

AFFIN IB RESEARCH MAINTAINS ADD ON TOP GLOVE, CUT TARGET PRICE

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KUALA LUMPUR (Jan 8): Affin IB Research has maintained its Add rating on Top Glove Corporation Bhd at RM5.73 with a lower target price of RM6.48 (from RM6.70) and said demand for gloves remains healthy, and the trend of latex-based (NR gloves) being replaced by nitrile gloves continues.

In a note Wednesday, the research house said taking into account of: 1) the higher electricity cost; and 2) assuming zero cost-pass through to customers, our FY08/14-16 EPS forecast is trimmed by -4.3%/-3%/-2.7%.

Affin Research said while some may argue that Top Glove would be able to pass on the cost to its customers through selling price adjustments, there is a high likelihood of Top Glove strategically maintaining its low ASP, particularly for its NR-based gloves to remain competitive.

“As such, we expect Top Glove’s margin to be impacted in FY14 and only gradually improve in FY15 once it achieves: 1) a more balanced product mix – producing more nitrile gloves; and 2) higher plant automation.

“In tandem with the EPS downgrade, our target price for Top Glove is also lowered from RM6.70 to RM6.48, pegged to an unchanged 17.5x CY14 EPS.

“Notwithstanding the earnings and target price downgrade, we maintain our Add rating on the stock given the 13% share price upside potential. Key catalyst would be an improvement in pricing structure moving forward,” it said.