

**Chelsea Chew**

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<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 1.14</b>
<b>Previous Target Price:</b>	<b>RM 0.82</b>
<b>Target Price:</b>	<b>RM 1.25</b>
<b>Upside/Downside:</b>	<b>9.6%</b>

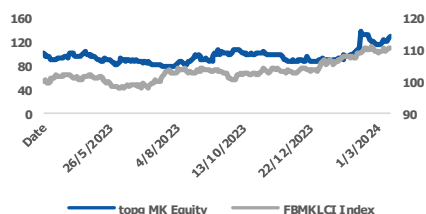
**Stock information**

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)	8,009.5
Market Cap (RM' m)	9,130.8
52-Week Price Range (RM)	1.31-0.7
Beta (x)	1.4
Free float (%)	38.3
3M Average Volume (m)	50.4
3M Average Value (RM' m)	53.3

**Top 3 Shareholders**

	(%)
Lim Wee Chai	27.9
Lee Tian Hock	9.5
Lembaga Tabung Haji	6.9

**Share Price Performance**



	1M	3M	12M
Absolute (%)	-4.2	32.6	31.0
Relative (%)	-2.5	27.3	13.7

# Top Glove Corporation Berhad

## Emerging from the storms







### Summary

- **Top Glove's 3QFY24 core net loss at -RM112.6m came below our expectations premised on higher raw material costs.**
- **Better prospects ahead from stock replenishment, additional Chinese manufacturers on the FDA import alert, and narrowing pricing gap between Malaysian and Chinese manufacturers.**
- **We maintain our HOLD recommendation with a target price of RM1.25 derived from 1.7x to FY25F BV.**

### Results Review

- **Results review.** Top Glove's 3QFY24 core net loss narrowed to -RM16.0m, attributed to stronger sales volume growth driven by better glove demand as customers replenished inventories after clearing excess stocks and one-off disposal of land amounting to RM54.3m. Despite challenges from rising raw material costs, better economics of scale arising from improved sales volume mitigated the impact.
- **Below expectations.** 9MFY24 core net loss narrowed to -RM112.6m came below our expectations of our core net loss forecast of -RM57.2m as well as consensus forecast of -RM144.04m. Nevertheless, we gathered the Group recorded their first positive EBITDA since 4QFY23, due to higher utilisation rate from higher demand.
- **Operations Highlights.** Top Glove recorded 13% qoq increase in sales volume. Some shipments were postponed to the following quarter on port congestion; otherwise, sales volume would have increased 18% qoq. ASPs rose 3% qoq, despite substantially higher raw material costs as stronger demand enables the adoption of cost-pass-through mechanism. The Group resumed operations at temporarily shut down plants and those acquired during the pandemic which will produce 3.0bn pieces of gloves/month to meet higher demand.
- **Industry Highlights.** After raw material prices marched, we gathered that price of nitrile raw material is expected to moderate from June to September 2024 (currently at USD 0.94/kg). Also, natural rubber latex raw material prices are projected to peak in April 2024 (currently at USD 1.73/kg) and are expected to soften by 6% in June. The natural gas tariff expected to decline by 3% in July 2024.
- **Outlook.** Top Glove expects a surge in glove orders driven by stock replenishment, more Chinese manufacturers being added to the FDA import alert (13 out of 14 cases), and the US government's plan to raise tariffs to 25% in 2026 (currently 7.5%). This has prompted customers to shift orders to Malaysia before the tariff increase takes effect. The Group plans to raise ASPs due to industry-wide higher raw material costs. Additionally, the narrowing pricing gap between Malaysian and Chinese manufacturers offers more outsourcing options to customers.
- **Valuation.** Tweak our GP margin from 16.5% to 16.0% for FY24F, due to higher input costs. Consequently, we maintain our **HOLD** recommendation on TOPGLOV with a target price of RM1.25 by assigning 1.7x BV to FY25F. We adopt the P/B valuation method as a better measure to reflect in the Group's fundamentals.
- **Risk.** Volatility in raw material prices and currency exchange rates will impact ASPs and margins.

