

10 in 10 – Top Glove Corporation (SGX Code: BVA)

10 Questions in 10 Minutes with SGX-listed companies



10 Questions for Top Glove Corporation

Company Overview

Established in 1991 and headquartered in Malaysia, Top Glove Corporation Bhd is the world's largest manufacturer of gloves capturing 26% of the world's market share for rubber gloves. The company has manufacturing operations in Malaysia, Thailand, China and Vietnam. Top Glove offers a comprehensive product range, which now includes a non-glove segment comprising condoms, face masks, dental dams and exercise bands. [Link to StockFacts company page](#)

SGX Code: BVA	BBG: TOPG SP	RIC: TOPG.SI
Market cap on 28 Sep (S\$m)		23,498.1
Price on 28 Sep (S\$)		2.89
52 wk high/low		3.18 – 0.47
ADTV (S\$)		4,418,579
Shares Outstanding (m)		8,130.8
Float		50.3%
P/E (LTM)		12.3
P/B (LTM)		3.8
Dividend Yield (Indicated)		1.3%

Source: Bloomberg (28 Sep 2020)

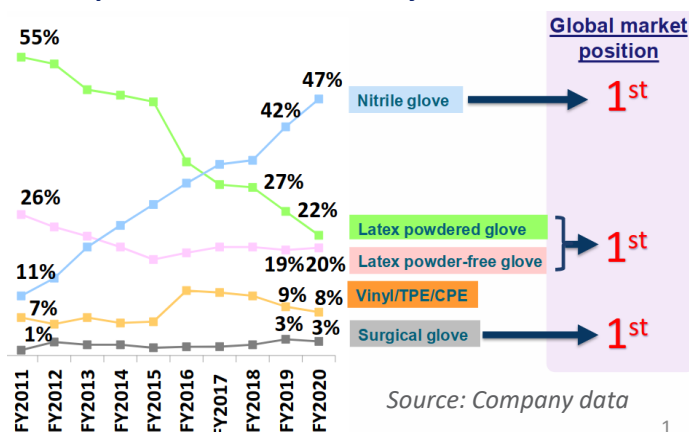
1. What are some notable developments that Top Glove's shareholders can look forward to?

- We believe that global demand for gloves will continue to be robust, growing by c.25% in 2021, especially given the current pandemic. Average Selling Prices (ASP) have also been increasing monthly, along with higher raw material and operating costs. We have since allocated 30% of our total capacity for spot orders and are fully sold for the next 3 months.
- Post-pandemic, global demand for gloves is expected to grow at 15%, higher than pre-pandemic given the increased awareness and best practices adopted in medical and non-medical sectors.
- We have earmarked a capital expenditure of RM10 billion for the next 5 years to be invested in several key areas including new capacity expansion, enhancement of existing manufacturing facilities, a Nitrile latex plant, a gamma sterilisation plant, land bank for future expansion, industry 4.0 initiatives and improve workers' facilities.
- We adopt a 50% dividend payout policy with payment on a quarterly basis, and we have committed to a payout ratio of 51% for FY2020.

2. What differentiates Top Glove from its competitors?

- We have grown exponentially in 30 years to be the world's largest manufacturer for Nitrile Rubber gloves, Rubber gloves and Surgical gloves.
- We have a balanced product mix, allowing us to tap on a wider range of customers globally across medical and non-medical sectors. We now serve 2,000 customers worldwide and export to over 195 countries, and no single customer contributes over 4% of our revenue.
- Our operations risk is also lower and diverse as we operate in various countries, including Malaysia, Thailand, China, United States, Germany, Brazil and Vietnam.

