

Top Glove Corporation Berhad

TP: RM8.84 (+60.7%)
Committed to a Special Dividend

Last Traded: RM5.50

Buy

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Commitment on Special Dividend

Yesterday, Top Glove announced that the group is committed to a special dividend of 20%, in addition to its existing dividend policy of 50% dividend pay-out ratio, for 2QFY21 to 4QFY21. As such, the 70% dividend pay-out ratio on PATAMI will commence from 2QFY21.

To recap, Top Glove declared a first interim dividend of 16.5sen/share in 1QFY21, representing a pay-out ratio of 55.7%. In tandem with this special dividend announcement of 20% for 2QFY21 to 4QFY21, we raise our FY21F dividend pay-out to 66.5% from 55% previously. At current share price, the stock is expected to offer an attractive dividend yield of 18.4% for FY21F.

Klang Factories Fully Ramp Up

In terms of earnings, recall that despite a flattish growth in gloves production in 1QFY21 (i.e., 0.05% QoQ to 17.97bn), Top Glove recorded a PAT of RM2.38bn (+83.9% QoQ) due to higher ASP of 57%. Recall that Top Glove worker's dormitories in Klang were under the Enhanced Movement Control Order (EMCO) from 17th November 2020 to 14th December 2020, which affected circa-50% of Top Glove's total production capacity. Due to the timing of the EMCO, we note that the earnings impact is spread in 1QFY21 and 1QFY22. According to management, the affected plants have all resumed operation on 20th December 2020 and all the plants are currently operating at full capacity. As such, we expect gloves production in 2QFY21 to be higher QoQ due to the additional capacity. More importantly, ASP for 2QFY21 has increased by circa-30% QoQ. Given the stronger-than-expected ASP, we now expect Top Glove to record a profit of RM12.5bn for FY21, which is 7.1 times more than FY20 profit of RM1.75bn.

US CBP Issue May Take Awhile

We note that the group has been actively engaging with the U.S. Customs and Border Protection ("CBP") following a detention order on disposable gloves manufactured by two of Top Glove subsidiaries, namely Top Glove Sdn Bhd and TG Medical Sdn Bhd on 15 July 2020. We understand that the detention order is pending verification by independent international consultant on its worker accommodation whereby the group is required to meet the requirements of the Worker's Minimum Standards of Housing and Amenities Act 1990 (ACT 446), for which Top Glove has embarked on substantial corrective and improvement measures.

Impact

We revise our FY21/FY22/FY23 earnings projections by 22.0%/31.7%/40.3% after revising our ASP assumptions higher by circa-12% to USD67.8/41.6/31.7per 1000 gloves.

Share Information

Bloomberg Code	TOPG MK
Stock Code	7113
Listing	Main Market
Share Cap (mn)	8201.0
Market Cap (RMmn)	45,105.0
52-wk Hi/Lo (RM)	9.767/1.517
12-mth Avg Daily Vol ('000 shrs)	56,169.4
Estimated Free Float (%)	61.6
Beta	1.0

Major Shareholders (%)

Tan Sri Dato Sri Lim Wee Chai - 26.2

Firstway United Corp -6.9

EPF -5.3

Forecast Revision

	FY21	FY22
Forecast Revision (%)	22.0	31.7
Net profit (RMmn)	12,451.1	4,816.2
Consensus	10,184.0	3,880.0
TA's / Consensus (%)	122.3	124.1
Previous Rating	Buy (Maintained)	

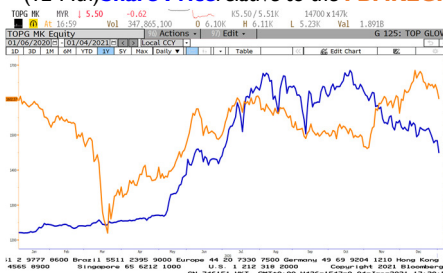
Financial Indicators

	FY21	FY22
Net gearing (x)	Net cash	Net cash
CFPS (sen)	127.6	75.5
ROAA (%)	113.1	33.5
ROAE (%)	150.2	42.0
NTA/Share (RM)	1.1	1.4
Price/ NTA (x)	4.8	3.9

