PP14767/09/2012(030761)

Thursday, June 16, 2016

Market Access

Top Glove Corporation Berhad

"Well Played in Volume Game"

Results Review

- **Actual vs. expectations.** For 9MFY16, Top Glove Corporation Berhad (TOPG) reported RM2.17 billion in sales (+20% y-o-y), mainly driven by exceptionally outstanding Q1 and Q2 results with several positive factors including stronger US Dollar and strong volume growth in the NBR glove segment. EBITDA rose 49% y-o-y from RM288 million to RM429 million while PBT surged 60% y-o-y to RM367 million, achieving all-time industry high for the nine months period. Revenue performance in Malaysia, Thailand and China all recorded double digit annual growth of 21%, 19% and 18%, respectively. The improvement was even obvious in Thailand and China divisions which saw 113% and 108% jump in operational profits. 9MFY16 net profit came within our expectation at RM297 million (+67% y-o-y) or 74% of our FY16 forecast earnings.

- **Dividend.** The Board declared 6 sen first interim dividend in 3QFY16, amounting to RM75 million payout versus RM37 million in 3QFY15. Prior to this, TOPG paid out 1:1 bonus issue in January 2016.

- **3Q FY16 top-line.** TOPG posted RM672 million (-3% q-o-q ; +2% y-o-y) revenue in 3Q16, continued the top-line normalization phase after Q1 and Q2 records of RM800 million and RM694 million, respectively. The weaker results were due to the reversal of favourable factors happened in FY15 such as strong USD/RM, cheap operational costs and substantial improvement in the NBR segment. Pricing adjustments would take 2 months to pass the cost increase to customers in the face of strengthening Ringgit, rising raw material costs as well as higher natural gas tariff.

BUY (TP:RM6.12)

Current Price (RM)	RM4.91
Previous Target Price (RM)	RM6.84
Previous Recommendation	HOLD
Upside/(Downside) To Target	25%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	TOPG MK

Stock Information

Listing		MAIN MARKET
Sector		Glove
Shariah Compliance		Yes
Issued Shares (mn)		1,252.5
Market Cap (RM mn)		6,150.0
YTD Chg in Share Price		-27.5%
Beta (x)		-0.03
52-week Hi/Lo (RM)	7.03	2.87
3M Average Volume (shrs)		5.1mn
Estimated Free Float		46.1%

Major Shareholders

Lim Wee Chai	29%
EPF	6.9%
Firstway United Corp	5%

Research Team
hcchoo@mna.com.my
03-22821820 ext. 219

- **Rising operating expenses buffered by tax incentives.** During the quarter in review, operating expenses rose 7.6% y-o-y to RM612 million, causing a 21% y-o-y shrinkage in EBIT from RM94 million to RM67 million. We understand that the 17% increase in natural gas tariff and 14% increase in natural latex prices contributed to dearer operating costs. However, the bottom-line only saw 14% y-o-y decline to RM63 million, bolstered by lower effective tax rate of 15% due to tax incentives available in Malaysia and certain overseas subsidiaries.

- **Continued focus on NBR glove.** TOPG has marched towards more balanced product mix by shifting NR to NBR glove production. As at 9MFY16, NBR glove made up 32% of total sales quantity at 3QFY16 (versus 28% in FY15) while powdered and powdered free NR gloves constituted 40% and 18% respectively. The percentage fall in powder NR glove was offset by the increment in NBR, powdered free and Vinyl gloves production. We expect NBR portion to be lifted to 35% in FY16 upon the completion of Factory 27 in Lukut, Port Dicson which will top up another 2.0 billion pieces/ annum in capacity by next month.

- **Outlook.** We are unperturbed by the rising latex prices. In fact we believe most of the major glove makers would find it meaningful to raise their ASPs besides passing on their cost increase, should the latex prices stay between RM5-6/kg. We are more concerned on the second hike in natural gas tariff in 2H16 which we expect another 8-10% increase from the current RM26.03 MMBtu and prolonged hiring freeze on foreign labour which could potentially slow down production output and the progress of pipeline expansion.

  TOPG will commence its Lukut Plant (Factory 27) by July 2016 which will add 16 lines or 2.0 billion pieces/annum capacity for NBR gloves. There will another 2 factories (Factory 6 and Factory 30) coming on stream by August 2016 and February 2017, respectively. Factory 6 will be used for NR glove production with 1.4 billion pieces/annum while Factory 30 will be focussing on NBR glove manufacturing which will add another 4.4 billion pieces/annum by then. Total capacity is expected to reach 52.4 billion pieces/annum (+12% from current state of capacity) by 1Q17 should the expansion plans stay well on track.

- **Valuations & Recommendation.** Maintain target price at RM6.12 based on our target PER and FY17 earnings estimates, recommending a **BUY** call with an upside of 25% from yesterday's closing price. As the pricing competition getting increasingly fiery, volume play is one of the advantages of TOPG with a massive 25% global market share and >2,000 customers across 195 countries. The fragmented clientele base with no single customer makes up more than 4% of revenue, TOPG has better bargain power over its customers than her peers while enjoying greater economies of scale.

