

MAYBANK IB EXPECTS TOP GLOVE 4Q EARNINGS TO IMPROVE

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KUALA LUMPUR: Top Glove Corp Bhd's fourth quarter earnings is expected to improve in view of the higher average selling prices (ASPs), stabilising ringgit as well as lower latex cost, according to Maybank Investment Bank.

"In our view, the higher ASPs in April-June 2016 will be reflected in Top Glove's fourth quarter for financial ending Aug 31, 2016 (June-August) earnings upon the delivery of goods, which usually takes two months.

"Given that the latex cost has also eased (-13% from peak in April 2016) and the USD/MYR has been stable, these benefits will more than offset for the minimum wage (+11%) and potential gas hikes in July 2016," Maybank said.

It projected Top Glove's fourth net profit to rebound to RM82mil lifting FY8/16 net profit to its forecast.

Additionally, Maybank noted that there were difficulty in hiring of new foreign workers which may lead to a slower capacity growth in FY8/17-18, as well as potentially a lower capacity utilisation rate.

"Hence, we lower our sales volume growth assumptions to 7% and 8% respectively in FY8/17-18 (from 11% and 10%). Consequently, our FY8/17-18 earnings per share (EPS) are lowered by 6% and 3% respectively, while our FY8/16 EPS is retained," it said.

Maybank maintained its FY8/16 EPS but lower the FY8/17-18 EPS by 6%/3% on lower sales volume assumptions.

"Based on an unchanged 15 times 2017 price-earnings ratio (mean valuation), our target price is reduced to RM4.10 (-6%). Maintain sell.

“We still see downside risk to street’s forecasts as earnings will likely fall in FY8/17 with Top Glove actively passing through the USD/MYR benefits,” it said.

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