

## Chelsea Chew

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<b>Recommendation:</b>	<b>HOLD</b>
Current Price:	RM 0.89
Previous Target Price:	RM 1.25
Target Price:	↓ RM 0.92
Capital Upside/ Downside:	3.4%
Dividend Yield (%):	0.0%
<b>Total Upside/ Downside:</b>	<b>3.4%</b>

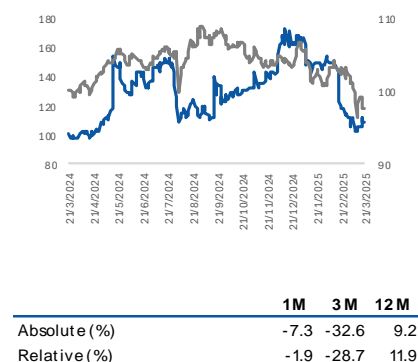
## Stock information

Board	MAIN
Sector	Healthcare
Bursa/ Bloomberg Code	7113/ TOPGMK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	8,017.8
Market Cap (RM' m)	7,135.9
52-Week Price Range (RM)	1.44-0.795
Beta (x)	1.5
Free float (%)	48.1
3M Average Volume (m)	21.8
3M Average Value (RM' m)	24.7

## Top 3 Shareholders (%)

Lim Wee Chai	27.9
Central Depository Pte Ltd/ The	11.3
Kumpulan Wang Persaraan	7.8

## Share Price Performance



## Top Glove Corporation Bhd

## Returning to black, but missed expectations

## Executive Summary

- **Top Glove's (TOPG) 2QFY25 core net profit of RM23.3m (from core net loss from RM21.5m in 1QFY25), bringing 1HFY25 CNP to RM1.8m has missed expectations, accounting for only 6.1% and 1.1% of ours and consensus full-year forecasts.**
- **Key deviation is due to weaker-than-expected recovery in demand, higher-than-expected tax and depreciation expenses.**
- **Glove industry outlook remains challenging due to US frontloading at end-2024, increased Chinese competition in non-US markets, and potential prolonged oversupply.**
- **Re-iterate HOLD recommendation with a lower target price of RM0.92 (from RM1.25), based on lower P/B multiple of 1.3x pegged to FY26F BVPS of 0.70, ascribed with three-star ESG rating.**

**Missed expectations.** core net profit of RM23.3m (from core net loss from RM21.5m in 1QFY25), bringing 1HFY25 CNP to RM1.8m has missed expectations, accounting for only 6.1% and 1.1% of ours and consensus full-year forecasts.

**QoQ.** Excluding reversal of inventory write-downs (RM6.9m), unrealised forex loss (RM5.2m), and a PPE write-off and gain in money market funds (RM5.3m), TOPG posted a CNP of RM23.3m in 2QFY25, reversing from a net loss of RM21.5m previously. The improvement was driven by stronger sales of Natural rubber gloves (+6% volume) and improved margins from Nitrile gloves. Nitrile ASPs rose 3% to USD 19-20/carton, while raw material costs fell 9%. Despite that, CNP missed expectations due to weaker-than-expected sales volume, higher-than-expected taxes (+455.0% qoq) and increased depreciation from higher operational activities (+4.3% qoq).

**YoY.** Core net profit returned to profitability, reaching RM23.3m in 2QFY25, compared to a core net loss of RM56.8m in 2QFY24, due to the aforementioned reasons.

**YTD.** For 1HFY25, TOPG returned to profitability with a net profit of RM1.8m, against a core net loss of RM114.8m in 1HFY24. Turnaround was mainly driven by better volumes and improved margins from nitrile glove sales, with US customers front-loading their orders ahead of the 50% tariff hike.

