

**DIPPED PRODUCTS PLC [DIPD.N0000]****FLASH NOTE****TOP GLOVE BAN TO FAVOUR DIPD****Fair Value [FY22E]: LKR 54.0 [Range of LKR 49.0-59.0]****Previous Report in Mar 2020 – Positives are Priced In**

In our previous report, in FY21E, we expected DIPD to record a super normal profit of LKR 4.6Bn (520%YoY) driven by the COVID-19 pandemic. In FY22E net profit was 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 (<https://firstcapital.lk/storage/2021/03/DIPD-VALUATION-NOTE-10-03-21.pdf>).

**Global glove prices to remain at current levels amidst Top Glove ban**

World's leading rubber manufacturing company, Top Glove, has had a sudden reversal of fortunes following US ordering the seizure of its products on accusations of using forced labour. North America is the company's most important market, accounting for nearly 22% of Top Glove's sales. The US move against Top Glove follows a ban on imports from 2 subsidiaries of the company in Jul 2020. From Mar 2021, the ban now extends "to all disposable gloves" originating in Top Glove factories in Malaysia.

Contrary to the previous belief that possible ease in the pandemic situation may slow down global glove prices from 2HFY22E onwards, with the Top Glove ban we expect global prices to hover at current levels up until end of FY22E.

**Impact to DIPD**

DIPD has its medical glove manufacturing facility in Thailand and remains full of orders for nearly a year. The company doesn't have any major plans for expansions in the Thailand factory, and we expect only marginal expansions through production efficiencies resulting in no significant additional volume coming in as a result of Top Glove ban.

However, the positive impact is likely to come in the form of pricing where we expect global glove prices to remain at current levels contrary to the previous expectation that prices may normalise after 2HFY22E. Therefore, we expect this move to favour DIPD enabling to gain a benefit from expanded margins until 2HFY22E. With the short-term surge in prices we expect strong earnings in 4QFY21E and also to continue to until FY22E.

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Estimates (LKR 'Mn)</b>							
Revenue	24,334	28,485	30,089	30,563	44,316	53,180	45,203
Gross Profit	3,989	4,460	4,946	4,704	11,079	12,231	7,592
EBIT	587	745	999	478	6,600	5,690	2,884
<b>Net Profit</b>	<b>753</b>	<b>495</b>	<b>868</b>	<b>748</b>	<b>5,070</b>	<b>4,680</b>	<b>3,182</b>
Adjusted EPS (LKR)	1.3	0.8	1.5	1.2	8.5	7.8	5.3
YoY Growth (%)	116%	-34%	75%	-14%	578%	-8%	-32%
<b>Valuations</b>							
PER (x)	45.1x	68.6x	39.2x	45.5x	6.7x	7.3x	10.7x
PBV (x)	3.0x	2.8x	2.6x	2.4x	1.8x	1.5x	1.3x
DY (%)	0.4%	0.5%	0.8%	0.7%	4.8%	3.3%	2.6%

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The main risk will be the removal of ban by US against Top Glove resulting in stabilization of glove prices in the near term.

**Fair Value Estimates**

Note-With revised earnings DIPD's fair value is upgraded to LKR 54.0 and fair value range to LKR 50-60.



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