

Top Glove (TOPG MK)

Many rabbits in the hat

Raising earnings forecasts; our top pick

For Nov 2020, Top Glove's nitrile glove ASP would be 4.1x that of Feb 2020's level and we understand that there is still another 30-50% upside. Additionally, the ASP hike for latex powder free gloves has reaccelerated for Nov 2020 and there is still room to raise the ASP further. We raise FY20/21/22E EPS by 6%/63%/224% on higher ASPs, but retain our TP at MYR9.53 (ex-bonus) on a lower CY21E P/E target of 9x, about -1SD of 5Y mean (vs. 16x), on consideration for earnings to taper post CY21E. BUY.

Nitrile gloves: Going for the highest possible ASP

For Nov 2020, we understand the ASP hike for nitrile gloves is +15% MoM, bringing ASP of nitrile gloves to 4.1x that of Feb 2020 (pre-COVID 19). We note that Sri Trang's nitrile ASP is on par to that of Top Glove. As for Hartalega and Kossan, their ASPs are 3-6 months behind but both are expected to raise ASPs to narrow the gap. Presently, Top Glove's spot selling price is USD130-150/k pieces (+37-58% higher than the normal orders) and it may raise its ASP to this level in the near-term. We also note that some of its customers are willing to lock in their next 12 months orders at Nov's high ASP level, signalling that even customers are expecting the ASP to stay elevated in the next 12 months.

Latex powder free gloves: ASP hike reaccelerating

ASP hike for latex powder free gloves has reaccelerated for Nov to +10% MoM (Oct: +5% MoM) due to the strong demand. Some customers have shifted their orders to latex powder free gloves as the sales lead time of c.15 months is shorter than nitrile glove's c.19 months. We note that Sri Trang's latex powder free glove ASP is c.15% higher than that of Top Glove. Hence, there is still room for Top Glove to raise its ASP further.

Special dividend in FY21E?

4QFY8/20 results are scheduled to be released on 17 Sep and we project a net profit of MYR1.05b (+3x QoQ). We do not expect a special dividend for FY20E, but see the possibility of a special dividend in FY21E given the supernormal earnings. Our model assumes zero special dividend in FY20-22E with an implied DY of 9% for FY21E.

FYE Aug (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,221	4,801	7,242	27,285	15,943
EBITDA	688	690	2,298	15,046	5,874
Core net profit	429	365	1,625	11,220	4,255
Core EPS (sen)	5.7	4.7	20.0	136.6	51.8
Core EPS growth (%)	28.7	(16.1)	320.9	583.4	(62.1)
Net DPS (sen)	2.8	2.5	10.4	68.3	25.9
Core P/E (x)	32.8	33.4	38.8	5.7	15.0
P/BV (x)	5.9	5.0	14.0	6.3	5.2
Net dividend yield (%)	1.5	1.6	1.3	8.8	3.3
ROAE (%)	19.4	15.1	57.7	186.6	43.1
ROAA (%)	10.4	6.7	22.5	92.2	26.5
EV/EBITDA (x)	23.2	20.8	27.1	4.0	9.7
Net gearing (%) (incl perps)	76.8	89.0	net cash	net cash	net cash
Consensus net profit	-	-	1,402	3,702	1,605
MKE vs. Consensus (%)	-	-	15.9	203.1	165.1

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BUY

Share Price	MYR 7.76
12m Price Target	MYR 9.53 (+24%)
Previous Price Target	MYR 9.53

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.

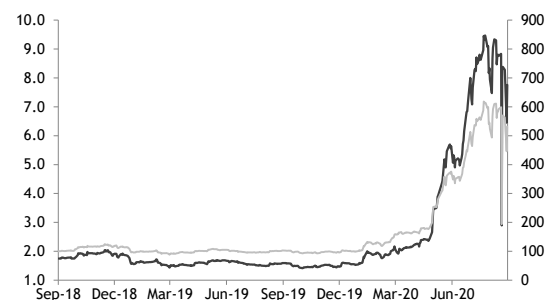
Statistics

52w high/low (MYR)	9.47/1.42
3m avg turnover (USDm)	60.7
Free float (%)	54.2
Issued shares (m)	2,562
Market capitalisation	MYR19.9B USD4.8B

Major shareholders:

