

# TOP GLOVE EXPECTS PROFIT MARGINS TO NORMALISE TO 8%-10% COMPARED WITH 50% DURING HEIGHT OF PANDEMIC

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KUALA LUMPUR (March 9): Top Glove Corp Bhd expects net profit margin to return to a normal level at 8% to 10% moving forward — this is much lower compared with the quarterly margin of 38% to 53% in the financial year ended Aug 31, 2021 (FY21).

While many new players entered into the glove-making industry in the past two years, which has caused oversupply, Top Glove's founder and executive chairman Tan Sri Lim Wee Chai pointed out that most of these new glove companies have slowed down their expansion.

“This will reduce supply and glove demand will continue to improve. This is a good sign,” he commented at the virtual press briefing in conjunction with the release of the company's quarterly earnings.

However, Wee Chai, who holds a 27.24% stake in the company, remained cautious on the oversupply issue of nitrile gloves as glove manufacturers in China have aggressively increased their capacities in the past two years.

Glove manufacturers' profit margin, including Top Glove, has been on a decline starting from the second half of 2021 as the tide changed from an acute shortage situation to an oversupply currently. [see chart]

The oversupply created mounting pressure on the average selling prices (ASP) of the rubber gloves globally.

Top Glove, however, foresees ASPs to stabilize amid less aggressive pricing competition.

“Better ASPs will be supported by less aggressive pricing competition. Glove makers are unlikely to sell their new glove production at lower prices after running down their high inventory level,” its executive director Lim Cheong Guan said at the virtual press briefing.

“For ASP, the pressure going forward is less. There may be some further adjustment, but the percentage will be much less right now,” he said.

Cheong Guan expects natural rubber glove ASP to increase as the demand for natural rubber gloves is good and latex cost has gone up due to the wintering season.

He also said the group will increase the selling prices for natural rubber gloves to mitigate the impact of higher raw material prices.

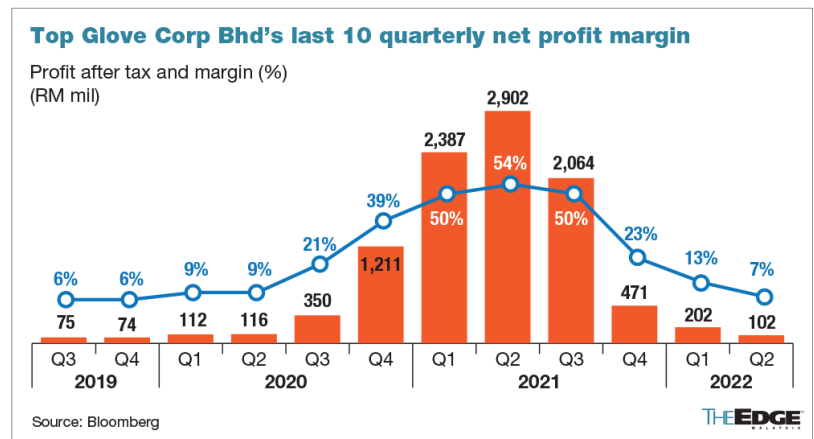
However, for nitrile gloves, Cheong Guan said its ASPs remain under pressure amid a competitive environment.

According to him, nitrile gloves ASP had fallen 26% quarter-on-quarter to US\$25 per 1,000 pieces in the second quarter ended Feb 28, 2022, while natural rubber gloves ASP slipped 18% q-o-q to US\$21 (latex powdered gloves) and US\$26 per 1,000 pieces (latex powder free gloves).

In terms of utilisation rate, Top Glove expects the current 76% production utilisation rate to improve going forward.

“The utilisation rate increase is mainly driven by nitrile glove shipments to the United States and Europe,” said Wee Chai.

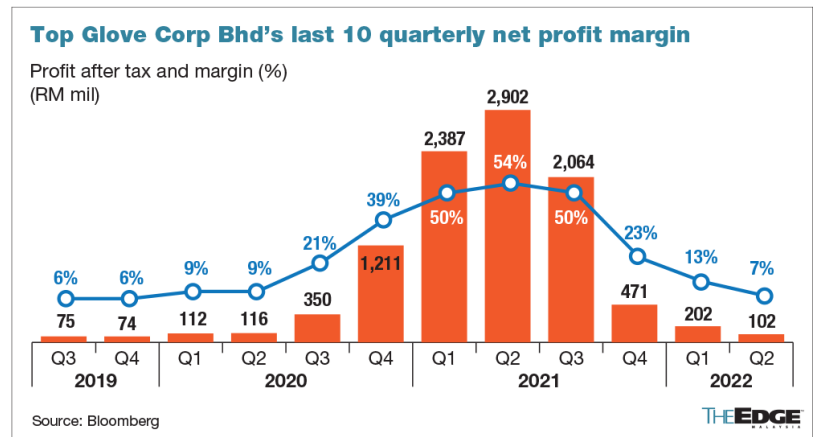
He noted higher utilisation rate should be able to mitigate the 3% increase in production costs.



“Besides, the improvements in operational efficiencies will continue, whereby we cut wastages, reduce mistakes and use technology to help us to do better. So part of the savings also come from this area,” the founder added.

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