

20 June 2018 | 3QFY18 Results Review

Top Glove Corporation Berhad

37% growth in volume boosted revenue and earnings

INVESTMENT HIGHLIGHTS

- **3QFY18 earnings met estimates at RM117.6m**
- **+37%yoy growth in sales volume boosted revenue**
- **Better product mix resulted in improved margins**
- **FY18-19F earnings estimates maintained**
- **Maintain NEUTRAL with a revised TP of RM10.80 per share**

Within estimates. Top Glove's 3QFY18 earnings came in at RM117.6m. This brings its 9MFY18 earnings to RM332m which is within ours and consensus' full-year earnings estimates at 77% and 73.5% respectively. Against the same period last year, revenue and earnings climbed by +26.6%yoy and +51.5%yoy respectively whilst on a quarterly sequential basis, revenue and earnings grew by +14.8%qoq and +7.9%qoq respectively. A first interim dividend of 7.0sen was also declared for the quarter under review.

37%yoy growth in sales volume boosted revenue. The +26.6%yoy growth in revenue year-over-year was mainly due to a +37%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 (India, China and Vietnam where demand growth exceeded 100% on nine-month basis) as well as Eastern Europe and Latin America where the healthcare awareness and hygiene standards are rising. Against 2QFY18, sales volume increased by +8.0%. In addition, the year-over-year improvement in revenue is also attributable to: (i) higher utilization rate; (ii) higher average selling prices (ASPs) due to higher nitrile price which increased by +8.5%qoq; as well as (iii) additional glove capacity from a factory acquired back in June 2017 and successful acquisition of Aspion back in early April 2017.

Better product mix resulted in improved margins. We note that the PBT and net margins have improved to low double digits in 9MFY18 (PBT: 12.7%, PAT: 11.2%) vs higher single digit margins in 9MFY17 (PBT: 11.3%, PAT: 9.3%). 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 as Top Glove will now be producing surgical gloves via Aspion where 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: RM10.80
(Previously RM9.46)

RETURN STATS	
Price (20 June 2018)	RM11.32
Target Price	RM10.80
Expected Share Price Return	-4.6%
Expected Dividend Yield	+2.0%
Expected Total Return	-2.6%

STOCK INFO	
KLCI	1,7145.36
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	1,272.5
Market cap. (RM'm)	14,461.0
Price over NA	5.87
52-wk price Range	RM5.30-RM11.88
Beta (against KLCI)	0.53
3-mth Avg Daily Vol	6.0m
3-mth Avg Daily Value	RM60.9m
Major Shareholders (%)	
Lim Wee Chai	28.96
Employees Provident Fund	5.48
Firstway United Corp	5.03

Earnings forecast. We are making no changes to our FY18-19F earnings estimates at this juncture as we believe Top Glove is on track to meet our earnings projection. 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 RM10.80. Post earnings review, we are revising our TP to **RM10.80** (from RM9.46 previously). 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. However, we are maintaining 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 lower ASPs as a result of the low raw materials price (natural rubber latex). 

Table 1: Top Glove's quarterly earnings review

FYE Aug (RM'm)	Quarterly results				Cumulative results			
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	869.6	958.4	1,100.6	14.8	26.6	2,506.7	2,997.1	19.6
Operating expenses	(790.7)	(839.9)	(964.0)	14.8	21.9	(2,252.9)	(2,633.9)	16.9
Other operating income	14.1	6.6	10.8	64.0	(23.6)	35.2	32.1	(8.8)
Finance costs	(1.5)	(2.7)	(12.7)	>100	>100	(4.1)	(17.0)	>100
Share of results of associates	(0.1)	2.1	(0.5)	>-100	>100	(0.9)	2.4	>-100
Profit Before Tax	91.4	124.5	134.2	7.8	46.8	283.9	380.7	34.1
Taxation	(14.0)	(14.5)	(14.8)	2.0	5.9	(49.6)	(45.4)	(8.6)
Profit After Tax	77.4	110.0	119.4	8.5	54.2	234.2	335.3	43.2
Minority Interest	(0.2)	1.0	1.8	85.2	>-100	0.3	3.3	>100
PATAMI	77.6	109.0	117.6	7.9	51.5	234.0	332.0	41.9
Basic EPS (sen)	6.2	8.7	9.4	7.8	51.3	18.7	26.4	41.7
PBT margin (%)	10.5	13.0	12.2	(6.1)	16.0	11.3	12.7	1.4
PAT margin (%)	8.9	11.5	10.8	(5.5)	21.9	9.3	11.2	1.8
PATAMI margin (%)	8.9	11.4	10.7	(6.1)	19.7	9.3	11.1	1.7
Tax rate (%)	15.3	11.7	11.0	(5.4)	(27.9)	17.5	11.9	(5.6)

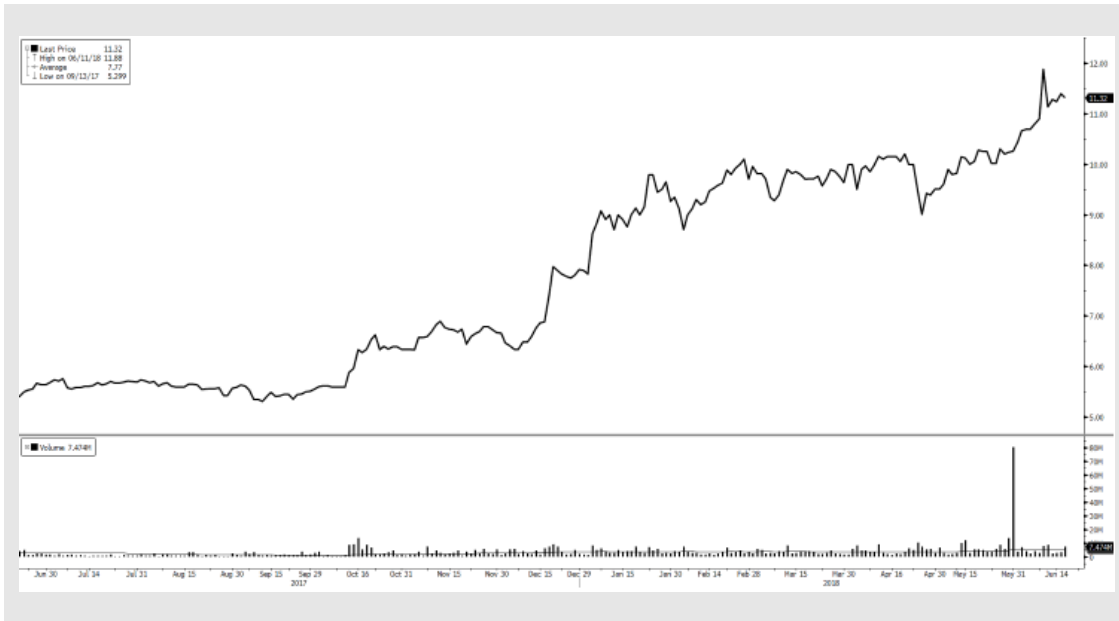
Source: Company, MIDFR

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	41.7
EPS Growth (%)	55.5	27.6	-9.4	171.1	36.6
PER (x)	50.1	39.2	43.4	74.2	27.2
Dividend per share (sen)	11.5	17.0	17.0	22.0	23.0
Dividend yield (%)	1.0	1.5	1.5	1.9	2.0

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.