Top Glove: Minimal price hike vital to absorb tariff

Glove maker says it has only raised the price per carton of its nitrile gloves by 1%

by JOHN GILBERT

Top Glove Corp Bhd has only raised the price per carton of its nitrile gloves by 1% following a rise of 16.85% in electricity tariff in Malaysia.

The company says this is to minimise the impact on production costs and remain competitive in the global arena. The price hike is effective Jan 1 when the new electricity tariff came into effect.

Top Glove chairman Tan Sri Lim Wee Chai said with the tariff increase since Jan 1, the company sees the cost of electricity usage higher than at its factories in Thailand, China and other countries.

“Higher electricity tariff impacts all manufacturing companies in Malaysia, and we have already begun identifying ways to reduce energy costs in the production process. Apart from our practices in managing energy costs, we also appeal to the government to reduce the increase of 16.85% to 8% for us to remain a global competitive player and face the challenging business environment ahead,” he said at a briefing on the company’s first-quarter (1Q) results in Kuala Lumpur yesterday.

Lim said Top Glove will focus more on expanding its research and development, managing capacity efficiently and hiring more skilled and trained staff to improve quality and compete in the global market.

“National utility companies such as Tenaga Nasional Bhd need to be more focussed and efficient in reducing wastages and hidden costs so that international companies like us can be more competitive in the global market,” he said.

Top Glove, a rubber and nitrile gloves manufacturer, has 20 factories in Malaysia, four in Thailand and one recently-consolidated factory in China, and serves more than 1,800 customers in 185 countries worldwide.

As at Jan 2, 2014, the company’s market capitalisation stood at RM3.56 billion with about a 25% global market share and a target to achieve 30% by December 2015.

Touching on the global market, Lim said the demand for nitrile gloves coming from emerging countries such as Turkey, India, Brazil and China is expected to continue its strong momentum.

He said the demand is expected to increase between 8% and 10% year-on-year, with more emphasis on quality and pricing, especially in the healthcare sector.

“We see the demand is still high for countries such as Turkey, India, Brazil and China and as for other markets, we are enhancing our nitrile gloves presence and increasing market share.”

For 2014, the company has allocated RM180 million for capital expenditure and foresees an increase in sales volume between 10% and 15%.

Top Glove reported an upturn of 4.7% in revenue to RM574 million for its 1Q ended Nov 30, 2013, from RM548.2 million in the 4Q of 2013.

Net profit rose 3.9% to RM50.3 million compared to RM48.4 million in the same period last year, attributed to the demand coming from developed and emerging markets.

The company maintains a net cash position of RM187.9 million as at Nov 30, 2013.

In a report entitled “Navigating Malaysia”, CIMB Investment Bank Bhd said rubber glove manufacturers will continue to deliver strong earnings growth in 2014 due to firm demand for nitrile gloves and stable raw material prices.

CIMB said despite being the world’s largest glove maker by capacity, Top Glove will be the most vulnerable to cost inflation due to its low margin and high operating leverage.

CIMB has a target price of RM5.87 for the stock.
(From left) Top Glove ED Lim Hooi Sin, Lee Kim Meow and Lim at the briefing on the company’s 1Q results in Kuala Lumpur. Net profit for the quarter rose 3.9% to RM50.3m compared to RM48.4m a year ago.