

RHB RESEARCH RAISES TARGET PRICE FOR TOP GLOVE TO RM13.30 ON SURGE IN DEMAND DUE TO COVID-19

14 May 2020 / 12:05



KUALA LUMPUR (May 14): RHB Research Institute has maintained its “buy” rating on Top Glove Corp Bhd with a higher target price (TP) of RM13.30 (from RM7.01 previously), in view of the surge in demand for gloves due to the Covid-19 pandemic.

In a research note today, RHB analyst Alan Lim expects Top Glove to register strong financial results ahead and estimates its third quarter results (3QFY20) to surge by 85% quarter-on-quarter (q-o-q) to RM215 million, driven by four positive factors.

Lim said the factors comprise higher average selling prices (ASPs) in gloves driven by tight demand-supply dynamic, strong volume growth q-o-q, favourable foreign exchange, and lower raw material prices.

Lim also highlighted that the impact of higher ASPs is extremely strong on earnings, as it flows straight to the bottom line of the company.

He also said that due to the unusually high demand, Top Glove's lead time has surged to almost one year, which is much higher than the normal range of 1 to 1.5 months.

"Its utilisation rate is now almost full (97%) vis-à-vis normal levels of 80% to 85% before Covid-19."

Given the unprecedented scale of Covid-19, Lim notes that there is a high chance for Top Glove's forward price-earnings (PE) valuations to break new highs.

He justified that his TP of RM13.30 on Top Glove is conservative, as it implies 34.9 times PE based on forecasted financial year 2021 earnings, is still below its peak forward PE of 40.9 times.

Nevertheless, Lim has increased his forecasts in FY20F-22F earnings by 48-86% to factor in increasing ASPs and volume assumptions.

Besides the near-term strong assumption, Lim highlighted that in the long run, Top Glove is a beneficiary of the long-term uptrend in global gloves consumption at 8-10% annually, even without Covid-19.

At 10.51am, Top Glove shares rose 8.06% or 75 sen to RM10.06, valuing it at RM25.8 billion.