STRONG US DOLLAR MAY BE NEGATED BY RISING COSTS FOR TOP GLOVE

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Top Glove Corp Bhd

(Jan 6, RM5.33)

Maintain hold with a higher target price (TP) of RM4.80: We maintain our “hold” call for Top Glove Corp Bhd with a higher TP of RM4.80. We believe near-term earnings will be boosted by the strong US dollar. However, we remain cautious as the positive impact from the strong US dollar may be negated by rising operating costs, as natural gas tariffs and raw material prices could increase further.

Top Glove is gearing up to increase its nitrile glove segment by increasing its capacity. Expansion plans are underway, such as Factory 30 in Klang (April 2017) and Factory 31 in Klang (Phase 1 in August 2017; Phase 2 in May 2018), and it will raise total production capacity to 56.8 billion gloves per annum (+18% from its current capacity of 48 billion per annum). We forecast profitability to normalise in financial year 2017 (FY17) and FY18. Earnings before interest and tax per thousand (Ebit/k) gloves will decrease in FY17, as we factor in higher operating costs as well as US dollar gains.

We believe the exceptional first half of 2016 showing will not be replicated given the unfavourable conditions. Our EBIT/k glove assumptions are conservative vis-a-vis the record-breaking level in FY16, as we expect EBIT/k gloves to normalise in FY18 to FY19. Our TP is based on 17 times calendar year 2017 (CY17) earnings per share (EPS) (previously 16 times CY17 EPS), which is +0.5 standard deviation of its five-year mean EPS. Our price-earnings multiple reflects its near-term earnings growth. — *AllianceDBS Research*, Jan 6

The Edge Markets