**Outlook.** We foresee that the glove industry will remain challenging for the next two quarters, as most US customers have completed their frontloading activities. Additionally, Chinese manufacturers have started to capture market share in the non-US market, with pricing of USD 16-18/1000 pcs for nitrile gloves. Although certain non-US customers still favour latex-powdered and powder-free gloves, the relatively lower price of nitrile gloves at Chinese manufacturers' pricing has resulted in gradually preference towards nitrile gloves. Therefore, we anticipate TOPG's blended utilisation rate may be impacted. Also, China's manufacturers are circumventing tariffs by increasing ASEAN production, which could intensify global glove oversupply and pressure non-US markets.

**Earnings Revision.** Following the disappointing results, we trimmed FY25/FY26 earnings by 55%/56% as we stay cautious on earnings recovery prospects and uncertain industry outlook, while also introducing FY27 CNP at RM30.2m.

**Valuation.** We remain cautious on the TOPG's outlook. The absence of a significant recovery in margins suggests that it is still struggling to pass on higher input costs. As such, we are adopting a conservative stance by factoring in earnings uncertainty risk, reducing our P/B multiple applied to TOPG's earnings from 1.7x to 1.3x. As a result, we trimmed our target price to **RM0.92** (from RM1.25), based on a lower BVPS of RM0.70 (from RM0.73) and maintained a **HOLD** recommendation with no ESG premium/discount applied from TOPG's three-star ESG rating. A

potential re-rating is in the cards, should we see more concrete in volumes and margin improvements.

**Risk.** Volatility in raw material prices and currency exchange rates will impact ASPs and margins.

### Earnings Summary

FYE Aug (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	2257.2	2514.4	3831.6	3978.5	4103.7
EBITDA	-556.2	251.6	371.1	375.3	403.2
Pre-tax profit	-900.4	-31.3	79.7	89.8	97.7
Net profit	-885.5	-21.4	57.4	73.6	78.2
Core net profit	-1330.7	-216.9	13.1	27.5	30.2
Core EPS (sen)	-16.2	-2.6	0.2	0.3	0.4
P/E (x)	N/A	N/A	569.0	270.4	246.3
P/B (x)	1.1	1.3	1.3	1.3	1.3
EV/EBITDA (x)	-15.1	34.1	21.5	21.6	20.7
Dividend Yield (%)	1.1%	0.0%	0.0%	0.0%	0.1%
Net Gearing (%)	4.5%	0.8%	5.1%	2.9%	Net Cash

