

TOP GLOVE SAYS READY TO FACE EXPECTED HEADWINDS

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KUALA LUMPUR (Sept 17): Top Glove Corp Bhd expects to continue to experience headwinds amid the industry-wide practice of downtrending average selling price (ASP) for gloves, increasing market competition from Chinese glove makers, and slower growth in demand due to customers holding back on their purchase in anticipation of a normalising of ASP.

In a virtual briefing today, Top Glove founder and executive chairman Tan Sri Dr Lim Wee Chai said the ASP is expected to continue to ease and will only normalise in January next year.

However, he believes the price of gloves will still be higher than pre-pandemic levels, given the higher cost structure that is expected to be picked up by the glove industry.

This, he said, includes higher costs of operations due to interruptions from temporary closure of factories because of the pandemic, as well as environmental, social and governance (ESG) related compliance costs.

Notwithstanding that, Lim is confident that Top Glove is ready and in a better position to handle the down-cycle situation faced by the glove industry compared to new players.

“These are normal practices. For the past 30 years, we have gone through all the ups and downs, this is a business cycle. We have the experience to handle all this.

“Maybe for some new players, it may be more challenging,” he said, adding that the group also remains open to mergers and acquisitions when the opportunity arises.

Top Glove managing director Datuk Lee Kim Meow said the ASP for gloves is likely to ease by between 8% and 10% every month, going forward. However, he thinks the downtrend will be cushioned by the group’s resumption of sales to the US market by the end of September.

The group’s executive director Lim Cheong Guan meanwhile shared that the glove ASP for September and October is around US\$40 per 1,000 pieces.

Cheong Guan noted that the ASP of nitrile gloves was down 37% for the fourth quarter ended Aug 31, 2021 (4QFY21), compared with the immediate preceding quarter, while the ASP for natural rubber gloves fell 27%.

However, for the full-year (FY21), nitrile gloves’ ASP jumped 194%, while that of natural rubber gloves surged 122%.

“Nitrile latex price declined further, as butadiene price declined steeply due to additional supply capacity and lower demand from downstream production. While natural rubber latex concentrate price has normalised

after the winter season ended,” Cheong Guan explained.

Going forward, he said the cost of nitrile glove raw materials butadiene and acrylonitrile are expected to normalise and this is a positive development for the group. Raw material cost is the largest cost component for the group, comprising 53% of the group’s total costs in FY21.

In terms of capital expenditure, Top Glove has budgeted RM1 billion for FY22, mainly to expand its capacity and upgrade its plant, to build hostels for its employees, to construct its own nitrile rubber latex processing plant and surgical gloves sterilisation plant.

For 2022, Top Glove expects its production capacity to grow 11% or add 11 billion pieces to 111 billion pieces of gloves per annum, from 100 billion pieces currently. By 2025, it expects to have a total annual capacity of 201 billion pieces of gloves.

Meanwhile, Top Glove said it is allowed to operate at 100% workforce, as 90% of its workers have been fully vaccinated.

In a bourse filing today, the glove maker said its net profit slumped 70.14% to RM607.95 million in 4QFY21, compared with RM2.04 billion in 3QFY21. Revenue almost halved to RM2.12 billion from RM4.16 billion.

On a year-on year basis, net profit fell 48.37% from RM1.18 billion in 4QFY20, while revenue declined 31.95% from RM3.11 billion.

It blamed the softer 4QFY21 results on the normalising demand following mass vaccine rollouts on a global scale, leading to lower sales volume and ASPs, which were not matched by a corresponding reduction in raw material prices.

This was further aggravated by the US Customs and Border Protection's temporary move to block the group's sales to the US, and the various lockdown measures.

Top Glove's share price settled down 14 sen or 4.38% at RM3.06 today, for a market capitalisation of RM25.11 billion. Year-to-date, the stock has fallen 44% from RM5.50 on Jan 4.