

Kenneth Leong

(603) 7890 8888 (ext 2093)

kennethleong@apexsecurities.com.my

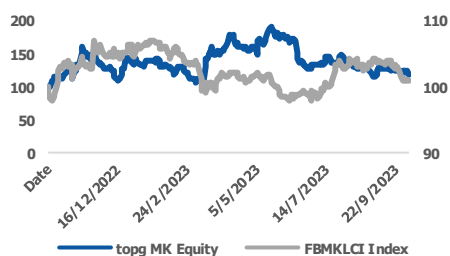
Recommendation:	SELL
Current Price:	RM 0.755
Previous Target Price:	RM 0.89
Target Price:	RM 0.63
Upside/Downside:	-16.6%

Stock information

Board	MAIN
Sector	Healthcare
Bursa / Bloomberg Code	7113 / TOPG MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★☆
Bloomberg ESG Rating	N/A
Shares issued (m)	8,008.2
Market Cap (RM' m)	6,046.2
52-Week Price Range (RM)	1.25-0.61
Beta (x)	1.4
Free float (%)	44.2
3M Average Volume (m)	40.5
3M Average Value (RM' m)	33.0

Top 3 Shareholders	(%)
Lim Wee Chai	27.8
Central Depository Pte Ltd/The	7.6
FIRSTWAY UNITED CORP	6.9

Share Price Performance



	1M	3M	12M
Absolute (%)	-7.4	-11.2	17.1
Relative (%)	-4.9	-13.6	16.2

Top Glove Corporation Berhad

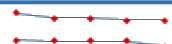
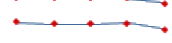




Impacted by one-off impairment

Summary

- **FY23 net loss at -RM538.1m (including one-off impairment following the operational rationalisation exercise) was largely in tune with our expectations of net loss at -RM550.9m.**
- **Expect sequential improvement, on the back of cost rationalisation initiatives and slight uptick in ASP.**
- **Downgrade our recommendation to SELL with a lower target price of RM0.63 by pegging 30.0x PE to FY25 EPS of 2.1 sen.**

Results Review

- **Results review.** 4QFY23 core net loss widened to -RM65.0m, but narrowed against 3QFY23 net loss of -RM130.6m on the back of better sales and minor ASP adjustment. Revenue for the quarter sank 51.9% YoY to RM475.9m. Net cash position were stable at RM944.6m, while operates in positive operating cash flow (after excluding one-off impairment of 388.5m).
- **Results in line.** FY23 net loss at -RM538.1m (including one-off impairment following the operational rationalisation exercise) was largely in tune with our expectations of net loss at -RM550.9m. Looking ahead, we expect sequential improvement, on the back of cost rationalisation initiatives and slight uptick in ASP. Despite further impairments are now off the table, we reckon that Top Glove may continue to bleed, at least in 1HFY24.
- **Operations Highlights.** Towards the end of FY23, Top Glove is operating 788 lines with capacity of 95bn pcs of gloves. Production is running at 30% utilisation rate and we expect utilisation to inch at average 35% for FY24F. Meanwhile, ASP is expected to remain stable at c.USD20/1,000 pcs of gloves as the oversupply condition remains on the cards.
- **Industry Highlights.** Cost wise, nitrile prices that fell to multi-year low is expected to rebound in 1QFY24, due to increase in feedstock price, while latex price may remain under pressure on sluggish demand. Meanwhile, natural gas prices may continue to taper from the peak in October 2022.
- **Outlook.** With global inventory level is depleting, there are signs on green shoots of recovery in glove demand, driven by higher hygiene and health awareness. We gather that pricing gap of gloves from local manufacturers and China has narrowed, which may see the price-sensitive demand flowing back to Malaysia.
- **Valuation.** Slashed our earnings forecast by 92.0% and 35.5% for FY24F to FY25F, to adjust for the slower-than-expected recovery. Rolled-over our valuation metrics to FY25F and downgrade recommendation to **SELL** with a lower target price of RM0.63 by pegging 30.0x PE to FY25 EPS of 2.1 sen.
- **Risk.** Stronger-than-expected demand. Exposure to foreign exchange risk given that the ASP are denominated in USD.

FYE Aug (RM m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	12MFY22	12MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	475.9	990.1	(51.9)	530.6	(10.3)	5,488.2	2,257.0	(58.9)		Weaker sales volume
EBITDA	(380.4)	43.1	(983.6)	(47.6)	(699.1)	697.5	(550.0)	(178.8)		
Pre-tax profit	(461.9)	(44.0)	(949.0)	(138.5)	(233.4)	365.5	(898.0)	(345.7)		
Net profit	(454.0)	(41.7)	(987.8)	(120.4)	(277.2)	292.2	(887.0)	(403.5)		
Core net profit	(65.0)	(52.6)	(23.6)	(130.6)	50.2	236.0	(528.5)	(324.0)		
Core EPS (sen)	(1.9)	(1.5)	23.6	(3.8)	50.2	6.9	(15.4)	(324.0)		Improved on lower raw material cost and natural gas tariff
EBITDA margin (%)	(79.9)	4.3		(9.0)		12.7	(24.4)			
PBT margin (%)	(97.1)	(4.4)		(26.1)		6.7	(39.8)			
Core PATMI margin (%)	(13.7)	(5.3)		(24.6)		4.3	(23.4)			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	16361.4	5572.3	2257.0	2959.3	4122.2
Gross Profit	11102.1	953.4	-439.8	517.9	783.2
EBITDA	10282.4	690.4	-552.6	384.7	618.3
Depreciation & Amortisation	-308.7	-348.2	-343.0	-341.1	-358.5
EBIT	9973.8	342.2	-895.6	43.7	259.8
Net Finance Income/ (Cost)	57.4	19.9	3.4	3.6	4.3
Associates & JV	2.6	-3.7	-5.8	-5.8	-5.8
Pre-tax Profit	10033.8	358.4	-898.0	41.5	258.4
Tax	-2209.8	-76.8	11.0	8.3	-51.7
Profit After Tax	7824.0	281.6	-887.0	49.8	206.7
Minority Interest	113.7	56.0	39.7	39.7	39.7
Net Profit	7710.3	225.6	-926.6	10.1	167.0
Exceptionals	0.0	0.0	388.5	0.0	0.0
Core Net Profit	7710.3	225.6	-538.1	10.1	167.0

