

TOP GLOVE'S EARNINGS SURGING MORE THAN DOUBLE IN 3QFY20

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DECLINING global rubber prices coupled with rising selling prices of Top Glove Corp Bhd's finished products could lift the world's largest rubber glove manufacturer's earnings in the current financial period.

Top Glove could see its net profit surging as much as 88% for the third quarter ended May 31, 2020 (3QFY20), said RHB Research.

"Top Glove's earnings are expected to more than double in 3QFY20 compared to the previous quarter, driven by the higher average selling price (ASP), strong volume growth, the better exchange between the US dollar and the ringgit, and lower raw material prices.

"Note that the impact of higher ASPs is extremely strong on earnings. We expect Top Glove's 3QFY20 earnings to surge 88% to RM218 million from RM116 million in 2QFY20," it said in a recent note.

Glove demand, which is already hitting the roof amid the Covid-19 pandemic and continued to increase throughout May, allows Top Glove to enjoy the highest ASP increase among original equipment manufacturer players due to its customer diversification.

This is caused by the group's higher pricing power as a major supplier to a diversified customer base, in which each client orders in smaller volumes.

The company's biggest customer contributes less than 4% to its sales, while the group also has a more balanced product mix to offer to a different range of customers, RHB Research noted.

"Due to the positive factors, we expect an outstanding 3QFY20 result for the company. Our target price implies a 35.8 times forecast for price-earnings ratio for the financial year ending Aug 31, 2021 (FY21), close to the 36 times sector average."

It said the glovemaker's orders are secured up to July 2021, while the utilisation rate of its factories is now nearly full at between 90% and 95% compared to the normal levels of 80%-85% before Covid-19.

Meanwhile, the group's latest lead time during this period increased to 13 months compared to 10 months in April.

According to the glove producer's sales breakdown, its nitrile gloves margin is expected to be more stable compared to other rubber products, owing to higher prices for nitrile gloves as these are sold to developed countries.

Top Glove will release its 3QFY20 financial results on Thursday, it told Bursa Malaysia last week.

The group's revenue and net profit expanded 36% and 38.6% respectively in FY10 as demand soared at the start of the 2009-2010 H1N1 pandemic, AmlInvestment Bank Bhd wrote in a recent note.

"We believe Top Glove is one of the largest beneficiaries of the Covid-19 pandemic due to its highly diversified customer base, which allows the company more freedom for selling price adjustments," AmlInvest added.