

Malaysia Company Update Top Glove Corporation

Bloomberg: TOPG MK | Reuters: TPGC.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Dec 2020

BUY

Last Traded Price (9 Dec 2020): RM6.84 (KLCI : 1,646.53)
Price Target 12-mth: RM10.40 (52% upside) (Prev RM10.20)

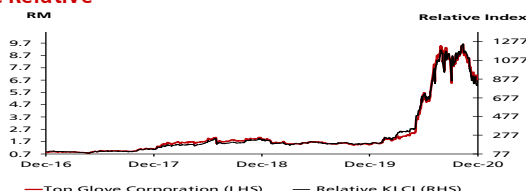
Analyst

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What's New

- Earnings boosted by higher volume and ASP
- Higher ASP more than offset increase in raw material costs; declares bumper dividend
- Expect earnings to stay robust in the coming quarters as demand remains strong
- Maintain BUY with higher TP of RM10.40

Price Relative



Forecasts and Valuation

FY Aug (RMm)	2020A	2021F	2022F	2023F
Revenue	7,236	19,135	13,512	12,026
EBITDA	2,566	11,150	4,398	3,635
Pre-tax Profit	2,301	10,776	4,072	3,184
Net Profit	1,867	8,878	3,331	2,597
Net Pft (Pre Ex.)	1,867	8,878	3,331	2,597
Net Pft Gth (Pre-ex) (%)	389.8	375.5	(62.5)	(22.0)
EPS (sen)	23.0	109	41.0	32.0
EPS Pre Ex. (sen)	23.0	109	41.0	32.0
EPS Gth Pre Ex (%)	208	376	(62)	(22)
Diluted EPS (sen)	23.0	109	41.0	32.0
Net DPS (sen)	11.8	56.2	21.1	16.5
BV Per Share (sen)	77.3	184	168	182
PE (X)	29.8	6.3	16.7	21.4
PE Pre Ex. (X)	29.8	6.3	16.7	21.4
P/Cash Flow (X)	17.5	8.1	11.7	16.1
EV/EBITDA (X)	20.8	4.4	11.3	13.5
Net Div Yield (%)	1.7	8.2	3.1	2.4
P/Book Value (X)	8.8	3.7	4.1	3.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	42.9	83.7	23.3	18.2
Earnings Rev (%)		56	96	-
Consensus EPS (sen):		106	43.5	30.4
Other Broker Recs:		B: 16	S: 2	H: 4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

A befitting windfall

Investment Thesis:

Strong ASP trend to continue in 2QFY21. We understand that average selling price (ASP) in 2QFY21 is set to be stronger q-o-q, led by nitrile gloves. We expect this to support another quarter of stellar earnings in 2QFY21.

Demand for rubber gloves remains robust resulting in continued shortage in the market while increasingly tight supply of raw materials may limit new industry capacity of nitrile gloves from newer players. The ASP increase in 1QFY21 more than offset the higher nitrile raw material cost. In addition, the Group has been able to re-direct sales to other countries following the US ban.

Normalizing operations. The Group has acquired new accommodation facilities for its workers. It expects operations to normalize in 3 weeks following the infection outbreak at its Meru factory in November.

Valuation:

We raise our FY21-22F earnings assumptions to factor in higher ASPs and volume assumptions. On the back of supernormal earnings, we apply a lower multiple of 12x CY21F EPS based on its historical 5-year mean to derive our RM10.40 TP.

Where we differ:

We are less concerned about new supply of nitrile gloves by new and smaller players into the market this year given the increasingly tight raw material supply. As one of the key players in the industry, TOPG should be able to secure sufficient supply.

Key Risks to Our View:

Lower-than-expected sales volume and ASP. Lower-than-expected sales volume and ASP may adversely affect TOPG's earnings and share price.

At A Glance

Issued Capital (m shrs)	8,039
Mkt. Cap (RMm/US\$m)	54,990 / 13,536
Major Shareholders (%)	
Tan Sri Lim Wee Chai	34.4%
Employees Provident Fund	7.3%
KWAP	5.4%
Free Float (%)	65
3m Avg. Daily Val (US\$m)	124.4
GIC Industry : Health Care / Health Care Equipment & Services	



Live more, Bank less

WHAT'S NEW

Strong demand continues

Above expectations. TOPG registered another record net profit of RM2.4bn in 1QFY21 (+2,032.2% y-o-y; +83.9% q-o-q). The stellar results, above our and consensus expectations, were driven by stronger sales volume and ASP.

