

Top Glove Corporation Berhad

(7113 | TOPG MK) Main | Health Care | Health Care Equipment & Services

Navigating with Caution

KEY INVESTMENT HIGHLIGHTS

- **Higher-than-expected net loss**
- **Lower revenue in 3QFY23**
- **Decreased 9MFY23 revenue and earnings**
- **Lower sales volume despite ASPs mostly increased in 3QFY23**
- **Maintain SELL with a lower TP of RM0.50 (previously RM0.55)**

Higher-than-expected net loss. Top Glove reported a net loss of -RM414m for 9MFY23, after excluding a one-time off item of RM49.8m. The net loss came in wider than our and consensus' FY23F full-year estimations, representing 82.2% and 89.9% of our and consensus net loss estimates for FY23 respectively. This was mainly due to the higher-than-expected input costs resulting from low utilization rates and high production costs per unit. No dividend was declared during the quarter.

Lower revenue in 3QFY23. On a yearly basis, 3QFY23 revenue plunged by -63.4%yoy to RM530.6m in 3QFY23, mainly attributed to weaker sales volume and lower ASP due to oversupply situation. This had lowered the utilization rate, which had raised the production cost per unit, compressing the profit margin. As such, the net loss widened from -RM8.6m in 3QFY22 to -RM115m in 3QFY23. On a quarterly basis, the revenue decreased by -14.1%qoq to RM530.6m mainly due to lower sales volume (-21%qoq) despite higher blended ASP (+6%qoq). Nevertheless, the core net loss decreased from -RM167.7m in 2QFY23 to -RM115m in 3QFY23. This was supported by the higher ASP, cost optimization measures, and decreased natural gas cost which have more than offset the weaker sales volume and increased raw material prices.

Decreased 9MFY23 revenue and earnings. Cumulatively, the revenue decreased by -60.4%yoy to RM1.78b due to lower sales across all four geographical segments, including Malaysia, Thailand, China, and others. This lowered the utilization rate which raised the production cost per unit and compressing the margin. Consequently, the core earnings turned into a net loss of -RM414m in 9MFY23, compared to net profit of RM256.8m in 9MFY22.

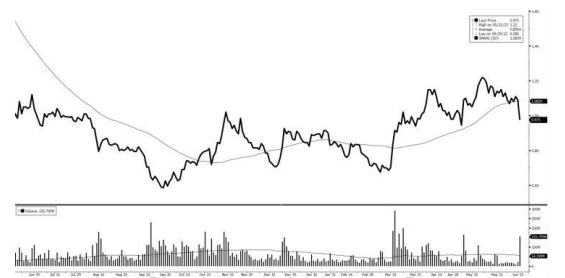
Lower sales volume despite ASPs mostly increased in 3QFY23. In 3QFY23, the group increased the ASP for Nitrile Gloves (+1.3%qoq), Natural rubber gloves (+7%qoq), and surgical gloves (+9%qoq) to offset the increased costs passed on to clients. However, this caused the sales volume decreased to compensate for the higher ASP. As such, the sales volume for vinyl gloves experienced the highest decline (-48%qoq), followed by natural rubber gloves (-27%qoq), nitrile gloves (-15%qoq), and surgical gloves (-15%qoq).

Maintain SELL**Revised Target Price: RM0.50**
(Previously: RM0.55)

RETURN STATISTICS

Price @ 16 th June 2023 (RM)	0.975
Expected share price return (%)	-47.50
Expected dividend yield (%)	0.00
Expected total return (%)	-47.50

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-12.2	-9.6
3 months	3.7	8.3
12 months	-3.5	1.3

INVESTMENT STATISTICS

FYE AUG (RM'm)	2023F	2024F	2025F
Revenue	2,564.1	3,606.0	4,182.1
EBITDA	(232.7)	350.3	626.2
Profit before tax (PBT)	(495.3)	87.4	250.9
Core PATANCI	(520.1)	68.2	197.1
Core EPS (sen)	(6.5)	0.9	2.5
DPS (sen)	0.0	0.3	1.0
Dividend Yield (%)	0.0	0.4	1.0

