Top Glove Corporation

Competitive Pressure In Latex Gloves To Stymie Growth

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UNDERPERFORM ↔

Price : RM4.66

Target Price : RM4.25 ↑

1QFY20 PATAMI of RM111.4m (+39% QoQ; +1% YoY) came in marginally above expectations, at 28%/26% of our/consensus full-year forecasts. The positive variance from our forecast is due to better-than-expected volume sales. As such, we raise our FY20E and FY21E net profit by 5% each. Correspondingly, we also upgrade our TP from RM4.00 to RM4.25. Reiterate UNDERPERFORM.

1QFY20 PATAMI of RM111.4m (+39% QoQ; 1% YoY) came in marginally above expectations, at 28%/26% of our/consensus full-year forecasts. The positive variance from our forecast is due to better-than-expected volume sales. No dividend was declared as expected.

Key result highlights. QoQ, 1QFY20 revenue rose 2% due to higher sales volume (+6%) but negated by lower ASP (+2%). PBT margin shows a marked improvement 3.6ppts from 6.8% in 4QFY19 to 10.4% in 1QFY20 due to an upward adjustment in ASP for latex gloves and a lower input raw material latex. This brings 1QFY20 PATAMI to RM111.4m (+39%) despite a higher effective tax rate of 10.9% compared to 1.3% in 4QFY19.

YoY, 1QFY20 revenue fell 4% due to lower ASP (-8%) but mitigated by higher sales volume (+0.2%). Volume sales was largely driven by nitrile (+20%) and was offset by lower latex (-14% albeit larger base). PBT fell 12% mainly attributed to a sharp upward movement in the input natural latex price (+9%) and intense competition in the latex segment leading to lower margins which adversely impacted bottom line. Nonetheless, 1QFY20 PATAMI was higher by 1.2% boosted by a lower effective tax rate of 10.9% compared to 21.3% in 1QFY19.

Intense competition in latex more than offset uptick in nitrile demand. Despite better 1QFY20 results, looking ahead, the keen competition in the latex segment could negatively impact latex gloves margin. Although we are positive on growth in subsequent quarters underpinned by uptick in nitrile demand driven by re-stocking activities, the group is plagued with competitive pressure from low margins latex gloves (accounts for estimated 50% of product mix) which could offset the gains in the nitrile segment. The robust demand for nitrile gloves led to longer delivery lead times to between 45 to 50 days as compared to 30 to 40 days previously.

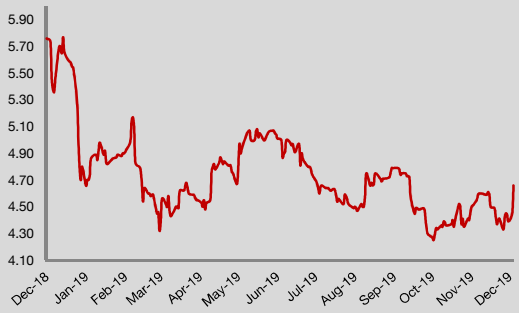
Expansion plans. Top Glove's capacity expansion includes: Factory 32 (Phases 2 to commence production by 4QCY19; 1.2b pieces), Factory 2B (operational by 4QCY19; 0.8b pieces), Factory 5A (operational by 1QCY20; 2b pieces), Factory F40 (Phase 1 operational by 2QCY20 and Phase 2 operational by 3QCY20; 3.6b pieces), Factory F41 (operational 2CY20; 4b pieces PVC gloves) Factory F42 (operational by 4QCY20; 4.8b pieces), and Factory 8A (operational by 4QCY20 delayed from early 2020; 2.8b pieces) which will boost the group's total production capacity by 20.2b gloves per annum to 84.1b (+32%).

Upgrade FY20E/FY21E net profit by 5% due to the better-than-expected volume sales.

Reiterate UP. Correspondingly, our TP is raise slightly from RM4.00 to RM4.25 based on unchanged 25.5x CY20E revised EPS of 16.6 sen (at +1.0SD above 5-year historical forward mean). Although we expect uptick in nitrile demand to anchor growth in subsequent quarters, the group overall profitability is plagued with competitive pressure from low margins latex gloves and a slow recovery at Aspion.

A key upside risk to our call is the better-than-expected margin.

Share Price Performance



KLCI	1,576.95
YTD KLCI change	-6.7%
YTD stock price change	-16.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK EQUITY
Market Cap (RM m)	11,928.7
Shares Outstanding	2,559.8
52-week range (H)	5.80
52-week range (L)	4.21
3-mth avg daily vol:	2,753,561
Free Float	46%
Beta	0.4

Major Shareholders

Tan Sri Dr Lim Wee Chai	26.9%
Employees Provident Fund	7.8%
Firstway United Corp	7.2%

Summary Earnings Table

FY Aug (RM'm)	2019A	2020E	2021E
Turnover	4801.8	5132.8	5268.4
PBT	430.7	487.7	537.0
Net Profit (NP)	**370.6**	**411.5**	**442.5**
Core NP	**370.6**	**411.5**	**442.5**
Consensus NP	-	428.4	486.1
Earnings Revision	-	+5%	+5%
EPS (sen)	14.5	16.2	17.4
EPS growth (%)	(15.5)	11.5	7.5
NDPS (sen)	7.5	7.5	7.5
BVPS (RM)	0.95	1.08	1.17
PER (x)	32.0	28.8	26.8
PBV (x)	4.9	4.3	4.0
Net gearing (x)	0.9	0.8	0.8
Net Div. Yield (%)	1.6	1.6	1.6

Result Highlight

FY Aug (RM'm)	4Q FY19	1Q FY19	1Q FY20	YoY Chg %	QoQ Chg %
Turnover	1,189.6	1,262.0	1,209.1	(4.2)	1.6
EBITDA	151.8	207.5	196.0	(5.5)	29.1
EBIT	102.5	159.8	141.6	(11.4)	38.2
PBT	81.2	141.9	125.5	(11.6)	54.6
PATAMI (NP)	**80.1**	**110.1**	**111.4**	**1.2**	**39.2**
EPS (sen)	3.1	4.3	4.4	1.2	39.3
EBITDA margin (%)	12.8	16.4	16.2		
PBT margin (%)	6.8	11.2	10.4		
NP margin (%)	6.7	8.7	9.2		
Effective tax rate (%)	1.3	21.3	10.9		

Source: Company, Kenanga Research, Bursa Malaysia

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
RUBBER GLOVES																	
HARTALEGA HOLDINGS BHD	5.22	17607.6	Y	03/2020	3.7	6.2	11.6	6.7	37.8	33.8	31.7	7.7	6.9	20.3	1.3	6.00	OP
KOSSAN RUBBER INDUSTRIES	4.11	5256.4	Y	12/2019	1.8	11.1	13.8	15.2	26.2	23.0	20.0	4.0	3.5	15.4	1.5	5.25	OP
SUPERMAX CORP BHD	1.40	1820.2	Y	06/2020	2.8	6.0	4.1	6.3	15.0	14.4	13.5	1.7	1.6	11.1	2.9	1.75	OP
TOP GLOVE CORP BHD	4.66	11928.7	Y	08/2020	6.9	2.6	11.0	7.5	32.0	28.8	26.8	4.9	4.4	15.1	1.6	4.25	UP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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