

18 December 2018 | 1QFY19 Results Review

Top Glove Corporation Berhad

Profit margin to remain depressed

INVESTMENT HIGHLIGHTS

- **1QFY19 earnings of RM110.1m (+4.4%yoy) came in within ours and consensus estimates**
- **1QFY19 revenue boosted by higher sales volume from across all market segments**
- **However, higher finance and tax expense partially impacted earnings**
- **Maintain NEUTRAL with an adjusted TP of RM5.73**

Within estimates. Top Glove's 1QFY19 earnings came in at RM110.1m which is within our and consensus' full-year FY19 earnings estimates at 20.1% and 21.3% respectively. This translates into an earnings growth of +4.4%yoy. The improvement in earnings was mainly supported by higher production volume which was partially impacted by higher finance and tax expense.

+19.0%yoy growth in sales volume boosted 1QFY19 revenue. The +34.5%yoy growth in revenue to RM1.3b was mainly due to a +19.0%yoy growth in sales volume. The growth in sales volume was driven by higher demand stemming from both developed and emerging markets 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 newly completed factories.

However, 1QFY19 earnings dragged by non-operating expenses. Despite the quarterly revenue being the highest to date, earnings were dragged by the non-operating expenses such as the; (i) higher finance costs from the USD denominated borrowings (1QFY19: USD488,005 vs 1QFY18: USD60,720) which were used to fund merger and acquisition deals and organic expansions and; (ii) higher tax expense driven by the recognition of deferred tax liabilities. Meanwhile, the operating expenses growth at +34.1%yoy was in line with the growth in revenue.

Target price. We are adjusting our TP to **RM5.73** (previously RM5.30) as we rolled forward our valuation based year to FY20. Our valuation is premised on FY20 EPS of 22.9sen pegged to an unchanged PER of 25x which is +0.5SD of the company's three-year historical average PER.

Maintain NEUTRAL

Adjusted Target Price: RM5.73
(Previously RM5.30)

RETURN STATS	
Price (17 th December 2018)	RM5.74
Target Price	RM5.73
Expected Share Price Return	-0.0%
Expected Dividend Yield	+2.0%
Expected Total Return	+2.0%

STOCK INFO	
KLCI	1,641.62
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	2,556.40
Market cap. (RM'm)	14,673.7
Price over NA	6.17
52-wk price Range	RM3.46-RM6.36
Beta (against KLCI)	0.38
3-mth Avg Daily Vol	6.99m
3-mth Avg Daily Value	RM39.6m
Major Shareholders (%)	
Lim Wee Chai	28.9
KWSP	6.3
Firstway United Corp	5.0

Maintain NEUTRAL. We view that the group's outlook will continue to be underpinned by stable and steady growth in demand of disposable medical glove as health regulations become more stringent. However, in the near term, the expansion drive in production capacity is expected to lead to higher finance cost as the majority of the funding is via borrowings. In addition, contribution from Aspion might also disappoint in the near term given that it is unable to meet the initial profit guarantee. Moreover, the group also has to pass on the savings from lower material cost to its customer in order to remain competitive. As such, we opine that it will be difficult to meaningfully grow its profit margin.

On another note, we view that the inclusion in the FTSE Bursa Malaysia will provide opportunity for investors that have been accumulating on the stock to sell on strength. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock.



INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	2,888.5	3,409.2	4,214.0	4,338.7	4,940.7
Operating Profit	446.9	390.4	556.3	629.1	741.1
PBT	442.6	383.1	507.3	620.1	726.3
PATAMI	362.8	332.6	433.6	527.1	617.3
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	12.1	12.5
EPS (sen)	14.45	13.05	17.2	19.6	22.9
EPS Growth (%)	27.9	(9.7)	31.5	13.9	17.1
PER (x)	39.7	44.0	33.4	29.4	25.1
Dividend per share (sen)	8.5	8.5	8.5	10.0	11.5
Dividend yield (%)	1.5	1.5	1.5	1.7	2.0

Source: Company, MIDFR

DAILY PRICE CHART



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Table 1: Top Glove's quarterly earnings review

FYE Aug (RM'm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue	1,262.0	1,216.9	938.1	34.5	3.7
Operating expenses	(1,113.3)	(1,072.6)	(830.0)	34.1	3.8
Other operating income	11.2	16.7	14.7	(24.2)	(33.1)
Finance costs	(18.7)	(18.3)	(1.6)	>100	2.0
Share of results of associates	0.8	(0.7)	0.7	4.6	nm
Profit Before Tax	141.9	142.0	122.0	16.3	(0.1)
Taxation	(30.2)	(40.0)	(16.0)	88.3	(24.5)
Profit After Tax	111.7	102.0	105.9	5.4	9.5
Minority Interest	1.6	0.4	0.5	>100	>100
PATAMI	110.1	101.6	105.4	4.4	8.3
Basic EPS (sen)	4.3	8.0	8.4	(48.7)	(45.8)
PBT margin (%)	11.2	11.7	13.0	(13.5)	(3.6)
PAT margin (%)	8.8	8.4	11.3	(21.6)	5.6
PATAMI margin (%)	8.7	8.3	11.2	(22.4)	4.5
Effective Tax rate (%)	21.3	28.2	13.2	61.9	(24.4)

Source: Company, MIDFR

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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.