

TOP GLOVE PLANS MORE ACQUISITIONS TO STRENGTHEN MARKET SHARE

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AFTER acquiring Aspion Sdn Bhd, its largest buy to date, Top Glove Corp Bhd is positioning itself for more acquisitions.

Without going into details, executive chairman Tan Sri Lim Wee Chai tells StarBizWeek that the acquisition of Aspion is the company's largest and is one of many more to come.

He says growing inorganically via acquisitions will be the priority of Top Glove in its quest to be a global leader in glove manufacturing.

"A company of our size will need to embark on mergers and acquisitions (M&As) in addition to organic growth to grow faster and more efficiently, if we are to achieve the ambitious goals we have set.

"These include increasing our market share to 30% by 2020, becoming a Bursa Malaysia Top 20 company by 2020 and a step further by becoming a Fortune Global 500 company by 2040.

“This cannot be achieved by organic growth alone. That is why we continue to strategically pursue M&As and joint ventures, and establish new set-ups in related businesses, which will play an essential role in enabling us to maintain our leadership position in the glove market,” he says. Lim says the company is constantly exploring M&A opportunities, particularly those with good valuations and in synergistic businesses which are able to immediately contribute to the group.

On April 4, Top Glove announced that it has completed the acquisition of Aspion to emerge as the world’s largest surgical glove manufacturer, further solidifying its leadership position as the world’s largest manufacturer of gloves.

The RM1.37bil acquisition of Aspion adds three manufacturing facilities with 75 lines and a capacity of 4.77 billion pieces of gloves per annum. As a result, Top Glove now operates a total of 37 factories with 618 production lines and a capacity of 57.24 billion pieces of gloves per year.

Lim adds that with the acquisition, he expects an increase in Top Glove earnings in 2018 and 2019.

“The increased production capacity will also allow the group to enjoy better economies of scale and compete more effectively in the global market by capturing a greater market share, particularly from multinational glove companies who are moving towards outsourcing their production capacities,” he says.

RHB Research in its note this month said it has upgraded Top Glove to “buy” from its earlier “neutral” stance, among others, as it expected the company’s share price to continue to outperform the market, driven by resilient demand, margin expansion from its Aspion acquisition due to greater economies of scale and product mix.

The research house has raised Top Glove’s financial year 2018-2020 forecasts net profit by 6%-9% and expect the company to generate a two-year net profit compounded annual growth rate of 24%.

Prior to completing its acquisition of Aspion, Top Glove, via its wholly-owned unit, had in March entered into a share purchase agreement with the existing shareholders of Duramedical for an 85% equity interest in the latter for RM2.85mil. The deal is expected to be completed in the third quarter of financial year 2018.

The company, in a filing with Bursa Malaysia, said the proposed acquisition is an initiative to diversify into medical-related products, which cater to its current customer base in line with the group’s expansion plan.

On the company’s financial performance for this year, Lim is optimistic of Top Glove growing its revenue and earnings yearly by 10% and believes that it is well on its way to achieving this.

He says that for example, in the first half of its financial year 2018, sales volume improved by 19% versus the first half of the previous corresponding period.

The significant growth in sales volume was mainly attributed to an increase in demand for natural rubber gloves, he says.

He adds that the company was able to meet the demand owing to its balanced product mix, comprising both natural rubber and nitrile gloves.

According to Lim, the cumulative profit after tax for the first-half period is already equivalent to 65.7% of Top Glove’s full-year profit for financial year 2017. During the six-month period, profit

after tax soared by 37.7% to RM215.9mil from a year ago.

Despite the challenging business environment, he says prospects for the glove industry remain promising as gloves are an essential item in the healthcare industry and also do not cost much.

As a disposable item, Lim adds that its demand will be recurring and is projected to grow by 8% to 10% every year.

Some of the challenges for the industry this year include the hike in the average natural gas tariff, employers having to absorb the cost of foreign workers levy, the implementation of the

Employee Insurance Scheme and the proposal for a new minimum wage, he says.