



## Top Glove Corporation Berhad

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

### Narrowed Net Losses and Better Margin

**Upgrade to NEUTRAL**

(Previously SELL)

**Revised Target Price: RM0.70**

(Previously RM0.50)

### KEY INVESTMENT HIGHLIGHTS

- **Within estimations**
- **Narrowed net losses**
- **Cumulative earnings remained in the red**
- **Lower sales volume and blended ASP in 4QFY23**
- **Revised earnings projection for FY24F-25F**
- **Upgrade to NEUTRAL (from SELL) with a revised TP of RM0.70 (from RM0.50)**

**Within estimations.** Top Glove's core net loss for FY23 came in at -RM504.5m, aligning with our and consensus' full-year FY23F forecast of a core net loss of -RM520.1m and -RM513.4m, respectively. This was after excluding a one-off item of RM422.4m. As anticipated, no dividend was declared for the quarter given the company's continued net loss.

**Narrowed net losses.** On quarterly basis, Top Glove's topline declined -10.3%qoq to RM475.9m in 4QFY23. This was primarily attributed to lower sales volume (-9.5%qoq) and a decrease in blended ASP (-4.5%qoq). The operating loss significantly expanded from -RM136.7m in 3QFY23 to -RM458.1m in 4QFY23, primarily due to goodwill impairment and impairment & write-off of property, plant, and equipment. These have more than offset lower raw material costs and natural gas tariffs. The impairments were part of Top Glove's turnaround plan to enhance future competitiveness by rationalizing operations and reviewing income-generating assets. Excluding one-off items, the core net loss for 4QFY23 was -RM90.5m, an improvement from the -RM115m core net loss in 3QFY23. This was supported by better margin on the back of reduced production costs from temporary factory closures, permanent shutdowns of production capacities, as well as lower raw material costs and natural gas tariffs. On yearly basis, the core net loss widened by +12.2%yoy to -RM90.5m which was in tandem with the lower revenue growth of -51.9%yoy to RM475.9m. This was mainly caused by the oversupply situation in the market, which led to reduced sales and increased production costs per unit.

**Cumulative earnings remained in red.** Cumulatively, the revenue dropped substantially by -59.6%yoy to RM2.25b mainly due to lower sales from all geographical segments, including Malaysia, Thailand, China and others. As such, this along with the higher production cost per unit of gloves has dragged the core net earnings from a net profit of RM176.1m in FY22 to a core net loss of -RM504.5m in FY23.

### RETURN STATISTICS

Price @ 6 <sup>th</sup> Oct 2023 (RM)	0.755
Expected share price return (%)	-7.91
Expected dividend yield (%)	0.00
Expected total return (%)	-7.91

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-7.4	-4.9
3 months	-2.6	-13.6
12 months	17.1	16.2

### INVESTMENT STATISTICS

FYE AUG (RM'm)	2024F	2025F	2026F
Revenue	3,639.8	4,177.7	4,609.3
EBITDA	433.0	623.6	844.5
Profit before tax (PBT)	96.0	285.4	500.9
Core PATANCI	72.9	216.9	380.7
Core EPS (sen)	0.9	2.7	4.8
DPS (sen)	0.0	1.1	1.9
Dividend Yield (%)	0.0	1.4	2.5

### KEY STATISTICS

FBM KLCI	1,416.88
Issue shares (m)	8007.34
Estimated free float (%)	44.20
Market capitalizations (RM'm)	6,046.16
52-wk price range	RM0.61-RM1.25
3-mth average daily volume (m)	40.47
3-mth average daily value (RM'm)	32.98
Top Shareholders (%)	
Lim Wee Chai	27.84
Central Depository Pte Ltd/The	7.64
FIRSTWAY UNITED CORP	6.93

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**Lower sales volume and blended ASP in 4QFY23.** In 4QFY23, the group's sales volume dropped by -9.5%qoq, while the blended ASP decreased by -5.5%qoq. The lower sales volume was due to customers' reluctance to place orders following an upward revision in ASPs in March 2023. Reduced blended ASP was primarily due to the pass-through of lower raw material prices, while maintaining a certain level of margin. Meanwhile, the ASP for exam gloves decreased by -0.5%qoq, primarily impacted by drop in exam glove sales, which faced intense competition from Chinese glovemakers during the quarter. The utilization rate remained at 30% in 4QFY23, based on the total production capacity of 95 billion pieces of gloves per annum. Management also noted an improvement in margin as a result of the temporary and permanent closure of factories, leading to increased production efficiency and reduced production costs per unit. Going forward, management expect the ASP trend will continue to be influenced by the cost-pass-through mechanism. Additionally, management has expressed optimism that sales volume may improve in the 1QFY24 following the depletion of customer inventory.