LIM WEE CHAI	26.9%
Firstway United Corp.	7.2%
Employees Provident Fund	5.3%

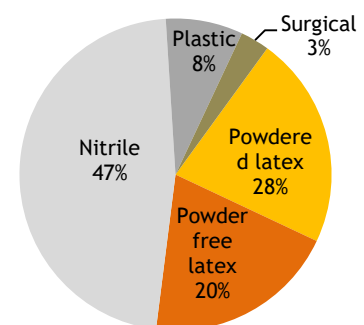
Price Performance



	-1M	-3M	-12M
Absolute (%)	(15)	39	390
Relative to index (%)	(11)	44	422

Source: FactSet

Top Glove: Sales volume breakdown (9MFY20)



Source: Company

Our earnings assumptions

Our quarterly earnings projection

For 4QFY20E (Jun-Aug), we project a net profit of MYR1.05b based on our blended ASP estimate of USD37/k pieces (+63% QoQ), sales volume estimate of 19.1b pcs (+12% QoQ) and operating cost increase forecast of 28% QoQ. This compares against 3QFY20's net profit of MYR348m and 4QFY19's MYR80m. This will also bring FY20E net profit to MYR1.63b (FY19: MYR365m).

For 1QFY21E (Sep-Nov), we project a net profit of MYR2.15b based on our blended ASP estimate of USD58/k pieces (+55% QoQ), sales volume estimate of 21b pcs (+10% QoQ) and operating cost increase forecast of 43% QoQ.

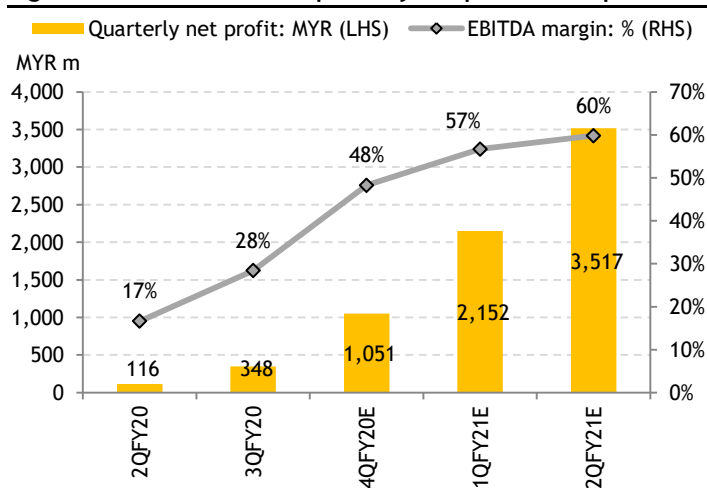
For 2QFY21E (Dec-Feb), we project a net profit of MYR3.52b based on our blended ASP estimate of USD82/k pieces (+42% QoQ), sales volume estimate of 23b pcs (+10% QoQ) and operating cost increase forecast of 43% QoQ.

Figure 1: MKE's key assumptions for quarterly profit forecasts

	Blended ASP		Sales volume	
	USD/k pcs	QoQ	b pcs	QoQ
3QFY20	23.0	4%	17.1	25%
4QFY20E	37.4	63%	19.1	12%
1QFY21E	58.1	55%	21.0	10%
2QFY21E	82.4	42%	23.0	10%

