

**Team Coverage**

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<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 0.86</b>
<b>Previous Target Price:</b>	<b>RM 0.72</b>
<b>Target Price:</b>	<b>RM 0.82</b>
<b>Upside/Downside:</b>	<b>-4.7%</b>

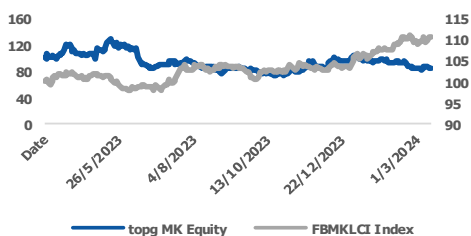
**Stock information**

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)	6,887.1
52-Week Price Range (RM)	1.25-0.7
Beta (x)	1.3
Free float (%)	41.6
3M Average Volume (m)	35.3
3M Average Value (RM' m)	32.2

**Top 3 Shareholders (%)**

Central Depository Pte Ltd/The	16.8
FIRSTWAY UNITED CORP	13.2
GHI Sdn Bhd	10.5

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	-2.8	-8.0	-10.4
Relative (%)	-1.8	-12.8	-18.0

# Top Glove Corporation Berhad







## On the road to steady recovery

### Summary

- **Top Glove's 6MFY24 core net loss at -RM108.9m came at a distance against expectations, premised on higher raw material costs and inventory depletion.**
- **Looking ahead, inventories have depleted to 5%, and increasing order trends to offset the higher production input costs augurs well for potential recovery.**
- **We upgraded Top Glove to HOLD recommendation with a target price of RM0.82 by pegging PE multiple of 40.0x to FY25F EPS of 20.0 sen.**

### Results Review

- **Results review.** Top Glove's 2QFY24 revenue rose 11.5% qoq to RM550.3m, but recorded 11.0% yoy decrease. Core net loss narrowed 68.9% yoy as improvement was attributed to stronger sales volume growth driven by inventory depletion and price alignment with overseas competitors.
- **Narrowing net losses.** 6MFY24 core net loss at -RM108.9m was a distance against our and consensus forecasted net loss of -RM72.7m and -RM53.4m respectively. We noted the decrease in net cash, from RM450m in 2QFY24, from RM405m recorded in 1QFY24, is mainly due to higher raw material prices and sales, which led to a higher working capital requirement and payment of the half-yearly sukuk interest in preparation for the recommencement of several production lines.
- **Operations Highlights.** Top Glove experienced an 18% qoq increase in sales volume, while ASPs fell by 5% qoq due to depleted inventories and resumption of replenishing activity. Profitability was impacted by higher raw material costs, with NR latex concentrate prices rose 15% qoq and NBR latex prices increased 3% qoq. While natural gas tariff hikes will be effective in April 2024, increased sales orders are expected to boost production efficiency and bottom-line performance. Resumption of operations at temporarily shut down plants have also led to improved utilisation rate at 50% in March 2024, up 10% from the previous quarter.
- **Industry Highlights.** Nitrile raw material price is expected to rise in April and soften by June 2024 (currently at USD 0.82/kg). Conversely, latex raw material prices are projected to peak in April 2024 (reaching USD 1.52/kg by March 2024), while natural gas is expected to increase by 4% during the same period. The group aims to enhance utilisation gradually by leveraging increasing order trends to counteract the higher production input costs.
- **Outlook.** Top Glove expects a surge in glove orders as certain Chinese manufacturers were added to the FDA import alert, prompting customers to turn to Malaysia. They plan to raise average selling prices due to industry-wide increases in raw material costs, while the reduced pricing gap between Malaysian and Chinese manufacturers offers more outsourcing options to customers.
- **Valuation.** Raised our average utilisation rate forecast and GP margin for FY24F, to adjust for the higher production efficiency. Consequently, we upgrade our recommendation on TOPGLOV to **HOLD** with a target price of RM0.82 by pegging 40.0x P/E multiple to FY25F EPS of 20.0 sen.
- **Risk.** Volatility in raw material prices, stemming from weather-related issues or feedstock price movements, will influence ASPs and margins. Exposure to currency risk since the gloves prices are traded in USD.