Top Glove's Product Mix by Volume

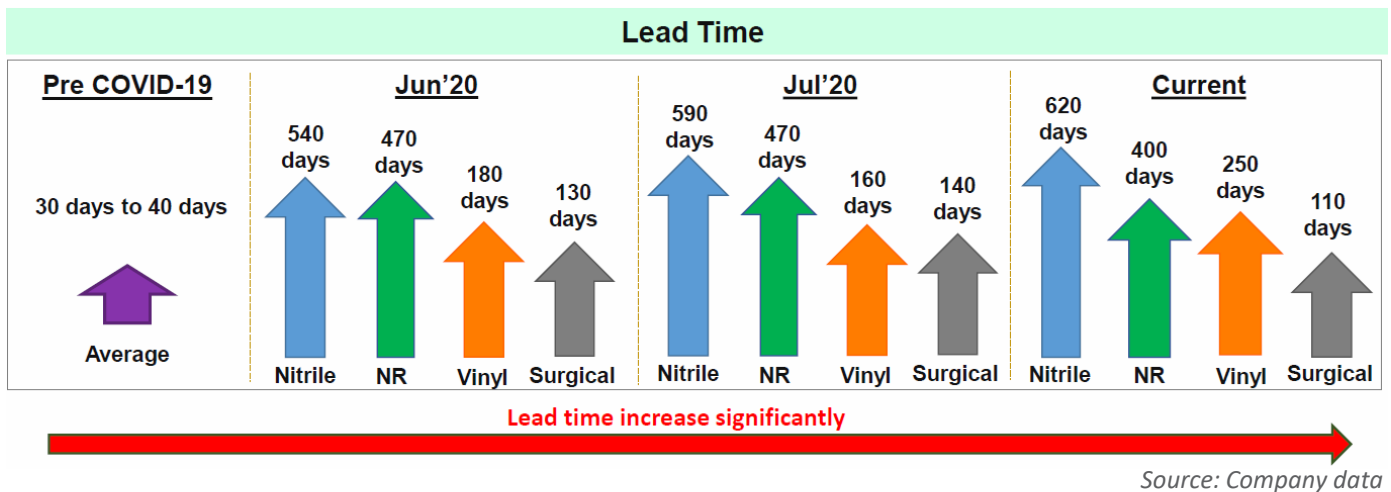


3. Describe Top Glove’s financial performance over the past few years. What strategies have you put in place to maintain or accelerate this growth trajectory?

- Since listing in Mar 2001, Top Glove has seen steady growth over past 20 years, with Revenue CAGR grown 23.1% and profit after tax (PAT) CAGR grown 28.6%. Top Glove delivered strong growth in FY2020 with new highs in revenue of RM7.24 billion (+51% YoY) and profit of RM1.9 billion (+417% YoY). With more upside in glove demand expected, we look forward to fresh highs in FY2021.
- We will continue to expand our capacity to meet with the rising global demand for gloves. As global demand is now estimated to grow at a much faster pace by an estimated 25% in 2021 and 15% post-pandemic, Top Glove will continue to expand more intensively by adding 100 billion pieces of gloves per annum by 2025. We will also continue to expand through mergers and acquisitions as part of our growth strategy. Aside from expanding our capacity, we will also continue to focus on innovation, automation, digitalisation and artificial intelligence, towards improving our productivity and efficiency.

4. Can you provide a breakdown of Top Glove’s order book over the next 12 months?

- Pre-pandemic, we had a lead time of around 30 to 40 days. Given the increased demand, our current lead time has extended to 620 days for nitrile gloves, 400 days for natural rubber gloves, 250 days for vinyl gloves and 110 days for surgical gloves.
- The lead time for natural rubber gloves has shortened since July 2020, following new natural rubber glove production lines coming onstream and the switching of some surgical glove production lines to produce natural rubber gloves. Lead times by product are depicted below:



5. In your view, what are the key demand drivers globally for gloves in the current environment, especially following the COVID-19 pandemic?

We view key demand drivers for gloves to be:

- As a protective barrier for medical personnel in the healthcare sector
- Increasing hygiene standards and healthcare awareness for both medical and non-medical sector
- Progressively stringent healthcare regulations
- Healthcare reforms in US and China, and regulations such as OSHA in US, EU-OSHA in Europe, SESI in Brazil
- Emergence of health threats such as COVID-19, H1N1, SARS, bird flu, Ebola, bio-terrorism



Source: Company data, Malaysia Rubber Gloves Manufacturer Association

6. What are Top Glove's plans to increase its manufacturing production capacity and how much capital spending is budgeted over the next few years for the different phases of its capacity enhancements?

