

TOP GLOVE TO MANUFACTURE CATHETERS

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TOP Glove Corp Bhd, the world's largest rubber glove manufacturer, is looking to manufacture medical catheters as part of its diversification plan.

Executive chairman Tan Sri Lim Wee Chai tells The Edge in an exclusive interview that the initial groundwork has already been completed.

“We plan to diversify into the catheter business ... our next business is catheters, medical catheters.”

On the mechanics of the venture, he says, “If there is any good company, we will acquire ... We are on the lookout for it, but we will also build our own. If we build on our own, it will be at a lower cost, it will take longer, but it is okay, we have time.”

He adds that capital expenditure (capex) requirements of as much as RM50 million are required for the venture.

“Initially, it (capex) will be small. We will start with a factory, small production capacity, maybe RM20 million to RM50 million,” he explains.

The required amount will come from internally generated funds.

Most analysts The Edge spoke to were unaware of how such a move would impact the company.

A former executive from a rival rubber glove manufacturer says the catheter business could chalk up margins in the mid-teens for Top Glove in a best-case scenario.

“It is not rocket science. There are pressures from commodity prices, and of course, currency fluctuations, but I would say the catheter business could generate margins in the mid-teens at best,” he says.

For its six months ended February 2019, Top Glove registered a net profit of RM215.85 million from RM2.42 billion in revenue, with earnings per share of 8.45 sen.

As at end-February, the glove maker had cash and bank balances of RM174.41 million and investment securities of RM138.89 million.

On the other side of the balance sheet, it had long-term debt commitments of RM1.23 billion and short-term borrowings of RM940.13 million.

Top Glove successfully undertook a US\$200 million (about RM814 million) exchangeable bond issue. The five-year bonds are pegged at a coupon rate of 2% a year and will be utilised to refinance the existing debt.

The issue date is March 1 this year and maturity is March 1, 2024.

Bondholders can exchange their debt securities for new shares anytime during the exchange period at an initial exchange price of RM6.20 per share, which is a 20% premium to Top Glove's closing share of RM5.17 on Feb 20.

"The exchangeable bonds are a good deal for us because we pay only a low percentage of coupon, 2%, and when it is converted into shares, they (bondholders) have to pay 20% extra as a premium. If you go for an IPO or a share placement, we would have to give a discount of about 5%, but here, I gain 20%," says Lim.

"Not every company is qualified to issue convertible bonds, only very good companies, which investors have confidence in ... then only will they invest. In Malaysia over the past 10 years, we were the only one," he says.

Top Glove's diversification into catheters comes on the back of its announcement last year that it would begin condom production by July of that year at its factory in Meru, Klang.

'It is survival of the fittest'

Tan Sri Lim Wee Chai is no ordinary chieftain of a listed company. He places great emphasis on the health and well-being of his employees, and openly tells everyone about his goal of living until 120.

The info pack given to the writer after the interview includes a toothbrush, toothpaste, dental floss and a tongue cleaner. And just before the interview, he said, "Every business is challenging, we need to prepare ... we need to stay fit and healthy."

Below is an excerpt from the interview.

The Edge: You say you need to stay fit and healthy because of competition?

Tan Sri Lim Wee Chai: Yes, because business is so competitive, especially our business, international business ... we have to compete worldwide. When you compete at the international level, it is like the Olympics, you have no protection. It is survival of the fittest.

How competitive is it? Are there any players close to you? (Top Glove has a global market share of 25%.)

It is definitely competitive. About 18 years ago, there were five of us rubber glove manufacturers, about the same size, the five biggest. Eighteen years later, we are way ahead in terms of capacity, our size, our revenue ... double [that of] theirs.

We grew... Our compound annual growth rate is about 20% in terms of sales revenue and profit. The market, meanwhile, grows 10% a year. After 18 years, we are almost double some of them in terms of size.

So, is expansion still the strategy you will be adopting because over the past 18 years, you have been expanding rapidly?

We have 40 factories, 13 factories acquired, 27 we built from scratch. If you want to grow big and fast, you need both organic and inorganic growth. Organic growth is safer and cheaper. Acquisitions sometimes can be risky, and the cost higher.

You are expanding but at the same time, there is a question of oversupply. How do you balance that?

The most important aspect is to make sure the market is growing. It is very important to go to markets that are growing. Medical gloves are healthcare products. Because of the population increase, life expectancy increase, standard of living increasing, standard of hygiene increasing, the boom in the medical industry and the food industry ... so it's very

important that the industry must grow 10%, but some players in the industry grow 10%, some may grow only 5%, some may even not grow 0%. Some grow more, some grow less.

Is it possible to have a no-bribery policy when you operate in Malaysia? (Top Glove abides by a code of business conduct and ethics comprising honesty, integrity and transparency.)

Yes. We must do our best, we must try [and fight corruption, bribery] ... we are all part of the system. We need more honest people. If there are more dishonest people than honest people the country will not be able to develop well. We are not involved in bribery, kickbacks and commissions. We may lose temporarily, but it is a short-term loss and a long-term gain.

Where do you see Top Glove in the next five years?

We will continue to grow over the next five years. I hope we will double our revenue and profit growth. If we grow 20% every year, we will double in five years ... simple mathematics. Our compound annual growth rate for the past 18 years, since our listing, has been 20%.

How much do you spend on research and development?

Now we have 400 people, mainly engineers, chemists, scientists and researchers in R&D. Even 1% of our revenue will be about RM50 million. Our sales turnover is between RM4.5 billion and RM5 billion a year, so 1% is RM45 million to RM50 million. About 2.5% of our staff are doing R&D.

Why is Top Glove venturing into condoms?

Because we want to become a globally recognised Fortune 500 company by 2040. So we are planning ahead, we are far-sighted ... 21 years ahead. So we need to diversify to improve our revenue and profit.

Are you OEM (original equipment manufacturing) or OBM (original brand manufacturing)?

We are going on both. Every business is competitive. If you want to grow the business, you have to join in the game. If you don't join in the game, there is no chance for us to compete, no chance to grow ... but (rubber) gloves are more competitive than condoms.

For the glove business, are prices being cut because of the overcapacity as everyone is growing?

Cutting prices is a cycle from time to time, when there is oversupply, but over a few years, it will balance out, there will be equilibrium. The most important is that the market must grow. We have not been affected by price cuts.

Where are we in the cycle now?

There is still a little bit of overcapacity, maybe 2% to 3% oversupplied.