

TOP GLOVE TO FOCUS ON CASH FLOW

20 June 2023 / 12:06



PETALING JAYA: Despite a rise in average selling prices (ASPs) and net loss narrowing in the third quarter of the financial year 2023 (3Q23), Top Glove Corp Bhd is likely to remain in the red in the last quarter too.

Following a briefing with analysts, the glove maker said it will be “focusing on cash flow and ensuring that earnings before interest, taxes, depreciation and amortisation (ebitda) turns positive”.

To break even, Maybank Investment Bank (Marbank IB) Research said that Top Glove’s utilisation rate has to be at least 50% (versus 22% currently).

“It is evaluating some assets, which may result in write-off or impairment in 4Q23,” Maybank IB said in a report.

On a positive note, it said raw material and energy costs are trending down, so there is a possibility that these cost savings would be passed on to its customers.

In 3Q23, Top Glove reported a net loss of RM130.6mil, which came down by one-fifth compared to the previous quarter on the back of an increase in ASPs by about 6% during the period.

However, revenue decreased by 14.1% quarter-on-quarter due to lower sales volume due to price hikes and intense competition from China.

Meanwhile, for the nine-month period, Top Glove reported a net loss of RM414mil, after excluding a one-time off item of RM49.8mil.

MIDF Research noted that Top Glove expects utilisation to improve as customers’ glove inventory

depletes and replenishment activity begins, which will drive glove demand in the second half of 2023.

Additionally, it said upward revisions of ASPs are likely to persist due to manufacturers' inability to fully absorb rising costs.

"Overall, we gather that industry consolidation continues, with local players decommissioning ineffective production lines to enhance efficiency and cut costs.

"However, we are cautious as the oversupply issue is expected to persist for the next six months.

"Customers may opt for smaller orders during replenishment due to the lack of urgency and short delivery times caused by the oversupply," MIDF Research said.

A quick check showed that research firms still had a "sell" call on the stock and they expect FY23's net loss to widen versus the earlier forecast.

In light of the potential sector challenges in the near term, Top Glove has set in motion a turnaround plan dubbed "T6", noted UOB Kay Hian (UOBKH) Research.

These represent six pillars, which are boosting sales with a focus on rubber and surgical gloves; enhancing product quality; consolidating facilities to focus on efficient factories; enhancing productivity, and strengthening cash flows via cost rationalisation; and lastly optimising supply chain by eliminating non-essential expenses plus renegotiating procurements.

The research firm believes that Top Glove should be able to ride out the sector downcycle, given its robust balance sheet. The group's net cash position stood at RM350mil, while net gearing was minus 0.04 times.

"Furthermore, its ebitda losses have declined to RM30mil and should continue to ease and possibly break even at the pre-tax profit level towards year-end or early-2024," said UOBKH Research.

It is of the view that the stock is being oversold with the bottoming of the industry.

"Given our valuations of 29 times price-to-earnings or Top Glove's +1.5 standard deviation of its pre-pandemic five-year mean based on 2024's earnings, we believe it fairly prices in Top Glove's overall prospects," it said.

The Star

Link: <https://www.thestar.com.my/business/business-news/2023/06/20/top-glove-to-focus-on-cash-flow>