MARC upgrades Top Glove on strong revenue, cashflow

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The rating agency said on Tuesday it had upgraded the world's largest glove maker's corporate credit rating to AA+ from AA.

KUALA LUMPUR: Malaysian Rating Corporation (MARC) has upgraded Top Globe Corporation Bhd's corporate credit rating following the significant increase in Top Glove's revenue and cash flow due to the surge in glove sales during the Covid-19 pandemic.

The rating agency said on Tuesday it had upgraded the world's largest glove maker's corporate credit rating to AA+ from AA.

MARC also affirmed its rating of AA-IS(CG) on special purpose vehicle TG Excellence Bhd's RM3bil perpetual Sukuk Wakalah programme.

Top Glove, which owns 100% of TG Excellence, has provided a subordinated unconditional and irrevocable corporate guarantee on the perpetual sukuk. The ratings outlook is stable.

"The rating upgrade is premised on the significant increase in Top Glove's revenue and cash flow on the back of recording unprecedented sales of gloves resulting from the Covid-19 pandemic.

“The strong financial performance has led to a sharp improvement in the group’s overall credit metrics. The rating on the perpetual sukuk has been maintained to reflect its subordination to the group’s senior unsecured obligations.

“This is in line with MARC’s notching principles on subordinated debt and hybrid securities for entities rated AA and above, ” it said.

MARC said in the first quarter ended Nov 30,2020 (1QFY2021), Top Glove’s revenue increased to RM4.8bil while profit before tax rose to RM3.1bil -- exceeding the performance registered for the full financial year of 2020.

The rating agency pointed out the higher earnings coupled with the full conversion of its US$200mil convertible bonds have strengthened Top Glove’s capital structure, leading to an adjusted debt-to-equity (DE) ratio of 0.17 times at end-1QFY2021 from 0.95 times in FY2019.

“Group leverage is not expected to increase over the medium term as its expansion strategy will be largely met by internally generated funds.

“Its capex plan is aimed at capturing market share in line with the industry growth forecast of between 15% and 20% over the medium term, ” it said.

However, MARC said notwithstanding the marked improvement in group performance, there are some concerns over foreign worker issues in the manufacturing industry.

While these have led to restrictions on some of the group’s exports, MARC said the group was implementing measures to allay stakeholders’ concerns.