

THRIVING TOP GLOVE BELIEVES GROWTH IS SUSTAINABLE

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THE world's largest rubber glove maker title still goes to Top Glove Corp Bhd despite an increasingly competitive industry landscape.

Notwithstanding the keen competition, the company's executive chairman Tan Sri Lim Wee Chai is confident of taking it hands on and plans to grow the company even further to benefit from economies of scale.

"We are very fortunate to operate in a growing industry. Not only demand for medical gloves is growing but even the food industry, such as in the restaurants and supermarkets, is using a lot of gloves, especially disposable gloves.

"Demand is growing, so growth is definitely sustainable. To grow by 10% a year in any industry is very good and we have been growing for the past 30 years," he says at the sidelines of a press briefing.

The demand for disposable gloves continues to be strong due to a growing user base from various types of industries, coupled with the rising awareness in hygiene.

Despite the optimism in an industry which still sees production backlogs of up to four months, Lim remains cautious of the keen competition.

“We must always improve and move forward for when the minute we lag in this, then the competition will take over,” he says at the briefing.

Competition is also evident even as its profit margins have averaged at 9.2% in the past seven years.

“Margins over the past 15 years is about the same, which is about 10% for net profit margins. I think these margins are reasonable. Profit margins, which are too high at 30%-40% in the manufacturing industry, won't last.

“You will invite competition when your margins are too high. Margins which are too low will affect the industry as it cannot grow well,” Lim says.

“I think net profit margins at the 10% level is sustainable and will likely continue for the next 10 to 20 years,” he adds.

In the financial year ended Aug 31, 2017 (FY17), Top Glove recorded net profit margins of 9.76%, which were lower than the 12.54% achieved in FY16.

The company says in a statement accompanying its results that the reduced profit was due to the effects of currency and lower raw material prices.

The profit margins of 10% also mean that the company needs to keep a very close eye on costs.

“We must always spend less than we earn. Salary increases from the rise in minimum wage in the year 2018 is expected, so we must prepare for it.

“That is why we must invest more in automation. Automation costs will reduce every year while labour costs will increase. So investing into research and development, technology and automation is a must,” Lim says.

“We have managed to reduce more than 1,000 workers in the past two to three years through automation and production. We are moving in the right direction with this,” he adds.

Top Glove’s headcount is at a comfortable level today at 2.7 million pieces of gloves per worker.

“On average, our revenue per worker per year is about RM250,000. This figure is better than an electronics factory, which is about RM200,000. Some 10 years ago, we were only at RM150,000. So we have improved a lot, much more than an electronics factory,” Lim says.

After the successful introduction of nitrile gloves into its product mix several years back, the company is looking forward to tapping into the next area of growth, which is in the manufacturing of surgical gloves.

Surgical gloves are thicker than the normal gloves due to requirements during surgery. It also requires more raw materials per piece to manufacture.

Top Glove presently only produces 2% of surgical gloves compared to its total product mix by sales quantity.

“It is certainly good to consider expansion in terms of acquisition for surgical gloves. We are No. 1 in terms of examination gloves and rubber gloves that is exported from Malaysia.

“When it comes to surgical gloves, we are at No. 4 or 5. It is also in our plans to tap into the growing market of surgical gloves,” its managing

director Lee Kim Meow says.

“Surgical gloves have also proceeded very much ahead in terms of innovation and technology. For us, it is an ideal platform. We have the technology to do so,” Lee adds.

Top Glove will soon make an announcement on an acquisition in this business segment.

It will acquire a glove making company for about RM1bil to increase its surgical gloves capacity.

Lim says this company is based in Malaysia and it produces both surgical and examination gloves.

With a market capitalisation of RM7.94bil and a net cash position of RM70.6mil, it would be interesting to see how the acquisition will be carried out eventually.