

HIGHER TARIFF, WAGES DENT TOP GLOVE PROFITS

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HIKE in natural gas tariff and higher minimum wage in the glove industry put a dent in profits for Malaysia-listed Top Glove Corporation, which has a secondary listing here, in its first-quarter results for FY2017, despite a 7 per cent growth in sales volume.

Net profit for the three months ended Nov 30, 2016, was down 42.9 per cent to RM73.3 million (S\$23.6 million) year on year. Revenue for the group came in at RM785.6 million, down 1.8 per cent from a year ago, dragged by lower average selling price and a weaker US dollar. Correspondingly, operating expenses grew 8.6 per cent to RM703.9 million.

Profit margin in Q1 came in at 11.4 per cent, down from 20.2 per cent a year ago.

Lim Wee Chai, executive chairman of the group, said the recent Bank Negara directive that requires exporters to convert 75 per cent of their proceeds to convert 5 per cent of their proceeds into ringgit "creates unproductive administrative work, which will decrease efficiency".

"We hope the government will review this ruling and allow exporters to keep at least 50 per cent of their proceeds in foreign currencies." he added.

As at end-November, the group maintained a positive net cash position of RM259.5 million and a healthy balance sheet.

To ensure it is well positioned to tap the robust global glove demand, the group said it would continue to steadily expand its operations.

"Accordingly, the expansion of Factory 6 (Thailand) was recently completed while a new facility, Factory 30 (Klang), is being constructed and is expected to commence production by April 2017.

"Concrete plans are also in place for Factory 31 (Klang), for which Phase 1 will commence by August 2017, with a production capacity of 1.6 billion gloves per annum and Phase 2, by May 2018, with a production capacity of 2.8 billion gloves per annum, bringing the total production capacity to 4.4 billion gloves per annum," the group said. It added that by May 2018, it would have a total of 600 production lines and a production capacity of 56.8 billion gloves per annum.

Top Glove anticipates a challenging business terrain ahead, even as oversupply is tapering off. This, as major players raise their nitrile glove production capacity. Still, the group remains optimistic. As gloves represent an essential item. In the healthcare sector and account for only a fraction of medical costs, demand is generally resilient to economic and political uncertainty, and is projected to grow at 6 to 8 per cent yearly."

The stock closed trading unchanged at S\$1.63 on Thursday.

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