

COMPANY RESULTS

Top Glove (TOPG MK)

2QFY23: Worst Is Over

Earnings disappointed as operational earnings fell into losses. Off softened ASPs, input costs were generally higher. Positively, ASPs across the industry are expected to pick up considerably in the subsequent quarter. The bottoming of operating margins should elevate sentiment and downside risk. With this and the gradual recovery in earnings beyond FY23, we believe the reward-to-risk is now favourable for Top Glove. Upgrade to BUY with a higher target price of RM0.95.

2QFY23 RESULTS

Year to 31 Aug (RMm)	2QFY23	qoq % chg	yoy % chg	1HFY23	yoy % chg	Comment
Revenue	618.0	(2.3)	(57.4)	1,250.5	(59.9)	Volume (+6% qoq), ASP (-4% qoq)
Operating exp.	(697.3)	(1.1)	(45.1)	(1,402.1)	(52.6)	
EBITDA	(79.3)	9.8	(144.4)	(151.6)	(131.6)	
EBIT	(167.8)	4.7	(281.2)	(328.1)	(205.9)	
Pre-tax profit	(145.9)	(3.8)	(230.0)	(297.6)	(180.2)	
Tax	(9.0)	51.2	(9.0)	(15.0)	(77.4)	
Net PATAMI	(164.7)	(2.1)	(288.1)	(332.9)	(221.8)	
Core PATAMI	(164.7)	(2.1)	(288.1)	(332.9)	(221.8)	Below expectations.
		qoq ppt chg	yoy ppt chg		yoy ppt chg	
EBITDA margin (%)	(12.8)	(1.4)	(25.1)	(12.1)	(27.5)	Culmination of lower ASPs and higher input cost.
EBIT margin (%)	(27.2)	(1.8)	(33.5)	(26.2)	(36.2)	
PBT margin (%)	(23.6)	0.4	(31.4)	(23.8)	(35.7)	
Eff. tax rate (%)	6.2	2.3	15.0	5.0	22.9	
Core margin (%)	(26.6)	(0.0)	(32.7)	(26.6)	(35.4)	

Source: Top Glove, UOB Kay Hian

RESULTS

- **Below expectations but significantly improved ASPs ahead.** Top Glove reported a 2QFY23 core net loss of RM164.7m (-2.1% qoq, -288% yoy). Losses narrowed from -RM168.2m on a qoq basis. Cumulative 1HFY23 losses amounted to RM333m (-222% yoy). This was well below our and consensus expectations with our and consensus FY23 full-year estimates at -RM256m and -RM322m respectively. The negative deviation was due to softer-than-expected margins. However, we believe this is the bottom for operating margins for the company. Alongside China producers, Top Glove has raised ASPs significantly heading into 3QFY23.

KEY FINANCIALS

Year to 31 Aug (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	16,403	5,573	3,484	4,664	7,355
EBITDA	10,348	602	(129)	590	1,015
Operating profit	10,039	254	(514)	182	592
Net profit (rep./act.)	8,056	236	(373)	141	440
Net profit (adj.)	8,056	236	(373)	141	440
EPS (sen)	99.7	2.9	(4.6)	1.7	5.4
PE (x)	0.8	28.6	n.m.	47.9	15.3
P/B (x)	1.1	1.2	1.2	1.2	1.2
EV/EBITDA (x)	0.8	13.1	n.m.	13.3	7.7
Dividend yield (%)	78.7	3.0	(2.8)	1.0	3.3
Net margin (%)	49.1	4.2	(10.7)	3.0	6.0
Net debt/(cash) to equity (%)	(7.0)	(0.8)	(0.9)	(1.6)	(5.2)
Interest cover (x)	2,512.8	136.5	(9.4)	43.0	74.1
ROE (%)	146.2	4.1	n.a.	2.6	7.9
Consensus net profit	-	-	(303)	146	285
UOBKH/Consensus (x)	-	-	1.23	0.97	1.54

Source: Top Glove, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Upgraded)

Share Price	RM0.84
Target Price	RM0.95
Upside	13.1%
(Previous TP)	RM0.74

COMPANY DESCRIPTION

Top Glove is the world's largest glove manufacturer with a diversified product range that includes surgical, vinyl, latex and nitrile gloves.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	TOPG MK
Shares issued (m):	8,007.3
Market cap (RMm):	6,285.8
Market cap (US\$m):	1,431.0
3-mth avg daily t'over (US\$m):	14.8