Source: Company, Apex Securities

# Results Note

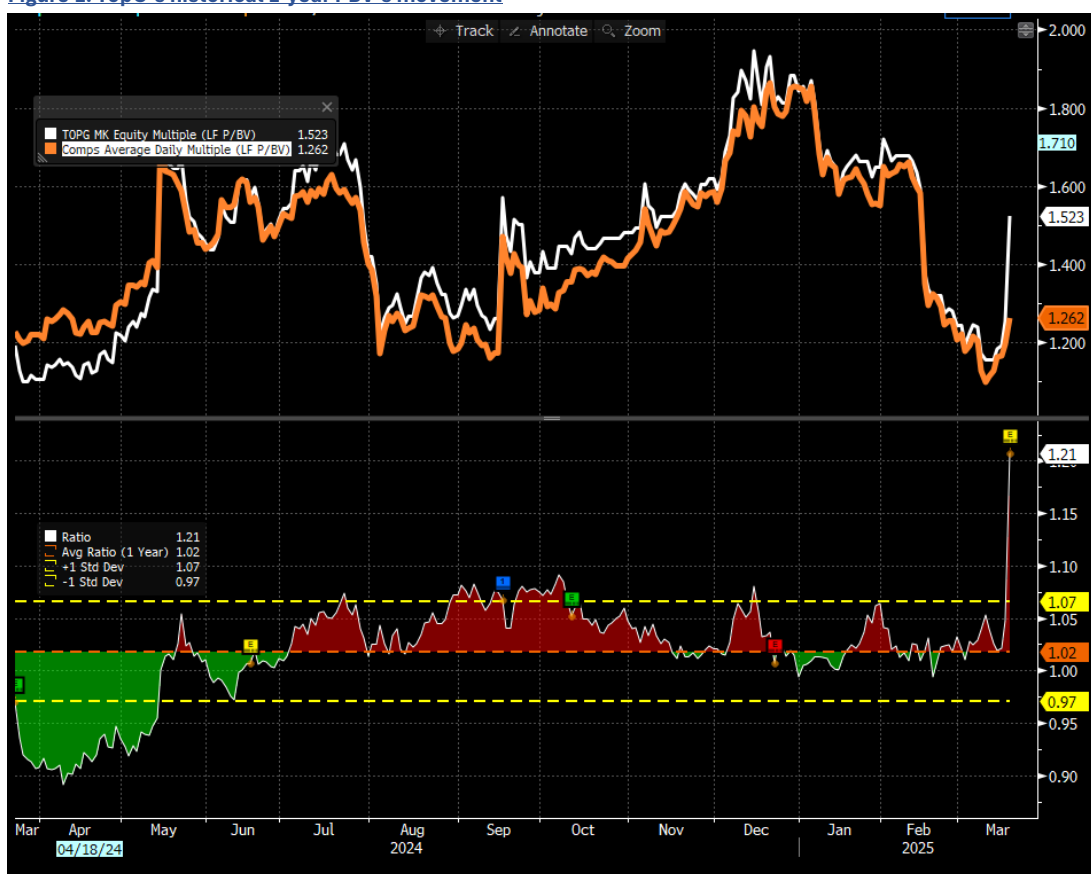
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## Results Comparison

FYE Aug (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Revenue	883.7	550.3	60.6	885.9	(0.3)	1,769.5	1,043.8	69.5	
EBITDA	131.4	30.6	329.6	91.4	43.7	222.8	51.9	329.3	
Pre-tax profit	56.0	(43.1)	nm	19.4	188.2	83.6	(95.0)	nm	
Net profit	56.0	(51.2)	nm	5.5	922.7	61.5	(106.6)	nm	
Core net profit	49.0	(56.8)	nm	(21.5)	nm	27.5	(114.8)	nm	Better profit margins due to cost-pass through effects
Core EPS (sen)	0.6	(0.7)	nm	(0.3)	nm	0.3	(1.4)	nm	
EBITDA margin (%)	14.9	5.6		10.3		12.6	5.0		
PBT margin (%)	6.3	(7.8)		2.2		4.7	(9.1)		
Core PATMI margin (%)	5.5	(10.3)		(2.4)		1.6	(11.0)		

Source: Company, Apex Securities

Figure 1: TopG's historical 1-year PBV's movement



Source: Bloomberg

# Results Note

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## Financial Highlights

### Income Statement

FYE Aug (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	2257.2	2514.4	3831.6	3978.5	4103.7
Gross Profit	64.3	265.3	383.2	397.9	410.4
EBITDA	-556.2	251.6	371.1	375.3	403.2
Depreciation & Amortisation	-343.0	-287.5	-296.6	-292.4	-314.0
EBIT	-899.2	-35.9	74.4	82.9	89.1
Net Finance Income/(Cost)	4.6	2.8	3.6	5.0	6.7
Associates & JV	-5.8	1.7	1.8	1.8	1.9
Pre-tax Profit	-900.4	-31.3	79.7	89.8	97.7
Tax	14.9	9.9	-22.3	-16.2	-19.5
Profit After Tax	-885.5	-21.4	57.4	73.6	78.2
Minority Interest	39.7	43.5	44.3	46.1	48.0
Net Profit	-925.2	-64.9	13.1	27.5	30.2
Exceptionals	405.5	152.0	0.0	0.0	0.0
Core Net Profit	-1330.7	-216.9	13.1	27.5	30.2

