

12 October 2018 | 4QFY18 Results Review

## Top Glove Corporation Berhad

4QFY18 earnings impacted by higher tax

### INVESTMENT HIGHLIGHTS

- **FY18 earnings came in within ours and consensus estimates**
- **4QFY18 revenue boosted by higher sales volume, particularly from emerging markets and Eastern Europe**
- **However, higher effective tax rate partially impacted 4QFY18 earnings**
- **Maintain NEUTRAL with an unchanged TP of RM10.80**

**Within estimates.** Top Glove's 4QFY18 earnings came in at RM101.6m. This translates into an increase of +3.0%yoy. The improvement in earnings was mainly supported by higher production volume which was partially impacted by higher effective tax rate. This brings its FY18 earnings to RM433.6m which is within our and consensus' full-year FY18 earnings estimates at 100.6% and 97.7% respectively.

### +27.0%yoy growth in sales volume boosted 4QFY18 revenue.

The +34.8%yoy growth in revenue was mainly due to a +27.0%yoy 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. In addition, the year-over-year improvement in revenue is also attributable to the: (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.

**However, 4QFY18 earnings dragged by a higher tax.** Driven by higher revenue, 4QFY18 profit before tax (PBT) rose by +43.3%yoy to RM142.0m. In addition, the increase in PBT was driven by application of advanced technology. This improves operational efficiency, product quality and reduction in manpower requirements. Nonetheless, a smaller growth of +3.0%yoy in earnings was recorded as the income tax expense in 4QFY18 was higher. The effective tax rate for 4QFY18 to 28.2% from 0.9% in 4QFY17. This raised the tax expense by about RM39.1m year-over-year.

**Final dividend of 10.0sen per share declared.** Final dividend of 10.0sen per share declared for FY18 subject to shareholder approval at the forthcoming AGM. This brings the total FY18 dividend payout to 17.0sen per share.


**Maintain NEUTRAL**

**Unchanged Target Price: RM10.80**

RETURN STATS	
Price (11 <sup>th</sup> October 2018)	RM10.70
Target Price	RM10.80
Expected Share Price Return	+0.9%
Expected Dividend Yield	+2.0%
<b>Expected Total Return</b>	<b>+2.9%</b>

STOCK INFO	
KLCI	1,708.49
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	1,278.16
Market cap. (RM'm)	13,420.66
Price over NA	5.80
52-wk price Range	RM5.62-RM12.40
Beta (against KLCI)	0.26
3-mth Avg Daily Vol	5.44m
3-mth Avg Daily Value	RM54.5m
Major Shareholders (%)	
Lim Wee Chai	28.9
Employees Provident Fund	7.2
Firstway United Corp	5.4

**Earnings forecast.** We are making no changes to our FY19F earnings estimates pending analysts' briefing on 17<sup>th</sup> October 2018.

**Maintain NEUTRAL.** We are maintaining our TP to **RM10.80**. Our valuation is premised on CY19 EPS of 43.2sen pegged to an unchanged PER of 23x which is +0.5SD of the company's 3-year historical average PER. We are maintaining our **NEUTRAL** recommendation. We opine that despite the current improvement in raw materials price, the cost savings might be offset by lower ASPs as a result of the low raw materials price (natural rubber latex). In addition, we believe all the positives have been priced in at this juncture and the stock is now fully-valued. 

**Table 1: Top Glove's quarterly earnings review**

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	902.4	1,100.6	1,216.9	10.6	34.8	3,409.1	4,214.0	23.6
Operating expenses	(810.0)	(964.0)	(1,072.6)	11.3	32.4	(3,062.9)	(3,706.5)	21.0
Other operating income	8.9	10.8	16.7	55.0	87.6	44.1	48.8	10.7
Finance costs	(2.1)	(12.7)	(18.3)	>100	>100	(6.2)	(35.3)	>100
Share of results of associates	(0.1)	(0.5)	(0.7)	>-100	>100	(1.0)	1.7	>-100
<b>Profit Before Tax</b>	<b>99.1</b>	<b>134.2</b>	<b>142.0</b>	5.8	43.3	<b>383.0</b>	<b>522.7</b>	36.5
Taxation	(0.9)	(14.8)	(40.0)	169.9	>100	(50.5)	(85.4)	69.0
<b>Profit After Tax</b>	<b>98.2</b>	<b>119.4</b>	<b>102.0</b>	(14.6)	3.8	<b>332.4</b>	<b>437.3</b>	31.5
Minority Interest	(0.4)	1.8	0.4	(78.6)	>-100	(0.1)	3.7	>100
<b>PATAMI</b>	<b>98.6</b>	<b>117.6</b>	<b>101.6</b>	(13.6)	3.0	<b>332.6</b>	<b>433.6</b>	30.4
Basic EPS (sen)	7.5	9.4	8.0	(15.0)	5.4	26.2	34.3	30.9
PBT margin (%)	11.0	12.2	11.7	(4.3)	6.3	11.2	12.4	1.2
PAT margin (%)	10.9	10.8	8.4	(22.7)	(23.0)	9.8	10.4	0.6
PATAMI margin (%)	10.9	10.7	8.3	(21.8)	(23.6)	9.8	10.3	0.5
Tax rate (%)	0.9	11.0	28.2	155.1	>100	13.2	16.3	3.1

Source: Company, MIDFR

## INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
<b>Revenue</b>	<b>2888.5</b>	<b>3409.2</b>	<b>4,214.0</b>	<b>4,506.1</b>	<b>4,711.1</b>
Operating Profit	446.9	390.4	556.3	653.4	706.7
PBT	442.6	383.1	507.3	644.4	691.8
<b>PATAMI</b>	<b>362.8</b>	<b>332.6</b>	<b>433.6</b>	<b>547.7</b>	<b>588.1</b>
Operating Profit margin (%)	15.5	11.5	13.2	14.5	15.0
PBT margin (%)	15.3	11.2	12.0	14.3	14.7
PATAMI margin (%)	12.6	9.8	10.3	12.2	12.5
EPS (sen)	28.9	26.1	34.3	41.7	44.8
EPS Growth (%)	27.9	-9.7	31.5	21.4	7.4
PER (x)	37.0	41.0	31.2	25.7	23.9
Dividend per share (sen)	17.0	17.0	17.0	21.0	23.0
Dividend yield (%)	1.6	1.6	1.6	2.0	2.1

Source: Company, MIDFR

## DAILY PRICE CHART



Noor Athila Mohd Razali  
noor.athila@midf.com.my  
03-2772 1679

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

## 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.