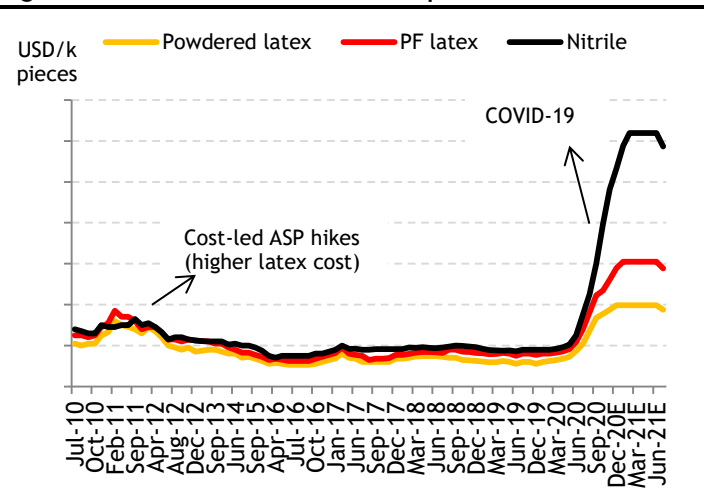
Source: Company data, Maybank Kim Eng

Figure 2: MKE's estimated quarterly net profit for Top Glove



Source: Company data, Maybank Kim Eng

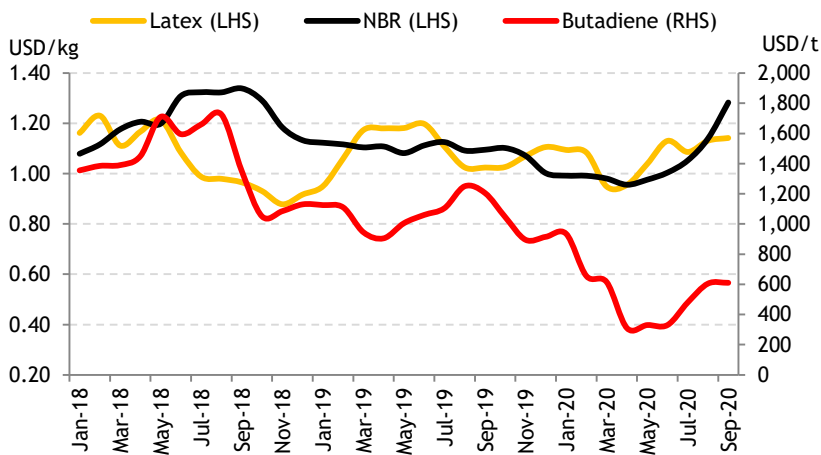
Figure 3: MKE's estimated ASPs for Top Glove



Source: Company data, Maybank Kim Eng

Our assumed quarterly operating cost (i.e. cost of goods sold; distribution, administrative and other costs) increase is higher than the increase in sales volume because we also take into account the rising raw material costs. The present shortage of NBR has led to the emergence of a spot market for NBR. For the normal purchase, the NBR price has increased by 8% MoM in Aug and 13% MoM in Sep. However, the spot price is still 30-50% higher than the normal purchase price and about 5% of Top Glove's total NBR purchase is from the spot market.

Figure 4: Price of latex, NBR and butadiene (feedstock of NBR)



Source: Bloomberg, Company data, Maybank Kim Eng

■ Our FY20-22E earnings forecasts

Our FY20/21/22E EPS is raised by 6%/63%/224% on higher blended ASP estimate by 1%/44%/70%. For FY21E, we have assumed for the blended ASP to peak in 3QFY21E (Mar-May 2021) and to decline 10% QoQ in 4QFY21E (Jun-Aug 2021) as we expect more new supply from 2HCY21 to alleviate the supply shortage. This implies a tripling of ASP in FY21E. For FY22E, we have assumed for the ASP to fall 45% YoY, on more new supply.

In our financial model, we now assume for raw material costs to increase 10% YoY in FY22E (from a drop of 25% YoY previously). We think the raw material costs could stay elevated as supply may still lag demand.

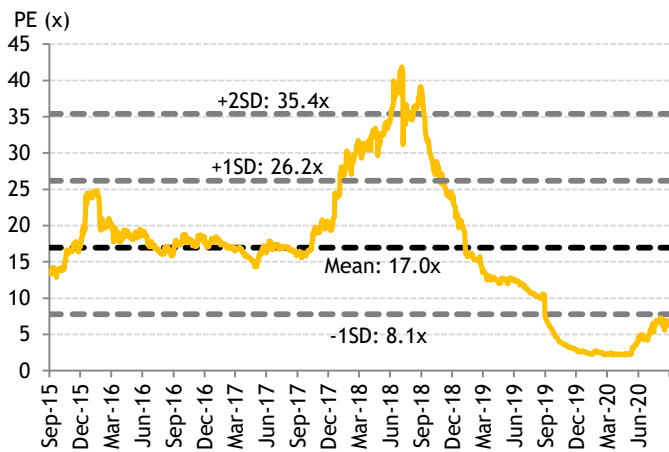
At our assumed blended ASPs and costs, our EBITDA margin estimates are 32% and 55% for FY20E and FY21E respectively. As for FY22E, our EBITDA margin estimate is a lower 37%, similar to early COVID-19's level (in 2HFY20E or Mar-Aug 2020).

