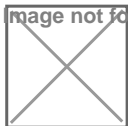


# TOP GLOVE ACTIVELY LOOKING INTO M&A WITH INDUSTRY PLAYERS

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**Top Glove Corp Bhd**

**June 23 (RM4.67)**

**Maintain buy with an unchanged target price (TP) of RM6.28:**

Top Glove Corp Bhd's revenue in the third quarter of financial year 2016 (3QFY16) increased by 1.7% year-on-year from RM661.2 million to RM672.3 million. This was backed by a growth of 11% in sales volume despite a 15% lower average selling price in the said quarter as noted by management.

Given the strengthening ringgit year-to-date, together with an increase in raw material prices especially for latex and natural gas, Top Glove revised its pricing upwards in 3QFY16. However, there will be a two-month lag before the effects of the pricing adjustments materialise.

Nonetheless, such measures would bode well for the company's revenue in the coming quarter. The reasons being: i) the growth in global demand for rubber gloves is at 6% to 8% per annum; and ii) Top Glove's position as a major global player. Overall, we believe that Top Glove will be able to manage its pricing on an ongoing basis given the surrounding factors mentioned above.

Management indicated that the four-month delay in the commissioning of Factory 27 was due to a shortage of electricity supply. As for the other two factories under the nitrile expansion plan, their expansions are still on track. Meanwhile, Top Glove expects its nitrile glove segment to continue contributing about 32% of its total sales quantity.

According to management, it is still actively looking into mergers and acquisitions (M&A) with other industry players and companies related to the rubber gloves industry. Completing at least one acquisition by year end still remains a part of its key performance indicators. Management also shared that it had approached some of its customers in other regions, such as Latin America and North America, regarding a potential joint venture.

During the briefing, management stated that it is willing to invest more in automation to mitigate the impact of the increase in minimum wage. The reason is that automation costs will go down every year, compared with labour costs, which are the opposite. Additionally, Top Glove has also been reducing the number of workers by more than 1,000 people in the past three years. Therefore, we opine that the effects of the new minimum wage on Top Glove will be minimal.

We maintain our “buy” call on Top Glove with an unchanged TP of RM6.28. Our valuation is based on FY17 earnings per share of 35 sen pegged to an unchanged 2017 price-earnings ratio (PER) of 19 times, which is the company’s five-year historical average PER.

We believe that Top Glove is on track to meet our earnings projection. Despite the intense competition in the nitrile segment, we opine that the increasing growth in global demand for rubber gloves, especially from developed countries for nitrile gloves and emerging countries for natural rubber gloves, can act as a buffer. — *MIDF Research*, June 23

*The Edge Markets*