

ANALYSTS CUT EARNINGS FORECASTS FOR TOP GLOVE, SAY WORST IS NOT OVER

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KUALA LUMPUR (June 10): Investment analysts covering Top Glove Corp Bhd have cut their earnings forecasts and target prices (TPs) for the glove company as its financial results for the third quarter ended May 31, 2022 (3QFY22) fell short of their expectations.

Hong Leong Investment Bank (HLIB) Research said headwinds such as higher operating costs and utilisation rates below pre-pandemic levels by glove makers will continue for a bit longer as the demand-supply imbalance has not yet normalised.

“That said, we think that utilisation rate may still see small improvements on a quarter-on-quarter (q-o-q) basis, as the sales volume to [the] US continues to recover. Also, the end of wintering season and lower demand from glove manufacturers should lead to softer latex and nitrile butadiene raw material prices going forward,” it said in a note on Friday (June 10).

HLIB maintained its “sell” recommendation on the stock and lowered its TP to 82 sen from RM1.12 previously.

CGS-CIMB Research, which maintained its “reduce” call, cut Top Glove's TP to RM1 (from RM1.30). It said the worst is not over for Top Glove as it believes the company's current valuations (77% premium to five-year average) still need to factor in further downside in earnings while the operating environment remains weak.

Kenanga Research, on the other hand, lowered its TP to 95 sen from RM1.30. This is based on 22 times FY23 earnings per share, which is a 30% premium to the average 17 times of peers, mainly reflecting bigger capitalisation. The research firm reiterated its “underperform” recommendation on the stock.

MIDF Research lowered its TP to RM1.29 from RM1.75 but maintained its “neutral” stance on Top Glove. Top Glove's dividend yield is estimated at 2.5% for the financial year ending Aug 31, 2022 (FY22), it said.

AmlInvestment Bank Research kept its “hold” call with a lower fair value of RM1.08 from RM1.90. “This is pegged to 1 standard deviation below its FY17–FY19 pre-pandemic average of 28.5 times given the ongoing normalisation of average selling prices (ASP),”

it said.

The glove company posted a massive drop in net profit for 3QFY22, down 99.25% to RM15.29 million from RM2.04 billion a year ago. Quarterly revenue fell 64.8% to RM1.46 billion from RM4.16 billion as the group continued to be battered by the effect of the normalisation in terms of demand and ASP for gloves following the transition into Covid-19 endemic phase from pandemic.

Top Glove's net profit for the nine-month period (9MFY22) fell to RM288.56 million from RM7.26 billion a year ago,

Earnings

Against the backdrop of a challenging operating environment, HLIB cut its core profit after tax and minority interest forecasts for Top Glove by 18% to 47% in FY22 to FY24.

The research house lowered its forecasts for utilisation rates to 60%/78%/81% for FY22/FY23/FY24.

HLIB forecasts Top Glove to post a net profit of RM317.6 million in FY22 on revenue of RM5.6 billion. In FY23, the research firm expects RM446.5 million net profit on RM6.95 billion revenue, followed by RM527.2 million net profit and RM7.46 billion revenue in FY24.

CGS-CIMB also revised Top Glove's earnings guidance downward to reflect lower sales volumes and a decline in average selling prices.

It expects Top Glove to post a net profit of RM305 million in FY22 before rising slightly to RM309 million in FY23 and RM377 million in FY24. FY22, FY23, and FY24 revenues are expected to be RM6.25 billion, RM7.37 billion, and RM8.66 billion, respectively, according to CGS-CIMB.

Meanwhile, Kenanga downgraded Top Glove's net profit by 40% to RM311 million for FY22 and by 37% to RM352 million for FY23.

MIDF forecasts Top Glove's net profit to be RM504.3 million in FY22, RM627.2 million in FY23 and RM966.6 million in FY24. This was amid falling ASP due to increasing vaccination rollout around the world and rising competition in the glove industry.

AmInvestment estimates Top Glove's FY22 net profit at RM362.1 million, followed by RM204.8 million in FY23 and RM359.9 million in FY24.

“We cut our net profit estimates for FY22F by 32%, FY23F by 74% and FY24F by 63% due to: a deferral in capacity increase assumptions; 15%–25%-point reduction in plant utilisation rates, in line with the industry’s 50%–60%; and 6% rise in average cost of natural gas to RM36.42/MMBtu in line with the new prices stipulated by Gas Malaysia,” AmInvestment added.

To recap, Top Glove’s cumulative net profit for FY21 surged to RM7.87 billion from RM1.75 billion in FY20, while revenue more than doubled to RM16.41 billion from RM7.24 billion previously.

The Edge Markets