**Mixed production cost ahead.** In 4QFY23, the prices of nitrile latex concentrate dropped by -8%qoq, and NBR latex prices decreased by -22%qoq. Meanwhile, the natural gas tariff decreased by +12%qoq. Moving forward, the group expects nitrile prices to increase in 1QFY24 due to higher feedstock prices following the recent increase in global crude oil prices. Conversely, latex prices are expected to decrease in 1QFY24 due to weak demand. Additionally, the natural gas tariff is expected to decrease by a further 5% in Oct 2023, given the declining trend in global natural gas prices. On a positive note, both nitrile and NBR latex prices have now returned to levels last seen in 2019.

**Revised earnings projection for FY24F-25F.** We raised our earnings forecast for FY24-25F by +7% and +10.1%, respectively, after considering: (1) higher sales volume due to the expected uptick in demand; (2) a higher USD/MYR exchange rate in line with MIDF's economists' forecast; and (3) lower production costs per unit after taking into account the production efficiency gained from the temporary and permanent closures of facilities. We have also introduced our earnings forecast for FY26F.

**Upgrade to NEUTRAL (from SELL) with a revised TP of RM0.70 (from RM0.50).** Our revised **TP** of **RM0.70** is based on revised FY24F's BVPS of 81.8sen (from 79sen) pegged to its 2-year historical -1SD P/BV of 0.85x. Post revision in TP, we revise our call on Top Glove to **NEUTRAL** call from SELL. However, we remain cautious about the intense competition from Chinese players, which may exert upward pressure on Top glove's pricing flexibility. This makes it challenging to fully pass on increased costs, as customers can easily switch to other glove manufacturers offering competitive prices. On a positive note, the recent permanent and temporary closures of production facilities have improved production efficiency and reduced production costs per unit, thereby enhancing margins. **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: 4QFY23 Result Summary

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	475.9	530.6	990.1	(51.9)	(10.3)	2,257.0	5,572.5	(59.5)
Operating expenses	(961.4)	(649.7)	(1,073.4)	(10.4)	48.0	(3,189.7)	(5,265.4)	(39.4)
Other operating income	27.4	(17.6)	36.6	(25.2)	(256.0)	36.8	126.9	(71.0)
<b>Operating profit (EBIT)</b>	<b>(458.1)</b>	<b>(136.7)</b>	<b>(46.7)</b>	<b>881.9</b>	<b>235.2</b>	<b>(895.9)</b>	<b>349.7</b>	<b>(356.2)</b>
Net finance income/(cost)	(1.1)	0.6	4.0	(128.0)	(285.3)	3.4	19.5	(82.5)
<b>Profit before tax (PBT)</b>	<b>(461.9)</b>	<b>(138.8)</b>	<b>(44.0)</b>	<b>949.0</b>	<b>232.8</b>	<b>(898.3)</b>	<b>365.5</b>	<b>(345.8)</b>
Taxation	7.9	18.2	2.3	243.6	(56.7)	11.0	(73.2)	(115.1)
<b>Profit After tax (PAT)</b>	<b>(454.0)</b>	<b>(120.6)</b>	<b>(41.7)</b>	<b>987.8</b>	<b>276.4</b>	<b>(887.2)</b>	<b>292.2</b>	<b>(403.6)</b>
PATANCI	(463.1)	(130.9)	(52.6)	780.7	253.9	(926.9)	236.0	(492.8)
One-off items	372.6	15.9	(28.1)	(1,425.8)	2,243.5	422.4	(59.9)	(805.4)
<b>Core PATANCI</b>	<b>(90.5)</b>	<b>(115.0)</b>	<b>(80.7)</b>	<b>12.2</b>	<b>(21.3)</b>	<b>(504.5)</b>	<b>176.1</b>	<b>(386.5)</b>
Core EPS (sen)	(1.1)	(1.4)	(1.0)	12.3	(21.3)	(6.3)	2.2	(386.5)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	1.2	(100.0)
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Operating Profit Margin	(96.3)	(25.8)	(4.7)	(91.6)	(70.5)	(39.7)	6.4	(46.1)
PBT Margin	(97.1)	(26.2)	(4.4)	(92.6)	(70.9)	(39.8)	6.7	(46.5)
Core PATANCI Margin	(19.0)	(21.7)	(8.1)	(10.9)	2.6	(22.4)	3.2	(25.6)
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net debt/total equity (%)	0.1	0.1	0.1	(0.0)	(0.0)	0.1	0.1	(0.0)
Effective tax rate (%)	1.7	13.1	5.2	(3.5)	(11.4)	1.2	20.0	(18.8)

