

MARC ASSIGNS RATING TO TOP GLOVE UNIT'S PROPOSED SUKUK

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KUALA LUMPUR: Malaysian Rating Corp Bhd (MARC) has assigned a rating of AA-IS to Top Glove Corp Bhd on unit TG Excellence Bhd's proposed RM3bil perpetual sukuk wakalah programme.

The rating agency said that TG Excellence is a special-purpose unit of Top Glove which MARC has concurrently assigned a corporate credit rating of AA. The ratings carry a "stable" outlook.

Top Glove, which is the world's largest glove maker, will provide a subordinated unconditional and irrevocable corporate guarantee on the perpetual sukuk.

The one-notch rating differential between Top Glove's corporate credit rating and the perpetual sukuk rating is based on MARC's notching principles for subordinated debt and hybrid securities methodology.

MARC has considered Top Glove's senior debt relative to the proposed perpetual sukuk issuance and expects this relative strength to be maintained through prudent capital management.

Proceeds from the proposed initial issuance of the perpetual sukuk will be largely used to refinance Top Glove's existing obligations and to part fund its capex requirement. Issuances under the perpetual sukuk will also be accorded 50% equity credit under the rating agency's aforementioned methodology.

"The assigned corporate credit rating reflects Top Glove's demonstrated strong revenue growth and healthy cashflow generation with stable working capital management.

"Top Glove had about 26% of global capacity as at end-August 2019 (FY2019)," MARC said.

The group has 687 production lines in 33 glove factories with a combined capacity of 70.5 billion pieces, which grew from 51.9 billion pieces in FY2017, reflecting the group's ability to maintain its lead position and capture growing global demand.

The group's growth strategy over the near term is to expand its overall capacity to 91.4 billion pieces by end-2021, funded by internally-generated funds and borrowings.

The group has a globally diversified customer base with the largest client accounting for about 4% revenue in FY2019, mitigating client

concentration risk.

Top Glove has gradually shifted its focus to meet the increased demand for higher-margin nitrile gloves, which accounted for 46% of the group's total glove sales in FY2019 from 35% in FY2017.

The group's product diversification efforts also involved venturing into the specialised surgical glove segment through the acquisition of Aspion Sdn Bhd for RM1.37bil in 2018.

While revenue from the surgical glove segment has increased to 10% in FY2019 from 4% in FY2017, the largely debt-funded acquisition of Aspion has strained the group's leverage position with debt-to-equity (DE) ratio standing at 0.95 times as at end-FY2019 from the pre-acquisition level of 0.18 times.