



DIPPED PRODUCTS PLC [DIPD.N0000]

“POSITIVES ARE PRICED IN”

VALUATION NOTE

Fair Value [FY22E]: LKR 45.0 [Range of LKR 40.0-50.0]

COVID catapults glove demand

DIPD, one of the global leaders in protective handwear, emerged as a visible winner of the pandemic as the COVID-19 outbreak boosted sales of its Medical & Household gloves and Personal Protection Equipment (PPE). As the global pandemic spread around the world, demand for disposable gloves soared while resulting in a bounce in its prices as well.

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	24,334	28,485	30,089	30,563	42,177	50,612	43,020
Gross Profit	3,989	4,460	4,946	4,704	10,544	10,122	7,226
EBIT	587	745	999	478	5,987	4,752	2,742
Net Profit	753	495	868	748	4,639	4,008	3,029
Adjusted EPS (LKR)	1.3	0.8	1.5	1.2	7.8	6.7	5.1
YoY Growth (%)	116%	-34%	75%	-14%	520%	-14%	-24%
Valuations							
PER (x)	39.3x	59.8x	34.1x	39.6x	6.4x	7.4x	9.8x
PBV (x)	2.6x	2.4x	2.2x	2.1x	1.6x	1.4x	1.2x
DY (%)	0.5%	0.6%	0.9%	0.8%	4.7%	3.6%	2.9%

Glove shortage spike prices

Due to the pandemic, DIPD's 3QFY21 and 9MFY21 topline was boosted by 55%YoY and 40%YoY while profitability soared by 414%YoY and 447%YoY respectively due to the robust demand for hand protection segment. The extreme increase in disposable glove demand is due to the surge in COVID-19 positive cases globally, causing lockdowns and shutdowns of various scale, disrupting all types of production including glove manufacturing and the production of its raw materials. The short supply in gloves and its raw materials caused a massive upsurge in pricing despite production returning to normal during late 2Q and 3Q of FY21 amidst a further large scale spread of the COVID-19 infections globally with the second wave in most of the countries.

Reverting to normal

We expect glove makers including DIPD to continue recording stronger earnings until 1HFY22E, on the back of higher average selling prices, increase in production capacity and better economies of scale, mainly due to the impact of the COVID-19 pandemic and distribution of the vaccine across the globe driving demand for disposable medical gloves. Therefore, prices for hand protection gloves are likely to remain steady at least up to 1HFY22E.

More companies hopping on the bandwagon

We expect a gradual decline in the Average Selling Prices for hand gloves (which is currently trading near 5x higher at its peak) with the increase in competition. With most of the existing large players announcing and implementing expansion plans and new players entering the glove manufacturing space, we expect a surge in glove manufacturing capacity globally during 2021/22. A possible ease in the pandemic situation may slow down global demand for gloves during 2HFY22E onwards, further enhancing competition within the industry. Stronger competition is likely to drive the glove prices lower, contracting margins within the industry.

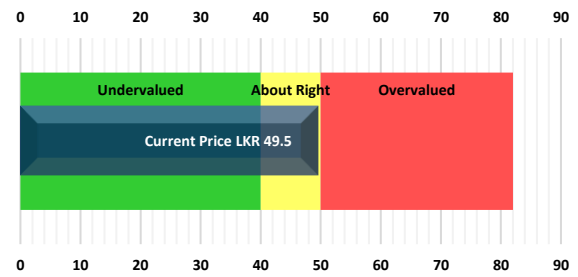
End of the supernormal cycle

In FY21E, we expect DIPD to record a super normal profit of LKR 4.6Bn (520%YoY) driven by the COVID-19 pandemic. In FY22E net profit is expected to record at LKR 4.0Bn (-14%YoY) due to the normalization of price levels with the expected increase in capacity levels from existing and new players. DIPD currently operates at the full capacity and remain full of orders for nearly a year led by the medical gloves, although these orders are subjected to price fluctuations and can be revoked any time at the discretion of customers. Based on the above assumptions, we have estimated the growth adjusted fair value under a new normal for **FY22E** to be at **LKR 45.0 [range of LKR 40.0-50.0]** and we believe that current market price has already reflected the short to medium term growth prospects of DIPD.

FIRST CAPITAL RESEARCH

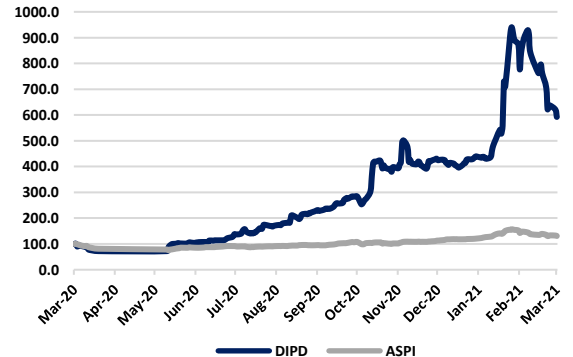
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Fair Value Estimates



