



## Top Glove Corporation Berhad

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

### Steady Growth in Glove Demand

#### KEY INVESTMENT HIGHLIGHTS

- **1QFY24 deemed in line with our expectation**
- **Better sequential revenue and narrowed losses in 1QFY24**
- **Greater glove demand ahead**
- **ASP remains depressed due to the cost pass through mechanism**
- **Maintain NEUTRAL with a revised TP of RM0.84 (from RM0.70)**

**1QFY24 deemed in line with our expectation.** Top Glove Corporation ("Top Glove") reported core net loss of -RM56.1m for 1QFY24, excluding one-time items of RM1.6m. We deem 1QFY24 results in line with our expectation despite our core net profit projection of RM72.9m for FY24 as we anticipate Top Glove to report narrower losses in 2QFY24 and subsequently return to the black in 2HFY24. Meanwhile, 1QFY24 earnings were slightly ahead of consensus FY24 projection of -RM53.4m. No dividend was declared for the quarter.

**Better sequential revenue and narrowed losses in 1QFY24.** The group's revenue increased by +3.7%qoq to RM493.5m, mainly driven by a higher sales volume (+9%qoq) that more than offset lower blended ASPs (-8%qoq). The core net loss narrowed from -RM90.5m in 4QFY23 to -RM56.1m in 1QFY24, mainly attributed to higher revenue, lower natural gas tariffs (-8%qoq), improved cost efficiency from higher utilization rates, and lower admin costs. On a yearly basis, core net loss improved from -RM131.4m in 1QFY23 to -RM56.1m in 1QFY24, driven by cost optimization efforts despite a -22%yoy drop in revenue to RM493.5m. Recall that the group made temporary and permanent closures of production capacity to improve cost efficiency.

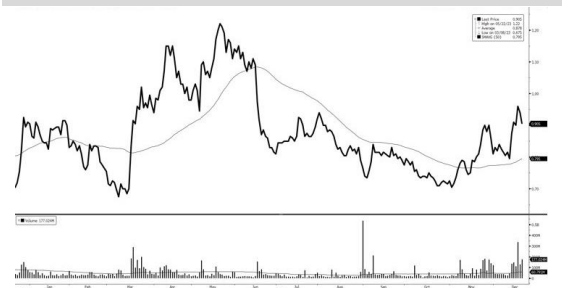
**Greater glove demand ahead.** In 1QFY24, the group's sales volume increased +9%qoq, primarily attributed to the depletion of customer pandemic inventories and the resumption of replenishing activities. The sales volume contribution from Asia region increased from 20% pre-pandemic level to 32% of total sales volume in 1QFY24. This was attributed to higher health awareness among developing countries post-pandemic, boosting sales in the Asian market. We gather that the surge in sales volume during 1QFY24 is not linked to the recent rise in COVID-19 cases, as the cases are currently less severe, with the majority exhibiting mild symptoms. Besides, Chinese glovemakers currently have an almost 3-months order backlog, leading to a shift in demand towards Malaysian glovemakers. This suggests that the group is well-positioned to capture the flow of customer replenishment orders, thereby we continue to expect a better utilization rate in FY24.

**Maintain NEUTRAL****Revised Target Price: RM0.84**  
(Previously RM0.70)

#### RETURN STATISTICS

Price @ 20 <sup>th</sup> Dec 2023 (RM)	0.905
Expected share price return (%)	-6.91
Expected dividend yield (%)	0.00
Expected total return (%)	-6.91

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.1	12.4
3 months	16.8	8.0
12 months	28.4	28.5

#### INVESTMENT STATISTICS


FYE AUG (RM'm)	2024F	2025F	2026F
Revenue	3,639.8	4,177.7	4,609.3
EBITDA	433.0	623.6	844.6
Profit before tax (PBT)	96.0	285.4	501.0
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	1.2	2.1

#### KEY STATISTICS

FBM KLCI	1,464.56
Issue shares (m)	8008.16
Estimated free float (%)	41.75
Market capitalizations (RM'm)	7,247.39
52-wk price range	RM0.66-RM1.25
3-mth average daily volume (m)	57.23
3-mth average daily value (RM'm)	47.87
Top Shareholders (%)	
Lim Wee Chai	27.86
Central Depository Pte Ltd/The	9.52
FIRSTWAY UNITED CORP	6.93

**Analyst****Genevieve Ng** Pei Fen  
Genevieve.ng@midf.com.my

**ASP remains depressed due to the cost pass through mechanism.** In 1QFY24, blended ASPs decreased by -8%qoq, mainly due to the ASP revision at the end of 4QFY23, following the cost pass-through mechanism for lower raw material prices, fully reflected during the quarter. Considering the expected variability in raw material prices, coupled with intense competition from Chinese glovemakers and an oversupply situation, we are cautious about the group's capability to adjust the ASP going forward. This is following that the group expect Nitrile price to drop by 5% and latex price to increase by 4% from 1QCY24 moving forward.

