

18 October 2018 | Briefing Note

## Top Glove Corporation Berhad

Disappointing earnings from Aspion

### INVESTMENT HIGHLIGHTS

- **Higher sales volume growth from developing markets, primarily Asia and Eastern Europe**
- **Future earnings from Aspion to remain depressed**
- **New factory in Thailand to commission in early 2020, adding additional 3.2b pieces per annum**
- **Maintain NEUTRAL with a revised TP of RM10.60**

### Strong demand for medical gloves helped to sustain earnings.

Top Glove Corporation Bhd (Top Glove), in its 4QFY18 analyst briefing, revealed that there is a strong growing demand for its disposable medical gloves worldwide. The +34.8%yoy growth in revenue for the 4QFY18 was mainly attributable to a +27.0%yoy growth in sales volume. There is higher demand for rubber gloves in developing markets such as Asia (excluding Japan) and Eastern Europe which recorded growth of +58.0%yoy and +39.6%yoy respectively for FY18. The higher sales volume helped to sustained 4QFY18 earnings given the downward pressures from: (i) lower than expected contribution from Aspion Sdn Bhd (Aspion) and; (ii) higher effective tax rate.

### Aspion's future earnings to remain subdued in the near term.

With regard to Aspion, an investigation conducted by an independent accounting firm revealed that the previous financial years' net profit had been inflated, which rendered the projections unreliable and unlikely to be achieved. To recall, as part of the incentive-based acquisition agreement to acquire Aspion, Top Glove was guaranteed a core profit after tax (PAT) for the first two years (RM80.9m for the first year and RM108.3m for the second year). However, management guided that FY18 earnings contribution from Aspion came in between RM20.0m to RM30.0m. Meanwhile, we gather that higher 4QFY18 effective tax rate of 28.2% was due to postponement of utilisation of tax incentives.

**Further foray into Thailand.** The management announced to open a new factory in Thailand for the production of rubber and nitrile glove. The factory which is expected to be commissioned in 1HCY20, will comprise of 32 production lines. This will boost Top Glove's annual capacity by additional 3.2b pieces per annum. The planned expansion is vital to cater for the growing demand of disposable medical gloves worldwide.

**Maintain NEUTRAL**

**Revised Target Price: RM10.60**  
(Previously RM10.80)

### RETURN STATS


Price (17 <sup>th</sup> October 2018)	RM11.50
Target Price	RM10.60
Expected Share Price Return	-7.8%
Expected Dividend Yield	+2.0%
<b>Expected Total Return</b>	<b>-5.8%</b>

### STOCK INFO

KLCI	1,740.59
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	1,278.16
Market cap. (RM'm)	14,698.82
Price over NA	6.11
52-wk price Range	RM6.32-RM12.40
Beta (against KLCI)	0.24
3-mth Avg Daily Vol	3.54m
3-mth Avg Daily Value	RM37.6m
Major Shareholders (%)	
Lim Wee Chai	28.9
Employees Provident Fund	7.2
Firstway United Corp	5.4

**Earnings forecast.** We are revising our FY19F earnings forecast downward by -3.7% to account for the lower contribution from Aspion. However, we are revising the FY20F earnings upward by +5.0% to take into account the additional contribution from the new factory in Thailand.

**Target price.** We are revising our TP to **RM10.60** (previously RM10.80). Our valuation is premised on CY19 EPS of 42.4sen pegged to an unchanged PER of 25x which is +0.5SD of the company's three-year historical average PER. Post 1-for-1 bonus issue which will go-ex on 24 Oct, the TP will be revised to RM5.30.

**Maintain NEUTRAL.** We opine that despite the current improvement in raw materials price especially natural rubber latex, the cost savings might be offset by lower ASPs as a result of the low raw materials price. Also, notwithstanding the strong revenue growth driven by the growing demand of disposable medical glove, earnings will be impacted in the near term given the lower than expected contribution from Aspion. All in all, we believe the stock is fully-valued at this juncture. 

## INVESTMENT STATISTICS

FYE Aug (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
<b>Revenue</b>	<b>2,888.5</b>	<b>3,409.2</b>	<b>4,214.0</b>	<b>4,338.7</b>	<b>4,940.7</b>
Operating Profit	446.9	390.4	556.3	629.1	741.1
PBT	442.6	383.1	507.3	620.1	726.3
<b>PATAMI</b>	<b>362.8</b>	<b>332.6</b>	<b>433.6</b>	<b>527.1</b>	<b>617.3</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	12.1	12.5
EPS (sen)	28.9	26.1	34.3	39.1	45.8
EPS Growth (%)	27.9	-9.7	31.5	13.9	17.1
PER (x)	39.8	44.1	33.5	29.4	25.1
Dividend per share (sen)	17.0	17.0	17.0	21.0	23.0
Dividend yield (%)	1.5	1.5	1.5	1.8	2.0

Source: Company, 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.