### Key Ratios

FYE Aug (RM m)	FY23	FY24	FY25F	FY26F	FY27F
P/E (x)	N/A	N/A	569.0	270.4	246.3
EPS	-16.2	-2.6	0.2	0.3	0.4
P/B (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	-15.1	34.1	21.5	21.6	20.7
DPS (sen)	1.0	0.0	0.0	0.0	0.1
Dividend Yield (%)	1.1%	0.0%	0.0%	0.0%	0.1%
EBITDA margin	-24.6%	10.0%	9.7%	9.4%	9.8%
EBIT margin	-39.8%	-1.4%	1.9%	2.1%	2.2%
PBT margin	-39.9%	-1.2%	2.1%	2.3%	2.4%
PAT margin	23.1%	-0.9%	1.5%	1.9%	1.9%
NP margin	-41.0%	-2.6%	0.3%	0.7%	0.7%
Core NP margin	-41.0%	-2.6%	0.3%	0.7%	0.7%
ROE	-15.6%	-1.1%	0.2%	0.5%	0.5%
ROA	-13.1%	-0.9%	0.2%	0.4%	0.4%
Net gearing	4.5%	0.8%	5.1%	2.9%	Net Cash

### Key Assumptions

FYE Aug (RM m)	FY25F	FY26F	FY27F
Production lines	788.0	788.0	788.0
Utilisation rate (%)	45.0%	44.5%	45.0%
Production ('000)	42750.0	42275.0	42750.0
Blended ASP (RM/000 pcs)	89.6	94.1	96.0

### Valuations

	FY26F
Book Value/share (RM)	0.707
Multiple (x)	1.3
Fair Value (RM)	0.92
ESG premium/discount	0.0%
Implied Fair Value (RM)	0.92

Source: Company, Apex Securities

### Balance Sheet

FYE Aug (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	285.4	351.2	72.9	148.2	331.2
Receivables	182.6	359.0	451.4	468.7	483.4
Inventories	301.5	376.3	481.8	510.1	516.1
Other current assets	918.5	744.9	765.3	769.7	773.5
<b>Total Current Assets</b>	<b>1688.0</b>	<b>1831.4</b>	<b>1771.5</b>	<b>1896.8</b>	<b>2104.2</b>
Fixed Assets	4080.2	3778.9	3712.1	3658.5	3611.2
Intangibles	864.5	861.2	861.2	861.2	861.2
Other non-current assets	428.9	486.6	486.6	486.6	486.6
<b>Total Non-current assets</b>	<b>5373.5</b>	<b>5126.7</b>	<b>5059.9</b>	<b>5006.3</b>	<b>4959.0</b>
Short-term Debt	540.4	398.0	359.7	317.1	276.1
Payables	265.3	433.0	548.0	490.5	516.1
Other Current Liabilities	118.3	118.8	118.8	118.8	118.8
<b>Total Current Liabilities</b>	<b>923.9</b>	<b>949.8</b>	<b>1026.5</b>	<b>926.4</b>	<b>910.9</b>
Long-term Debt	14.1	0.0	0.0	0.0	0.0
Other non-current liabilities	197.4	172.8	172.8	172.8	172.8
<b>Total Non-current Liabilities</b>	<b>211.6</b>	<b>172.8</b>	<b>172.8</b>	<b>172.8</b>	<b>172.8</b>
Shareholder's equity	4714.5	4630.0	4787.9	4957.7	5131.5
Minority interest	1211.6	1205.5	844.3	846.1	848.0
<b>Equity</b>	<b>5926.1</b>	<b>5835.5</b>	<b>5632.2</b>	<b>5803.9</b>	<b>5979.5</b>