KEY STATISTICS

FBM KLCI	1,388.61
Issue shares (m)	8007.34
Estimated free float (%)	44.20
Market capitalizations (RM'm)	7,807.78
52-wk price range	RM0.56-RM1.25
3-mth average daily volume (m)	60.31
3-mth average daily value (RM'm)	61.48
Top Shareholders (%)	
Lim Wee Chai	27.85
Central Depository Pte Ltd/The	7.64
FIRSTWAY UNITED CORP	6.93

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Falling raw material and natural gas prices. The prices of raw materials turned upward in 3QFY23, with a higher average natural latex concentrate (+2%qoq) and nitrile latex price (+7%qoq). Overall, the average prices of raw natural latex concentrate (-27%yoy) and nitrile latex (-17%yoy) were lower than in 3QFY22. Moving forward, the group expects that raw material prices to decrease due to the end of the winter season, which could increase the supply of natural latex and result in lower nitrile latex prices due to lower feedstock prices. Meanwhile, the price of natural gas dropped by -14% qoq to RM57.74/MMBtu during the quarter, and it is anticipated that this downward trend will continue, given the downward global natural gas price (NYMEX).

Outlook. Looking ahead, the group expects utilization to improve as customers' glove inventory depletes and replenishment activity begins, driving glove demand in the 2HCY23. Additionally, upward revisions of ASPs are likely to persist due to manufacturers' inability to fully absorb rising costs. Overall, we gather that industry consolidation continues, with local players decommissioning ineffective production lines to enhance efficiency and cut costs. However, we are cautious as the oversupply issue is expected to persist for the next six months. Customers may opt for smaller orders during replenishment due to the lack of urgency and short delivery times caused by the oversupply. These factors contribute to a cautious outlook and potential challenges for the industry in the near term.

Revised earnings projection for FY23F-24F. Given that the net loss came in higher than expected, we have adjusted our earnings projection for FY23F from -RM503.6m to -RM520.1m, FY24F by -1.8%, and FY25F by -4.1%. This was after factoring in higher production cost per unit.

Maintain SELL with a lower TP of RM0.50 (previously RM0.55). Our revised **TP of RM0.50** is based on revised FY24F's BVPS of 78.7sen (from 86sen) pegged to its 3-year historical -1.5 standard deviation P/BV of 0.64x. We maintain our **SELL** call on Top Glove. We are **cautious** about Top Glove's FY24F outlook due to limited pricing flexibility, which makes it difficult to pass on increased costs given that customers can easily switch to other glove manufacturers with competitive prices, as shown in the recent quarterly report where the average selling price increased but sales volume decreased. Despite industry consolidation and temporary production plant shutdowns to reduce supply, we expect the oversupply situation to persist at least until CY23 due to the aggressive capacity expansion and new players entering the market during the pandemic, combined with lower post-pandemic demand and customers' lack of urgency to place larger orders. Furthermore, we anticipate that the group may experience losses for the next two quarters before reaching a break-even point due to the continuous margin compression. **Potential upside risks** are: (i) increased ASP and sales volume; (ii) smaller players leaving the market and (iii) existing players shutting down some of their facilities to reduce the supply of gloves in the market.



