

TOP GLOVE Q3 PROFIT SLUMPS TO RM15.3M AMID HIGHER COSTS, MODERATING DEMAND

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Top Glove cited factors such as rising production costs and higher natural gas and electricity tariffs that have compressed its margins?

GLOVE manufacturer Top Glove Corporation saw its net profit for the third fiscal quarter ended May dive 99.3 per cent to a paltry RM15.3 million (S\$4.8 million) from RM2.0 billion in the corresponding quarter last year, amid a “convergence of headwinds”.

This brought earnings for the nine-month period of FY2022 to RM288.6 million, down from RM7.3 billion in the year-ago period.

No dividend was declared for the quarter under review, the company said in a bourse filing on Thursday (Jun 9).

Top Glove has also deferred and reduced its “major” capital expenditure for the immediate term, the company said, as it continues to align its expansion plans with market conditions

Revenue for Q3 was down 64.8 per cent to RM1.5 billion from RM4.2 billion in the corresponding year-ago period. Top Glove said top-line figures were in contrast to the “exceptionally strong performance” in the corresponding quarter and nine-month period of FY2021.

Back then, the Covid-19 pandemic was at its peak, with demand and average selling prices

at an all-time high and operating costs were lower.

“As the pandemic transitions into an endemic, the industry has been experiencing the effects of the normalisation in terms of demand and average selling price,” said the company.

It cited examples of rising production costs due to global inflation, as well as the Russia-Ukraine conflict that has driven up crude oil prices. There were also higher natural gas and electricity tariffs, as well as the implementation of a minimum wage that came into effect from May 1.

“The escalating costs resulted in margin compression, as the group was unable to fully pass cost through amidst the ongoing oversupply situation,” said the company.

However, it noted that average selling prices for gloves are declining at a slower pace, which will help cushion the cost impact going forward.

A bright spot for Top Glove appeared to be a 6 per cent quarter-on-quarter (qoq) improvement in sales volume, due primarily to the recovery in sales to the US. Sales to the US showed an 8 per cent uptick from Q2.

To recap, Top Glove ran into trouble with the US Customs and Border Protection (CBP) on multiple occasions amid the discovery of forced-labour practices in the company’s production of disposable gloves.

These included the issuance of a Withhold Release Order (WRO) in July 2020 based on “reasonable but not conclusive information” that multiple forced-labour indicators existed in Top Glove’s production process. The WRO was lifted on Sep 10, 2020, after the CBP said a thorough review of evidence showed that the company has addressed all indicators of forced labour.

For raw materials, average natural latex concentrate prices rose 17 per cent qoq to RM6.50/kg. Average nitrile latex prices, however, were down 3 per cent to US\$1.11/kg.

Looking ahead, Top Glove expects the challenging business environment to persist in the near term, but said the situation is a temporary setback.

Top Glove’s managing director Lee Kim Meow said: ““This is an extremely challenging time for the glove industry and this quarter’s results are not reflective of our usual business performance, owing to the ongoing normalisation trend coupled with demand supply imbalance.

“However, we will press on and continue focusing on the fundamentals: delivering quality products at an efficient cost, a direction which remains our priority both in good and lean times.”

In particular, Lee believes demand will continue to grow with increased usage from emerging

markets, where the glove consumption base is relatively low. Higher levels of hygiene and health consciousness in a post-pandemic era will also help boost demand, he said.

As at 1.38 pm, shares of Top Glove were up 1.3 per cent or S\$0.005 to S\$0.385.

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