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### Cash Flow

FYE Aug (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	-900.4	-31.3	79.7	89.8	97.7
Depreciation & amortisation	343.0	287.5	296.6	292.4	314.0
Changes in working capital	91.1	-37.7	-103.4	-107.5	1.1
Others	587.3	-197.7	-34.3	-30.2	-34.1
<b>Operating cash flow</b>	<b>121.0</b>	<b>20.7</b>	<b>238.7</b>	<b>244.5</b>	<b>378.7</b>
Net capex	-364.2	-142.5	-229.9	-238.7	-266.7
Others	-19.1	390.0	13.5	14.0	14.6
<b>Investing cash flow</b>	<b>-383.3</b>	<b>247.5</b>	<b>-216.4</b>	<b>-224.7</b>	<b>-252.2</b>
Dividends paid	0.0	0.0	-2.6	-6.9	-7.5
Others	94.8	-181.7	-296.4	62.3	64.0
<b>Financing cash flow</b>	<b>94.8</b>	<b>-181.7</b>	<b>-299.0</b>	<b>55.5</b>	<b>56.4</b>
<b>Net cash flow</b>	<b>-167.5</b>	<b>86.5</b>	<b>-276.7</b>	<b>75.3</b>	<b>183.0</b>
Forex	14.0	-16.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	433.4	280.0	349.7	72.9	148.2
<b>Ending cash</b>	<b>280.0</b>	<b>349.7</b>	<b>72.9</b>	<b>148.2</b>	<b>331.2</b>

## Results Note

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### Nitrile gloves:

Metrics	Q2FY25	Q3FY25	qoq (%)	Future expectations
ASP (USD per carton)	US: USD 19.8 Non-US: USD 18-18.5	US: USD 18-19 Non-US: 17-18	+3% (1QFY25 vs 2QFY25)	- ASPs were adjusted higher; however, the cost per carton decreased by 4% due to NBR prices declined by 8%.
Sales Volume (bn pcs)			-13% (1QFY25 vs 2QFY25)	Softer demand due to frontloading activity has been done.

Note: If the gap is less than USD 2 between Malaysia and China glovemakers, customers will consider Malaysia's gloves as over the concerned of ESG issue. (China uses coal as the source of energy, while Malaysia uses Natural Gas and Biomass)

### Natural Latex gloves:

Metrics	Q2FY25	Q3FY25	qoq (%)	Future expectations
ASP (USD per carton)	Average on Natural Latex gloves: USD 18.2	Average on Natural Latex gloves: USD 19-20	+4% (1QFY25 vs 2QFY25)	raw material prices remain upwards trending.
Sales Volume (bn pcs)			Flattish (4QFY24 vs 1QFY25)	- Consumers are moving towards Nitrile gloves as Nitrile raw material price are cheaper

## ESG Matrix Framework:

### Environment

Parameters	Rating	Comments
Climate	★★★★	Improved its Climate Change score from C (Awareness) to B (Management).
Waste & Effluent	★★★	Reduced solid waste by 64.7% to 3,575 tonnes, target to achieve in FY25
Energy	★★★	Energy consumption reduced by 14% to 7.41 kWh.'000 pcs gloves
Water	★	Water consumption reduced by 29% to 0.164 m3 /'000 pcs gloves in FY24, but water security maintaining at C (Awareness).
Compliance	★★★	Maintained S&P Sustainability Yearbook inclusion for 4th year, ranking in the top 12% of its industry.

### Social

Diversity	★★★	55% female leadership in managerial positions (manager and above) in FY24
Human Rights	★★★	Conduct Human Rights Due Diligence, HRDD for 100% TG own operation
Occupational Safety and Health	★★	Reduced occupational accident rate to 2.45/'000 employees and 100% contractors passed safety evaluation in FY24
Labour Practices	★	2 factories audited achieved 'C' rating

### Governance

CSR Strategy	★★★	Donation to Dinas Kehutanan team, Kelompok Tani Hutan (KTH), and Kesatuan Hutan Produksi (KPHP) in FY24.
Management	★★	8/9 board members age over 50, 33% female director, 5/9 Independent Directors
Stakeholders	★★★	4x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★

### Recommendation Framework:

**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

### 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.

### ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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As of Friday, 21 Mar, 2025, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.