

19 March 2015 | 2QFY15 Results Review

## Top Glove Holdings Berhad

*Higher earnings supported by improved margins*

**Maintain BUY**

**Revised Target Price (TP): RM5.95**  
(previously RM5.41)

### INVESTMENT HIGHLIGHTS

- Revenue grew by +4.4%yoy to RM572.2m in 2QFY15.
- Growth in revenue was due to increase in sales volume by +5.3%yoy in 2QFY15 and stronger U.S. Dollars against Ringgit.
- Quarterly earnings grew by +34.9%yoy to RM56.1m outpacing revenue growth.
- Maintain BUY with a revised TP of RM5.95 based on a PER16 of 16x.

**Within expectations.** Top Glove's 1HFY15 net profit of RM104.8m came within ours and consensus expectations. The cumulative earnings made up 48.6% and 53.0% of respective full year's forecasts.

**Revenue grew by +4.4%yoy to RM572.2m in 2QFY15.** The growth in Top Glove's revenue was mainly contributed by the increase in sales volume by +5.3%yoy in 2QFY15 and stronger USD against Ringgit. The increase in sales volume came from both its main glove segments, namely, natural rubber gloves which increased by +14%yoy and nitrile gloves which increased by +15%yoy.

**Earnings growth outpaced revenue growth.** Meanwhile, the group's 2QFY15 PATAMI grew substantially by +34.9%yoy to RM56.1m. The surge in earnings was mainly due to lower operating expenses and stronger USD against Ringgit. The operating expenses for 1HFY15 fell by -0.2%yoy attributable to the on-going internal improvements in quality, efficiency and cost control measures. Lower operating expense translated into better operating profit margins for its Malaysian and China operations.

**Higher operating margins.** Top Glove's operating margins for 2QFY15 for its Malaysia and China operations expanded by +3.8ppts and +30.1ppts year-over-year. The higher operating margin at its China operations was due to the closure of its Zhangjiagang factory in China. This has improved its efficiency and reduced its operating expenses. Its natural rubber gloves margin has also increased to levels equivalent to its nitrile gloves margin which is approximately 19-20%.

**Nitrile expansion on track.** Factory F27 (Lukut, Port Dickson) and Factory 30 (Klang, Malaysia) are currently on track and will be specializing on nitrile gloves production. Meanwhile, Top Glove will also increase its capacity at Factory 6 in Phuket with natural rubber gloves. With the completion of all three factories by Sept 2016, the capacity of the company will increase to 52.2b pieces per annum from its current capacity of 44.6b pieces per annum.

RETURN STATS	
Price (18 March '15)	RM5.20
Target Price	RM5.95
Expected Share Price Return	+14.4%
Expected Dividend Yield	+3.3%
<b>Expected Total Return</b>	<b>+17.7%</b>

STOCK INFO	
KLCI	1,797.57
Bursa / Bloomberg	7113 / TOPG MK
Board / Sector	Main / Industrial Products
Syariah Compliant	YES
Issued shares (mil)	617.4
Par Value (RM)	0.50
Market cap. (RM'm)	3,210.5
Price over NA	2.26
52-wk price Range	RM4.21-RM5.62
Beta (against KLCI)	0.68
3-mth Avg Daily Vol	1.13m
3-mth Avg Daily Value	RM5.51m
Major Shareholders	
Lim Wee Chai	29.76%
KWAP	8.36%
EPF	6.66%
Top Glove Holdings S/B	5.21%

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Furthermore, Top Glove's current production mix of nitrile-to-natural rubber gloves is 24:68 (the balance being vinyl gloves). It targets to expand its nitrile production by up to 35%.