Source: Company, MIDFR

## Top Glove: Geographical Breakdown

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
<b>Revenue (External):</b>								
Malaysia	419.3	460.1	918.0	(54.3)	(8.9)	1,992.8	4,813.3	(58.6)
Thailand	25.8	45.0	107.2	(76.0)	(42.8)	138.7	446.4	(68.9)
China	2.3	1.6	6.4	(64.5)	43.0	8.8	30.7	(71.3)
Others	28.6	23.9	42.9	(33.3)	19.6	116.7	282.1	(58.6)
<b>Total</b>	<b>475.9</b>	<b>530.6</b>	<b>1,074.4</b>	<b>(55.7)</b>	<b>(10.3)</b>	<b>2,257.0</b>	<b>5,572.5</b>	<b>(59.5)</b>
<b>Operating Profit/(Loss):</b>								
Malaysia	(50.1)	12.2	(40.7)	23.1	(511.3)	(392.7)	297.2	(232.1)
Thailand	(9.5)	(1.7)	5.5	(272.0)	467.6	(46.0)	104.5	(144.0)
China	(2.3)	(2.4)	(4.1)	(44.5)	(4.9)	(9.4)	(8.8)	7.3
Others	(4.6)	9.5	(2.0)	132.1	(148.2)	(42.8)	(19.3)	121.7
<b>Total</b>	<b>(66.5)</b>	<b>17.7</b>	<b>(41.3)</b>	<b>61.2</b>	<b>(476.6)</b>	<b>(490.9)</b>	<b>373.6</b>	<b>(231.4)</b>
<b>Operating profit/ (Loss) margin:</b>								
Malaysia	(12.0)	2.6	(4.4)	(7.5)	(14.6)	(19.7)	6.2	(25.9)
Thailand	(36.9)	(3.7)	5.2	(42.1)	(33.2)	(33.2)	23.4	(56.6)
China	(100.4)	(150.9)	(64.2)	(36.1)	50.5	(107.3)	(28.7)	(78.6)
Others	(16.1)	39.9	(4.6)	(11.5)	(56.0)	(36.7)	(6.8)	(29.8)
<b>Total</b>	<b>(14.0)</b>	<b>3.3</b>	<b>(3.8)</b>	<b>(10.1)</b>	<b>(17.3)</b>	<b>(21.8)</b>	<b>6.7</b>	<b>(28.5)</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Revenue	5,572.3	2,257.0	3,639.8	4,177.7	4,609.3
<b>Gross Profit</b>	<b>953.4</b>	<b>243.9</b>	<b>430.1</b>	<b>642.6</b>	<b>878.1</b>
EBITDA	690.4	(552.6)	433.0	623.6	844.5
<b>EBIT</b>	<b>342.2</b>	<b>(895.6)</b>	<b>88.0</b>	<b>277.1</b>	<b>492.9</b>
Net finance (expenses)/income	19.9	3.4	8.0	8.3	8.0
<b>Profit before tax (PBT)</b>	<b>358.4</b>	<b>(898.0)</b>	<b>96.0</b>	<b>285.4</b>	<b>500.9</b>
Income tax expense	(76.8)	11.0	(23.0)	(68.5)	(120.2)
<b>Profit After tax (PAT)</b>	<b>281.6</b>	<b>(887.0)</b>	<b>72.9</b>	<b>216.9</b>	<b>380.7</b>
PATANCI	225.6	(926.6)	72.9	216.9	380.7
<b>Core PATANCI</b>	<b>493.2</b>	<b>(504.5)</b>	<b>72.9</b>	<b>216.9</b>	<b>380.7</b>
Core EPS (sen)	6.2	(6.3)	0.9	2.7	4.8
DPS (sen)	1.2	0.0	0.0	1.1	1.9
BVPS (sen)	84.8	73.9	81.8	84.3	86.3
<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	4,522.2	3,931.7	4,022.8	4,093.4	4,202.0
