

PP14767/09/2012(030761)

Friday, June 19, 2015

## Top Glove Corporation Bhd

### “Incredible 9M15 Performance”

#### Results Review

- Actual vs. expectations.** Top Glove Corporation Bhd (Top Glove) 9M15 net profit of RM177 million (32% y-o-y) came in above consensus and our expectation, accounting for 83% and 86% of our full year forecast. The improving net profit in 9M15 was boosted by the turnaround in China operation and the enhancement in terms of quality which was aided by greater efficiency and cost control measure in tandem with newer and more efficient glove machineries and factories. The group reported EBIT of RM238 million that was 43% higher than 9M14 EBIT of RM166 million, contributed, among others, by higher other operating income from RM15 million to RM23 million in 9M15 and hence, broadening its margin to 13% (9M14: 10%).
- Dividend.** Top Glove declared a first interim dividend of 8.0sen/share in 3Q15, translating to a dividend payout ratio of 28% slightly lower against 3Q14 payout ratio of 32% (3Q14: 7.0sen/share).
- Top line.** 9M15's revenue grew to RM1.8 billion (6% y-o-y) lifted by the increase in sales quantity by 10% y-o-y benefitting from higher sales volume for natural rubber and nitrile gloves. 3Q15's revenue increased to RM661 (+15% y-o-y, +16% q-o-q) attributed to the stronger US Dollar. Average natural rubber latex price increased by 6% q-o-q to RM3.85/kg from RM3.62 in 2Q15 while nitrile price declined to USD0.96/kg by 7% y-o-y from USD1.03/kg from the corresponding quarter.
- Bottom line.** Top Glove's 9M15 PBT surged to RM229 million (37% y-o-y) thanks to the improvement from China's operation, coming in at RM4 million operating profit compared to the preceding quarter operating loss of RM11 million.

#### HOLD (TP: RM 6.46)

Current Price (RM)	RM6.36
New Fair Value (RM)	RM6.46
Previous Fair Value (RM)	RM 4.62
Previous Recomm.	HOLD
Upside to the Fair Value	2%
Dividend Yield (FY16)	2.6%
Stock Code	

Bloomberg	TOPG MK
-----------	---------

#### Stock & Market Data

Listing	MAIN MARKET
Sector	Glove
Shariah Compliance	Yes
Issued Shares	617.5mn
Market Cap	3,624.5mn
YTD Chg In Share Price	29.87%
Beta (x)	0.48
52-week Hi/Lo (RM)	5.98   4.21
6M Average Volume (shares)	1,200mn
Estimated Free Float	38%

#### Major Shareholders

Wee Chai Lin	29.75%
Kump. Wang Persaraan	9.69%
Employees Provident Fund	5.55%

## Results Review - Top Glove Corporation Bhd

PBT in 3Q15 jumped by 71% y-o-y and 45% q-o-q to RM101 million in line with higher revenue arising from higher demand of both natural rubber and nitrile glove and stronger USD.

- **Plant expansion on track.** Its new factory 29, which has been delayed from commencing, has started its operation in February 2015, which would boost the total number of production line to 484 from 470 lines and production capacity to 44.6 billion pieces per annum from 42.6 billion pieces per annum. Nevertheless, the group will continue to expand constructing new factories namely F30 where it has started to commence constructing at end 2014 and the management targets its completion by September FY16. These factories, namely, F27 (Phase 2), F29 and F30, would increase its capacity by 7 billion pieces per annum (+17%). The expansion plan is meant for the group's nitrile capacity.
- **Change to forecast.** We have done some house-keeping exercise and came-out with new FY15 and FY16 forecast. FY15 and FY16 earnings are forecast to jump by 31% y-o-y and 13% y-o-y driven by i) Top Glove's new factories should help the group ramp-up its production and in turn, its earnings growth, ii) a boost in production capacity as glove demand remains resilient and global healthcare awareness is rising.
- **Valuation and recommendation.** Hence, we come out with a new value for Top Glove at RM6.46 based on average 3-years P/E multiple of 17x and the stock is a **HOLD**. Catalyst may come from i) the strong USD which will be a positive sentiment to the glove makers and ii) the robust demand of nitrile gloves in the Eurozone and U.S..

