

TOP GLOVE'S HIGHER ASPS, DEMAND SURGE STILL UNDER-APPRECIATED

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Bernama photo

KUCHING: Market is still under-appreciating the potential impact from higher-than-expected average selling prices (ASPs) and volume growth on Top Glove Corporation Bhd (Top Glove) under this pandemic and tight supply condition, analysts opine.

The research arm of Kenanga Investment Bank Bhd (Kenanga Research) highlighted that market consensus is still under-appreciating the potential impact from higher-than-expected ASPs in this continuing pandemic and tight supply condition.

“Due to the tight supply, we expect buyers to jockey for position in order to secure allocation which will push up ASPs,” Kenanga Research said.

“Personal Protective Equipment (PPE) of which glove is one of the components is presently much sought after due to limited supply.

“Longer delivery lead times are indicating that demand will outstrip supply at least over the medium-term.”

The research arm recalled that in the previous analyst briefing, management highlighted that requests for huge volumes of gloves to the tune of 400 million to 500 million pieces are coming from countries including Spain, France, Italy, Germany, and Saudi Arabia.

“Correspondingly, we are confident of mid to high-teens growth in volume sales in financial year 2020 (FY20) and FY21 since orders have been secured up till end December 2020 to early 2021.

“The robust demand has led to longer delivery lead time which has risen to between over 200 days from 80 to 100 days compared to two months ago.”

According to Kenanga Research, initially in the early stage of the virus outbreak, sales orders came mainly from China, Hong Kong, Singapore and South Korea.

The research arm noted that Top Glove has also received strong orders from Europe, US and other countries.

“With current utilisation levels at more than 90 per cent, the group is able to further ramp up production close to 100 per cent, to meet the surge in demand.

“It has new capacity coming on-stream with Factory 2B (F2B) and F5A having commenced operations, which will add 3.2 billion pieces of gloves per annum.

“Ceteris paribus, each one per cent increase in volume sales and ASP will raise our FY20E and FY21E net profit by one per cent and 1.2 per cent, respectively.”

Kenanga Research has thus raised Top Glove’s FY20E-FY21E net profit by 41 per cent-61 per cent after taking into account higher growth for volume sales from 13-16 per cent to 15-28 per cent and ASP from US\$21 per 1,000 pieces to US\$26 per 1,000 pieces.