

TOP GLOVE'S Q1 CORE NET PROFIT WITHIN EXPECTATIONS, SAYS CIMB RESEARCH

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KUALA LUMPUR: CIMB Equities Research said Top Glove's core net profit for the first quarter ended Nov 30, 2014 was within expectations, at 28% of its forecast and 27% of consensus' estimates.

The research house said on Wednesday revenue dropped 1.1% due to lower selling prices, while core net profit improved 5.5% with the turnaround of its China business.

"We maintain our FY15-17 net profit forecasts and our Hold call but our target price falls to RM4.31 (13.5 times CY16 price-to-earnings (P/E), a 20% discount to Hartalega's target P/E) as Top Glove's target P/E is cut in line with that of Hartalega and the market," it said.

CIMB Research said no dividend was declared, which was in line with its expectations. However, it prefers Kossan for exposure to the sector.

The research house said Top Glove's first quarter revenue fell 1.1%, mainly due to the weaker selling prices resulting from lower natural latex (-24.5% on-year) and nitrile (-1%) costs, which offset the effects of higher sales volume (utilisation rate improved from 70% in 1QFY14 to 75% in 1QFY15; sales volume grew 4%).

"Core net profit (excluding fair value loss on foreign exchange contracts of RM3.9mil) however grew 5.5% as its China vinyl gloves business turned around, with a RM1.5mil profit in 1QFY15 versus a RM5.2mil loss in 1QFY14," it said.

CIMB Research said although raw material prices declined and the US dollar strengthened against the ringgit, the positive impact from these factors on nitrile gloves was not substantial given the more intense competition that resulted in Top Glove sharing some of the cost savings with its customers.

However, the favourable factors however had some positive impact on natural rubber gloves' margins given the less intense competition in the natural rubber gloves segment.

On a quarter-on-quarter basis, given the marginally higher sales volume (+1%) in both segments, the lower 1Q revenue (-2%) was due to the lower raw material prices (natural latex -12.1%, nitrile -4.6%). Profit before tax grew 20% mainly driven by the higher margin from latex gloves on lower latex prices and stronger US\$ against the ringgit.

“An additional six nitrile glove production lines at Factory 27 in Lukut started operations in September 2014. The group is targeting to complete the installation of production lines at Factory 29 and commence operations by Jan 2015. This will boost its production capacity from the current 42.6 billion to 44.6 billion pieces of gloves per annum,” the research house said.

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