

TOP GLOVE'S 2Q PROFIT DROPS 21% ON HIGHER OPERATING COSTS

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KUALA LUMPUR (March 16): Despite a rise in revenue, Top Glove Corp Bhd's net profit in the second financial quarter ended Feb 28, 2017 (2QFY17) dropped 20.6% to RM83.05 million from RM104.61 million a year earlier due to higher operating costs.

Revenue in 2QFY17 rose 22.7% to RM851.54 million from RM693.86 million, mainly due to a 9% increase in sales volume and 8% growth in average selling price (ASP), as well as the strengthening of the US dollar, the group said in its filing with Bursa Malaysia today.

The group noted that in 2QFY17, average latex price surged to a five-year high, up 33% quarter-on-quarter (q-o-q) and 72% year-on-year (y-o-y) to RM5.95 per kg. Additionally, the average price for nitrile also increased to US\$1.08 per kg, up 10% q-o-q and 12% y-o-y.

"The sharp rise in raw material prices have steadily driven ASPs up," it said.

Still, this was offset by higher operating expenses, which amounted to RM758.12 million as compared to RM571.56 million in 2QFY16.

For the first six months of FY17 (1HFY17), Top Glove posted net profit of RM156.37 million, a decline of 32.9% from 1HFY16's net profit of RM232.96 million. The group attributed the drop to a more competitive business environment and higher raw material prices during the period.

Meanwhile, revenue in 1HFY17 was 9.6% higher at RM1.64 billion versus RM1.49 billion in 1HFY16, mainly attributed to increased sales volume.

In a separate statement, Top Glove commended its performance during the period under review despite operating in less favourable conditions, as it made improvements across its manufacturing processes, enabling it to maintain good product quality and manage its costs efficiently.

Going forward, Top Glove said it will continue expanding its operations to cater to the global demand for gloves — which is expected to continue rising by 6% to 8% yearly — especially in the medical sector.

Firstly, the construction of a new facility, Factory 30, in Klang is close to completion and is expected to commence production by May 2017, with a production capacity of 4.4 billion gloves per annum.

Meanwhile, additional new facilities in Klang, Factory 31 and Factory 32, will respectively commence operations by November 2017 and December 2018, with production capacity of 2.8 billion and 4.8 billion gloves per annum respectively.

"By December 2018, the group is projected to have 632 production lines and a production capacity of 60 billion gloves per annum," it said.

Towards improving operational efficiency and increasing automation, Top Glove also said it has also been working with government agencies and domain experts to develop Industry 4.0 applications, which it is in the process of implementing throughout its factories.

Further, the group is concurrently exploring mergers and acquisitions and joint ventures with good valuations in similar or related industries.

Top Glove is anticipating an increasingly challenging business environment, with competition intensifying on a larger scale.

Given the high raw material price position, it will also have to "rely on its good relationships with customers" to share out the cost increases. Still, in line with industry practices, cost savings when raw material prices decrease will also be passed on to customers.

"Top Glove is of the view that raw materials prices will stabilise at current levels or possibly be on the downtrend, going forward. Nonetheless, [we] remain optimistic on industry outlook given the resilient nature of the industry," it said.

Top Glove's executive chairman Tan Sri Dr Lim Wee Chai added that the group's approach of focusing on internal factors within its control such as quality and cost efficiency is the correct way forward for its business.

He was commenting on the group's ability to "deliver a healthy set of numbers" for 2QFY17 despite a challenging business environment and sharp increase in manufacturing costs.

"We have done well in what is considered a softer and challenging quarter. However, we aim to do even better and will continue to strengthen our glove quality, costing and competitiveness in the coming quarters," he added.

At 2.33pm, Top Glove's share price stood at RM5.25, with a market capitalisation of RM6.58 billion.