

16 March 2018 | 2QFY18 Results Review

Top Glove Corporation Berhad

Revenue boosted by surge in sales volume

INVESTMENT HIGHLIGHTS

- **2QFY18 earnings met estimates at RM109.0m**
- **21%yoy growth in sales volume boosted revenue**
- **Better product mix resulted in improved margins**
- **FY18F earnings estimate maintained, FY19F earnings lifted by +3.0%**
- **Maintain NEUTRAL with a revised TP of RM9.19 per share**

Within estimates. Top Glove's 2QFY18 earnings came in at RM109.0m. This brings its 1HFY18 earnings to RM214.5m which is within our and consensus' full-year earnings estimates at 50.2% and 49.6% respectively. Against the same period last year, revenue and earnings grew by +12.6% and +31.3% respectively whilst on a quarterly sequential basis; revenue and earnings increased marginally by +2.2% and +3.4% respectively. No dividend was declared for the quarter under review.

21%yoy growth in sales volume boosted revenue. The +12.6% growth in revenue year-over-year was mainly due to a +21% growth in sales volume. The growth in sales volume was driven by higher demand for rubber gloves stemming from increasing demand from emerging markets such as Asia (excluding Japan) and Eastern Europe where the healthcare awareness and hygiene standards are rising. The demand from emerging markets and Eastern Europe rose by +60% and +40% respectively due to the abovementioned factors. In addition, the year-over-year improvement in revenue is also attributable to: (i) higher utilization rate; (ii) higher average selling prices (ASPs) as well as; (iii) additional glove capacity from a factory acquired back in June 2017.

Better product mix resulted in improved margins. We note that the PBT and net margins have improved to low double digits in 1HFY18 (PBT: 13%, PAT: 11.3%) vs higher single digit margins in 1HFY17 (PBT: 11.8%, PAT: 9.6%). This may be attributable to an improved product mix that is skewed towards the rising demand from emerging markets as well as Eastern Europe. We opine that further improvement in margin can be expected post the successful acquisition of Aspion due to be completed in April as surgical gloves typically commands higher profit margin than examination gloves. Furthermore, continuous improvement in cost management and quality will also assist in improving the margins.

Maintain NEUTRAL
Revised Target Price: RM9.19
(Previously RM8.55)

RETURN STATS	
Price (15 March 2018)	RM9.85
Target Price	RM9.19
Expected Share Price Return	-6.7%
Expected Dividend Yield	+2.3%
Expected Total Return	-4.4%

STOCK INFO	
KLCI	1,845.27
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	1,256.0
Market cap. (RM'm)	12,371.71
Price over NA	5.87
52-wk price Range	RM4.56-RM10.20
Beta (against KLCI)	0.73
3-mth Avg Daily Vol	4.00m
3-mth Avg Daily Value	RM36.1m
Major Shareholders (%)	
Lim Wee Chai	29.4
Employees Provident Fund	6.2
Firstway United Corp	5.1

Earnings forecast. We are making no changes to our FY18F earnings estimates at this juncture as we believe Top Glove is on track to meet our earnings projection. However, we are revising our FY19F earnings by +3.0% as we lift our utilisation rate assumption for FY19F due to the better demand for gloves. Key risks to our earnings would be: (i) higher than expected increase in production costs i.e: raw material prices, labour costs etc; (ii) delays in plant expansions and; (iii) failed acquisition of Aspion.


Maintain NEUTRAL with a revised Target Price (TP) of RM9.19. Post earnings revision we are revising our TP to **RM9.19** (from RM8.55 previously). Our valuation is premised on FY19 EPS of 39.9sen pegged to a higher PER of 23x which is +0.5SD of the company's 3-year historical average PER to better reflect the earnings accretion coming from the acquisition of Aspion and the current earnings upcycle. However, we maintain our **NEUTRAL** recommendation as we believe all the positives have been priced in at this juncture and the stock is now fully-valued. Additionally, we opine that despite the current improvement in raw materials price, the cost savings might be offset by: (i) lower ASPs - as a result of the low raw materials price and; (ii) the strengthening of Ringgit, which could limit its earnings potential going forward. 