TOPG declared a first single-tier dividend per share (DPS) of 16.5 sen in 1QFY21. Payout ratio is at 56% which includes a 6% payout as special dividend.

Record-high revenue and net profit. 1QFY21 revenue came in at RM4.8bn (+293.6% y-o-y, +53.1% q-o-q), supported by higher sales volume (+34.0% y-o-y, -0.4% q-o-q) and higher blended ASP (+203.9% y-o-y, +58.3% q-o-q). The quantum of net profit improvement was greater than revenue growth as a high utilisation rate had amplified production efficiency.

Aspion's performance continued to improve. TOPG's subsidiary Aspion Sdn Bhd continued to contribute positively to group earnings. It registered a profit before tax (PAT) of RM332m in 1QFY21 vs RM6.3m in 1QFY20. The strong results were supported by a higher production utilisation rate of 80% (vs 60% in FY19) and increase in ASP.

Stronger EBIT/k gloves. Earnings before interest and taxes (EBIT)/k gloves came in at RM171.56 (+1,545.8% y-o-y, +91.5% q-o-q). The significant improvement in EBIT/k gloves was mainly due to the higher ASP and lower per unit fixed costs, thanks to an optimal utilisation rate leading to economies of scale.

Outlook

ASP expected to increase in the near term. Nitrile glove ASP is expected to increase at a stronger quantum compared to NR glove ASP due to the shortage of nitrile gloves in the market. Blended ASP is expected to increase 30% q-o-q which will result in better earnings in 2QFY21. Utilisation rate is expected to stay high at close to 100% vs 85% pre-COVID-19.

Strong global demand for gloves expected in 2021 and 2022. TOPG's management expects annual global glove demand growth to increase by 25% and 15% y-o-y for 2021 and 2022 respectively. This is stronger than pre-COVID-19 annual glove demand growth of 10-12% y-o-y. The stronger glove demand growth in 2021 is expected to be mainly driven by the COVID-19 pandemic. Post-pandemic growth is projected to be higher than pre-pandemic growth due to heightened awareness in the medical and non-medical sectors. Annual demand growth is expected to be 15% y-o-y post-pandemic.

Accelerating capacity expansion. In TOPG's latest update, its total installed capacity stands at 90bn pieces of gloves. Its management has revised the company's planned capacity expansion upwards for CY20 and CY21 to capture the robust demand. Currently, it is targeting to increase capacity to 108bn pieces by the end of December 2021 and to 129bn pieces by the end of December 2022.

TOPG is setting up its first glove factory in Vietnam. The initial production capacity of approximately 2.8bn pieces from 10 production lines is expected to come on stream in October, while the second phase of capacity expansion of 2.4bn pieces is likely to commercialise in 3QCY21. The rationale of setting up the manufacturing plant in Vietnam is to diversify geographical exposure and enjoy a 7% tax rebate.

Order book backlog of more than a year. Currently, its order book backlog for nitrile gloves is at 510 days from 620 days in September. NR gloves order book backlog has also been reduced to 340 days from 400 days as some of the nitrile glove production switched to the NR glove production line due to shortage of nitrile rubber raw materials. The company has allocated 30% of production capacity for spot orders.

Capex expectations. TOPG has planned for RM10bn capital expenditure (capex) over the next five years. It is aiming to increase total installed capacity by 77bn pieces of gloves to 185.5bn by FY26. The capex will also be utilised for enhancement of existing manufacturing facilities, Industry 4.0 initiatives, a gamma sterilisation plant, land bank for future expansion, information technology (IT) upgrades and workers' facilities. For FY21, the capex target is RM1.9bn.

Improving workers accommodation. Efforts to source for more worker accommodation and to improve existing accommodation have been ongoing in consideration of the large number of workers, for which the Group has already invested RM70m. In addition, the Group has spent some RM20m on purchasing 100 units of apartments over the past two months and is also renting more houses for its workers. In the mid-term, the Group has earmarked approximately RM100m to be invested in workers' facilities and accommodation, which includes building mega hostels in Selangor (Klang and Banting) with a combined capacity of 7,300 pax and are fully equipped with a suite of amenities and facilities. The CAPEX for the new mega hostels is around RM70m and the hostels are expected to be ready by 2022. The Group is also building and acquiring additional houses,

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apartments and hostels in other states where it has operations. On the update on the current situation in the Teratai cluster, all 28 glove manufacturing plants in Meru is expected to resume operations within the next two to three weeks.