Table 1: Peers Comparison

	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Top Glove	Aug	6.36	34	36	17	16	2.5	2.5	13.8	2.7	6.46	Hold
Supermax	Dec	2.11	17	19	12	11	1.5	1.9	11.2	2.4	2.28	Buy
Kossan	Dec	6.80	31	35	21	19	5.0	4.1	19.1	1.2	6.12	Hold
Hartalega	Mar	8.50	35	40	24	21	5.4	5.8	19.0	1.5	7.40	Hold
Average			29	33	19	17	3.6	3.5				

Source: Bloomberg, M&A Securities

Table 2: Earnings Forecast

YE: Aug (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,314	2,313	2,276	2,373	2,727
EBIT	240	245	213	283	340
PBT	241	242	215	282	295
Net profit	203	197	180	235	265
EPS (sen)	33	32	31	38	43
PBT margin	10%	10%	9%	12%	11%
Net profit margin	9%	9%	8%	10%	10%
PER (x)	16	18	15	15	13
P/BV (x)	2.6	2.7	2.5	2.27	2.06
DPS (sen)	16	16	16	17	17
Div Yield	2.3%	3.2%	3.2%	2.6%	2.6%
ROA	13%	11%	9%	12%	12%
ROE	16%	14%	15%	17%	16%
Div Payout	60%	50%	55%	45%	40%

Source: Company, M&amp;A Securities

Table 3: Results Highlight

YE: Aug (RM million)	3Q15	3Q14	2Q15	q-o-q	y-o-y	9M15	9M14	y-o-y
Revenue	661	574	572	16%	15%	1,801	1,696	6%
EBIT	102	54	74	38%	87%	238	166	43%
PBT	101	55	70	45%	82%	229	167	37%
Taxation	(28)	(12)	(13)	110%	130%	(51)	(30)	71%
Net Profit	72	42	56	29%	71%	177	134	32%
EPS (sen)	12	7	9	29%	72%	29	22	33%
EBIT margin	15%	9%	13%			13%	10%	
PBT margin	15%	10%	12%			13%	10%	
Net profit margin	11%	7%	10%			10%	8%	
Effective tax rate	-28%	-22%	-19%			-3%	-2%	

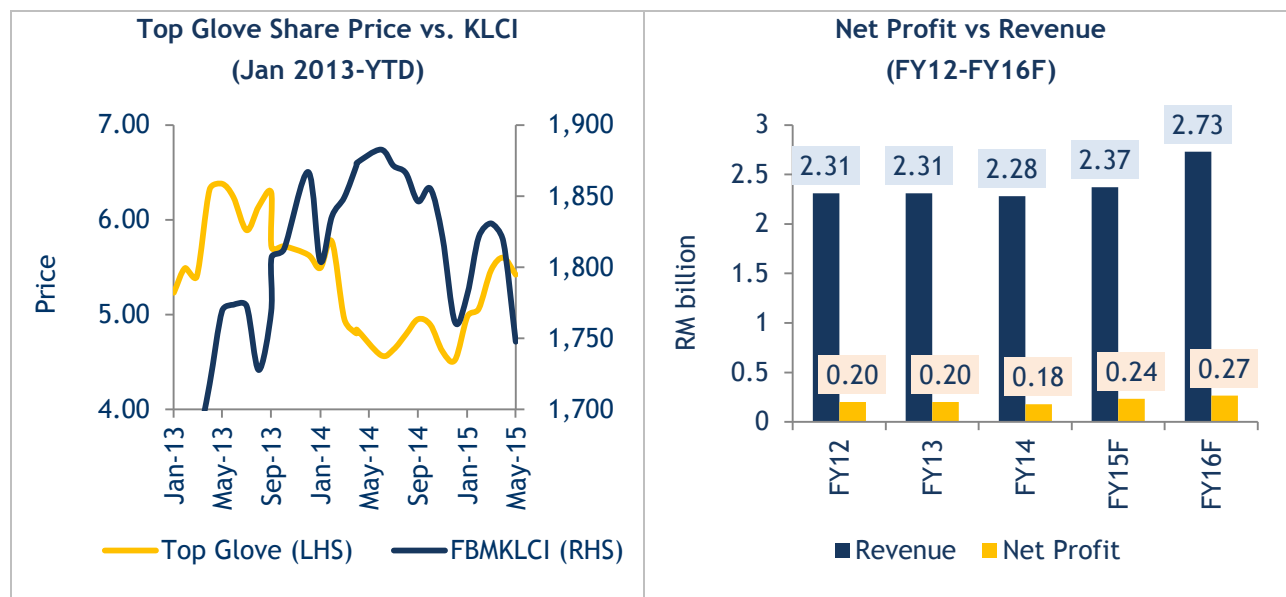
Source: Company, M&amp;A Securities

Table 4: Segmental

	9M15	9M14	y-o-y
<b>Revenue</b>			
Malaysia	1,530	1,399	9%
Thailand	334	428	-22%
China	71	81	-12%
<b>Operating Profit</b>			
Malaysia	203	149	36%
Thailand	14	16	-13%
China	4	(11)	-139%

Source: Bloomberg, M&amp;A Securities

## Results Review - Top Glove Corporation Bhd



Source: Company, M&A Securities

## M&A Securities

### STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

### SECTOR RECOMMENDATIONS

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

### DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

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,  
Lingkar Syed Putra,  
59200 Kuala Lumpur  
Tel: +603 - 2282 1820 Fax: +603 - 2283 1893  
Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)