

FOREX MOVEMENTS HAVE ONLY SHORT-TERM IMPACT ON EARNINGS: MAJOR EXPORTERS

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TOP GLOVE

PETALING JAYA: Top Glove Corp Bhd and Fraser & Neave Holdings Bhd (F&N), two of Malaysia's largest exporters, said there will be no change to their hedging policies with a strengthening ringgit, stating that currency movements only have a short-term impact on earnings.

The hedging mechanism – which protects businesses from foreign exchange (forex) shocks – is a tool to prevent a sharp fall in earnings during headwinds, but it shouldn't be seen as a way to make profits, exporters say.

Exporters have been enjoying handsome profits with the help of the weakening ringgit, the recent rebound however has brought about the question of whether the good time sare over. Top Glove, the world's largest glove manufacturer, believes currency movements – a stronger or weaker ringgit – will only have a short-term impact as the cost-sharing mechanism will eventually come into effect.

Its executive chairman Tan Sri Dr Lim Wee Chai said with the stronger ringgit now, it will continue with its existing hedging practices, in line with its receivables turnover ratio, as it hedges with a

view to mitigating its collection risk, and not for earnings.

“We revise our prices in order to share out the cost increase with our customers. However, there will typically be a time lag of one to two months before the cost-pass through mechanism has an impact, during which we may face some margin pressure,” Lim told SunBiz in an email.

Lim, who is also the Federation of Malaysian Manufacturers' immediate past president, agreed that the drop in export proceeds can be mitigated with cheaper costs of imported inputs due to the stronger ringgit, as about 40% of its costs are denominated in US dollar, which creates a natural hedge for the group. However, the impact is short term as it will share out any savings with its customers.

He agreed that a stronger ringgit will warrant a price hike for its products this year, and that it has accordingly revised its selling price to factor in forex movements.

“By the same token, however, we pass on savings to our customers when the US dollar strengthens,” Lim pointed out.

Top Glove derives more than 95% of its revenue from the export of gloves to over 195 countries, with sale proceeds denominated mainly in US dollars.

Meanwhile, F&N said there is no change to its strategies as the group is guided by a robust forex policy.

“We do not speculate and typically hedge at least 60% of our foreign exchange requirements to manage the exposure to foreign currencies movements. Exports also serve as additional natural hedge,” an F&N spokesman told SunBiz.

He highlighted that the strengthening of the ringgit against the US dollar should be favourable to F&N as a net importer of raw materials, but it may present a challenge to its exports business.

F&N's financial performance was affected last year as it largely maintained its prices despite the increase in commodity price and ringgit devaluation.

“The recent appreciation of ringgit has somewhat helped us mitigate the negative impacts. Thus, we do not foresee the need to increase prices – at least not at this point in time.” Currently, F&N's exports business for both Malaysia and Thailand operations contributes over 10% to the group's revenue.

“We expect another year of strong growth for our exports business, though partially constrained by capacity in canned milk, which shall ease in FY2019.”

The spokesman said exports from Malaysia operations showed double-digit growth in the first quarter of financial year 2018 ended Dec 31, 2017. It is currently focused on reaching the RM800 million total export target as early as it can.

Inter-Pacific Research said while a stronger ringgit may be a welcome change for importers dependent on raw materials from abroad, the currency's steep upward trajectory against the US dollar since November 2017 is not a boon. It is expensive to hedge long term against currency movements on an open-ended basis.

“It will hurt the exporters, especially the strongly outperforming tech sector. There is no telling if the ringgit will unexpectedly cease strengthening against the US dollar, especially if a dollar stages a relief rally on settling the debt ceiling impasse, which has led to a brief US government shutdown.

“The ringgit has strengthened more rapidly against the US dollar compared to the currencies of its trade partners,” said the research house.

Analysts have said the ringgit should move to a fair value of between RM3.50 and RM3.70 to the US dollar in 2018. The ringgit closed at RM3.8945 against the greenback last Thursday.