

TOP GLOVE KEPT AT 'BUY' AS IT RIDES ON SOLID GLOBAL DEMAND GROWTH

22 June 2018 / 12:06



SINGAPORE (June 22): Maybank Kim Eng is maintaining its “buy” recommendation on Top Glove, the world’s largest glove manufacturer, with a target price of RM12.90 (\$4.40).

This came on the back of the group on June 19 announcing that its 3Q18 earnings have increased by 51.4% to RM117.6 million. This was largely attributed to its revenue reaching a record high of RM1.10 billion, representing a 26.6% increase from the same period last year. Hence, 9M18 earnings rose 40% y-o-y to RM327 million.

In a Wednesday report, analyst Lee Yen Ling says that the group’s results were in line with expectations as the group’s 3Q18 and 9M18 earnings made up 73% and 74%, respectively, of the research house’s and street’s fullyear estimates.

The group’s lift in 3Q18 earnings was lifted by higher organic growth, as net profit (ex-Aspion) grew 59% y-o-y to RM124 million on strong volume growth. Additionally, margin also improved due to a better operational leverage on higher plant utilisation rate of about 92%. The group on Mar 8 confirmed its acquisition of surgical glove producer Aspion, which made it the largest glove manufacturer in the world.

Since the acquisition, Aspion contributed to the group two months net profit of RM7 million, representing 5% of the group’s total net profit.

In addition, the group’s net gearing soared to 72% as at end-May, after the Aspion acquisition, compared to 13% at end-Feb.

“Top Glove’s 9M18 sales volume jumped 23% y-o-y (ex-Aspion) and we think it could sustain as the demand was driven by increasing awareness in the emerging markets,” says Lee.

The analyst noted that Aspion’s earnings delivery is a key risk to the earnings forecast. To recap, there is a profit guarantee of RM81 million for FY10/18 but the latest earnings contribution from Aspion suggest a potential shortfall of around RM40 million. But Top Glove believes that it can

improve Aspion's earnings performance by tackling the procurement and sales distribution from Jul 2018 onwards.

As at 12.55pm, shares in Top Glove are trading 7 cents lower at \$3.81 or 27.1 times FY19 core earnings with a dividend yield of 1.8%.

The Edge Markets