & JV	(5.8)	1.7	1.7	1.7	1.7
Exceptionals	(433.0)	119.8	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(900.4)	(33.2)	223.4	329.5	244.0
Income tax	14.9	15.2	(53.6)	(79.1)	(61.0)
Minorities	6.9	2.9	0.9	0.3	0.1
Perpetual securities	(46.6)	(46.6)	(46.6)	(46.6)	(46.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(925.2)	(61.8)	124.1	204.1	136.4
Core net profit	(492.2)	(181.6)	124.1	204.1	136.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	944.6	1,000.5	1,145.2	1,448.8	1,739.3
Accounts receivable	196.3	371.2	208.3	227.4	204.1
Inventory	300.2	355.8	463.1	505.4	453.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3,931.7	3,623.1	3,404.9	3,180.9	2,990.1
Intangible assets	864.5	861.2	861.2	861.2	861.2
Investment in Associates & JVs	3.6	5.3	5.3	5.3	5.3
Other assets	840.1	708.9	1,018.0	1,012.7	1,014.9
Total assets	7,080.8	6,926.0	7,106.1	7,241.7	7,268.5
ST interest bearing debt	540.4	398.0	553.8	553.8	553.8
Accounts payable	283.7	406.6	369.8	403.6	362.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	14.1	0.0	0.0	0.0	0.0
Other liabilities	324.0	301.0	301.0	301.0	301.0
Total Liabilities	1,162.1	1,105.9	1,224.9	1,258.7	1,217.3
Shareholders Equity	4,707.2	4,614.2	4,676.3	4,778.3	4,846.5
Minority Interest	35.9	30.1	29.3	29.0	28.9
Total shareholder equity	4,743.0	4,644.3	4,705.5	4,807.3	4,875.4
Perpetual securities	1,175.7	1,175.7	1,175.7	1,175.7	1,175.7
Total liabilities and equity	7,080.8	6,926.0	7,106.1	7,241.7	7,268.5
CASH FLOW (MYR m)					
Pretax profit	(900.4)	(33.2)	223.4	329.5	244.0
Depreciation & amortisation	343.0	287.5	318.2	324.0	290.8
Adj net interest (income)/exp	185.3	(9.9)	2.2	2.0	(15.8)
Change in working capital	71.0	(22.8)	(132.4)	(27.6)	33.7
Cash taxes paid	0.0	(18.6)	(53.6)	(79.1)	(61.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	131.1	37.8	356.0	547.2	490.1
Capex	(297.0)	(135.6)	(100.0)	(100.0)	(100.0)
Free cash flow	(165.9)	(97.8)	256.0	447.2	390.1
Dividends paid	0.0	(2.1)	(62.0)	(102.1)	(68.2)
Equity raised / (purchased)	0.8	2.7	0.0	0.0	0.0
Perpetual securities	(46.6)	(46.6)	(46.6)	(46.6)	(46.6)
Change in Debt	141.5	(136.5)	0.0	0.0	0.0
Other invest/financing cash flow	22.7	337.6	(2.7)	5.0	15.3
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(158.2)	101.5	144.7	303.6	290.5

FYE 31 Aug	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(59.5)	11.5	78.3	9.1	(10.2)
EBITDA growth	nm	nm	116.0	20.6	(20.9)
EBIT growth	nm	nm	nm	47.3	(31.3)
Pretax growth	nm	nm	nm	47.5	(26.0)
Reported net profit growth	nm	nm	nm	64.5	(33.1)
Core net profit growth	nm	nm	nm	64.5	(33.1)
Profitability ratios (%)					
EBITDA margin	nm	10.0	12.1	13.4	11.8
EBIT margin	nm	nm	5.0	6.7	5.2
Pretax profit margin	nm	nm	5.0	6.7	5.6
Payout ratio	0.0	0.0	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	nm	nm	2.8	4.2	3.1
Revenue/Assets (x)	0.3	0.4	0.6	0.7	0.6
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.5
ROAE (%)	(18.0)	(1.3)	2.7	4.3	2.8
ROAA (%)	(6.5)	(2.6)	1.8	2.8	1.9
Liquidity & Efficiency					
Cash conversion cycle	43.6	38.7	25.2	24.4	26.6
Days receivable outstanding	36.3	40.6	23.3	16.0	17.7
Days inventory outstanding	48.4	37.3	37.9	41.7	44.5
Days payables outstanding	41.0	39.2	36.0	33.3	35.6
Dividend cover (x)	nm	nm	2.0	2.0	2.0
Current ratio (x)	1.8	1.9	2.1	2.4	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	6.1	6.3	5.8	5.8	6.0
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)	136.0	12.5	101.6	nm	na
Debt/EBITDA (x)	nm	1.6	1.0	0.8	1.1
Capex/revenue (%)	13.2	5.4	2.2	2.0	2.3
Net debt/ (net cash)	(390.1)	(602.5)	(591.5)	(895.0)	(1,185.5)

Source: Company; Maybank IBG Research

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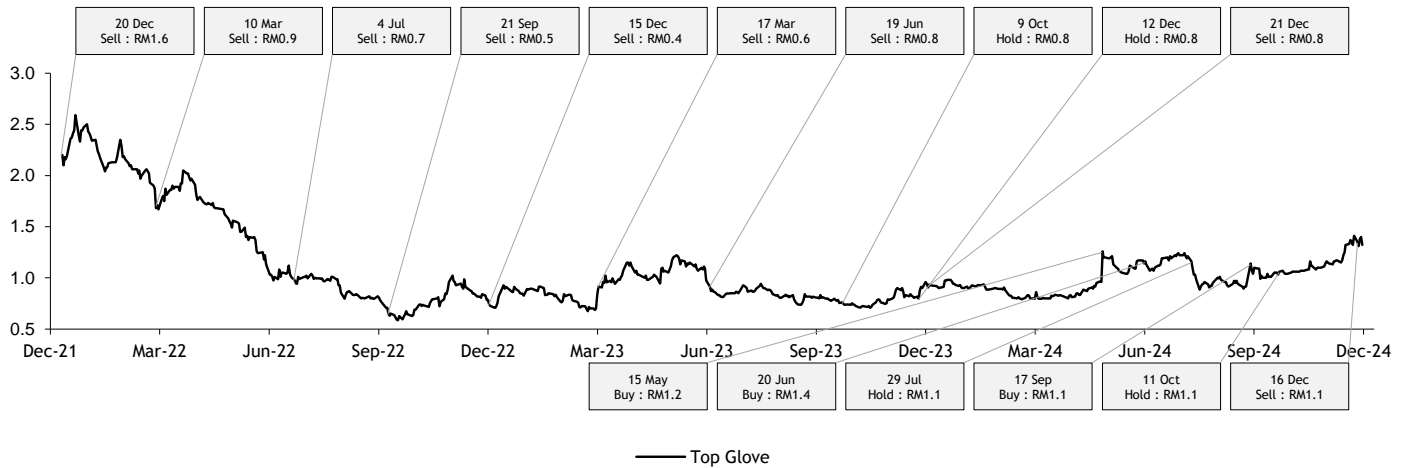
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