Price Performance (%)

52-week high/low RM2.59/RM0.585

1mth	3mth	6mth	1yr	YTD
(23.0)	0.0	(23.8)	(60.8)	(69.7)

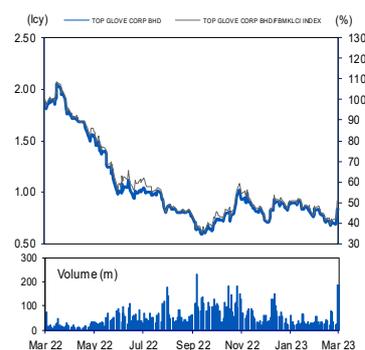
Major Shareholders

	%
Tan Sri Lim Wee Chai	35.3
Firstway United Corp	6.9
EPF	4.9

FY23 NAV/Share (RM) 0.68

FY23 Net Cash/Share (RM) 0.01

PRICE CHART



Source: Bloomberg

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- Flattish top-line as volume sales pick up.** 2QFY23 revenue was flattish at RM618m (-2.3% qoq, -57.4% yoy). Volume grew 6% qoq as customers' inventories depleted, showing signs of inventory replenishment. However, there is no urgency for larger orders due to short delivery times and sluggish utilisation rates among producers. Meanwhile, ASPs continue to soften (-4% qoq) amid the industry's excess capacity. ASPs declined by 4% qoq due to the prevailing excess capacity.
- ASPs finally rebounded.** Management indicated that ASPs were close to US\$17/000 pieces for the quarter. Moving forward, ASPs have been raised to US\$21/000 from Feb 23 onwards to pass through higher costs (electricity tariff: +42% from Jan 23). Notably, this is alongside China glove producers that have raised their ASPs to US\$17/000 pieces from US\$14/000 pieces.
- EBITDA losses widened but bottom has been sighted.** 2QFY23 EBITDA margin softened to -12.8% from -11.4% qoq. This was primarily off softer ASPs as well as higher natural gas tariff and electricity tariff rates (+42% in Jan 23). On the higher other income, PAT losses narrowed marginally qoq to -RM165m (from -RM168m). Going forward, input cost such as nitrile and latex is expected to increase due to higher feedstock and the wintering season respectively. 3QFY23 should realise lower natural gas tariff of 15% in Apr 23 onwards. Coupled with increased ASPs, 3QFY23 could still realise losses but should be significantly minimised.

STOCK IMPACT

- Top Glove's balance sheet remains highly robust.** Top Glove should be able to well ride out the downcycle in the industry. Its balance sheet is robust, with a net cash position of RM272m (2QFY23: RM359m) and a gearing position of 0.04x (2QFY23: 0.05x).

EARNINGS REVISION/RISK

- We cut our FY23 earnings to -RM373m from -RM256m while leaving FY24-25 earnings unchanged. Key downside risks include: a) softer volume sales, and b) inability to pass through costs.

VALUATION/RECOMMENDATION

- Upgrade to BUY from HOLD with a higher target price of RM0.95 (from RM0.74).** Our target price is based on 29x PE or Top Glove's +1.5 SD of its pre-pandemic five-year mean based on 2024's earnings. This represents a switch from our previous valuation methodology which was based on a price-to-book peg of 0.91x to account for Top Glove's losses in FY23 but now that we have rolled over our valuations to a profitable 2024, the PE valuation method is more suitable. It is in part to capture the further earnings recovery heading into FY25. Based on Top Glove's pre-pandemic five-year mean of 20x peg to FY25's earnings, a target price of RM1.10 is derived.
- While severe underutilisation continues to permeate the industry, the identifying of Top Glove's bottoming of earnings should significantly improve sentiment. We recognise that utilisation rates and margins are unlikely to recover to pre-pandemic levels anytime soon, but by sheer earnings recovery and the sell-down over the past year and a half, valuations have turned attractive.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Water management. To reduce municipal water consumption intensity by 34% to 0.151m³/1,000 pcs gloves by FY25 with the use of in-house water cycling facilities. Energy management. To reduce electricity and natural gas consumption intensity by 26% and 25% by 2025. Social <ul style="list-style-type: none"> Human rights and labour management. Verified by independent third-party consultant that the company is free of all 11 International Labour Organisation (ILO) forced labour indicators. Governance <ul style="list-style-type: none"> Gender diversity. 42% of its board of directors are female.

