

TOP GLOVE SHOULD TRADE CLOSER TO PEERS

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KUALA LUMPUR: Top Glove deserves to trade closer to its peers given its improving earnings and sustained margin expansion, said AmlInvestment Bank.

In a report on Thursday, the research house said it believes Top Glove's share price still has "legs to run".

"At the current price, the stock is trading at a forward PE of 22x. This is, respectively, a 39% and 26% discount to Hartalega's 35x and Kossan's 29x," it said.

Top Glove's share price, along with that of the other rubber glove manufacturers, have performed extremely well in the past year. The stocks had appreciated by an average of 117%, led by Top Glove's 200% gain.

This was on the back of last year US dollar rally against the ringgit and a more favourable operating environment.

The group has made significant progress in developing its product quality and mix and enhanced its operating efficiencies. It is also the prime beneficiary of the present low natural rubber prices given its dominance in the segment.

However, a slight discount is still warranted given its peers' superior 3-year earnings CAGR of >22% vs. Top Glove's 15%.

Management is confident of recorded earnings growth of 40% for FY16 ending Aug 31, 2016.

With reference to the 17% natural gas tariff hike effective Jan 1, 2016, Top Glove will be absorbing the cost given its minimal impact, and the availability of other cost savings.

Top Glove also reiterated its interest in M&As in addition to organic growth.

Share price in the near term will also be supported by its upcoming 1-for-1 bonus issue, said AmlInvestment.

The research house reiterates a BUY call on Top Glove with a higher fair value of RM15.30/share, on a higher FY16 target PE of 24x.