**Maintain NEUTRAL with a revised TP of RM0.84 (from RM0.70).** Given that the earnings are deemed within our expectations, we make no changes to our FY24-26F forecast. However, we have changed our P/BV valuation from its 2-year historical -1SD P/BV of 0.85x to near its 2-year historical -0.5SD P/BV of 1.03x. This change is to reflect the improving demand outlook. Our **revised TP of RM0.84** is based on an unchanged FY24F's BVPS of 81.8sen pegged to its 2-year historical -0.5SD P/BV of 1.03x. Moving forward, we see improving sales volume outlook following the resumption of replenishment activities after the depletion of inventories which potentially resulting in a higher utilization rate. This, coupled with recent permanent and temporary closures of manufacturing plants, has lowered production costs per unit, thereby increasing profits. On a side note, we remain cautious about the intense competition from Chinese players and the oversupply situation, 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. Hence, we maintain our **NEUTRAL** call on Top Glove. **Potential upside risks are:** (i) higher 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: 1QFY24 Result Summary

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	493.5	475.9	632.5	(22.0)	3.7	493.5	632.5	(22.0)
Operating expenses	(553.0)	(961.4)	(792.8)	(30.2)	(42.5)	(553.0)	(792.8)	(30.2)
Other operating income	8.6	27.4	6.3	36.2	(68.6)	8.6	6.3	36.2
<b>Operating profit (EBIT)</b>	<b>(50.9)</b>	<b>(458.1)</b>	<b>(154.0)</b>	<b>(66.9)</b>	<b>(88.9)</b>	<b>(50.9)</b>	<b>(154.0)</b>	<b>(66.9)</b>
Net finance income/(cost)	(1.4)	(1.1)	2.4	(156.8)	20.5	(1.4)	2.4	(156.8)
<b>Profit before tax (PBT)</b>	<b>(52.9)</b>	<b>(461.9)</b>	<b>(151.6)</b>	<b>(65.1)</b>	<b>(88.6)</b>	<b>(52.9)</b>	<b>(151.6)</b>	<b>(65.1)</b>
Taxation	5.7	7.9	(6.0)	(195.0)	(27.9)	5.7	(6.0)	(195.0)
<b>Profit After tax (PAT)</b>	<b>(47.2)</b>	<b>(454.0)</b>	<b>(157.6)</b>	<b>(70.1)</b>	<b>(89.6)</b>	<b>(47.2)</b>	<b>(157.6)</b>	<b>(70.1)</b>
PATANCI	(57.7)	(463.1)	(168.2)	(65.7)	(87.5)	(57.7)	(168.2)	(65.7)
<b>Core PATANCI</b>	<b>(56.1)</b>	<b>(90.5)</b>	<b>(131.4)</b>	<b>(57.3)</b>	<b>(38.1)</b>	<b>(56.1)</b>	<b>(131.4)</b>	<b>(57.3)</b>
Core EPS (sen)	(0.7)	(1.1)	(1.6)	(57.3)	(38.1)	(0.7)	(1.6)	(57.3)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Operating Profit Margin	(10.3)	(96.3)	(24.3)	14.0	86.0	(10.3)	(24.3)	14.0
PBT Margin	(10.7)	(97.1)	(24.0)	13.3	86.4	(10.7)	(24.0)	13.3
Core PATANCI Margin	(11.4)	(19.0)	(20.8)	9.4	7.7	(11.4)	(20.8)	9.4
<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 (%)	10.7	1.7	(3.9)	14.7	9.0	10.7	(3.9)	14.7

