

TOP GLOVE TO SEE BETTER EARNINGS AFTER BAN LIFTED

14 September 2021 / 12:09



PETALING JAYA: Top Glove Corp Bhd could see a boost in its earnings after getting the greenlight to resume selling its glove products to the United States.

Its products were previously banned by the US Customs and Border Protection (CBP) over allegations of forced labour practices.

AmInvestment Bank Research raised its fair value estimate in Top Glove to RM3.77 from RM3.66 due to a higher environmental, social and governance (ESG) rating" following the announcement.

"This is a positive development as it indicates that ESG concerns have been alleviated," it said in a report yesterday. Our fair value is based on unchanged 14 times price-earnings (PE) ratio for 2022 forecast earnings per share.

"We ascribe a higher fair value after removing the previous 3% ESG-adjusted discount. For companies with a three-star ESG rating, we do not assign a premium or discount to the stock PE valuation," it added.

In July last year, two of the world's largest glove manufacturer subsidiaries – Top Glove Sdn Bhd and TG Medical Sdn Bhd – were placed under detention order by the CBP. Kenanga Research said the US market accounts for 18% to 21% of Top Glove's total export sales.

"Top Glove has embarked on a substantial investment programme to significantly improve the living quarters of its workers nationwide and is committed to continually improving its workers' accommodations," the research house said in a report yesterday.

It is worth noting that shares in Top Glove had tumbled more than half since the ban.

Its share price gained as much as 10% to RM3.75 last week, but it was short-lived. Top Glove's

share prices continued with their declining trend down by 15 sen to RM3.28 at yesterday's close.

Kenanga reckoned that the current share price level of Top Glove reflects "an overly bearish reaction", expecting a decline in glove average selling price (ASP) in the coming quarters. "Due to over-ordering over the past 15

months since the pandemic started, the market is currently undergoing a phase of inventory adjustment. We highlight that some glove manufacturers are of the view that ASP will likely normalise between US\$30 and US\$35 (RM124-RM145) per 1,000 pieces considering that the cost structure has risen including social compliance costs," it said in a report yesterday.

Kenanga said according to Top Glove's latest presentation on its website, it revealed that the group has scaled down new capacity expansion by 14% this year, which it deems as positive. Malaysian Rubber Glove Manufacturers Association expected the strong demand for rubber gloves to last beyond the first quarter of 2022 (Q1'22) with a growth rate averaging between 15% and 20%.

Nonetheless, AmlInvest maintained its earnings estimates on Top Glove pending Q4'21 results slated on Sept 17. "We maintain our earnings estimates for FY21, FY22 and FY23 at RM8.54bil, RM2.80bil and RM1.51bil, respectively on the assumption of gloves ASP at US\$87.50, US\$30.50 and US\$26.50," it said.