ANALYSTS HAVE MIXED VIEWS ON TOP GLOVE’S 3Q PERFORMANCE

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Analysts have mixed views on Top Glove Corp Bhd as the surgical glove maker registered a strong yet below-expectation financial results for its third quarter ended May 31, 2018 (3Q18).

MIDF Investment Amanah Bhd remains ‘Neutral’ as the surgical glove maker faces industry challenges in lowering production cost in addition to the delay in its plant expansion.

“We are making no changes to our 2018 and 2019 earnings estimation at this juncture as we believe Top Glove is on track to meet our earnings projection.

“Key risks to our earnings would be the higher than expected increase in production costs, such as raw material prices and labour costs in addition to the delay in plant expansion,” it said in a statement yesterday.

According to the research house, the company’s move in cost savings might be offset by the low natural rubber latex, which has resulted in a lower average selling price despite the current improvement in the price of raw materials.

JF Apex Securities Bhd also maintained its ‘Hold’ call as the surgical glove maker’s financial performance over the nine-month period was below the research house’s projection.

“The lower than expected earnings were due to weaker margins, as a result of the sudden hike in raw material prices,” it said.

The glove maker aims to achieve 30% in global market share by 2020, driven by the move to increase its production capacity, coupled with the acquisition of Aspion Sdn Bhd.

Executive chairman Tan Sri Dr Lim Wee Chai (picture) said its latest acquisition of Aspion has increased its market share by 27%.

“Our global market share was about 25% last year. This year, it rose to 27% after we acquired Aspion.

“In order for us to achieve the remaining 3% of the target market share, we need to increase the capacity of two factories, namely Factory 31, which will begin operating in July 2018, and Factory 32, which will begin operating in early 2019.

“Moving forward, we plan to increase the capacity of all our factories, as well as enhance the speed of our machines to enable faster production,” he said at the media briefing of its financial year result yesterday.

Lim said once completed, the factories will be equipped with an additional 74 lines which will increase the group’s total number of production line, as well as production capacity by 7.4 billion gloves per annum.

MD Datuk Lee Kim Meow said the glove manufacturer will amplify its cross-selling production to enable higher contribution from the Aspion production.

“In order to increase our factories’ utilisation rate, we need to amplify the cross-selling. At present, Aspion’s utilisation rate is below 70%.

“The utilisation rate remains a great concern for any manufacturing company as the ideal utilisation rate is above 85% for the factory to be able to contribute to the company’s revenue.” said Lee.

The group completed the RM1.37 billion acquisition of the surgical glove manufacturer Aspion on April 5, 2018.

The surgical glove manufacturer’s production capacity is about 57.5 billion pieces per annum.

With the acquisition, three manufacturing facilities will be added to Top Glove, bringing a capacity of 4.77 billion pieces of gloves per annum.

The glove manufacturer’s net profit jumped 51.4% year-on-year (YoY) to RM117.57 million from RM77.71 million, due to the increased demand for 3Q18.

Top Glove in a filing to the local bourse yesterday said its sales revenue surged 26.6% YoY to RM1.1 billion for 3Q18, noting the group’s maiden sales revenue generated above RM1 billion within a single quarter.

The group declared a first interim dividend of seven sen per share, which will be paid on July 17, 2018.

“The strong demand for gloves has led to better cost efficiencies from the higher utilisation rate, thus contributing to the group’s better performance,” it said.

Top Glove, however, added that the enhanced performance was offset by the higher natural gas tariff, coupled with the pricing pressure led by the nitrile latex.

“Our moves in improving the manufacturing cost and harnessing technological advances were offset by the marked increase in the natural gas tariff, while the upward trend in nitrile latex prices compared to 2Q18 also caused some pricing pressure," it said.

Its raw material prices were mixed compared to the 2Q18, with the average nitrile latex price up 8.5% to US$1.15 (RM4.60) per kg, while the average natural rubber latex price was on the downtrend, easing 0.5% to RM4.38 per kg.

"Our continuously strong results are attributed to the effectiveness of our ongoing internal improvement initiatives, which have enabled us to keep driving down costs while maintaining to deliver high-quality gloves," Lim said in the statement.

At present, Top Glove has 39 factories, of which 34 are located in Malaysia, four in Thailand and one in China, and 618 glove production lines.