Top Glove: 3QFY23 Result Summary

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	530.6	618.0	1,464.6	(63.8)	(14.1)	1,781.2	4,498.1	(60.4)
Operating expenses	(649.7)	(785.8)	(1,468.3)	(55.7)	(17.3)	(2,228.4)	(4,192.0)	(46.8)
Other operating income	(17.6)	20.6	41.0	(142.8)	(185.0)	9.4	90.3	(89.6)
Operating profit (EBIT)	(136.7)	(147.2)	37.3	(466.2)	(7.1)	(437.8)	396.3	(210.5)
Net finance income/(cost)	0.6	1.5	3.1	(80.3)	(60.4)	4.6	15.5	(70.6)
Profit before tax (PBT)	(138.8)	(145.9)	38.4	(461.6)	(4.9)	(436.4)	409.5	(206.6)
Taxation	18.2	(9.0)	(9.1)	(299.5)	(301.0)	3.2	(75.5)	(104.2)
Profit After tax (PAT)	(120.6)	(155.0)	29.3	(512.0)	(22.2)	(433.2)	334.0	(229.7)
PATANCI	(130.9)	(164.7)	15.3	(955.7)	(20.5)	(463.8)	288.6	(260.7)
One-off items	15.9	(3.0)	(23.9)	(166.5)	(630.4)	49.8	(31.8)	(256.7)
Core PATANCI	(115.0)	(167.7)	(8.6)	1,231.9	(31.4)	(414.0)	256.8	(261.2)
Core EPS (sen)	(1.4)	(2.1)	(0.1)	1,231.9	(31.4)	(5.2)	3.2	(261.3)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	1.2	(100.0)
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Revenue Growth	(14.1)	(2.3)	1.1	(15.2)	(11.8)	42.4	48.3	(5.9)
Operating Profit Growth	(7.1)	(4.4)	(65.1)	58.0	(2.7)	45.4	10.4	35.0
Core PATANCI Growth	(31.4)	27.6	(109.3)	77.9	(59.1)	38.4	(3.3)	41.7
Operating Profit Margin	(25.8)	(23.8)	2.5	(28.3)	(1.9)	(24.6)	8.8	(33.4)
PBT Margin	(26.2)	(23.6)	2.6	(28.8)	(2.5)	(24.5)	9.1	(33.6)
Core PATANCI Margin	(21.7)	(27.1)	(0.6)	(21.1)	5.5	(23.2)	5.7	(29.0)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net debt/total equity (%)	0.1	0.1	0.1	(0.0)	(0.0)	0.1	0.1	(0.0)
Effective tax rate (%)	13.1	(6.2)	23.7	(10.6)	19.3	0.7	18.4	(17.7)

