

TOP GLOVE IS STILL AN ADD AT CIMB RESEARCH

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KUALA LUMPUR: CIMB Equities Research is maintaining its Add rating for Top Glove as it is a key beneficiary of the stronger US\$/Ringgit and a pick up in demand for Malaysian glove exports.

“Overall, we maintain our Add call on the stock with an unchanged 12-month target price of RM5.65 (based on 19 times CY18 price-to-earnings (P/E); + one standard deviation (SD) of its five-year mean),” it said on Friday.

However, the key risks to its view are the sharp weakening of US\$/RM and stronger pricing competition.

CIMB Research recently brought Top Glove to visit investors in Thailand, during its Asean Corporate Day. The response to the meetings was good, as Top Glove met a total of 15 analysts and fund managers.

“The company remains bullish on prospects moving forward, which supports our view that the worst should be over for the stock and the company should record sequentially stronger earnings ahead,” it said.

Top Glove highlighted the operating environment has improved with the recent appreciation of US\$/Ringgit post-Trump victory.

Furthermore, the demand for gloves has remained robust as the total utilisation rate stands at 82-85%. Another key highlight was the price revisions it implemented in 1QFY17. The ability to raise prices while utilisation rates have remained healthy signifies that pricing competition has eased.

Top Glove raised latex gloves' average selling prices (ASPs) by an estimated 10%-13% on-quarter in 1QFY17, while the research house estimated it raised nitrile gloves' ASPs by 4%-5%.

Despite the favourable US\$/Ringgit benefitting the group, it is positive that the group is able to raise its ASPs to pass on the recent increase in raw material prices (latex: 34% on-quarter, nitrile butadiene: 26% on-quarter).

However, management did not discount the possibility of further ASP hikes given the spike in latex prices this week.

As for latex prices, CIMB Research said the latex prices at current levels are unsustainable despite the upcoming wintering period (February-April).

As the spike in latex prices can be attributed to supply shortage from floods in Southern Thailand, the supply is expected to improve going forward with reports of the floods subsiding.

Furthermore, speculative demand from a spike in China car sales is unlikely to continue into 2017, as China recently lowered tax cuts for vehicle purchases to 5% from 10% (2016)

Top Glove also touched upon its expansion plans in 2017. It plans to add 6.2 billion per annum (12%) capacity this year.

Although this looks aggressive at this juncture, management has highlighted plans to stagger the new incoming capacity to allow for better supply-demand dynamics.

“We understand that its 4.4 billion plant (due April 2017) is expected to come onboard throughout the whole year. On the other hand, the commercial production of Phase 1 of F31 (1.4bil per annum) can potentially be deferred to 1QCY18,” it said.