

EMERGING TAILWINDS FOR TOP GLOVE

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Top Glove Corp Bhd

(March 15, RM5.20)

Upgrade to buy with an increased target price (TP) of RM6.20:

We are turning positive on Top Glove Corp Bhd's stock given the softening latex price, persistently strong US dollar/ringgit and the respite in nitrile competition. We maintain our financial year 2017 (FY17) earnings per share forecast but raise that of FY18 to FY19 by 7% per annum on a slightly higher US dollar/ringgit. Rolling our valuation to 2018, our TP is raised to RM6.20 (+15%), based on an unchanged 20 times price-earnings ratio (+1SD) given Top Glove's improving margins/return on equity and scarcity of quality currency play in the market. Foreign shareholding is at its lows.

Its second quarter FY17 (2QFY17) results are due to be released tomorrow and we expect better sequential net profit of RM80 million to RM90 million (+9 to 23% q-o-q; -14 to 24% y-o-y) as the higher US dollar/ringgit (+6% q-o-q, +4% y-o-y) and average selling prices (around +5% q-o-q) outweighed the higher input costs. Sales volume was flattish q-o-q (but around +5% to 10% y-o-y), despite the capacity growth (+3% q-o-q, +8% y-o-y). This will bring its first half FY17 net profit to RM153 million to RM163 million (-30% to -34% y-o-y), meeting 47% to 50% of our full-year forecast.

Latex price peaked in early February at RM8.18 per kg and has since fallen by 8% to RM7.50 per kg presently after the unusually severe flood in Thailand ended. Given that the spike in latex price was mainly flood-led (year to date: +110% y-o-y), we see further downside to the latex price.

Additionally, US dollar/ringgit is persistently strong, hovering at the 4.45 level, with some upside bias due to the potential US Federal Reserve rate hike. However, earnings may only be stronger in 4QFY17 as 3QFY17 earnings could be crimped by the high input costs. — *Maybank IB Research*, March 15

The Edge Markets