Price Performance (%)	1 mth	3 mths	12mths
DIPD	-32%	39%	487%
ASPI	-14%	16%	31%

Price Movement of DIPD vs ASPI



Source: CSE

JP Morgan Glove price forecast	FY21E	FY22E	FY23E
TOPG	67.0	30.0	28.0
HART	43.0	36.0	28.0
KRI	46.0	28.0	28.0

Price estimated in USD per thousand pieces
 Source: J.P Morgan

Valuation Summary

Expected DIPD price for FY22E	
DCF Valuation based target price	48.8
PER Valuation based target price	46.9
Average Target Price	47.9
Target Price after Rounding off	45.0

Return	FY22E
Target Price	45.0
Current Price	49.5
Capital Gain (LKR)	-4.5
Dividends upto 31.03.2022 (LKR)	1.8
Capital Gain %	-9%
Dividend Yield %	4%
Total Return %	-6%
Annualized Return %	-5%

DCF based Valuation	FY22
Enterprise Value	26,089
(-) Debt	3,211
(+) Cash	6,362
Total Value of Equity	29,239
No. of shares	599
Target Price	48.8

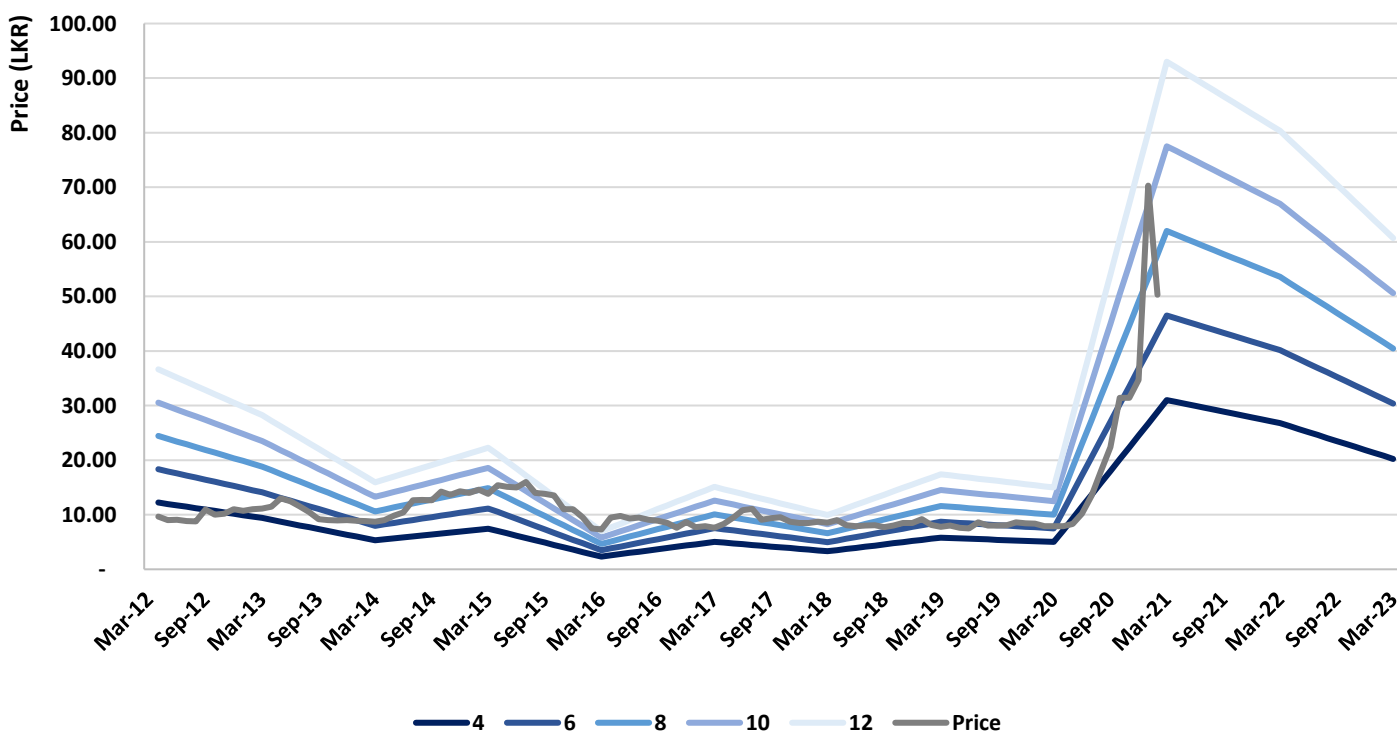
COE	
Rf	7.0%
Rm	15.0%
Growth %	3.0%
β	1.30
Ke = Rf + β(Rm-Rf)	17.4%

PER Valuation

PER based Valuation	
FY22E Earnings (LKR 'Mn)	4,008.5
No. of Shares ('Mn)	598.6
FY22E EPS	6.7
Expected PER	7.0
Price at 7.0x FY22E Earnings	46.9

WACC	
Ke	17.4%
Kd	5.1%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	12.2%

PER Chart





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