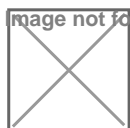


TOP GLOVE DOWNGRADED ON CHALLENGING NEAR-TERM OUTLOOK

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PETALING JAYA: Public Investment Bank (PIVB) Research has downgraded Top Glove Bhd to “neutral” from “hold” and slashed its target price by 27.6% due to a challenging near-term outlook.

In a note yesterday, analyst Soon Li Ting said Top Glove’s outlook is becoming more challenging due to the weakening dollar and competitive pressures intensifying further.

She added that Top Glove’s nine months FY16 results were in line with consensus estimates, making up 73.0% and 73.5% of full-year numbers respectively.

PIVB Research lowered Top Glove’s earnings estimate by 3.9% to 24.6% for FY16 onwards to account for adjustments in capacity and average selling price (ASP) assumptions, resulting in a lower target price of RM5.52.

“Our target price is lowered to RM5.52 (RM7.63 previously) in light of earnings changes, as we also impute a higher risk premium given the increasingly cautious outlook on its near-term prospects,” Soon said,

adding that her call was correspondingly lowered to “neutral”.

Downside risks to the earnings estimates includes further weakening of the dollar, further weakness in ASP amid heightened competition and any deferment on its expansion plans.

Soon said Top Glove’s F27 plant with a two billion pieces a year capacity has been delayed and is estimated to start operations only next month. However, the F6 and F30’s commencement dates are unchanged.

“We anticipate the group deferring more of its expansion plans going forward given the uncertain operating environment, though not calling it off altogether.

“We are correspondingly adjusting our capacity projections from two factories per year to one factory per year from FY19 onwards, resulting in earnings estimate changes,” Soon said.

However, a near-term mitigating factor would be the improvement in Top Glove’s nitrile ASP, which has been on the rise since May, while latex prices could see improvements from next quarter onwards.

The group is slated to complete its dual listing on Singapore Exchange by June 28.

The Sun Daily