

TOP GLOVE'S ESG CONCERNS EASED AFTER IT RESOLVED ALL ILO FORCED LABOUR INDICATORS, SAY ANALYSTS

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KUALA LUMPUR (April 27): Analysts are positive on Top Glove Corp Bhd's achievement of resolving all 11 International Labour Organization (ILO) indicators of forced labour as it allows the company to get closer to its goal of lifting international export sanctions and ease environmental, social and corporate governance (ESG) concerns. "We are positive on this news as it is a step in the right direction towards resolving US Customs and Border Protection (CBP) sanctions," RHB Research Institute analyst Alan Lim said in a note today. He opined that the resolution of the CBP issue and stable long-term average selling prices (ASPs) at above US\$40 (RM163.94) in the long run are catalysts for Top Glove. "Top Glove remains a value buy due to its attractive near-term yield of 14% and low 11.9 times FY23 (financial year ending Aug 31, 2023) forecast price-earnings (P/E) (average: 18 times)," he said while maintaining his target price (TP) at RM6.80. Meanwhile, KAF Research analyst Nabil Zainoodin noted that the next course of action for Top Glove is to submit the report to the CBP for review.

According to its withhold release order (WRO) modification or revocation process now, the CBP may decide to revoke the WRO only when it is satisfied that the forced labour indicators are addressed and fully remediated. "While we are unsure how long it will take for the CBP to review and subsequently withdraw the WRO, what is more certain now is that concerns over the ESG issues may have eased and this could provide a rerating catalyst for the stock," said Nabil. He made no changes to his earnings forecasts for Top Glove, but raised his target P/E multiple to 21 times from 19 times to reflect a potential improvement in the stock's ESG ratings.

"As a result, we raise our TP to RM7.52 (from RM6.84) based on CY22 (calendar year 2022) earnings per share (EPS) of 35.8 sen. "At the current valuation, the stock is trading at a forward price-earnings ratio (PER) of 14.2 times. Coupled with an attractive dividend yield of more than 10%, we think this presents an opportunity for investors to

accumulate the stock,” he added. He also opined that Top Glove's future earnings will be supported by higher sales volume. 5/3/2021

He noted that the number of Covid-19 infections had been increasing globally again, led by India where the number of cases surged by 349,691 in the past 24 hours, the country's fourth straight day of record peaks. “India contributed about 2% of Top Glove’s sales volume and if the spike in new cases prolongs, the sales volume from India may increase. “We also understand that the sales volume from other parts of the world is also currently on an uptrend.

Therefore, strong demand for gloves bodes well for Top Glove given its aggressive capacity expansion plan,” he added. According to him, the group has an annual production capacity of 96 billion pieces per annum and targets to have a capacity of 111 billion pieces by year end. “Hence, the group’s earnings would be supported by higher sales volume as ASPs normalise,” he said. At 11.30am, Top Glove had fallen ve sen or 0.85% to RM5.85, valuing the group at RM47.02 billion. *Edited by Lam Jian Wyn*