Source: Company, MIDFR

Top Glove: Geographical Breakdown

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (External):								
Malaysia	460.1	565.1	1,272.5	(63.8)	(18.6)	1,573.6	3,895.3	(59.6)
Thailand	45.0	26.1	106.9	(57.9)	72.8	113.0	339.2	(66.7)
China	1.6	1.5	4.8	(67.2)	6.6	6.5	24.3	(73.1)
Others	23.9	25.3	80.4	(70.3)	(5.6)	88.1	239.2	(63.2)
Total	530.6	618.0	1,464.6	(63.8)	(14.1)	1,781.2	4,498.1	(60.4)
Operating Profit:								
Malaysia	12.2	(235.5)	31.8	(61.6)	(105.2)	(342.6)	337.9	(201.4)
Thailand	(1.7)	(26.5)	37.3	(104.5)	(93.7)	(36.5)	99.0	(136.9)
China	(2.4)	(3.1)	(4.5)	(46.6)	(22.6)	(7.2)	(4.7)	52.4
Others	9.5	(27.4)	(23.2)	(141.2)	(134.8)	(38.2)	(17.3)	120.5
Total	17.7	(292.4)	41.5	(57.4)	(106.0)	(424.4)	414.9	(202.3)
Operating profit margin:								
Malaysia	2.6	(41.7)	2.5	0.2	44.3	(21.8)	8.7	(30.4)
Thailand	(3.7)	(101.6)	34.9	(38.6)	97.8	(32.3)	29.2	(61.5)
China	(150.9)	(207.7)	(92.9)	(58.0)	56.8	(109.7)	(19.3)	(90.4)
Others	39.9	(108.2)	(28.8)	68.7	148.1	(43.4)	(7.2)	(36.1)
Total	3.3	(47.3)	2.8	0.5	50.7	(23.8)	9.2	(33.1)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	16,361.4	5,572.3	2,564.1	3,606.0	4,182.1
Gross Profit	11,102.1	953.4	(249.0)	455.7	699.3
EBITDA	10,282.4	690.4	(232.7)	350.3	626.2
EBIT	9,973.8	342.2	(511.6)	69.8	232.4
Net finance (expenses)/income	57.4	19.9	16.4	17.6	18.4
Profit before tax (PBT)	10,033.8	358.4	(495.3)	87.4	250.9
Income tax expense	(2,209.8)	(76.8)	(24.8)	(19.2)	(53.8)
Profit After tax (PAT)	7,824.0	281.6	(520.1)	68.2	197.1
PATANCI	7,710.3	225.6	(520.1)	68.2	197.1
Core PATANCI	7,845.7	493.2	(520.1)	68.2	197.1
Core EPS (sen)	97.5	6.2	(6.5)	0.9	2.5
DPS (sen)	65.1	1.2	0.0	0.3	1.0
BVPS (sen)	89.7	84.8	78.3	78.7	80.5
Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	3,958.7	4,522.2	4,396.7	4,332.1	4,356.0
Intangible assets	1,008.8	1,005.3	878.9	865.2	903.2
Total Non-current assets	5,436.7	6,005.6	5,756.2	5,695.4	5,772.5
Inventories	1,144.7	575.3	392.8	439.9	486.3
ST - Trade and other receivables	566.3	258.8	265.8	373.8	433.5
Cash and cash equivalents	2,508.4	950.9	948.7	967.3	998.5
Total current assets	4,345.8	2,111.1	1,855.5	2,095.0	2,254.2
Total Assets	9,782.4	8,116.7	7,611.6	7,790.4	8,026.7
Total Equity	7,220.2	6,793.2	6,271.6	6,308.2	6,450.8
LT Loans and borrowings	146.0	93.0	63.9	64.5	65.1
Total Non-current liabilities	363.8	327.0	292.8	354.9	385.6
ST Trade and other payables	692.4	459.4	350.7	392.7	434.2
ST Loans and borrowings	312.7	306.1	574.7	580.4	586.2
Total Current Liabilities	2,198.5	996.5	1,047.2	1,127.3	1,190.3
Total Liabilities	2,562.3	1,323.5	1,340.0	1,482.3	1,575.9
Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	10,033.8	358.4	(495.3)	87.4	250.9
Cash flow from operations	7,826.9	178.8	(167.7)	226.9	584.8
Cash flow from investing	(1,247.9)	132.4	(133.8)	(197.2)	(399.6)
Cash flow from financing	(6,902.3)	(740.3)	437.3	(18.6)	(166.5)
Net cash flow	(323.3)	(429.1)	135.8	11.1	18.7
(+/-) Adjustments	(6.5)	(12.6)	0.0	0.0	0.0
Net cash/(debt) b/f	1,204.9	875.2	433.4	569.2	580.4
Net cash/(debt) c/f	875.2	433.4	569.2	580.4	599.1
Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	22.0	21.4	5.0	22.0	21.4
Dividend Yield (%)	67.8	1.3	0.0	0.4	1.0
PER (x)	1.0	34.0	(14.8)	112.9	39.0
Net Cash/Market Capitalisation (%)	26.5	7.2	4.0	4.2	4.5
Cash/share (sen)	1.0	0.0	(0.0)	0.0	0.1
Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	67.9	17.1	(9.7)	12.6	16.7
EBITDA Margin (%)	62.8	12.4	(9.1)	9.7	15.0
EBIT Margin (%)	61.0	6.1	(20.0)	1.9	5.6
Core PATANCI Margin (%)	48.0	8.9	(20.3)	1.9	4.7

Source: Bloomberg, 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 news flow.
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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology