

A REASON FOR TOP GLOVE'S INVESTORS TO CHEER EVEN AS UNCERTAINTIES LOOM

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EVEN as the country is bracing for an official announcement from Prime Minister Tan Sri Muhyiddin Yassin on how “a potential MCO 2.0” will pan out, today should be a happy day for all Top Glove Corp Bhd loyal investors.

After all, the 16.5 sen/share dividend for the first quarter ended Nov 30 – which amounts to RM1.33 bil – will be doled out today (Jan 11).

Moreover, CIMB-CGS Research has lent an additional moral support to the world’s largest glove maker by retaining its “add” call with an unchanged target price of RM8.90.

“Backed by its strong earnings prospects, we believe that Top Glove is undervalued at 6.2 times CY2021F price-to-earnings ratio (P/E) discounts of 65.8% and 34.3% to its five-year mean (18x) and the sector’s average CY21F P/E respectively,” rationalised analyst Walter Aw in a company update.

Elaborating further on its virtual meeting with Top Glove’s chief financial officer Lim Cheong Guan and finance manager See Sook Fong, CGS-CIMB Research said the discussion focused on (i) average selling prices (ASPs); (ii) dividend payments, and (iii) workers’ welfare.

Interestingly, Top Glove is not discounting the possibility that it will continue to declare a 70% dividend pay-out post 4Q FY8/2021 assuming that its earnings remain robust.

In a Bursa announcement on Jan 4, Top Glove has stated plans to raise its dividend pay-out to 70% (additional 20% special dividend on top of existing dividend pay-out policy of 50%) from 2Q FY8/2021 to 4Q FY8/2021.

“In this note, we input the higher dividend pay-out into our FY2021 estimates and now project Top Glove to pay 83.1 sen dividend per share (DPS) for FY2021, reflecting a 13% dividend yield,” suggested Aw.

With regard to workers’ welfare, CGS-CIMB Research noted that Top Glove is earmarking a RM195 mil capex to build and purchase new workers’ hostels near its existing factories over the next one to two years.

“Furthermore, Top Glove said it was confident that the US Customs and Border Protection (CBP) ban will be lifted post a verification by its independent international consultant that its workers’ accommodation meet requirements of the Workers’ Minimum Standards of Housing and Amenities Act 1990 (Act 446).

Backed by COVID-19-led global glove demand, CGS-CIMB Research said Top Glove order backlog is still robust at 160-560 days (depending on glove type).

Moreover, the glove maker has stated that its ASPs should rise by 15% month-on-month (mom) and 10% mom in January 2021 and February 21 respectively.

“Another round of ASP increase of at least 5% mom in March 2021 is highly likely,” projected Aw. “Note that we estimate Top Glove’s ASP for nitrile butadiene rubber (NBR) gloves to reach US\$113/1,000 pieces in December 2020.”

Beyond the positive review by CGS-CIMB review, there is another piece of good news for Top Glove’s investors to cheer.

Of the RM1.33 bil, about RM39.1 bil will go to the coffer of company founder and executive chairman Tan Sri Lim Wee Chai (and family) as ‘ammunition’ to lend support to Top Glove’s shares in the event of a setback to its prices.

At the close of the morning trading, Top Glove was down 13 sen or 2% (in a see-saw trading) to RM6.37 with 65.49 million shares traded, thus valuing the company at RM52.24 bil. – *Jan 11, 2021*