TOP GLOVE’S EPS AND DPS DILUTION FROM HK LISTING WILL BE SHORT TERM

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CONCERNS over the dilution of Top Glove Corp Bhd’s earnings per share (EPS) and dividend per share (DPS) due to the group’s proposed primary dual listing on the Hong Kong Exchange (HKEx) will be short term.

The group ED Lim Cheong Guan said the dilution effect will be mitigated on a strong profit period.

“We agree that there will be dilution, but in a strong profit period, the dilution impact will be mitigated. So, the listing for HKEx is good during this strong profit period,” he said during the group’s virtual briefing for its second quarter (2Q) financial results yesterday.

The glovemaker expects to list on the HKEx either by May or June this year, depending on the vetting process, approvals from relevant authorities and market conditions.

For the full financial year 2021 (FY21E), Lim said the group will record a strong EPS growth of 386% to RM1.07 from 22 sen in FY20, while DPS will increase 525% to 73.8 sen despite dilution impact, based on 1.5 billion new shares issued. Lim noted the estimation was made on FY21's consensus profit after tax (PAT) of RM10.16 billion based on Bloomberg as at Monday, as well as assuming a full year dilution of EPS and DPS for this year.

"The group has seen strong profits in the past few quarters. The EPS and DPS dilution will be mitigated by the strong profits and intended dividend payout for 2Q21 to 4Q21. "Going forward, we expect the continuous expansion of Top Glove's business as funded by the proceeds of the proposed offering to improve our earnings in the longer term and compensate for the short-term dilution," he said.

For its 2Q21 ended Feb 28, 2021, Top Glove's net profit surged 2,380% year-on-year (YoY) to RM2.87 billion from RM115.68 million in the same period last year on the back of higher sales output and high utilisation levels which amplified production efficiency, coupled with higher average selling prices in line with market pricing.

Its revenue jumped 336.3% YoY to RM5.37 billion from RM1.23 billion due to high demand for gloves globally.

For the first half of its financial year (1H21), Top Glove clocked in a net profit of RM5.23 billion, up 2,201.4% YoY, while revenue rose 315.1% YoY to RM10.12 billion.

The group said its remarkable and healthy profit was also attributed to ongoing enhancements across its operations via digital transformation; continuous research and development, and innovation; quality and productivity initiatives; and talent acquisition and development.

In the quarter under review, its natural latex concentrate registered a 35% increase to an average of RM5.97/kg and nitrile latex went up 114% to an average of US$2.14 (RM8.80)/kg YoY, following shortages in supply.

However, it said average prices for nitrile latex have been on the downtrend since the start of 2021 as it eased by 5% from January to March 2021, as supply normalises.

The glovemaker will be commencing payment of special dividends in 2Q21 where the board has committed to paying from 2Q21 to 4Q21.

It comprises a special dividend payout of 20% plus 50% as per the company's dividend policy, totalling a 70% dividend payout. It amounts to 25.2 sen per share.

The ex date for the dividend is March 23, 2021, and it will be paid on April 6, 2021.

"The total dividend declared for 1H21 of 41.7 sen per share represents a 253% increase from the full-year dividend for FY20 of 11.8 sen per share," it said in a Bursa filing yesterday.

As at Feb 28, 2021, the group's net cash position stood at RM4.06 billion.

The group has also earmarked RM10 billion for capital expenditure over the next five years from FY21 to FY25, which will increase its current production capacity by about 100 billion pieces of gloves to a total production capacity of over 200 billion pieces.

Regarding the Withhold Release Order by the US Custom and Border Protection (CBP), Lim said the company has submitted its corrective action plans for CBP's review and approval.

The group had appointed an independent consultant specialising in ethical trade practices, human rights and labour practices to assess the group's ethical trade, human rights and fair labour practices; propose corrective action plans; and monitor its implementation.

"Based on the verifications conducted by the independent consultant on our progress in implementing the corrective action plans submitted to the CBP and eliminating the presence of forced labour indicators from our practices, the independent consultant's opinion as of January 2021 was that there is no systemic labour in the group," he said.