FYE Aug (RM m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	6MFY23	6MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	550.3	618.0	(11.0)	493.5	11.5	1,250.5	1,043.8	(16.5)		Slightly higher sales volume
EBITDA	30.6	(58.7)	152.1	21.3	43.4	(122.0)	51.9	142.6		
Pre-tax profit	(43.1)	(145.9)	70.5	(52.9)	18.5	(297.6)	(95.9)	67.8		
Net profit	(40.1)	(155.0)	74.1	(47.2)	15.0	(312.6)	(87.3)	72.1		
Core net profit	(51.2)	(164.7)	68.9	(57.7)	11.3	(332.9)	(108.9)	67.3		
Core EPS (sen)	(0.6)	(2.0)	68.9	(0.7)	11.3	(4.1)	(1.3)	67.3		Robust sales volume improved cost efficiency, mitigating the mismatch
EBITDA margin (%)	5.6	(9.5)		4.3		(9.8)	5.0			
PBT margin (%)	(7.8)	(23.6)		(10.7)		(23.8)	(9.2)			
Core PATMI margin (%)	(9.3)	(26.6)		(11.7)		(26.6)	(10.4)			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>16361.4</b>	<b>5572.3</b>	<b>2257.2</b>	<b>2998.8</b>	<b>4122.2</b>
<b>Gross Profit</b>	<b>4098.0</b>	<b>4795.1</b>	<b>64.3</b>	<b>494.8</b>	<b>783.2</b>
<b>EBITDA</b>	<b>10282.4</b>	<b>690.4</b>	<b>-556.3</b>	<b>329.9</b>	<b>618.3</b>
Depreciation & Amortisation	-308.7	-348.2	-342.9	-345.0	-362.7
<b>EBIT</b>	<b>9973.8</b>	<b>342.2</b>	<b>-899.2</b>	<b>-15.2</b>	<b>255.6</b>
Net Finance Income/ (Cost)	57.4	19.9	4.6	3.2	2.9
Associates & JV	2.6	-3.7	-5.8	-5.8	-5.8
<b>Pre-tax Profit</b>	<b>10033.8</b>	<b>358.4</b>	<b>-900.4</b>	<b>-17.7</b>	<b>252.7</b>
Tax	-2209.8	-76.8	14.9	3.5	-45.5
<b>Profit After Tax</b>	<b>7824.0</b>	<b>281.6</b>	<b>-885.5</b>	<b>-14.2</b>	<b>207.2</b>
Minority Interest	113.7	56.0	39.7	43.0	40.0
<b>Net Profit</b>	<b>7710.3</b>	<b>225.6</b>	<b>-925.2</b>	<b>-57.2</b>	<b>167.2</b>
Exceptionals	0.0	0.0	405.5	0.0	0.0
<b>Core Net Profit</b>	<b>7710.3</b>	<b>225.6</b>	<b>-519.7</b>	<b>-57.2</b>	<b>167.2</b>

**Key Ratios**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	62.8%	12.4%	-24.6%	11.0%	15.0%
EBIT margin	61.0%	6.1%	-39.8%	-0.5%	6.2%
PBT margin	61.3%	6.4%	-39.9%	-0.6%	6.1%
PAT margin	47.8%	5.1%	-39.2%	-0.5%	5.0%
NP margin	47.1%	4.0%	-41.0%	-1.9%	4.1%
Core NP margin	47.1%	4.0%	-41.0%	-1.9%	4.1%
ROE	106.8%	3.3%	-15.6%	-10%	2.8%
ROA	78.8%	2.8%	-13.1%	-0.8%	2.3%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

