

# VALUATION IS AN ART

13 March 2021 / 12:03



Top Glove Corp Bhd (pic) is one of the most widely followed companies among analysts and the market over the past year, especially so since the outbreak of the Covid-19 pandemic.

The company's share price too has seen significant price gains and losses over the past 12 months, and of course, there are many factors that caused the euphoric rally as well as the sell-off that quickly came soon after news of a vaccine broke in November last year. The ups and downs of the stock has also got to do with the market call on the stock, as typically, investors are also driven by the valuation of the company that is made by analysts mind-boggling.

With a revenue of RM5.36bil, Top Glove chalked up an impressive net profit of RM2.87bil. This is spectacular, given that the company has now broken Bursa Malaysia's record of the highest quarterly net profit by a listed firm, previously held by Maybank, which stood at RM2.45bil for the Q4 period of 2019.

Interestingly, for the first-half (H1) period ended Feb 28, Top Glove's cumulative net profit of RM5.29bil is equivalent to all the profits the

company had made between the 2008 and 2020 financial years, with about RM482mil extra to spare.

Despite the majestic results, Top Glove got the brickbats from the investment fraternity in the form of downgrades, both in target price as well as earnings, as the majority of them saw a peak in earnings and expectations are now running high that the average selling price (ASP) is on a downtrend. Nevertheless, the downgrade did not, in most cases, cause brokers to reverse their buy calls, with the exception of one or two broking firms.

Now the tough question: What's next?

Post-Q2 results, analysts as usual were quick to update the market in terms of their assessment of Top Glove's fundamentals. There are a few key elements that are now playing out in the healthcare industry. Although we are still in the pandemic stage, the emergence of the vaccine for Covid-19, which is now being rolled out aggressively throughout the world, may potentially reduce demand growth for gloves. There is also a counterargument that glove demand will still remain strong as the usage of gloves will continue post-pandemic for hygienic reasons.

With demand seen sustaining into the future, not only are existing glove manufacturers ramping up production, we are also seeing an abundance of new players coming into the sector with the hope of capturing some market share and huge underlying returns.

We cannot blame these wannabe players as they are intrigued by the high earnings before interest, taxes, depreciation and amortisation (Ebitda) margin in excess of 70% currently. Even if margins are halved in the future, these new players see glove manufacturing as a goldmine.

Never mind if they are presently a tech company or a property player, being a glove manufacturer is being seen as a ticket to nancial success.

With the industry's average selling price (ASP) now expected to trend lower, analysts have started to reduce their earnings projections and Table 1 basically summarises the brokers' call on the stock and the respective valuation method that was applied in arriving at a fair value for Top Glove. For most broking rms, the benchmark used to value Top Glove is based on the price earnings ratio (PER) multiple for 2022 calendar year (CY) earnings (Top Glove's financial year is August).