Research Team
hcchoo@mna.com.my
03-22821820 ext. 219

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Top Glove	Aug	4.91	15	23	16	17	2	3	23	3	6.12	BUY
Kossan	Dec	6.49	23	30	20	20	4	4	22	2	8.62	BUY
Hartalega	Mar	4.10	16	14	22	32	5	5	19	2	4.78	BUY
Supermax	Jun	2.22	17	15	10	22	1	2	11	3	2.94	BUY
Average			18	21	17	23	3	4				

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

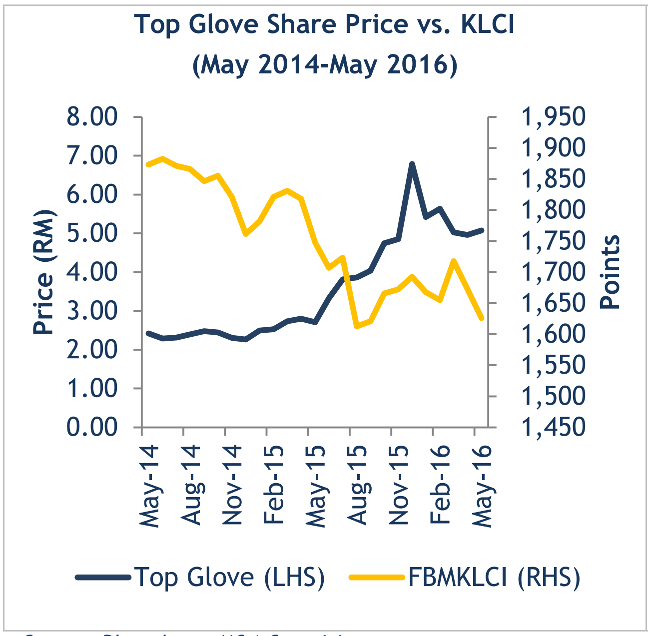
FYE AUGUST (RM million)	3Q16	2Q16	3Q15	Q-o-Q	Y-o-Y	9M15	9M16	Y-o-Y
Revenue	672	694	661	-3%	2%	1,801	2,166	20%
EBITDA	155	152	120	2%	29%	288	429	49%
D&A	(26)	(27)	(25)	-1%	4%	(72)	(81)	11%
EBIT	74	125	94	-40%	-21%	215	348	62%
Net interest income	7	7	6	-6%	4%	14	19	37%
PBT	74	132	101	-44%	-27%	229	367	60%
Tax	(11)	(27)	(28)	-59%	-61%	(51)	(70)	36%
PAT	63	105	73	-40%	-14%	178	297	67%
MI	(0)	(1)	(0)	-49%	-16%	(1)	(2)	61%
PATMI	62	105	72	-40%	-14%	128	233	82%
EPS (sen)	4.99	8.36	5.85	-40%	-15%	14.29	23.63	65%
EBITDA margin	23%	22%	18%	1%	5%	16%	20%	4%
EBIT margin	11%	18%	14%	-7%	-3%	12%	16%	4%
PBT margin	11%	19%	15%	-8%	-4%	13%	17%	4%
Net profit margin	9%	15%	11%	-6%	-2%	7%	11%	4%

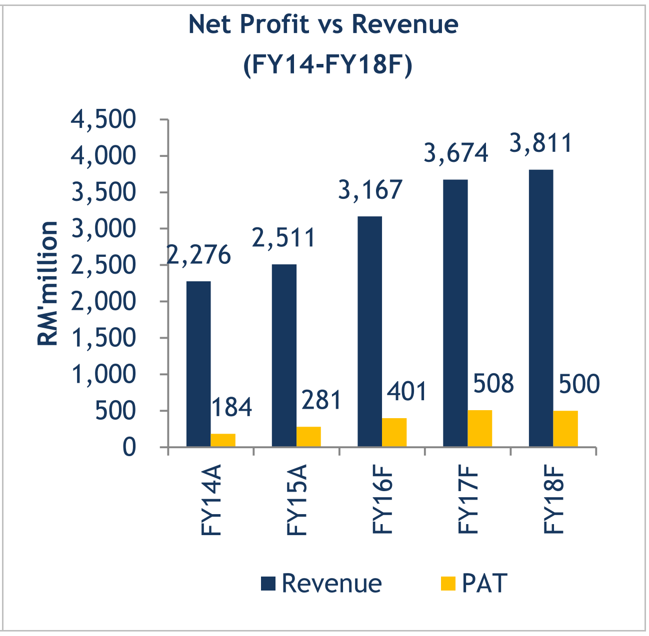
Source: M&A Securities

Table 3: Financial Forecast

FYE AUGUST (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	2,276	2,511	3,167	3,674	3,811
EBITDA	266	436	618	764	768
D&A	(92)	(99)	(111)	(123)	(135)
EBIT	174	337	507	641	633
Net interest income	6	20	13	16	15
PBT	216	364	519	657	647
Tax	(33)	(82)	(117)	(149)	(146)
PAT	184	281	401	508	500
MI	(3)	(1)	(1)	(1)	(1)
PATMI	181	280	400	507	499
EPS (sen)	15	22	32	41	40
EBITDA margin	12%	17%	19%	21%	20%
EBIT margin	8%	13%	16%	17%	17%
PBT margin	9.50%	14%	16%	18%	17%
Net profit margin	8%	11%	13%	14%	13%
PER (x)	19.4	12.5	17.6	13.9	14.1
P/BV (x)	2.5	2.2	3.9	3.4	3.1
Dividend (sen)	16.0	23.0	16.0	20.2	20.3
Dividend yield	3%	4%	3%	4%	4%

Source: M&A Securities





Source: Bloomberg, M&A Securities

Research Team
hcchoo@mna.com.my
03-22821820 ext. 219

M&A Securities

Market Access

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD	*Share price is expected to be between -10% and +10% over the next 12 months.*
SELL	*Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT	*The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL	*The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT	*The sector is expected to underperform the FBM KLCI over the next 12 months.*

M & A Securities SdnBhd (15017-H)
(A wholly-owned subsidiary of INSAS BERHAD)
A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:
Level 1,2,3 No.45 & 47,43-6
The Boulevard, Mid Valley City,
Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: +603 – 2282 1820   Fax: +603 – 2283 1893
Website: www.mnaonline.com.my

Research Team
hcchoo@mna.com.my
03-22821820 ext. 219