Figure 5: MKE's key earnings assumptions for FY20-22E

	New			Old			Change (% / -ppt)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Blended ASP (USD/k pcs)	25.1	75.0	41.4	24.8	52.0	24.3	1.3%	44.1%	70.1%
ASP growth (%)	23.1%	198.5%	(44.8%)	21.5%	109.8%	(53.2%)	1.6	88.7	8.4
Sales volume (b pcs)	64.9	88.5	92.9	64.9	88.5	92.9	0.0%	0.0%	0.0%
Sales volume growth (%)	20.6%	36.5%	5.0%	20.6%	36.5%	5.0%	0.0	0.0	0.0
Effective capacity (b pcs)	73.3	93.4	98.7	73.3	93.4	98.7	0.0%	0.0%	0.0%
Effective capacity growth (%)	26.3%	27.4%	5.7%	26.3%	27.4%	5.7%	0.0	0.0	0.0
Plant utilisation rate (%)	88.5%	94.8%	94.1%	88.5%	94.8%	94.1%	0.0	0.0	0.0
USD vs. MYR	4.20	4.15	4.15	4.20	4.15	4.15	0.0%	0.0%	0.0%
NBR cost (USD/kg)	1.05	1.67	1.84	1.05	1.67	1.26	0.0%	0.0%	46.7%
NBR cost change (%)	(9.0%)	60.0%	10.0%	(9.0%)	60.0%	(25.0%)	0.0	0.0	35.0
Latex cost (MYR/kg)	4.40	5.72	6.29	4.40	5.72	4.29	0.0%	0.0%	46.7%
Latex cost change (%)	0.9%	30.0%	10.0%	0.9%	30.0%	(25.0%)	0.0	0.0	35.0

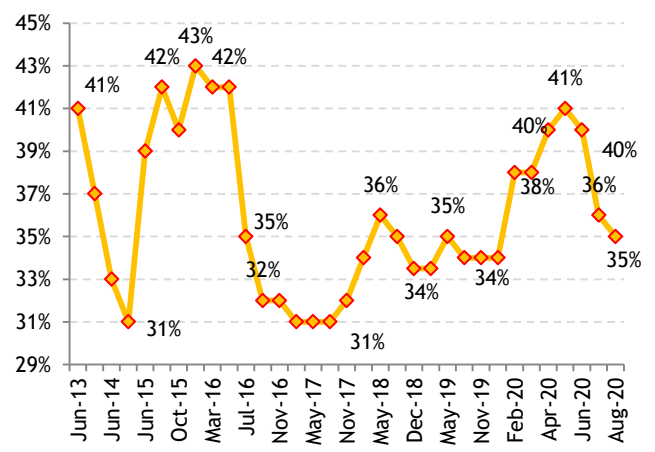
Source: Company data, Maybank Kim Eng

Figure 6: 12-month rolling forward P/E (trading at 6x now)



Source: Bloomberg, Company data, Maybank Kim Eng

Figure 7: Foreign shareholding (end-Aug 2020: 35%)



Source: Company data

Figure 8: Sector comparison table

Stock	B'berg ticker	Rec	Mkt cap (USD m)	Shr px (Local)	TP (Local)	P/E (x) CY19	P/E (x) CY20E	P/E (x) CY21E	P/B (x) CY21E	ROE (%) CY21E	DY (%) CY21E	2-year (CY19-21E) EPS CAGR (%)
Top Glove	TOPG MK	Buy	15,161.3	7.76	9.53	79.0	13.2	7.2	9.4	115.1%	7.0%	232.0%
Hartalega	HART MK	Hold	10,265.9	12.44	20.60	94.3	22.3	16.3	9.6	59.2%	3.5%	140.4%
Supermax *	SUCB MK	NR	4,653.9	7.50	NR	30.2	14.7	14.6	6.6	51.9%	2.4%	43.8%
Kossan	KRI MK	Buy	3,288.6	10.68	19.50	60.8	17.3	8.8	4.6	52.7%	4.0%	163.3%
Sri Trang	STGT TB	Buy	3,119.7	68.25	90.00	184.5	15.5	8.8	2.9	38.3%	3.4%	358.6%
Riverstone*	RSTON SP	NR	1,804.1	3.33	NR	56.9	57.5	17.2	5.8	41.2%	2.3%	82.1%
Average						84.3	23.4	12.1	6.5	59.7%	2.8%	170.0%

Source: Bloomberg, Consensus (*), Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Top Glove. Abrupt changes in the momentum of input costs (i.e. latex, NBR) and intense competition may lead to lower earnings for Top Glove. Additionally, sharp appreciation of MYR against USD will also negatively affect its earnings, for almost the entire Group's revenue is derived in USD.