Share Performance (%)

	TOPG MK	FBM KLCI
Price Change		
1 mth	(17.3)	0.4
3 mth	(37.2)	7.5
6 mth	(10.6)	6.2
12 mth	253.3	1.2

(12-Mth)Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation & Recommendation

Reiterate Buy on Top Glove with an unchanged TP of RM8.84/share based on 17x CY22 EPS. Figure 1 depicts that based on Top Glove's pre-Covid valuation Price/Earnings multiple 27x, the fair value of Top Glove would likely remain elevated assuming the ASP were to normalise in FY23 and FY24.

Figure 1: Normalised Earnings Estimates and TP

Top Glove (FYE Aug)	FY18	FY19	FY20	1QFY21	FY21F	FY22F	FY23F	FY24F
Revenue ('000)	4,220,742	4,801,139	7,237,427	4,759,253	22,966,135	16,529,936	13,845,622	12,609,713
Estimated Production Output ('000)	48,840,000	54,032,001	62,094,300	17,970,000	80,659,000	94,560,000	104,000,000	113,600,000
Average Blended ASP (USD/'000 pcs)	20.9	21.9	27.6	64.00	67.8	41.6	31.7	26.4
ASP in RM	86.7	89.1	116.5	265	284.7	174.8	133.1	111.0
PAT Margin %	10.2%	7.6%	24.6%	49.9%	54.2%	29.1%	22.8%	18.5%
Net Profit ('000)	428,830	364,678	1,752,584	2,375,775	12,451,087	4,816,221	3,155,885	2,329,581
EPS	5.2	4.4	21.4	29.6	151.8	58.7	38.5	28.4

Based on CY		CY19	CY20		CY21	CY22	CY23	CY24
Profit		827,313	5,318,752		9,906,132	4,262,776	2,880,450	2,031,764
EPS		10.1	64.9		120.8	52.0	35.1	24.8
Current PE		54.5	8.5		4.6	10.6	15.7	22.2

Valuation (%if we use Pre-Covid-19 PE of TOPG of 27x)	TP (RM)	TP (RM)	TP (RM)
27	14.03	9.48	6.69
Capital upside base on TOPG closing price of RM5.50	155.2%	72.4%	21.6%

Source: Companies, TA Securities

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Earnings Summary

P&L

FYE Aug 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,801.1	7,237.4	22,966.1	16,529.9	13,845.6
EBITDA	684.1	2,419.2	16,422.5	6,580.6	4,508.7
Dep. & Amor.	(194.9)	(245.4)	(392.8)	(513.4)	(592.3)
EBIT	489.2	2,173.8	16,029.7	6,067.3	3,916.3
Net finance costs	(69.0)	(10.5)	15.0	23.1	100.4
Share of results of assoc.	(2.7)	(1.4)	(1.6)	(1.7)	(1.9)
PBT	423.6	2,165.6	16,043.1	6,088.6	4,014.9
Taxation	(56.0)	(376.7)	(3,529.5)	(1,248.2)	(843.1)
MI	(2.9)	(10.6)	(62.6)	(24.2)	(15.9)
Net profit	364.7	1,752.6	12,451.1	4,816.2	3,155.9
Adj EPS (sen)	4.4	21.4	151.8	58.7	38.5
Adj DPS (sen)	2.5	11.8	101.5	32.5	19.3

Ratios

FYE Aug 31	FY19	FY20	FY21F	FY22F	FY23F
Valuations					
PER (x)	123.7	25.7	3.6	9.4	14.3
Dividend yield (%)	0.5	2.2	18.4	5.9	3.5
PBV (x)	17.8	9.3	5.0	4.0	3.5

Profitability ratios

ROAE (%)	14.7	40.1	150.2	42.0	23.6
ROAA (%)	6.6	24.4	113.1	33.5	19.5
EBITDA margin (%)	14.2	33.4	71.5	39.8	32.6
PBT margin (%)	8.8	29.9	69.9	36.8	29.0
PAT margin (%)	7.6	24.6	54.2	29.1	22.8

