

TOP GLOVE'S SHARE PRICE CHARTS A NEW HIGH AS ROBUST 3Q EARNINGS PROJECTED

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TOP Glove Corp Bhd's share price climbed to a new high of RM11.88 last week on expectations the company will turn in a set of impressive results for its third quarter ended May 31 (3QFY2018).

The world's largest rubber glove maker is set to release its results on Tuesday, and analysts have projected stronger year-on-year earnings. MIDF Research analyst Noor Athila Mohd Razak estimates earnings will come in at RM105 million to RM110 million.

"We do expect y-o-y growth in revenue and earnings, with the increase in sales volume being the main driver," she says in an email reply to The Edge.

For the same period last year, Top Glove registered a net profit of RM77.71 million on revenue of RM869.64 million. For the cumulative six months ended Feb 28 (1HFY2018), net profit grew 37.15% y-o-y to RM214.46 million and revenue expanded 15.85% to RM1.9 billion.

UOB Kay Hian analyst Chan Jit Hoong says Top Glove could register better-than-expected earnings owing to soft latex prices, stronger demand from emerging markets as well as a maiden contribution from its latest acquisition, Aspion Sdn Bhd.

Areca Capital Sdn Bhd CEO Danny Wong Teck Meng is less optimistic as he does not expect demand for rubber gloves to be as robust as previously.

As Malaysia already accounts for 80% of the world supply, he believes it would be difficult for local players to increase their market share. Unless Top Glove grows through more acquisitions, he is of the view that it will be very tough for the company to maintain double-digit earnings growth because demand growth lags behind the market's expectations for earnings growth.

"Ultimately, I still think the fundamentals should drive the share price," he says, adding that Top Glove needs to grow its top line via acquisitions and diversification, and that it is more likely to take the former route.

In his view, Top Glove should be looking to acquire less efficient assets as "whenever it acquires something that is less efficient, there is room to grow".

In terms of potential catalysts, Affin Hwang Investment Bank Bhd analyst Ng Chi Hoong points to the continuity of Top Glove's earnings delivery and its potential inclusion in the FBM KLCI in the second half of the year.

"It depends on the magnitude and timeline of implementation, so it's hard to quantify an impact here," Ng says.

On rising costs, he says the government proposal to raise the minimum wage to RM1,500 will hurt manufacturers. However, he believes glove makers, including Top Glove, will be able to pass on the additional costs to their customers.

Noor Athila and Chan agree that a higher minimum wage will have a short-term negative to minimal impact on the company.

Neutral on weakening ringgit

The ringgit has been weakening against the US dollar and is at a five-month low. Should it continue to depreciate, it would be beneficial for Top Glove and other exporters which price their goods in the greenback.

At the time of writing, the ringgit was 3.9945 to the US dollar — which Wong believes will have minimal impact on Top Glove's earnings.

"We need to see at least 30 sen [increase in ringgit against the US dollar] before the product is as cheap as before. But now, I'm pretty much neutral [on the ringgit's current level]," says Wong.

Limited upside

Top Glove's share price breached the RM4 level at the end of August 2015 and has been on an upward trajectory since the end of April last year. It hit an all-time high of RM11.88 last Monday to bump its market capitalisation up to RM15.18 billion, before retreating to RM11.28 apiece last Wednesday.

Year to date, the stock has gained 42.6% from RM7.91. Consequently, the value of founder Tan Sri Lim Wee Chai's 35.79% stake has ballooned by RM1.55 billion since the start of the year.

Says Noor Athila, "We view that the share price appreciation will be limited as all the positives have been priced in at this juncture."

Wong and Ng concur that valuations are already looking "a bit stretched" if not "very rich".

According to Bloomberg, the consensus forward price-earnings ratio for Top Glove is 32.6 times.

There are 19 analysts tracking the stock, 11 of whom have a “buy” call, six a “hold” and two a “sell.” Price targets range from RM8 to RM12.70 while the consensus is RM10.50.