**Table 1: Top Glove's Expansion Plan**

	Type of glove	No. of production lines	Capacity p.a.	Targeted completion
Current glove companies: 25 glove factories		484 lines	44.6 bil pcs	
<b>Expansion plan:</b>				
F27 (Lukut, Malaysia)	Nitrile	14 lines	1.8 bil pcs	Dec 2015
F30 (Klang, Malaysia) New factory	Nitrile	28 lines	4.4 bil pcs	Sept 2016
F6 (Phuket, Thailand)	Natural Rubber	12 lines	1.4 bil pcs	July 2016
Total expansion by June 2014		54 lines	7.6 bil pcs	
<b>Total by Sept 2016: 26 glove factories</b>		<b>538 lines</b>	<b>52.2 bil pcs</b>	

Source: Company, MIDFR

**M&A in 2015 still in talks.** As previously mentioned, the group is still in talks for possible M&A in 2015. The management has guided that it is interested in acquiring companies that will value-add to its current glove business such as packaging companies or existing glove factories that will be able to increase its current market share. The management also guided that they will be looking into possibly acquiring one or two companies this year. Although the group is open to overseas companies, it prefers to acquire local companies due to operational considerations.

**Indonesia rubber plantation joint venture.** The management has also reported that it would possibly have a joint venture with a local Indonesian company for its rubber plantation operations in Indonesia. This would enable smoother and easier management control over the foreign operations.

**Maintain BUY with a revised Target Price (TP) of RM5.95.** As such, we maintain our **BUY** call for the stock with a revised TP of **RM5.95** per share. Our valuation is based on its EPS16 of 37.2sen and PER16 of 16x. Our target multiple is equivalent to the rolling four-quarter historical PER of the company. 

## INVESTMENT STATISTICS

FYE Aug (RM m)	FY2012	FY2013	FY2014	FY2015F	FY2016F
Revenue	2,314.5	2,313.2	2,276.5	2,426.3	2,546.1
<b>Gross profit</b>	385.0	363.2	186.8	254.8	280.1
Finance costs	(0.1)	(0.7)	(1.2)	(1.2)	(1.1)
<b>Profit before tax</b>	<b>240.7</b>	<b>242.2</b>	<b>214.7</b>	<b>253.6</b>	<b>278.9</b>
Income tax expense	(33.4)	(39.4)	(33.7)	(38.0)	(41.8)
<b>Net Profit (RM'm)</b>	<b>207.3</b>	<b>202.8</b>	<b>180.1</b>	<b>215.6</b>	<b>237.1</b>
PBT Margin (%)	10.4	10.5	9.4	10.5	11.0
Net Profit Margin (%)	9.0	8.8	7.9	8.9	9.3
EPS (sen)	32.8	31.7	29.0	33.8	37.2
PER (x)	15.9	16.4	17.9	15.4	14.0
Net Dividend (sen)	16.0	16.0	16.0	17.0	17.0
Dividend yield (%)	3.08	3.08	3.08	3.27	3.27