FYE 31 Aug	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	26.1	35.4	38.8	5.7	15.0
Core P/E (x)	32.8	33.4	38.8	5.7	15.0
P/BV (x)	5.9	5.0	14.0	6.3	5.2
P/NTA (x)	12.4	10.4	18.1	7.0	5.7
Net dividend yield (%)	1.5	1.6	1.3	8.8	3.3
FCF yield (%)	nm	nm	5.9	13.8	7.3
EV/EBITDA (x)	23.2	20.8	27.1	4.0	9.7
EV/EBIT (x)	29.5	29.0	30.7	4.1	10.4

INCOME STATEMENT (MYR m)

Revenue	4,220.7	4,801.1	7,241.9	27,285.4	15,942.9
Gross profit	865.3	1,032.2	2,763.9	19,166.7	7,258.8
EBITDA	687.8	690.2	2,298.3	15,046.0	5,874.3
Depreciation	(146.7)	(194.9)	(271.8)	(328.8)	(385.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	541.2	495.3	2,026.5	14,717.2	5,488.5
Net interest income / (exp)	(24.5)	(69.0)	(39.1)	51.5	116.1
Associates & JV	6.2	(2.7)	(2.0)	(2.0)	(2.0)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	522.8	423.6	1,985.4	14,766.7	5,602.6
Income tax	(89.6)	(56.0)	(357.4)	(3,544.0)	(1,344.6)
Minorities	(4.4)	(2.9)	(2.9)	(2.9)	(2.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	428.8	364.7	1,625.2	11,219.8	4,255.1
Core net profit	428.8	364.7	1,625.2	11,219.8	4,255.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	357.9	245.3	3,312.8	5,767.0	8,406.3
Accounts receivable	671.3	596.5	496.0	2,242.6	1,310.4
Inventory	513.7	615.1	496.0	2,616.4	1,528.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,082.2	2,463.5	2,991.7	3,462.9	3,877.0
Intangible assets	1,271.4	1,256.4	1,011.4	1,011.4	1,011.4
Investment in Associates & JVs	2.1	0.4	(1.6)	(3.6)	(5.6)
Other assets	374.8	471.6	470.9	469.7	468.5
Total assets	5,273.4	5,648.7	8,777.2	15,566.4	16,596.7
ST interest bearing debt	854.2	1,041.8	1,041.8	241.8	241.8
Accounts payable	485.3	470.6	709.9	2,674.5	1,562.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,359.1	1,378.8	78.8	78.8	78.8
Other liabilities	160.0	314.0	2,426.0	2,438.0	2,449.0
Total Liabilities	2,858.3	3,205.5	4,256.5	5,432.9	4,332.8
Shareholders Equity	2,404.5	2,426.2	4,500.8	10,110.7	12,238.3
Minority Interest	10.6	17.1	19.9	22.8	25.7
Total shareholder equity	2,415.1	2,443.2	4,520.8	10,133.5	12,263.9
Total liabilities and equity	5,273.4	5,648.7	8,777.2	15,566.4	16,596.7

CASH FLOW (MYR m)

Pretax profit	522.8	423.6	1,985.4	14,766.7	5,602.6
Depreciation & amortisation	146.7	194.9	271.8	328.8	385.9
Adj net interest (income)/exp	24.5	69.0	39.1	(51.5)	(116.1)
Change in working capital	(279.0)	(73.3)	458.9	(1,902.3)	908.1
Cash taxes paid	(36.8)	(56.8)	(357.4)	(3,544.0)	(1,344.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	379.4	588.3	4,499.8	9,599.7	5,437.8
Capex	(1,729.1)	(632.2)	(800.0)	(800.0)	(800.0)
Free cash flow	(1,349.7)	(43.8)	3,699.8	8,799.7	4,637.8
Dividends paid	(201.6)	(220.1)	(845.1)	(5,609.9)	(2,127.5)
Equity raised / (purchased)	14.5	0.8	0.0	0.0	0.0
Change in Debt	1,471.7	192.3	(1,300.0)	(800.0)	0.0
Other invest/financing cash flow	2.0	50.5	(26.7)	64.4	129.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(89.0)	(6.4)	3,067.5	2,454.2	2,639.3

