7 THINGS I LEARNED FROM THE 2024 TOP GLOVE AGM

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Established in 1991 and listed on Bursa Malaysia and the Singapore Exchange, Top Glove is the world's largest glove manufacturer. The company had a good run during COVID-19 as its clients snatched up gloves amid a global glove shortage. As the pandemic subsided, the entire glove industry including Top Glove was left with excess production capacity while glove sales orders dwindled.

Here are seven things I learned from the 2024 Top Glove AGM.

1. Revenue dropped 59.5% year-on-year to RM2.3 billion in 2023 because of lower glove demand. Top Glove fell into a net loss position of RM925.2 million for the first time since listing. The company incurred a one-off impairment of goodwill and write-off of assets amounting to RM389 million in 2023. As a result, it did not distribute any dividend during the latest financial year.

The past one year was tough for the whole glove industry. During the pandemic, existing glove players expanded aggressively in response to heightened glove demand while many new players joined the lucrative glove manufacturing business. Glove customers sat with excess glove inventory as a result of panic buying at the height of the pandemic. This resulted in a glove oversupply situation post-pandemic.

2. Considering the challenging business environment, the directors took a further 15% pay cut in their director fees in 2023 after a 10% deduction in 2022. The executive chairman voluntarily forwent 50% of his salary while the senior management took a pay cut of between 10% and 20%. The company has also shut down its loss-making operations in China and Vietnam. Top Glove's production utilisation rate dropped from 72% in 2022 to 33% in 2023.

3. The average selling prices (ASPs) of gloves per carton declined from US$27.60 in 2022 to US$21.60 in 2023 amid rising production costs. The ASPs are still below pre-pandemic levels. For Top Glove, raw material cost is the biggest expense and made up close to 40% of total production costs in Q1 2024. The rising production cost is expected to be cushioned by the company's higher cost efficiency and capacity utilisation in the future as well as falling natural gas tariffs.

4. Competition with mainland Chinese glove players is stiff. Their production utilisation rates are higher than those of Malaysian companies as they benefit from their access to cheap coal sources and their focus on ramping up sales at lower selling prices. The good news is that the gap between Chinese and Malaysian ASPs has narrowed from about US$3-US$4 to US$1. On the other hand, reliability and product quality give Malaysian glove players an edge over the Chinese players.

5. There are some signs of recovery. Top Glove recorded positive EBITDA (earnings before interest, tax, depreciation, and amortisation) in Q4 2023 as part of its 'Top Glove Turnaround Plan'. Quarterly losses were narrowing since Q1 2023. Sales volume grew 9% in Q1 2024 compared to Q4 2023 thanks to increased orders primarily from Asia, North America, and Western Europe as customers replenished their depleting glove inventory. The glove manufacturer's current production utilisation rate stood at around 35% and is estimated to reach 40% as sales orders increased. The company expects to return to profitability by 2024 as the glove supply and demand achieves its equilibrium in two years' time. Global glove demand is predicted to continue to grow at a rate of between 8% and 10% a year onward.

6. Minority Shareholder Watch Group pointed out that a Malaysian glove company (most likely referring to Supermax) is setting up facilities in the United States — the largest glove market globally. Managing director Lim Cheong Guan explained that the company will not follow suit as the move is deemed as not economically viable for the company based on study findings. The cost of production in Malaysia is still comparatively lower.

7. Acquisitions are not on the table in the medium term as the management focuses on ramping up the company's production utilisation rate. The company is planning to dispose of RM300 million worth of idle land to beef up its cash position since the land is no longer needed for future operations. As shown in the table below, Top Glove held on to a lot less cash compared to its competitors as it spent RM1.4 billion between September 2020 and February 2021 on share buybacks at an average price of RM7.11 per share. In January 2024, Top Glove's share price stood at RM0.90.

Company	Net Cash Position
Top Glove	RM450.5 million as of November 2023 (or a net debt position of RM725.2 million if perpetual suku is treated as debt)
Hartalega	RM1.5 billion as of September 2023
Kossan Rubber	RM2.0 billion as of September 2023

The fifth perspective

The glove oversupply situation is easing as evident in the improvement of Top Glove's quarterly results. Glove demand is set to endure, given their essential role as irreplaceable single-use items in the healthcare, industrial, and food & beverage sectors. With increased awareness of hygiene and health, along with improved living standards, glove demand is likely to continue its growth globally even after the pandemic subsides. The current downturn in the glove industry is a natural part of the business cycle, and the industry's future prospects appear brighter in the medium and long term.

The Fifth Person

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