



Top Glove Corporation Bhd

On the Look Out

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TP: RM4.70 (+2.0%)

Last traded: RM4.61

SELL

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We attended a briefing held in conjunction with the release of Top Glove's FY14 results. The event was hosted by Tan Sri Lim Wee Chai (Chairman), Lee Kim Meow (Managing Director) and Lim Cheong Guan (Executive Director). Below are the key takeaways:

Nitrile Gloves Lead the Way

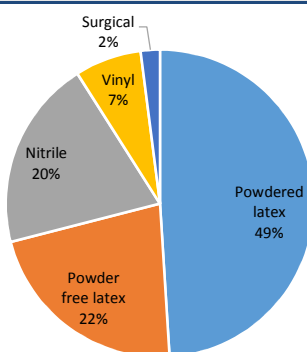
Quantity sold improved 3% YoY – driven by a 24% YoY increase in the quantity sold of nitrile gloves. Not surprisingly, acting as a direct substitute, powder free latex gloves recorded a 6% YoY decline in sales volume. Nitrile and powder free latex gloves now contribute 24% (+4% points) and 20% (-2% points) of total sales volume. Meanwhile, a sharp decline in volumes for vinyl gloves (-12% YoY) were attributed to the consolidation of its plants in China. As nitrile focused capacity expansion plans continue, we expect future growth to be driven by nitrile gloves. In the future, management targets a more balanced and equal split between latex and nitrile gloves.

Table 1: Sales Volume by Type

	QoQ (%)	YoY (%)
Latex powdered	+5	+1
Latex powder free	+8	-6
Nitrile	+3	+24
Vinyl	-23	-12
Surgical	-3	-3
Total	+3	+3

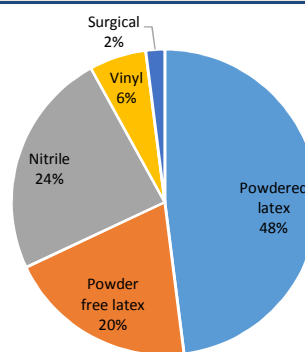
Source: Companies, TA Securities

Figure 1 : Product Mix – FY13



Source: Companies, TA Securities

Figure 2 : Product Mix – FY14



Source: Companies, TA Securities

Share Information

Bloomberg Code	TOPG MK
Stock Code	7113
Listing	Main Market
Share Cap (mn)	620.7
Market Cap (RMmn)	2861.4
Par Value	0.50
52-wk Hi/Lo (RM)	6.12/4.48
12-mth Avg Daily Vol ('000 shrs)	889.2
Estimated Free Float (%)	43.8
Beta	0.8

Major Shareholders (%)

Wee Chai Lim	- 28.9
Kumpulan Wang Persaraan	- 9.0
EPF	- 6.4
Top Glove Holdings	- 5.2
Matthews International Capital M	- 5.0

Forecast Revision

	FY15	FY16
Forecast Revision (%)	-	-
Net profit (RMm)	214.5	243.7
Consensus	197.1	213.6
TA's / Consensus (%)	108.8	114.1
Previous Rating	Sell (Maintained)	

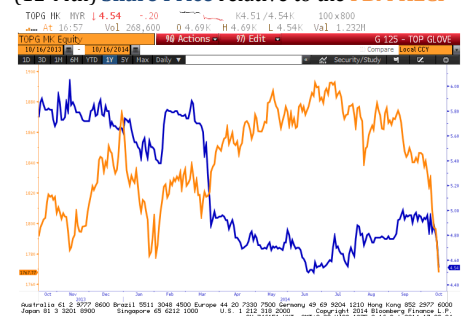
Financial Indicators

	FY15	FY16
Net gearing (x)	Net Cash	Net Cash
CFPS (RM)	0.5	0.5
P/CFPS	9.5	8.6
ROAA (%)	10.9	11.7
ROAE (%)	14.8	15.6
NTA/Share (RM)	2.4	2.6
Price/ NTA (x)	1.9	1.8

Share Performance (%)

Price Change	TOPG	FBM KLCI
1 mth	-6.9	-3.9
3 mth	-0.4	-5.1
6 mth	-4.0	-5.1
12 mth	-19.3	-1.8