Work towards upliftment in ban. Top Glove continues to actively engage with the U.S. Customs Border and Protection towards the expeditious upliftment of the Withhold Release Order (WRO), for which it is making good progress.

Valuation

Reiterate BUY with higher TP of RM10.40. We raised our FY21-22 net profit assumptions to factor in higher ASPs and revised the installed capacity as per management guidance. We also increased our TP from RM10.20 to RM10.40 post-earnings adjustment with updated price-to-earnings (PE) of 12x CY21F EPS (from 19x previously). This is based on its 5-year mean. We reduced our target multiple given the projected supernormal profits in FY21F.

We maintain our BUY call in view of its strong earnings outlook. While there have been reports that COVID-19

vaccines could be ready by 4Q20-1Q21, the timeline for sufficiently accessible vaccines that would allow for global containment of the pandemic remains to be seen. Even if a vaccine is developed by the beginning of 2021, manufacturing billions of doses will take time. In the longer term, even as infection rates ease, we expect COVID-19 to drive increased usage of gloves globally, sustaining a "new normal" of demand.

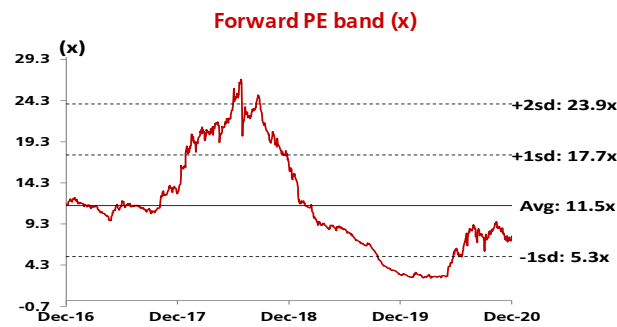
Company Background

Top Glove Corporation (TOPG) is the world's largest rubber glove manufacturer with an annual production capacity of 85.5bn pieces of gloves. Nitrile rubber gloves make up the lion's share of its product mix (47%), while natural rubber gloves account for 42%. Vinyl and surgical gloves account for the rest. Currently, the group's manufacturing facilities are located in Malaysia, Thailand, Indonesia and Vietnam.

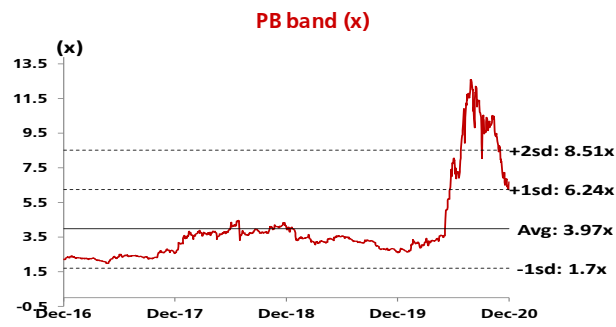
Quarterly Income Statement (RMm)

FY Aug	1Q2020	4Q2020	1Q2021	% chg yoy	% chg qoq
Revenue	1,209	3,109	4,759	293.6	53.1
Cost of Goods Sold	(984)	(1,375)	(1,564)	58.9	13.7
Gross Profit	225	1,734	3,195	1,320.1	84.3
Other Oper. (Exp)/Inc	(85.1)	(117)	(111)	30.2	(5.3)
Operating Profit	140	1,617	3,084	2,105.3	90.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	2.59	(1.1)	0.76	(70.5)	(169.7)
Net Interest (Exp)/Inc	(17.0)	7.89	10.4	nm	31.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	125	1,624	3,096	2,367.5	90.7
Tax	(13.7)	(298)	(690)	4,940.8	132.0
Minority Interest	(0.3)	(34.0)	(29.4)	(8,786.4)	(13.5)
Net Profit	111	1,292	2,376	2,032.2	83.9
Net profit bef Except.	111	1,292	2,376	2,032.2	83.9
EBITDA	197	1,681	3,156	1,503.3	87.7
Margins (%)					
Gross Margins	18.6	55.8	67.1		
Opg Profit Margins	11.6	52.0	64.8		
Net Profit Margins	9.2	41.6	49.9		

Historical PE and PB band



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

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Key Assumptions

FY Aug	2019A	2020A	2021F	2022F	2023F
Capacity (bn gloves)	63.9	85.5	104	122	129
Utilisation rate (%)	85.2	74.5	90.0	90.0	80.0
Sales Volume (bn gloves)	54.4	63.7	93.6	110	103
EBIT/k gloves (RM)	9.37	36.6	115	35.6	29.7