Source: Company, MIDFR

## Top Glove: Geographical Breakdown

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
<b>Revenue (External):</b>								
Malaysia	437.2	419.3	548.4	(20.3)	4.3	437.2	548.4	(20.3)
Thailand	29.3	25.8	41.9	(30.1)	13.6	29.3	41.9	(30.1)
China	2.6	2.3	3.5	(25.1)	14.5	2.6	3.5	(25.1)
Others	24.4	28.6	38.8	(37.1)	(14.6)	24.4	38.8	(37.1)
<b>Total</b>	<b>493.5</b>	<b>475.9</b>	<b>632.5</b>	<b>(22.0)</b>	<b>3.7</b>	<b>493.5</b>	<b>632.5</b>	<b>(22.0)</b>
<b>Operating Profit/(Loss):</b>								
Malaysia	(38.7)	(50.1)	(119.3)	(67.5)	(22.8)	(38.7)	(119.3)	(67.5)
Thailand	(3.7)	(9.5)	(8.3)	(55.4)	(60.9)	(3.7)	(8.3)	(55.4)
China	(0.7)	(2.3)	(1.7)	(59.1)	(69.6)	(0.7)	(1.7)	(59.1)
Others	(5.8)	(4.6)	(20.3)	(71.4)	26.6	(5.8)	(20.3)	(71.4)
<b>Total</b>	<b>(49.0)</b>	<b>(66.5)</b>	<b>(149.6)</b>	<b>(67.3)</b>	<b>(26.4)</b>	<b>(49.0)</b>	<b>(149.6)</b>	<b>(67.3)</b>
<b>Operating profit/ (Loss) margin:</b>								
Malaysia	(8.9)	(12.0)	(21.8)	12.9	3.1	(8.9)	(21.8)	12.9
Thailand	(12.7)	(36.9)	(19.9)	7.2	24.2	(12.7)	(19.9)	7.2
China	(26.6)	(100.4)	(48.8)	22.2	73.7	(26.6)	(48.8)	22.2
Others	(23.8)	(16.1)	(52.4)	28.5	(7.7)	(23.8)	(52.4)	28.5
<b>Total</b>	<b>(9.9)</b>	<b>(14.0)</b>	<b>(23.7)</b>	<b>13.7</b>	<b>4.1</b>	<b>(9.9)</b>	<b>(23.7)</b>	<b>13.7</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Revenue	5,572.3	2,257.2	3,639.8	4,177.7	4,609.3
<b>Gross Profit</b>	<b>953.4</b>	<b>64.3</b>	<b>430.1</b>	<b>642.6</b>	<b>878.1</b>
EBITDA	690.4	(968.8)	433.0	623.6	844.6
<b>EBIT</b>	<b>342.2</b>	<b>(899.2)</b>	<b>88.0</b>	<b>277.0</b>	<b>493.0</b>
Net finance (expenses)/income	19.9	4.6	8.0	8.3	8.0
<b>Profit before tax (PBT)</b>	<b>358.4</b>	<b>(900.4)</b>	<b>96.0</b>	<b>285.4</b>	<b>501.0</b>
Income tax expense	(76.8)	14.9	(23.0)	(68.5)	(120.2)
<b>Profit After tax (PAT)</b>	<b>281.6</b>	<b>(885.5)</b>	<b>72.9</b>	<b>216.9</b>	<b>380.7</b>
PATANCI	225.6	(925.2)	72.9	216.9	380.7
<b>Core PATANCI</b>	<b>493.2</b>	<b>(526.2)</b>	<b>72.9</b>	<b>216.9</b>	<b>380.7</b>
Core EPS (sen)	6.2	(6.6)	0.9	2.7	4.8
DPS (sen)	1.2	0.0	0.0	1.1	1.9
BVPS (sen)	84.8	74.0	81.8	84.3	86.3
<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	4,522.2	3,893.1	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>5,373.5</b>	<b>5,598.8</b>	<b>5,724.5</b>	<b>5,849.9</b>
Inventories	575.3	301.5	697.9	768.6	811.3
ST - Trade and other receivables	258.8	182.6	367.0	421.2	464.7
Cash and cash equivalents	950.9	948.5	1,104.4	1,128.2	1,120.2
<b>Total current assets</b>	<b>2,111.1</b>	<b>1,688.0</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>7,061.6</b>	<b>8,175.9</b>	<b>8,486.2</b>	<b>8,711.2</b>
<b>Total Equity</b>	<b>6,793.2</b>	<b>5,926.1</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>211.6</b>	<b>313.4</b>	<b>341.9</b>	<b>359.3</b>
ST Trade and other payables	459.4	265.3	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>923.9</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>1,135.5</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>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	358.4	(900.4)	96.0	285.4	501.0
Cash flow from operations	178.8	121.0	180.7	605.0	892.9
Cash flow from investing	132.4	(383.3)	(346.4)	(417.2)	(462.2)
Cash flow from financing	(740.3)	94.8	272.2	(123.1)	(377.8)
<b>Net cash flow</b>	<b>(429.1)</b>	<b>(167.5)</b>	<b>106.5</b>	<b>64.7</b>	<b>52.8</b>
(+/-) Adjustments	(12.6)	14.0	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>875.2</b>	<b>433.4</b>	<b>280.0</b>	<b>386.5</b>	<b>451.3</b>
<b>Net cash/(debt) c/f</b>	<b>433.4</b>	<b>280.0</b>	<b>386.5</b>	<b>451.3</b>	<b>504.1</b>
<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	21.4	1.7	24.0	24.0	24.0
Dividend Yield (%)	1.3	0.0	0.0	1.2	2.1
PER (x)	32.1	7.8	99.4	33.4	19.0
Net Cash/Market Capitalisation (%)	7.6	5.4	7.2	7.8	7.6
Cash/share (sen)	0.0	0.0	0.0	0.1	0.1
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	17.1	2.8	11.8	15.4	19.1
EBITDA Margin (%)	12.4	(42.9)	11.9	14.9	18.3
EBIT Margin (%)	6.1	(39.8)	2.4	6.6	10.7
Core PATANCI Margin (%)	8.9	(23.3)	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