- We will continue to expand our capacity to ensure that we are well-positioned to fulfil global glove demand, which is expected to grow from a pre-COVID-19 level of about 10% per annum, to about 15% per annum post-COVID-19, on the back of increased usage in both the medical and non-medical sectors.
- We have earmarked RM10 billion of capital expenditures over the next 5 years from FY2021 to 2025, to provide us with additional capacity of 100 billion pieces of gloves. Factory F41, which is the Group's first factory in Vietnam, is expected to come onstream in October 2020, the initial production capacity for which is approximately 2.4 billion pieces of gloves from its 10 production lines.

Top Glove's blueprints for expansion up to CY2022

Factories	To commence production by (Calendar Quarter)	Country	Glove type	Number of production lines		Capacity (pcs per annum)	Existing facilities Total: 46 Factories
				1 Double Former (DF) Line = 2 Equivalent Single Former (SF) Lines			
Current: 35 glove factories			All	724 Equivalent Single Former Lines		85.5 bn	Malaysia
F37 Block A Lines Refurbishment	3rd qtr 2020	Kluang, Malaysia	Latex	1 DF lines		0.2 bn	<ul style="list-style-type: none"> Headquarters 32 Glove Factories 3 Chemical Factories 1 Glove Former 2 Packaging Factories 1 Dental Dam Factory 1 Condom Factory 1 Mask Factory
F36 Lines Refurbishment	4th qtr 2020	Kota Bharu, Malaysia	Nitrile	2 DF lines + 3 SF lines		1.0 bn	
F41 1 st Phase Block 1 NEW FACTORY	4th qtr 2020	Binh Duong, Vietnam	PVC	10 DF lines		2.4 bn	
Total new capacity in CY2020				13 DF lines + 3 SF lines		3.6 bn (+4.2%)	
Grand total by December 2020 : 36 glove factories				753 Equivalent Single Former Lines		89.1 bn	
F40 2 nd Phase	1st qtr 2021	Klang, Malaysia	Nitrile	8 DF lines		2.3 bn	
F8A 1 st Phase NEW FACTORY	1st qtr 2021	Sadao, Thailand	Nitrile	14 DF lines		4.0 bn	
F35 Block A NEW FACTORY	1st qtr 2021	Klang, Malaysia	Surgical/Nitrile	6 DF lines		1.7 bn	
F38 Block A2 1 st Phase NEW FACTORY	2nd qtr 2021	Kulim, Malaysia	Nitrile	8 DF lines		2.3 bn	
F31 Block C New Lines	2nd qtr 2021	Klang, Malaysia	Nitrile	7 DF lines		1.9 bn	
F37 Block D New Lines	2nd qtr 2021	Kluang, Malaysia	Nitrile	3 DF lines		0.8 bn	
F41 1 st Phase Block 2	3rd qtr 2021	Binh Duong, Vietnam	PVC	10 DF lines		2.4 bn	
Total new capacity in CY2021				56 DF lines		15.4 bn(+17.3%)	
Grand total by December 2021 : 39 glove factories				865 Equivalent Single Former Lines		104.5 bn	
F38 Block A2 2 nd Phase	1st qtr 2022	Kulim, Malaysia	Nitrile	4 DF lines		1.1 bn	Thailand
F42 1 st Phase Block 1 NEW FACTORY	1st qtr 2022	Banting, Malaysia	Nitrile	12 DF lines		3.4 bn	<ul style="list-style-type: none"> 2 Latex Concentrate Plants 2 Glove Factories
F45 1 st Phase NEW FACTORY	1st qtr 2022	Ipoh, Malaysia	Nitrile	16 DF lines		4.5 bn	
F37 Block A New Lines	2nd qtr 2022	Kluang, Malaysia	Nitrile	4 DF lines		1.1 bn	Producing:
F46 NEW FACTORY	2nd qtr 2022	Klang, Malaysia	Nitrile	13 DF lines		3.6 bn	1) Latex Examination Gloves
F41 2 nd Phase Block 3	3rd qtr 2022	Binh Duong, Vietnam	PVC	10 DF lines		2.4 bn	2) Latex Concentrate
Total new capacity in CY2022				59 DF lines		16.1 bn(+15.4%)	China
Grand total by December 2022 : 42 glove factories				983 Equivalent Single Former Lines		120.6 bn	<ul style="list-style-type: none"> 1 Glove Factory Producing: 1) Vinyl Gloves