ASSUMPTIONS

	FY23F	FY24F	FY25F
Revenue (RMm)	3484	4664	7355
ASP growth yoy	-22%	20%	5%
EBITDA margin	-3.1%	13.2%	14.2%
PAT (RMm)	-373	141	440
growth yoy	-227%	-138%	212%
margin	-10.7%	3.0%	6.0%

Source: UOB Kay Hian

FIVE-YEAR PRE-PANDEMIC PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Aug (RMm)	2022	2023F	2024F	2025F
Net turnover	5,573	3,484	4,664	7,355
EBITDA	602	(129)	590	1,015
Deprec. & amort.	348	385	407	423
EBIT	254	(514)	182	592
Total other non-operating income	120	21	28	28
Associate contributions	(4)	(4)	(4)	(4)
Net interest income/(expense)	(4)	(14)	(14)	(14)
Pre-tax profit	365	(510)	193	603
Tax	(73)	138	(52)	(163)
Minorities	(56)	0	0	0
Net profit	236	(373)	141	440
Net profit (adj.)	236	(373)	141	440

CASH FLOW

Year to 31 Aug (RMm)	2022	2023F	2024F	2025F
Operating	136	385	482	647
Pre-tax profit	365	(351)	193	609
Tax	(724)	95	(52)	(164)
Deprec. & amort.	348	385	407	423
Associates	4	4	4	4
Working capital changes	60	239	(84)	(238)
Non-cash items	82	0	0	0
Other operating cashflows	0	14	14	14
Investing	172	(448)	(350)	(200)
Capex (growth)	(919)	(448)	(350)	(200)
Proceeds from sale of assets	0	0	0	0
Others	1,091	0	0	0
Financing	(740)	114	(84)	(236)
Dividend payments	(529)	128	(70)	(222)
Proceeds from borrowings	(60)	0	0	0
Loan repayment	(179)	0	0	0
Others/interest paid	27	(14)	(14)	(14)
Net cash inflow (outflow)	(433)	51	48	211
Beginning cash & cash equivalent	879	444	495	542
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	444	495	542	754

BALANCE SHEET

Year to 31 Aug (RMm)	2022	2023F	2024F	2025F
Fixed assets	4,503	4,565	4,507	4,284
Other LT assets	1,471	1,473	1,473	1,473
Cash/ST investment	444	495	542	754
Other current assets	1,647	1,414	1,550	2,035
Total assets	8,065	7,946	8,073	8,546
ST debt	306	306	306	306
Other current liabilities	636	641	693	940
LT debt	93	93	93	93
Other LT liabilities	226	226	226	226
Shareholders' equity	5,590	5,462	5,533	5,755
Minority interest	1,214	1,218	1,222	1,225
Total liabilities & equity	8,065	7,946	8,073	8,546

KEY METRICS

Year to 31 Aug (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.8	0.8	12.6	13.9
Pre-tax margin	6.6	(9.6)	4.1	8.3
Net margin	4.2	(7.0)	3.0	6.0
ROA	2.6	n.a.	1.8	5.4
ROE	4.1	n.a.	2.6	7.9
Growth				
Turnover	(66.0)	(34.6)	28.0	57.8
EBITDA	(94.2)	(95.1)	1,900.9	73.1
Pre-tax profit	(96.4)	(196.0)	n.a.	215.4
Net profit	(97.1)	(208.5)	n.a.	215.4
Net profit (adj.)	(97.1)	(208.5)	n.a.	215.4
EPS	(97.1)	(208.5)	n.a.	215.4
Leverage				
Debt to total capital	5.5	5.6	5.6	5.4
Debt to equity	7.1	7.3	7.2	6.9
Net debt/(cash) to equity	(0.8)	(1.8)	(2.6)	(6.2)
Interest cover (x)	136.5	2.2	43.0	74.5

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