

23 April 2018 | Corporate Update

Top Glove Corporation Berhad

Earnings dilution expected post-bonus and bonds issue

Maintain NEUTRAL

Revised Target Price: RM9.46

(Previously RM9.19)

Fully-diluted (Post-bonus issue): RM4.73

INVESTMENT HIGHLIGHTS

- **Proposed 1-for-1 bonus issue**
- **Proposed bonds issuance of up to USD300m**
- **7% EPS dilution expected from conversion of bonds**
- **FY18-19F earnings lifted by +1.0% and +4.3%**
- **Maintain NEUTRAL with a revised TP of RM9.46 per share**

Proposed 1-for-1 bonus issue. Top Glove announced last Friday that it has proposed to undertake a 1-for-1 bonus issue. The bonus issue which is expected to be completed by the 2H18, will increase Top Glove's current share base to 2,560.6m from 1,280.3m currently. The bonus issue which is more akin to a share split; is intended to improve the liquidity of Top Glove's share and increase the attractiveness of the share to potential investors intending to participate in the growth of the company. It also allows existing shareholders to increase the number of share ownership while retaining the percentage of equity held.

Proposed bonds issuance of up to USD300m. In addition to the abovementioned 1-for-1 bonus issue, Top Glove has also announced a proposed bonds issuance of up to USD300m or RM1,159.3m – based on a RM3.8643 per USD rate. The bonds which are to be issued for the purpose of repaying Top Glove's current borrowings will be a 5-years exchangeable bonds which can be redeemed for Top Glove's share in the future. It also comes with a 1% coupon rate as opposed to Top Glove's current financing cost which ranges from 2.5-3.2%. The bond issuance will lead to an interest savings of about RM22.6m annually for Top Glove. That said, should the bonds be fully-converted to Top Glove shares, the number of Top Glove shares will increase by 187.6m to 2,748.0m post-full redemption of bonds and bonus issue. The proposed bonus issuance is also expected to be completed by 2HCY18.

Potential 7% in EPS dilution. We note that the earnings per share (EPS) will be reduced by half post-bonus issue due to the increase in shares outstanding. Additionally, despite the annual interest savings from the issuance of bonds, we are neutral on these two exercises as there will be an additional dilution in earnings if we assume full conversion of the exchangeable bonds to 187.6m of Top Glove shares. Hence, according to our estimate the EPS will reduce by a further 7% due to this.

RETURN STATS

Price (20 April 2018)	RM10.00
Target Price	RM9.46
Expected Share Price Return	-5.4%
Expected Dividend Yield	+2.3%
Expected Total Return	-3.1%

STOCK INFO

KLCI	1,887.75
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	1,276.78
Market cap. (RM'm)	12,767.84
Price over NA	5.96
52-wk price Range	RM4.56-RM10.40
Beta (against KLCI)	0.61
3-mth Avg Daily Vol	3.63m
3-mth Avg Daily Value	RM35.3m
Major Shareholders (%)	
Lim Wee Chai	28.97
Employees Provident Fund	6.58
Firstway United Corp	5.04

Earnings forecast. We are revising our FY18-19F earnings by +1.0% and +4.3% respectively as we reduce our financing cost assumption to incorporate the interest savings from the repayment of bank borrowings. 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 RM9.46. Post earnings revision and incorporating fully-diluted shares into our earnings assumption, we are revising our TP to **RM9.46** (from RM9.19 previously). Meanwhile, our fully-diluted TP will be revised to **RM4.73** post-bonus issue in 2HCY18. Our valuation is premised on FY19 EPS of 37.84sen pegged to a higher PER of 25x which is +1.0SD 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. 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 utilisation of proceeds from bonds issuance

Purpose	Estimated timeframe for utilisation	Amount (RM'm)
Repayment of bank borrowings	Within 12 months	1,146.10
Estimated expenses for the proposal	Within 1 month	13.2
Total gross proceeds		1,159.30

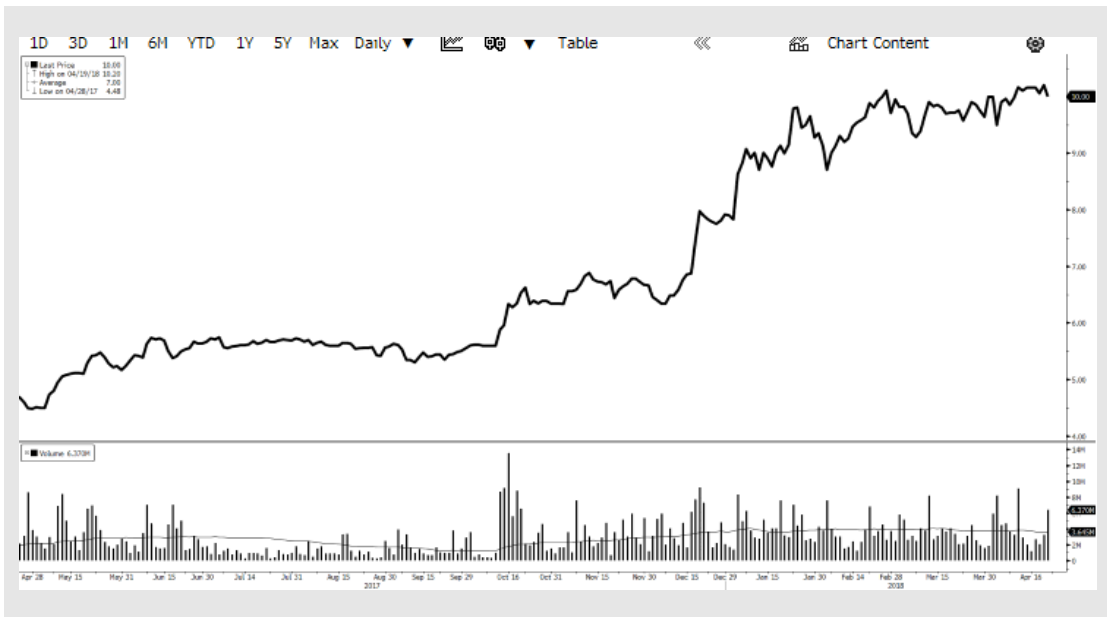
Source: Company, MIDFR

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	510.5	653.4
PBT	363.5	442.6	383.1	507.3	644.4
PATAMI	281.2	362.8	332.6	431.2	547.7
Operating Profit margin (%)	15.1	15.5	11.5	12.6	14.5
PBT margin (%)	14.5	15.3	11.2	12.5	14.3
PATAMI margin (%)	11.2	12.6	9.8	10.6	12.2
EPS (sen)	22.6	28.9	26.1	15.3	18.9
EPS Growth (%)	55.5	27.6	-9.4	171.1	80.6
PER (x)	44.2	34.6	38.3	65.6	52.8
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.