FYE 31 Aug	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	23.8	13.8	50.8	276.8	(41.6)
EBITDA growth	42.7	0.3	233.0	554.7	(61.0)
EBIT growth	44.3	(8.5)	309.2	626.2	(62.7)
Pretax growth	35.8	(19.0)	368.7	643.7	(62.1)
Reported net profit growth	29.7	(15.0)	345.7	590.4	(62.1)
Core net profit growth	29.7	(15.0)	345.7	590.4	(62.1)
Profitability ratios (%)					
EBITDA margin	16.3	14.4	31.7	55.1	36.8
EBIT margin	12.8	10.3	28.0	53.9	34.4
Pretax profit margin	12.4	8.8	27.4	54.1	35.1
Payout ratio	50.1	52.7	52.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	10.2	7.6	22.4	41.1	26.7
Revenue/Assets (x)	0.8	0.8	0.8	1.8	1.0
Assets/Equity (x)	2.2	2.3	2.0	1.5	1.4
ROAE (%)	19.4	15.1	57.7	186.6	43.1
ROAA (%)	10.4	6.7	22.5	92.2	26.5
Liquidity & Efficiency					
Cash conversion cycle	42.6	55.8	24.6	14.1	38.5
Days receivable outstanding	46.6	47.5	27.2	18.1	40.1
Days inventory outstanding	44.5	53.9	40.9	46.0	74.5
Days payables outstanding	48.5	45.7	43.4	50.0	76.1
Dividend cover (x)	2.0	1.9	1.9	2.0	2.0
Current ratio (x)	1.1	0.9	1.1	2.1	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	2.1	2.9	3.8
Net gearing (%) (incl perps)	76.8	89.0	net cash	net cash	net cash
Net gearing (%) (excl. perps)	76.8	89.0	net cash	net cash	net cash
Net interest cover (x)	22.1	7.2	51.9	na	na
Debt/EBITDA (x)	3.2	3.5	0.5	0.0	0.1
Capex/revenue (%)	41.0	13.2	11.0	2.9	5.0
Net debt/ (net cash)	1,855.3	2,175.4	(2,192.1)	(5,446.3)	(8,085.6)

Source: Company; Maybank

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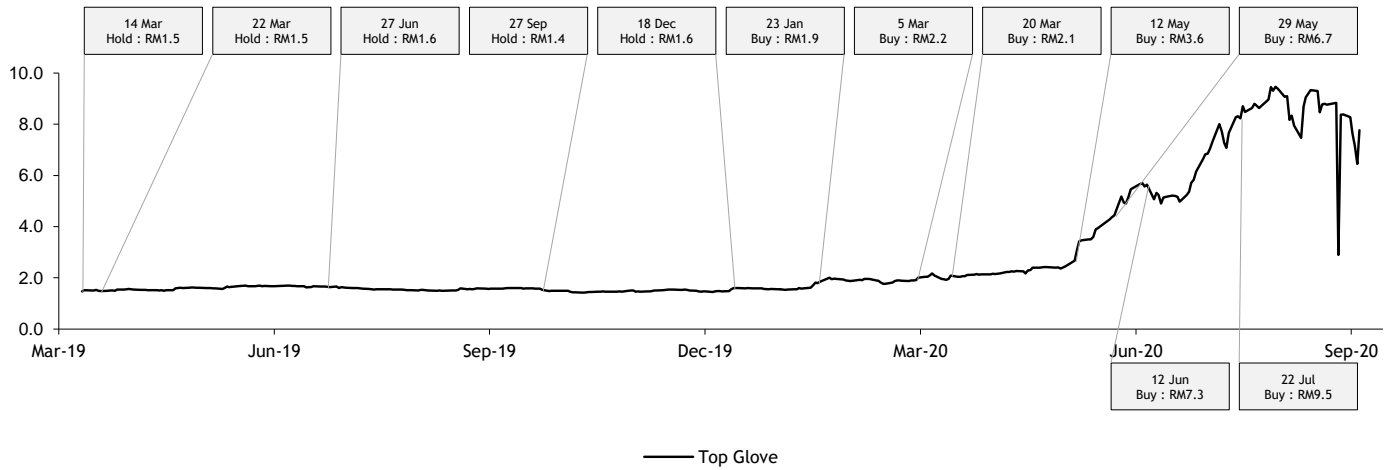
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