Key Ratios

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	62.8%	12.4%	-24.5%	13.0%	15.0%
EBIT margin	61.0%	6.1%	-39.7%	1.5%	6.3%
PBT margin	61.3%	6.4%	-39.8%	1.4%	6.3%
PAT margin	47.8%	5.1%	-39.3%	1.7%	5.0%
NP margin	47.1%	4.0%	-41.1%	0.3%	4.1%
Core NP margin	47.1%	4.0%	-41.1%	0.3%	4.1%
ROE	106.8%	3.3%	-15.7%	0.2%	2.7%
ROA	141.8%	3.8%	-17.2%	0.2%	3.1%
Net gearing	-28.1%	-7.9%	-6.1%	-5.0%	-7.2%

Key Assumptions

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Production lines	810.0	60000.0	28500.0	33250.0	45125.0
Utilisation rate (%)	70.0%	60.0%	30.0%	35.0%	47.5%
Production ('000)	70000.0	60000.0	28500.0	33250.0	45125.0
Blended ASP (USD/'000 pcs)	233.7	92.9	79.2	89.0	91.4

Valuations

	FY25F
Core EPS (RM)	0.021
P/E multiple (x)	30.0
Fair Value (RM)	0.63

Source: Company, Apex Securities

Balance Sheet

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	2508.4	950.9	944.6	905.9	1029.9
Receivables	566.3	258.8	196.3	223.0	225.9
Inventories	144.7	575.3	300.2	355.7	347.2
Other current assets	126.4	326.2	266.9	295.9	288.6
Total Current Assets	4345.8	2111.1	1707.9	1780.4	1891.5
Fixed Assets	4186.1	4749.6	4263.2	4218.0	4271.7
Intangibles	1008.8	1005.3	864.5	864.5	864.5
Other non-current assets	241.8	250.7	245.3	245.3	245.3
Total Non-current assets	5436.7	6005.6	5372.9	5327.8	5381.5
Short-term Debt	318.2	308.7	542.1	569.2	555.0
Payables	692.4	459.4	283.7	261.5	275.1
Other Current Liabilities	187.9	228.4	117.5	117.5	117.5
Total Current Liabilities	2198.5	996.5	943.3	948.2	947.6
Long-term Debt	164.1	108.3	39.8	38.8	37.9
Other non-current liabilities	199.6	218.7	179.0	192.3	191.6
Total Non-current Liabilities	363.8	327.0	218.8	231.1	229.5
Shareholder's equity	5872.4	5579.2	4707.2	4717.3	4884.3
Minority interest	1347.8	1214.0	1211.6	1211.6	1211.6
Equity	7220.2	6793.2	5918.7	5928.8	6095.9

Cash Flow

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	10033.8	358.4	-898.0	41.5	258.4
Depreciation & amortisation	308.7	348.2	343.0	341.1	358.5
Changes in working capital	-791.9	-92.1	71.0	-81.3	-24.4
Others	-1723.6	-435.6	615.1	185.3	185.3
Operating cash flow	-2206.9	-179.6	1029.1	445.0	519.4
Net capex	-1361.0	-952.3	-293.4	-295.9	-412.2
Others	113.1	1084.7	-89.0	-89.0	-89.0
Investing cash flow	-1247.9	132.4	-382.4	-384.9	-501.2
Dividends paid	-5525.4	-578.7	0.0	0.0	0.0
Others	-1376.9	-161.6	93.2	-124.2	-249.2
Financing cash flow	-6902.3	-740.3	93.2	-124.2	-249.2
Net cash flow	-10357.1	-787.5	739.8	-64.1	-231.0
Forex	-6.5	-8.5	10.7	10.7	10.7
Others	0.0	1.0	2.0	3.0	4.0
Beginning cash	1204.9	875.2	437.6	290.1	278.2
Ending cash	875.2	438.6	292.1	281.2	320.3

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

DEALING TEAM

RESEARCH TEAM

Head Office:

6th Floor, Menara Apex,
Off Jalan Semenyih,
Bukit Mewah 43000 Kajang,
Selangor Darul Ehsan, Malaysia

General Line: (603) 8736 1118

Mutiara Damansara Office:

5th Floor Menara UAC, 12, Jalan PJU 7/5,
Mutiara Damansara,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

Head Office:

Kong Ming Ming (ext 2002)
Shirley Chang (ext 2026)
Norisam Bojo (ext 2027)
Ahmad Mujib (ext 2028)

Institutional Dealing Team:

Siti Nur Nadhirah (ext 2032)

PJ Office:

General Line: (603) 7620 1118
Azfar Bin Abdul Aziz (Ext 822)

Mutiara Damansara Office:

Kenneth Leong (ext 2093)
Lee Cherng Wee (ext 2067)
Steven Chong (ext 2068)
Jayden Tan (ext 2069)
Aiman Kamil (ext 2071)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of Apex Securities Berhad and are subject to change without notice. Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against Apex Securities Berhad. Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of Apex Securities Berhad.