**Key Assumptions**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Production lines	810.0	60000.0	28500.0	35150.0	45125.0
Utilisation rate (%)	70.0%	60.0%	30.0%	37.0%	47.5%
Production ('000)	70000.0	60000.0	28500.0	35150.0	45125.0
Blended ASP (RM/'000 pcs)	233.7	92.9	79.2	85.3	91.3

**Valuations**

FYE Aug (RM m)	FY25F
Core EPS (RM)	0.020
P/E multiple (x)	40.0
<b>Fair Value (RM)</b>	<b>0.82</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	2508.4	950.9	948.5	862.5	9310
Receivables	566.3	258.8	182.6	225.9	225.9
Inventories	1144.7	575.3	3015	356.9	347.1
Other current assets	126.4	326.2	255.4	299.9	288.6
<b>Total Current Assets</b>	<b>4345.8</b>	<b>2111.1</b>	<b>1688.0</b>	<b>1745.2</b>	<b>1792.6</b>
Fixed Assets	4186.1	4749.6	4312.8	4267.6	4399.5
Intangibles	1008.8	1005.3	864.5	864.5	864.5
Other non-current assets	2418	250.7	196.3	215.5	215.5
<b>Total Non-current assets</b>	<b>5436.7</b>	<b>6005.6</b>	<b>5373.5</b>	<b>5347.6</b>	<b>5479.5</b>
Short-term Debt	318.2	308.7	542.1	569.2	554.9
Payables	692.4	459.4	265.3	285.1	321.1
Other Current Liabilities	1187.9	228.4	116.5	116.5	116.5
<b>Total Current Liabilities</b>	<b>2198.5</b>	<b>996.5</b>	<b>923.9</b>	<b>970.8</b>	<b>992.6</b>
Long-term Debt	164.1	108.3	39.8	38.8	37.8
Other non-current liabilities	199.6	218.7	171.8	214.3	205.5
<b>Total Non-current Liabilities</b>	<b>363.8</b>	<b>327.0</b>	<b>211.6</b>	<b>253.1</b>	<b>243.3</b>
Shareholder's equity	5872.4	5579.2	4714.5	4657.3	4824.5
Minority interest	1347.8	1214.0	1211.6	1211.6	1211.6
<b>Equity</b>	<b>7220.2</b>	<b>6793.2</b>	<b>5926.1</b>	<b>5868.9</b>	<b>6036.1</b>

**Cash Flow**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Pre-tax profit</b>	<b>10033.8</b>	<b>358.4</b>	<b>-900.4</b>	<b>-17.7</b>	<b>252.7</b>
Depreciation & amortisation	308.7	348.2	342.9	345.0	362.7
Changes in working capital	-791.9	90.5	91.1	-159.2	-35.7
Others	-1723.6	-621.9	587.4	184.5	184.5
<b>Operating cash flow</b>	<b>-2206.9</b>	<b>-183.2</b>	<b>1021.5</b>	<b>370.4</b>	<b>511.6</b>
Net capex	-1361.0	-952.3	-293.4	-281.1	-469.9
Others	113.1	1090.3	-139.0	-139.0	-139.0
<b>Investing cash flow</b>	<b>-1247.9</b>	<b>138.0</b>	<b>-432.4</b>	<b>-420.1</b>	<b>-608.9</b>
Dividends paid	-5525.4	-547.3	0.0	0.0	0.0
Others	-1376.9	-193.1	94.8	50.8	-124.2
<b>Financing cash flow</b>	<b>-6902.3</b>	<b>-740.3</b>	<b>94.8</b>	<b>50.8</b>	<b>-124.2</b>
<b>Net cash flow</b>	<b>-10357.1</b>	<b>-785.6</b>	<b>683.8</b>	<b>1.1</b>	<b>-221.5</b>
Forex	-6.5	-12.6	14.0	14.0	14.0
Others	0.0	10	2.0	3.0	4.0
Beginning cash	1204.9	875.2	433.4	280.0	258.8
<b>Ending cash</b>	<b>875.2</b>	<b>436.4</b>	<b>232.9</b>	<b>280.5</b>	<b>308.0</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

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**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.

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