Intangible assets	1,005.3	864.5	975.9	1,008.1	1,001.0
<b>Total Non-current assets</b>	<b>6,005.6</b>	<b>5,372.9</b>	<b>5,598.8</b>	<b>5,724.5</b>	<b>5,849.9</b>
Inventories	575.3	300.2	697.9	768.6	811.3
ST - Trade and other receivables	258.8	196.3	367.0	421.2	464.7
Cash and cash equivalents	950.9	944.6	1,104.4	1,128.2	1,120.2
<b>Total current assets</b>	<b>2,111.1</b>	<b>1,707.9</b>	<b>2,577.1</b>	<b>2,761.8</b>	<b>2,861.4</b>
<b>Total Assets</b>	<b>8,116.7</b>	<b>7,080.8</b>	<b>8,175.9</b>	<b>8,486.3</b>	<b>8,711.2</b>
<b>Total Equity</b>	<b>6,793.2</b>	<b>5,918.7</b>	<b>6,551.3</b>	<b>6,752.0</b>	<b>6,908.8</b>
LT Loans and borrowings	93.0	14.1	14.3	14.4	14.6
<b>Total Non-current liabilities</b>	<b>327.0</b>	<b>218.8</b>	<b>313.4</b>	<b>341.9</b>	<b>359.3</b>
ST Trade and other payables	459.4	283.7	592.3	652.4	688.6
ST Loans and borrowings	306.1	540.4	545.8	551.2	556.7
<b>Total Current Liabilities</b>	<b>996.5</b>	<b>943.3</b>	<b>1,311.2</b>	<b>1,392.4</b>	<b>1,443.2</b>
<b>Total Liabilities</b>	<b>1,323.5</b>	<b>1,162.1</b>	<b>1,624.6</b>	<b>1,734.3</b>	<b>1,802.4</b>
<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	358.4	(898.0)	96.0	285.4	500.9
Cash flow from operations	178.8	131.1	174.7	605.0	892.8
Cash flow from investing	132.4	(382.4)	(434.6)	(417.2)	(462.2)
Cash flow from financing	(740.3)	93.2	360.6	(123.1)	(377.8)
<b>Net cash flow</b>	<b>(429.1)</b>	<b>(158.2)</b>	<b>100.6</b>	<b>64.7</b>	<b>52.8</b>
(+/-) Adjustments	(12.6)	10.7	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>875.2</b>	<b>433.4</b>	<b>285.9</b>	<b>386.5</b>	<b>451.3</b>
<b>Net cash/(debt) c/f</b>	<b>433.4</b>	<b>285.9</b>	<b>386.5</b>	<b>451.3</b>	<b>504.1</b>
<b>Key Metrics</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	21.4	1.2	24.0	24.0	24.0
Dividend Yield (%)	1.6	0.0	0.0	1.4	2.5
PER (x)	26.8	6.5	82.9	27.9	15.9
Net Cash/Market Capitalisation (%)	9.1	6.5	9.0	9.3	9.1
Cash/share (sen)	0.0	0.0	0.0	0.1	0.1
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	17.1	10.8	11.8	15.4	19.0
EBITDA Margin (%)	12.4	(24.5)	11.9	14.9	18.3
EBIT Margin (%)	6.1	(39.7)	2.4	6.6	10.7
Core PATANCI Margin (%)	8.9	(22.4)	2.0	5.2	8.3

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