

TOP GLOVE EXPECTED TO HAVE SEQUENTIALLY STRONGER BOTTOMLINE

15 December 2016 / 12:12



KUCHING: Top Glove Corporation Bhd (Top Glove) is expected to see a sequentially stronger bottomline buoyed by the higher sales volume from added capacity, stronger US dollar and operating leverage from higher utilisation.

Affin Hwang Investment Bank Bhd (AffinHwang Capital) expected healthy quarter on quarter (q-o-q) sales volume growth on the back of the progressive commissioning of Factory 27 at Lukut Port Dickson, which has a projected capacity of two billion nitrile gloves.

The research firm noted that a stronger ramp-up at existing older plants, which have been undergoing automation and revamp works, should also contribute to a higher production output for the first quarter of financial year 2017 (1QFY17).

AffinHwang Capital expected the utilisation rate to hover at around 80 to 83 per cent, while the US dollar average selling price (ASP) should trend higher, in line with firmer raw material prices as cost-pass through kicks in.

“In all, this should translate into a higher topline for the group, given the ringgit has also weakened to RM4.21 during the quarter,” it said.

According to the research firm, 1QFY17’s core net profit should be sequentially stronger to the tune of RM70 million to RM75 million, but is likely to decline yoy given last year’s high base effect on currency tailwinds.

The research firm highlighted that this would represent a q-o-q improvement of seven to 14 per cent in the bottomline, and translate into an indicative profit after tax (PAT) margin of nine to 10 per cent.

“Significantly, this would mark a turnaround in margin expansion after two consecutive quarters of margin contraction, which would suggest a stabilising operating landscape on easing pricing pressure,” it said.

Given its projection of RM382 million for FY17 core net profit, AffinHwang Capital expected a stronger 2H17 to be primarily driven by the recovery in the US dollar ASP as well as the commissioning of three additional production plants with a total capacity of 7.7 billion gloves to underpin bottomline growth.

With strong capacity growth in the pipeline, AffinHwang Capital expected Top Glove’s earnings growth to be predominantly underpinned by sales volume growth.

Whilst AffinHwang Capital maintained the sector rating at 'neutral' given unappealing valuations vis-a-vis tepid earnings growth, Top Glove continued to stand out as the research firm's sector top pick for the group's changing product mix, ongoing efficiency improvement initiatives and dominant market share.

"Top Glove is also one of Daiwa's top small-cap picks across Asia ex-Japan for 2017," it said.

Overall, Affin Hwang maintained 'buy' on Top glove with an unchanged target price at RM5.40 per share.

The Borneo Post