Source: Company, Forecasts by MIDFR

## Top Glove's 2QFY15 Results Review

FYE Aug (RM m)	Quarterly results					Cumulative results		
	2QFY15	1QFY15	2QFY14	YoY (%)	QoQ (%)	1HFY15	1HFY14	YoY (%)
Revenue	572.2	567.6	548.3	4.4	0.8	1,139.9	1,122.3	1.6
Operating expenses	(506.5)	(510.5)	(503.0)	0.7	(0.8)	(1,017.1)	(1,019.1)	(0.2)
Other operating income	7.9	5.7	5.4	46.2	39.4	13.6	8.6	58.7
<b>EBIT</b>	<b>73.6</b>	<b>62.8</b>	<b>50.7</b>	<b>45.2</b>	<b>17.3</b>	<b>136.4</b>	<b>111.7</b>	<b>22.1</b>
Finance costs	(1.5)	(0.9)	(0.4)	248.7	70.0	(2.4)	(0.6)	277.2
Share of associate	(2.6)	(2.9)	(0.2)	1232.3	(10.3)	(5.4)	0.8	(739.5)
<b>PBT</b>	<b>69.6</b>	<b>59.1</b>	<b>50.1</b>	<b>38.9</b>	<b>17.8</b>	<b>128.6</b>	<b>111.9</b>	<b>14.9</b>
Taxation	(13.3)	(10.0)	(7.9)	68.5	32.4	(23.3)	(17.8)	31.2
<b>PAT</b>	<b>56.3</b>	<b>49.0</b>	<b>42.2</b>	<b>33.3</b>	<b>14.9</b>	<b>105.3</b>	<b>94.2</b>	<b>11.8</b>
Minority interest	0.2	0.3	0.7	(66.4)	(32.1)	0.6	2.3	(76.2)
<b>PATAMI</b>	<b>56.1</b>	<b>48.7</b>	<b>41.6</b>	<b>34.9</b>	<b>15.2</b>	<b>104.8</b>	<b>91.8</b>	<b>14.1</b>
Basic EPS (sen)	9.1	7.9	6.7	35.7	15.8	17.0	14.8	14.7
FD EPS (sen)	9.1	7.8	6.7	35.7	15.8	17.0	14.8	14.7
				+ / (-) ppts				+ / (-) ppts
EBIT margin (%)	12.9	11.1	9.3	3.6	1.8	12.0	10.0	2.0
PBT margin (%)	12.2	10.4	9.1	3.0	1.8	11.3	10.0	1.3
PAT margin (%)	9.8	8.6	7.7	2.1	1.2	9.2	8.4	0.8
PATAMI margin (%)	9.8	8.6	7.6	2.2	1.2	9.2	8.2	1.0
Tax rate (%)	19.1	17.0	15.7	3.4	2.1	18.1	15.9	2.3
<b>Geographical Segments</b>								
<i>Revenue</i>								
Malaysia	473.7	455.6	446.1	6.2	4.0	929.3	902.2	3.0
Thailand	36.8	54.6	50.6	(27.1)	(32.5)	91.4	113.6	(19.5)
China	21.6	22.7	23.1	(6.2)	(4.7)	44.4	52.9	(16.1)
Others	40.0	34.7	28.6	40.1	15.4	74.8	53.6	39.4
<i>Operating profit</i>								
Malaysia	66.4	44.2	45.6	45.6	50.1	110.6	105.9	4.5
Thailand	4.7	7.8	7.5	(37.5)	(40.0)	12.4	12.2	1.6
China	1.5	1.5	(5.4)	(127.3)	(2.4)	3.0	(10.6)	(128.0)
Others	1.1	9.3	2.6	(56.6)	(87.9)	10.4	4.3	144.8
<i>Asset</i>								
Malaysia	29.2	1447.3	81.5	(64.2)	(98.0)	1476.5	1292.7	14.2
Thailand	(11.7)	203.4	0.7	(1827.7)	(105.7)	191.7	211.3	(9.3)
China	0.9	63.1	(2.6)	(135.8)	(98.5)	64.0	106.4	(39.8)
Others	72.0	413.5	(0.2)	(34900.0)	(82.6)	485.5	206.8	134.8
<i>Liabilities</i>								
Malaysia	58.0	566.0	154.3	(62.4)	(89.8)	624.0	403.6	54.6
Thailand	0.4	31.8	(3.2)	(112.8)	(98.7)	32.2	24.6	30.8
China	(0.9)	10.3	6.9	(113.0)	(108.7)	9.4	22.5	(58.2)
Others	29.0	104.6	1.6	1686.9	(72.2)	133.7	58.5	128.6
<i>Capex</i>								
Malaysia	51.3	39.5	61.4	(16.4)	29.9	90.9	85.7	6.1
Thailand	1.6	1.1	0.7	133.9	53.7	2.7	2.2	22.4
China	0.0	0.5	0.0	n.a.	(90.9)	0.6	0.0	n.a.
Others	0.1	0.3	0.4	(74.5)	(60.3)	0.4	0.5	(17.5)

Source: Company, MIDFR

## DAILY PRICE CHART



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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.