**Figure 1: Results Comparison**

FYE Aug (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY23	9MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	636.9	530.6	20.0	550.3	15.7	1,781.2	1,680.7	(5.6)		Slightly higher sales volume
EBITDA	127.6	(47.6)	367.9	30.6	317.0	(169.6)	179.5	205.8		
Pre-tax profit	58.6	(138.5)	142.3	(43.1)	236.0	(436.1)	(37.4)	91.4		Robust sales volume improved cost efficiency, mitigating the mismatch
Net profit	61.7	(120.4)	151.3	(40.1)	253.8	(432.9)	(25.6)	94.1		
Core net profit	(3.7)	(188.0)	98.0	(51.2)	92.8	(520.9)	(112.6)	78.4		
Core EPS (sen)	(0.0)	(2.3)	98.0	(0.6)	92.8	(6.3)	(1.4)	78.4		
EBITDA margin (%)	20.0	(9.0)		5.6		(9.5)	10.7			
PBT margin (%)	9.2	(26.1)		(7.8)		(24.5)	(2.2)			
Core PATMI margin (%)	(0.6)	(35.4)		(9.3)		(29.2)	(6.7)			

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>479.8</b>	<b>783.2</b>
<b>EBITDA</b>	<b>10282.4</b>	<b>690.4</b>	<b>-556.3</b>	<b>314.9</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>-30.2</b>	<b>255.6</b>
Net Finance Income/ (Cost)	57.4	19.9	4.6	2.2	1.2
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>-33.8</b>	<b>251.0</b>
Tax	-2209.8	-76.8	14.9	6.8	-45.2
<b>Profit After Tax</b>	<b>7824.0</b>	<b>281.6</b>	<b>-885.5</b>	<b>-27.0</b>	<b>205.8</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>-70.0</b>	<b>165.8</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>-70.0</b>	<b>165.8</b>

**Key Ratios**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	62.8%	12.4%	-24.6%	10.5%	15.0%
EBIT margin	61.0%	6.1%	-39.8%	-1.0%	6.2%
PBT margin	61.3%	6.4%	-39.9%	-1.1%	6.1%
PAT margin	-53.9%	5.1%	-39.2%	-0.9%	5.0%
NP margin	47.1%	4.0%	-41.0%	-2.3%	4.0%
Core NP margin	47.1%	4.0%	-41.0%	-2.3%	4.0%
ROE	106.8%	3.3%	-15.6%	-12%	2.8%
ROA	78.8%	2.8%	-13.1%	-1.0%	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**

	FY25F
Book Value/share (RM)	0.734
Multiple (x)	1.7
<b>Fair Value (RM)</b>	<b>1.25</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Aug (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	2508.4	950.9	948.5	756.8	867.0
Receivables	566.3	258.8	182.6	225.9	225.9
Inventories	1144.7	575.3	301.5	371.9	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>1654.5</b>	<b>1728.6</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	241.8	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	322.5
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>994.0</b>
Long-term Debt	164.1	108.3	39.8	38.8	37.8
Other non-current liabilities	199.6	218.7	171.8	241.3	216.1
<b>Total Non-current Liabilities</b>	<b>363.8</b>	<b>327.0</b>	<b>211.6</b>	<b>280.1</b>	<b>253.9</b>
Shareholder's equity	5872.4	5579.2	4714.5	4644.5	4810.3
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>5856.1</b>	<b>6021.9</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>-33.8</b>	<b>251.0</b>
Depreciation & amortisation	308.7	348.2	342.9	345.0	362.7
Changes in working capital	-791.9	90.5	91.1	-174.8	-21.5
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>354.7</b>	<b>525.8</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>-14.5</b>	<b>-207.2</b>
Forex	-6.5	-12.6	14.0	14.0	14.0
Others	11667.0	-759.2	-700.3	-191.2	303.5
Beginning cash	1204.9	2508.4	950.9	948.5	756.8
<b>Ending cash</b>	<b>2508.4</b>	<b>950.9</b>	<b>948.5</b>	<b>756.8</b>	<b>867.0</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
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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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