

MEDIA REPORTS NOT SEEN TO AFFECT TOP GLOVE'S NEAR-TERM EARNINGS

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Top Glove Corp Bhd

(Dec 18, RM5.46)

Maintain buy with a target price of RM6.75: Top Glove Corp Bhd's earnings for first quarter of financial year

2019 (1QFY19) are at about 21% of our and street's FY19 estimates.

Top Glove is expected to grow FY19 production capacity by 3.4 billion pieces per annum (ppa) to 63.9 billion ppa, once construction of the F32 new factories is completed. We gather that the first phase of F32 should be completed in the first quarter of 2019, and will involve 22 production lines with a capacity of 2.2 billion ppa. The second phase of F32 should be completed in the third quarter of 2019, and will include 12 production lines with a capacity of 1.2 billion ppa. All in, FY19 production capacity should grow by 6% year-on-year (y-o-y).

Our TP values the stock at FY19 forecast price-earning ratio of 32 times. Top Glove is our top pick for the rubber products sector. We believe that the company's inclusion into the FBM KLCI (effective Dec 24) should help rerate its valuation upwards. Management's track record is strong, with consistent earnings growth delivered as well.

On recent media reports that Top Glove allegedly breached the limit set for its workers' overtime hours, we do not expect it to affect its earnings in the near term. The company has settled the issue and stated that by December 2018, workers will not be working in excess of the 104-hour limit. The company is on the list of HR Asia's "Best Companies To Work For In Asia", which implies that perception of the labour market of it as an employer should remain positive.