

ANALYSTS UNFAZED ABOUT US FDA'S IMPORT ALERT ON TOP GLOVE'S UNIT

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KUALA LUMPUR (May 28): There is no doubt that the main beneficiaries from this Covid-19 outbreak are rubber glove makers as demand continues to surge worldwide while the pandemic remains unabated.

Therefore, when Terang Nusa (M) Sdn Bhd — a manufacturer and distributor of surgical and medical gloves that is owned by Aspion Sdn Bhd, a subsidiary of Top Glove Bhd — raised import alerts and was placed under Level 1 detention by the US Food and Drug Administration (FDA) over product quality issues, analysts were not concerned.

“We understand that this is for the examination gloves and the seized shipment failed the pinhole test. To be released from Level 1, Terang Nusa's next five shipments will need to pass the US FDA test,” said Maybank Investment Bank Research, in a recent text message sent to institutional clients.

Maybank noted that Top Glove had known about the quality issue since November 2019 and has already renovated the plant, which now has

double dipping lines and stricter quality assurances (QAs) in place.

Hence, Top Glove is confident that its next five shipments will be able to pass the test, said the investment bank.

But, assuming if the subsequent shipments do not pass the test, Top Glove can still ship the gloves to other countries, while the void by Terang Nusa can be filled by Top Glove's other entities, said Maybank.

Terang Nusa has a capacity of around 2 billion pieces per annum or 3% of the group's total 73.8 billion pieces per annum.

“In our earnings model, we have only assumed net profit of RM26 million in the financial year ending Aug 31, 2020 (FY20) for Aspion (or 3% of our FY20 net profit for Top Glove),” said Maybank.

For the first half of the financial year ended Aug 31, 2020 (FY20), Top Glove's net profit was up 5.22% to RM227.11 million, from RM215.85 million in the year-ago period, as the tax incentives helped offset lower pre-tax profit arising from lower operating margins.

Revenue for the six-month period grew 0.7% to RM2.44 billion, from RM2.42 billion in its first half of the financial year ended Feb 29, 2020 (1HFY19).

A quick check on Bloomberg data shows that Maybank Kim Eng has a “buy” call with a target price of RM10.95.

CGS-CIMB Research, in a recent text message circulated to institutional clients, noted that this is not the first time a subsidiary of Top Glove has been flagged. “In 2013, examination glove exports from Top Glove’s China subsidiary were also flagged under Level 1,” he wrote.

“Our channel checks with Top Glove highlight that this is not a big issue, as it has many other factories and subsidiaries to export gloves to the US while it solves the quality issue from production of a particular plant,” said CGS-CIMB Research.

With a very diversified customer base and sales location, of which 26% of its 1HFY20 sales volume were to North American countries such as the US, Canada, Mexico and others, the research house believes that Top Glove can reroute its gloves to other countries with less stringent requirements.

On top of that, CGS-CIMB Research noted that profit contribution from this particular plant is minimal, at less than 1% of Top Glove’s FY19 net profit.

CGS-CIMB Research said Top Glove is confident that it can pass the FDA's requirement for the next five shipments. However, should there be another setback, Terang Nusa will then be placed under Level 2 detention, which requires 10 shipments to pass the US FDA approval.

The research house has an “add” call with a target price of RM16.50, based on Bloomberg data.

At 3.51pm, shares of Top Glove rose 10 sen or 0.78% to RM12.96, valuing the counter at RM33.14 billion. Year-to-date, the counter has jumped some 176% from RM4.70.

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