Income Statement (RMm)

FY Aug	2019A	2020A	2021F	2022F	2023F
Revenue	4,802	7,236	19,135	13,512	12,026
Cost of Goods Sold	(4,338)	(4,932)	(7,751)	(8,883)	(8,321)
Gross Profit	464	2,304	11,384	4,629	3,705
Other Opng (Exp)/Inc	48.2	28.4	(621)	(711)	(642)
Operating Profit	512	2,332	10,763	3,918	3,062
Other Non Opq (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.7)	(1.4)	(1.4)	(1.3)	(1.2)
Net Interest (Exp)/Inc	(68.7)	(29.4)	14.4	155	123
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	441	2,301	10,776	4,072	3,184
Tax	(57.1)	(398)	(1,862)	(703)	(550)
Minority Interest	(3.1)	(36.8)	(36.8)	(36.8)	(36.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	381	1,867	8,878	3,331	2,597
Net Profit before Except.	381	1,867	8,878	3,331	2,597
EBITDA	705	2,566	11,150	4,398	3,635

Growth

Revenue Gth (%)	13.9	50.7	164.4	(29.4)	(11.0)
EBITDA Gth (%)	1.6	263.9	334.5	(60.6)	(17.3)
Opq Profit Gth (%)	(7.0)	355.8	361.5	(63.6)	(21.8)
Net Profit Gth (Pre-ex) (%)	(12.2)	389.8	375.5	(62.5)	(22.0)

Margins & Ratio

Gross Margins (%)	9.7	31.8	59.5	34.3	30.8
Opq Profit Margin (%)	10.7	32.2	56.2	29.0	25.5
Net Profit Margin (%)	7.9	25.8	46.4	24.7	21.6
ROAE (%)	15.8	42.9	83.7	23.3	18.2
ROA (%)	7.0	26.1	66.6	19.0	14.6
ROCE (%)	6.4	30.5	77.6	22.7	17.5
Div Payout Ratio (%)	50.4	51.5	51.5	51.5	51.5
Net Interest Cover (x)	7.5	79.3	NM	NM	NM

Source: Company, AllianceDBS

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Quarterly Income Statement (RMm)

FY Aug	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021
Revenue	1,209	1,230	1,688	3,109	4,759
Cost of Goods Sold	(984)	(996)	(1,152)	(1,375)	(1,564)
Gross Profit	225	233	536	1,734	3,195
Other Oper. (Exp)/Inc	(85.1)	(85.2)	(116)	(117)	(111)
Operating Profit	140	148	420	1,617	3,084
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	2.59	(0.8)	(2.1)	(1.1)	0.76
Net Interest (Exp)/Inc	(17.0)	(17.0)	4.07	7.89	10.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	125	130	422	1,624	3,096
Tax	(13.7)	(14.4)	(72.0)	(298)	(690)
Minority Interest	(0.3)	(0.3)	(2.1)	(34.0)	(29.4)
Net Profit	111	116	348	1,292	2,376
Net profit bef Except.	111	116	348	1,292	2,376
EBITDA	197	204	474	1,681	3,156

Growth

Revenue Gth (%)	1.6	1.7	37.3	84.2	53.1
EBITDA Gth (%)	31.5	3.4	132.9	254.5	87.7
Opg Profit Gth (%)	40.4	6.0	183.4	284.9	90.8
Net Profit Gth (Pre-ex) (%)	39.2	3.8	200.7	271.4	83.9

Margins

Gross Margins (%)	18.6	19.0	31.7	55.8	67.1
Opg Profit Margins (%)	11.6	12.1	24.9	52.0	64.8
Net Profit Margins (%)	9.2	9.4	20.6	41.6	49.9

Balance Sheet (RMm)

