

ANOMALY IN TOP GLOVE'S ADR POSITIVE FOR SHARES ON BURSA, SGX EN

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KUALA LUMPUR: The surge in Top Glove's American Depository Receipt (ADR), which trades on the Nasdaq Stock Exchange, is an "anomaly or outlier" which could boost investor sentiment towards the shares. According to a research note on Monday by UOB Kay Hian Malaysia Research, it retained its Hold call and target price of RM5.15 as it did not expect the 69% surge of the ADR to see a similar surge on Bursa Malaysia.

“To reiterate, we opine that this development does not fundamentally reflect Top Glove’s fundamentals,” it said, commenting on the price of the ADR which had last Friday jumped 69% to US\$7.50 from US\$4.45. One Top Glove ADR is equivalent to four Top Glove shares on Bursa Malaysia. Therefore, at US\$7.50, it values Top Glove at RM7.70.

“We also note that this was off a volume amount of 543, 000 shares traded or a value of US\$3.2mil,” it said. Though it viewed the ADR price performance as an anomaly or outlier, this development may lend positive sentiment to Top Glove’s shares on Bursa Malaysia and the Singapore Stock Exchange, “but it is unlikely to reflect a similar quantum to Top Glove’s ADR gain on the Nasdaq Stock Exchange”. Top Glove’s three-month average traded value on Bursa Malaysia is US\$32.5mil. Apart from that, institutional investors with a desire for an exposure to Top Glove would obtain exposure through Bursa Malaysia or the Singapore Stock Exchange due to its significantly higher liquidity.

UOB Kay Hian Research said a potential developing corporate event is Top Glove’s withhold release order (WRO) by the US Customs and Border Protection (CBP). It has been under review by the authorities since April. Top Glove’s consultant, Impactt and its US counsel, have both acknowledged that it has fully resolved all the requirements under the International Labour Organization’s (ILO) 11 forced labour indicators and is free of systemic forced labour. However, the timeline on the matter remains uncertain. “We opine that the lifting of the WRO would lend positive sentiment to Top Glove but would not justify a 69% surge in its valuations,” it said.

The research house said its target price is sum-of-parts based, derived from the present value of the: a) expected dividends over FY21-23, and b) FY23 earnings pegged to Top Glove’s pre-Covid-19 five-year forward PE mean of 23 times. The target price implies a PE of 25.8 times FY23F earnings. It expects normalising ASPs and earnings from its peak alongside lower Covid-19 cases to weigh on its outlook. “That said, Top

Glove's valuations are supported by its generous and attractive dividend yields of 14.8%/6.7%/2.9% for FY21-23 respectively," it pointed out.