Liquidity ratios

Current ratio (x)	1.1	2.0	2.9	3.3	3.4
Quick ratio (x)	0.7	1.8	2.3	2.8	3.0

Leverage ratios

Total liabilities/equity (x)	1.2	0.5	0.3	0.3	0.2
Net debt/equity (x)	0.8	Net cash	Net cash	Net cash	Net cash

Growth ratios

Sales (%)	13.8	50.7	217.3	(28.0)	(16.2)
Pretax (%)	(19.0)	411.2	640.8	(62.0)	(34.1)
Earnings (%)	(15.0)	380.6	610.4	(61.3)	(34.5)
Total assets (%)	7.4	53.1	52.9	15.7	9.6

Balance Sheet

FYE Aug 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,822.4	3,375.6	4,882.7	6,269.3	7,177.0
Associates + Subsidiaries	11.9	10.4	8.9	7.1	5.2
Others	1,074.8	1,032.3	1,032.3	1,032.3	1,032.3
LT assets	3,909.1	4,418.3	5,923.9	7,308.8	8,214.6
Inventories	629.9	530.7	1,684.1	1,212.2	1,073.0
Cash	165.8	1,208.6	1,417.7	3,032.9	4,087.2
Others	983.4	2,548.4	4,284.4	3,848.9	3,508.0
Current assets	1,779.1	4,287.7	7,386.2	8,093.9	8,668.2
Total assets	5,688.2	8,706.0	13,310.1	15,402.7	16,882.7
Trade payables	492.4	810.8	1,287.8	1,259.3	1,195.3
ST borrowings	1,041.3	314.2	214.1	188.4	301.4
Others	58.1	1,007.5	1,021.7	1,021.7	1,021.7
Current liabilities	1,591.8	2,132.5	2,523.6	2,469.4	2,518.4
LT borrowings	1,379.4	226.3	261.6	230.2	75.3
Others	162.9	156.2	142.0	142.0	142.0
LT liabilities	1,542.3	382.6	403.6	372.2	217.3
Share capital	788.3	1,675.7	1,675.7	1,675.7	1,675.7
Retained Earnings	1,748.6	3,195.1	7,324.6	9,478.5	11,048.6
Shareholders' funds	2,537.0	4,870.8	9,000.3	11,154.2	12,724.3
Perpetual Sukuk	0.0	1,295.3	1,295.3	1,295.3	1,295.3
MI	17.2	24.9	87.4	111.6	127.5
Total liabilities + equity	5,688.2	8,706.0	13,310.1	15,402.7	16,882.7

Cash Flow

FYE Aug 31 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
PBT	423.6	2,165.6	16,043.1	6,088.6	4,014.9
Dep. & Amor.	194.9	245.4	392.8	513.4	592.3
Others	9.1	4.9	(30.7)	(37.0)	(106.7)
Changes in WC	(41.6)	1,269.7	(2,412.4)	879.0	416.0
Tax paid	(59.8)	(229.9)	(3,529.5)	(1,248.2)	(843.1)
Operational cash flow	526.2	3,455.6	10,463.3	6,195.8	4,073.4
Capex	(568.1)	(806.4)	(1,900.0)	(1,900.0)	(1,500.0)
Others	74.7	(1,563.1)	32.3	38.7	108.6
Investing cash flow	(493.5)	(2,369.5)	(1,867.7)	(1,861.3)	(1,391.4)
Dividend paid	(220.1)	(374.3)	(832.1)	(2,662.2)	(1,585.9)
Net change in debts	(643.9)	(1,104.4)	(64.9)	(57.1)	(41.9)
Others	829.1	1,434.1	0.0	0.0	(0.0)
Financial cash flow	(35.0)	(44.6)	(8,386.4)	(2,719.3)	(1,627.7)
Net cash flow	(2.2)	1,041.5	209.2	1,615.2	1,054.3
Opening cash flow	165.2	165.8	1,208.6	1,417.7	3,032.9
Forex	2.8	1.3	0.0	0.0	0.0
Closing cash flow	165.8	1,208.6	1,417.7	3,032.9	4,087.2

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

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As of Tuesday, January 05, 2021, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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