Top Glove has plans for further expansion beyond 2022 aimed at achieving 10-15% growth per annum to meet increasing global demand

Source: Company data

7. What research & development (R&D) plans does Top Glove have to boost efficiency?

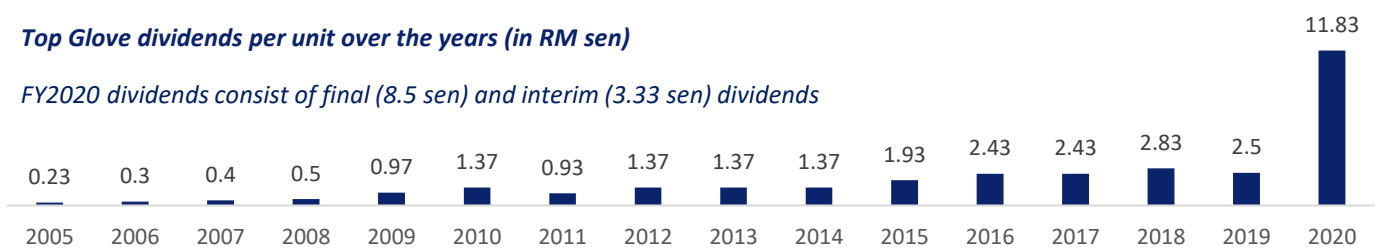
- Top Glove continues to focus on R&D, invest in talent by recruiting researchers to develop more automation and artificial intelligence, and embark on industry 4.0 digitalisation. We now have 752 researchers and 6 R&D centres as at September 2020. We also employ 1,500 graduates and experienced talents annually to ensure a strong staff force.
- Over the years, we have improved our productivity by 80%, reducing from 8.4 Workers Per Million (WPM) pieces of gloves to the current 1.8 WPM and expect this number to continue to decrease. We will continue to invest in R&D towards enhancing the Group's productivity and efficiency – hence Top Quality, Top Efficiency.

8. What is the Group's current dividend policy? Will the Group maintain or change this policy going forward?

- Top Glove has a dividend payout policy of 50% of PAT after minority interests. For FY2020, we have a dividend payout ratio of 51%, with 8.5 sen final dividend to be paid on 3 November 2020. We have revised the dividend payments to be on a quarterly basis effective FY2021 in January, April, July and November, and we will review the policy going forward.

Top Glove dividends per unit over the years (in RM sen)

FY2020 dividends consist of final (8.5 sen) and interim (3.33 sen) dividends



Source: Company data

9. What is Top Glove's value proposition to its shareholders and potential investors?

- Top Glove has delivered a shareholders' return of 40,679% over the past 20 years since our IPO in 2001. In just 4 years of our listing on the SGX, we have generated total shareholders return of 987% since 2016. (Data as of 28 Sep 2020)
- We have seen steady growth since our listing in 2001, with Revenue CAGR grown 23.1%, PAT CAGR grown 28.6%, average PAT margin grown 12.2%. (Data for FY ending 31 Aug 2020)
- We achieved stellar performance in FY2020, with strong growth in sales quantity of 17% and added additional 21 billion pieces of capacity with production utilization of above 95%. We also saw higher operational efficiency from ongoing upgrading and productivity enhancement, and higher ASPs in line with strong market demand.

10. What do you think investors may have overlooked about Top Glove's business?

- Top Glove is committed to delivering sustainable economic performance and generating attractive returns for our shareholders. We have taken steps to ensure that our internal supply chains are sustainable, by establishing our own plants and factories which include 2 latex concentrate plants, 3 chemical factories, a glove former factory and 2 packaging material factories.
- In addition, we have a nitrile latex plant and a gamma sterilisation plant in our pipeline, as we work towards establishing a comprehensive in-house supply chain. This integrated supply chain will enable us to be more competitive in the industry.
- As a healthcare products manufacturer, we believe that we are well able to increase our product range in terms of medical gloves, face masks and dental dams to cater to the very strong global demand for personal protective equipment and continue to expand our capabilities in producing healthcare related products.

Source: Company data

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Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For company information, visit www.topglove.com
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Notes

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