(12-Mth) Share Price relative to the FBM KLCI

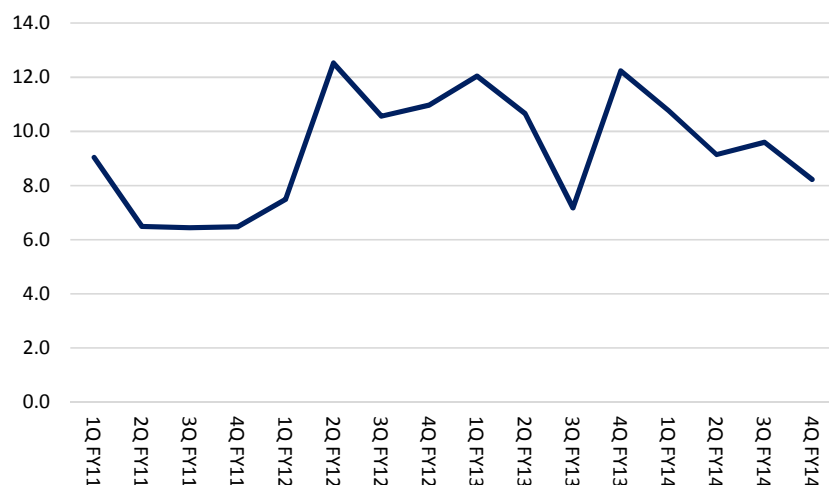


Source: Bloomberg

Hurt by Cost Pressures

On the external front, results were impacted by recent hikes in electricity and natural gas tariffs. Effective January 2014, a 16% increase in electricity tariffs resulted in a 0.5% increase in manufacturing cost. Similarly, a 19% hike in natural gas prices impacted manufacturing costs by 1%. Together, this translated into a total cost increase of ca. RM28mn per year. In the face of competition, the group was not able to pass on these costs to customers. Varying with customers, we understand that only 50-80% of cost increases were successfully passed on. Reflecting this, from a year ago, PBT margin has decreased 1.1%-points to 9.4%.

Figure 3 :



Source: Companies, TA Securities

Expansion Plans

In its pipeline, there are currently three factories under progress. This will add an additional 7.0bn pieces/annum to existing capacity – with total capacity increasing to 49.0bn pieces/annum. Factory 27 came on stream in September 2014 while Factory 29 is expected to be completed and operational by January 2015. As a new addition to plans, the group also announced Factory 30 to be constructed in Klang by September 2016. These plants will be catered mainly for the production of nitrile gloves. Total yearly CAPEX was guided at RM200mn per year. As it stands, the company has a landbank of approximately 230 acres left for future factory expansions.

Table 2: Expansion Plans

	No. of production lines	Capacity p.a.	Target completion
Current: 25 glove factories	464	42.0bn	
Expansion plan:			
F27 (Lukut, Malaysia) Phase 2	6	0.6bn	Sept 2014
F29 (Klang, Malaysia) New factory	14	2.0bn	Dec 2014
F30 (Klang, Malaysia) New factory	28	4.4bn	Sept 2016
	48	7.0bn	
Total by Sept 2016: 26 glove factories	484	49.0bn	

Source: Companies, TA Securities

Potential Acquisitions

Management hinted at the possibility of future M&A activities. While there were no indications of anything concrete, likely targets are Malaysian and Thailand based companies. This will be concentrated on the acquisition of nitrile based facilities. In our opinion, this may be positive for the company as it will be a faster route to even out exposure between latex and nitrile gloves. Nevertheless, we do note of inherent risks such as the quality of lines acquired.

Recommendation

We make no changes to our earnings estimates. Our TP for Top Glove remains at RM4.70/share based on a PE multiple of 13x against CY15 EPS of 36.1sen. While we are positive on strategies implemented, we believe it will take time to bear fruit. In the meantime, we foresee further downsides brought upon by possibilities of a further hike in tariffs. Maintain our **SELL** recommendation on Top Glove premised on potential downside risks.

Income Statement (RMmn)

FYE Aug 31	FY13	FY14	FY15F	FY16F	FY17F	
Revenue	2,313.2	2,276.5	2,465.5	2,590.2	2,724.2	
Other income	26.2	29.5	22.7	24.1	26.2	
Total Cost	(2,116.7)	(2,089.7)	(2,218.5)	(2,311.1)	(2,409.2)	
Finance Cost	(0.7)	(1.5)	(13.0)	(11.7)	(10.6)	
PBT	222.0	214.7	256.6	291.5	330.7	
Taxation	(39.4)	(31.4)	(41.1)	(46.6)	(52.9)	
Net Profit	196.5	180.1	214.5	243.7	276.4	
Core Net Profit	196.5	178.1	214.5	243.7	276.4	
EPS	(sen)	31.7	28.7	34.6	39.3	44.5
EPS Growth	(%)	(3.3)	(9.4)	20.4	13.6	13.4
DPS	(sen)	16.0	16.0	17.4	19.7	22.4
Div Yield	(%)	3.5	3.5	3.8	4.3	4.9
PER	(x)	14.6	16.1	13.3	11.7	10.4

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