

# CREDIT SUISSE RAISES TARGET PRICE FOR TOP GLOVE TO RM23, EXPECTS RECORD FY21

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**KUALA LUMPUR (June 4):** Credit Suisse has raised its target price for Top Glove Corp Bhd to RM23, more than double of RM11.30 previously, on the ground that there has been a recent rise in ad hoc and spot orders by government agencies needing urgent deliveries.

In a note dated June 3, Credit Suisse analyst Joanna Cheah said while pricing was not locked in upfront for these volumes, the group took deposits between 10% and 30%, based on projected average selling price (ASP) increases depending on the expected month of delivery and thus, Top Glove had decided to allocate 10% of its capacity for these spot orders.

"Given the long lead time for normal orders, it is therefore no surprise that ASP for the ad hoc spot orders is much higher.

"According to management, some of these orders were priced above US\$100 per 1000 pieces, which is more than three times higher than the current blended ASP for the normal orders," Cheah said.

In addition, while the company was previously guiding for 5%-10% increases in ASP every quarter, given the further squeeze in demand-supply for gloves, it was now guiding for a monthly double-digit ASP increase at least for the next two months.

"Given the revised strategy and ASP guidance by the company, we have raised our FY20 (financial year 2020)-FY22 earnings per share by 20%-135%. We now expect the group's earnings to grow 182% in FY20, a further 122% in FY21 but decline by 63% in FY22 as ASP normalises.

"Our earnings forecast assumes that ASP will rise by 20% in FY21 for both nitrile and powder-free gloves, and decline by 20% in FY22," she said.

She added that Top Glove's results for the third quarter of FY20 set to be released on June 11 are expected to be strong and should drive further rerating of the stock.

"One of the key concerns has been the risk of oversupply as the rubber glove players embark on expansion and demand settles post the pandemic. Looking at the current planned supply by the top five major players (including Sri Trang), we think there will be a squeeze in demand-supply for the next two years," she said.

Just yesterday, the price-earnings valuation of Hartalega, Top Glove and Rubberex breached the 100 times mark, which is rarely seen among manufacturing-oriented companies.

She noted the current demand is estimated to be 50%-60% higher if not for capacity constraints resulting in long lead time.

Meanwhile, estimated supply is expected to grow by 9% cumulatively between now and end-2020 and another 12% by end-2021.

At the midday break today, Top Glove rose 1.49% or 22 sen to RM14.92, valuing it at RM39.25 billion.