Table 1: Top Glove's quarterly earnings review

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	851.5	938.1	958.4	2.2	12.6	1,637.1	1,896.6	15.8
Operating expenses	(758.1)	(830.0)	(839.9)	1.2	10.8	(1,462.2)	(1,669.8)	14.2
Other operating income	10.7	14.7	6.6	(55.4)	(38.8)	21.1	21.3	1.2
Finance costs	(1.5)	(1.6)	(2.7)	70.2	84.6	(2.6)	(4.3)	63.5
Share of results of associates	0.1	0.7	2.1	>100	>100	(0.8)	2.8	>-100
Profit Before Tax	102.7	122.0	124.5	2.1	21.2	192.5	246.5	28.1
Taxation	(19.5)	(16.0)	(14.5)	(9.4)	(25.6)	(35.6)	(30.6)	(14.2)
Profit After Tax	83.2	105.9	110.0	3.8	32.2	156.8	215.9	37.7
Minority Interest	0.1	0.5	1.0	96.0	>100	0.5	1.5	>100
PATAMI	83.1	105.4	109.0	3.4	31.3	156.4	214.5	37.1
Basic EPS (sen)	6.6	8.4	8.7	3.3	30.9	12.5	17.1	37.0
PBT margin (%)	12.1	13.0	13.0	(0.1)	7.7	11.8	13.0	1.2
PAT margin (%)	9.8	11.3	11.5	1.6	17.5	9.6	11.4	1.8
PATAMI margin (%)	9.8	11.2	11.4	1.2	16.6	9.6	11.3	1.8
Tax rate (%)	19.0	13.2	11.7	(11.3)	(38.6)	18.5	12.4	(6.1)

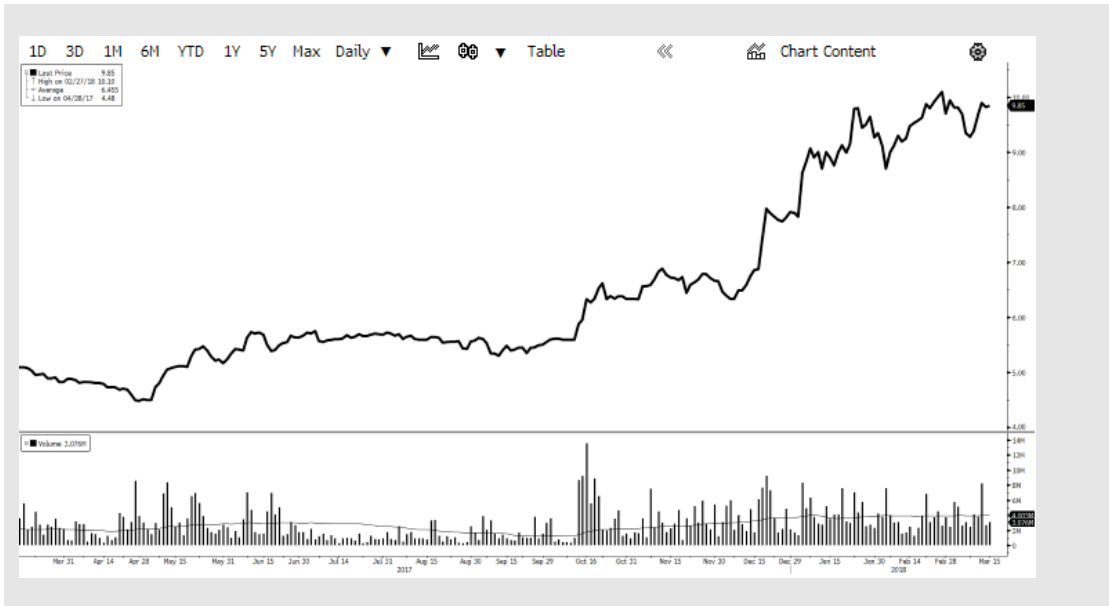
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	2510.5	2888.5	3409.2	4,051.6	4,506.1
Operating Profit	379.4	446.9	390.4	515.4	630.9
PBT	363.5	442.6	383.1	502.6	618.0
PATAMI	281.2	362.8	332.6	427.2	525.3
Operating Profit margin (%)	15.1	15.5	11.5	12.7	14.0
PBT margin (%)	14.5	15.3	11.2	12.4	13.7
PATAMI margin (%)	11.2	12.6	9.8	10.5	11.7
EPS (sen)	22.6	28.9	26.1	33.3	39.9
EPS Growth (%)	55.5	27.6	-9.4	78.5	83.2
PER (x)	43.6	34.1	37.7	29.6	24.6
Dividend per share (sen)	11.5	17.0	17.0	22.0	23.0
Dividend yield (%)	1.2	1.7	1.7	2.2	2.3

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.