FY Aug	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	2,642	3,215	4,727	5,446	6,072
Invts in Associates & JVs	0.0	10.4	9.07	7.78	6.56
Other LT Assets	1,473	1,185	1,185	1,185	1,185
Cash & ST Invts	245	2,885	7,790	6,956	7,936
Inventory	615	526	1,182	1,355	1,269
Debtors	597	803	3,048	2,152	1,915
Other Current Assets	76.6	47.9	47.9	47.9	47.9
Total Assets	5,649	8,673	17,990	17,151	18,432
ST Debt	1,042	323	323	323	323
Creditor	471	671	1,117	1,280	1,199
Other Current Liab	158	985	985	985	985
LT Debt	1,379	217	417	617	817
Other LT Liabilities	156	167	167	167	167
Shareholder's Equity	2,426	6,284	14,918	13,679	14,805
Minority Interests	17.1	25.6	62.4	99.2	136
Total Cap. & Liab.	5,649	8,673	17,990	17,151	18,432
Non-Cash Wkq. Capital	660	(279)	2,176	1,290	1,049
Net Cash/(Debt)	(2,175)	2,344	7,049	6,015	6,795
Debtors Turn (avg days)	48.2	35.3	36.7	70.2	61.7
Creditors Turn (avg days)	42.1	44.3	44.3	52.1	58.4
Inventory Turn (avg days)	49.7	44.3	42.3	55.1	61.8
Asset Turnover (x)	0.9	1.0	1.4	0.8	0.7
Current Ratio (x)	0.9	2.2	5.0	4.1	4.5
Quick Ratio (x)	0.5	1.9	4.5	3.5	3.9
Net Debt/Equity (X)	0.9	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.9	CASH	CASH	CASH	CASH
Capex to Debt (%)	26.1	141.5	256.5	127.6	105.2
Z-Score (X)	5.4	19.0	17.5	14.5	14.5

Source: Company, AllianceDBS

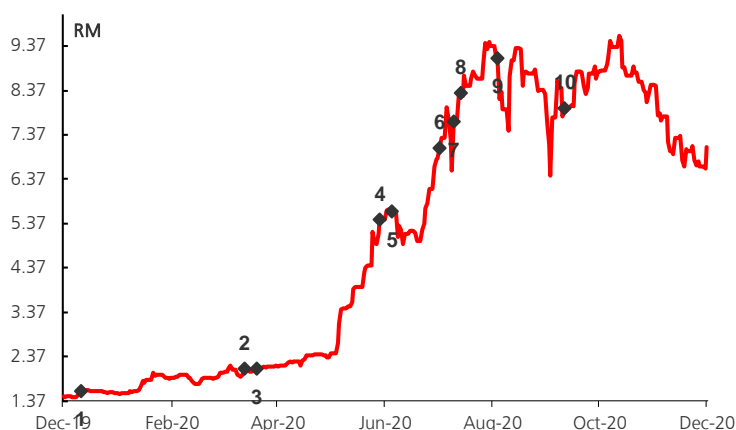
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Cash Flow Statement (RMm)

FY Aug	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	441	2,301	10,776	4,072	3,184
Dep. & Amort.	195	235	388	481	574
Tax Paid	(56.8)	(230)	(1,862)	(703)	(550)
Assoc. & JV Inc/(loss)	1.70	1.43	1.36	1.29	1.22
Chq in Wkq.Cap.	(73.3)	864	(2,455)	886	242
Other Operating CF	1.02	(0.7)	0.0	0.0	0.0
Net Operating CF	509	3,171	6,849	4,737	3,451
Capital Exp.(net)	(632)	(765)	(1,900)	(1,200)	(1,200)
Other Invt.(net)	120	(1,587)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	10.1	269	0.0	0.0	0.0
Net Investing CF	(502)	(2,083)	(1,900)	(1,200)	(1,200)
Div Paid	(220)	(374)	(244)	(4,571)	(1,471)
Chq in Gross Debt	192	(1,115)	200	200	200
Capital Issues	14.8	0.0	0.0	0.0	0.0
Other Financing CF	0.0	1,446	0.0	0.0	0.0
Net Financing CF	(13.0)	(43.7)	(43.8)	(4,371)	(1,271)
Currency Adjustments	1.02	6.94	0.0	0.0	0.0
Chg in Cash	(5.3)	1,052	4,905	(834)	980
Opq CFPS (sen)	11.4	28.4	114	47.4	39.5
Free CFPS (sen)	(2.4)	29.6	60.9	43.5	27.7

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Dec 19	1.60	1.42	HOLD
2:	20 Mar 20	2.09	1.90	HOLD
3:	27 Mar 20	2.11	2.02	HOLD
4:	05 Jun 20	5.46	6.15	BUY
5:	12 Jun 20	5.63	6.15	BUY
6:	09 Jul 20	7.06	9.27	BUY
7:	17 Jul 20	7.66	9.27	BUY
8:	21 Jul 20	8.31	9.27	BUY
9:	11 Aug 20	9.10	9.27	BUY
10:	18 Sep 20	7.98	10.20	BUY

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

AllianceDBS recommendations are based on an Absolute Total Return * Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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