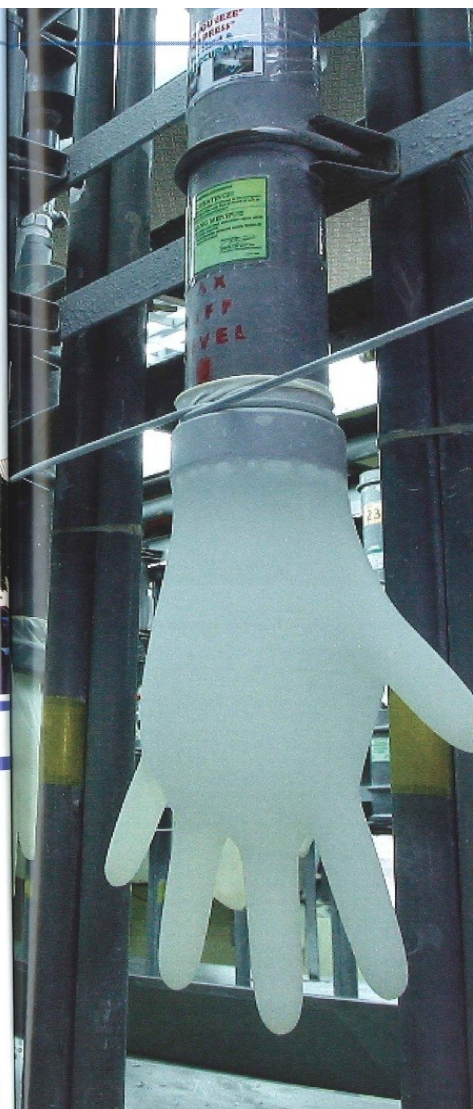




TOP GLOVE

Symbol	Code
TOPGLOV	7113
Top Glove Corporation Bhd	
Market	Main
Sector	Industrial Products
Website	www.topglove.com.my
Stock Tracker	PUBLIC LISTED



Top Glove Corporation Bhd, the world's largest glove maker wants to move upstream and is diversifying into rubber plantations to plant its own rubber trees to offset latex cost increases in the future.

By having its own rubber plantation, Top Glove will be able to mitigate the rising cost of buying latex at market prices in the future.

This would mean that its business and earnings will improve over the longer term, especially when the first batch of trees are ready for tapping in six years, its founder and chairman, Tan Sri Lim Wee Chai told *Public Listed*.

Average latex prices rose by 57% from RM4.58 per kg in the first quarter of 2010. It is currently hovering around RM8.60 per kg. Because of the volatility of latex prices, Top Glove had revised its rubber glove prices several times this year.

Top Glove has been working on investing RM160 million in a 10,000ha land in Cambodia for a rubber plantation, which it expects to supply 15% of its current annual latex needs. The company is still in the process of acquiring the land, Lim said.

"The land approval process is taking far longer than expected. Once the rubber trees are planted, it will take 6 years to mature before we can start tapping. This project is for the long-term. We have to start today; else we would not ever have rubber trees," Lim said.

"We will continue to look for land in Cambodia and Malaysia as we need 40,000ha to 50,000ha of land to supply at least 50% of our latex requirements, and to plan for requirements from our new factories in the future," he added.

Lim had said earlier this year that Top Glove was planning to expand its rubber tree plantation business by acquiring small rubber plantations to improve on its economies of scale and synergy. The company has more than RM200 million in cash reserves to undertake such acquisition activities.

Top Glove currently generates 80% of its profit from manufacturing latex rubber gloves and about 95% of its products are exported. As rubber gloves are essentially a necessity in the medical industry, it is able to pass-on some price increases to its customers and does not see small



price increases as affecting demand significantly. The company has an array of rubber gloves that are priced more than US\$30 per 1,000 pieces of gloves.

Lim said the company is looking to increase its production lines to produce nitrile gloves at a much larger scale as they command better margins and are not crucially subjected to the volatility in latex prices.

"Nitrile price is subjected to the fluctuation of crude oil price, albeit more manageable. In view of that, we have kept our production line flexible with the ability to interchange between producing natural rubber gloves and nitrile gloves, depending on market demand. And in order to reduce the risk associated with adverse currency movements, we have been rigorously hedging our open foreign exchange position with forward contracts.

"Our nitrile glove business is doing well and increasing. The nitrile glove contribution to our sales revenue has increased from 6% to 13%. We are targeting 15% to 17% contribution from nitrile glove by the end of this year," Lim said.

The company expects nitrile gloves to contribute about 26% to its revenue by end-2012, and 50% in three years.

"We are definitely looking to grow in this area in the long term. Nitrile is a petroleum based product and the price of nitrile fluctuates with the price of oil. However, as it is made of an oil by-product, there is a time lag between the increase in oil price and the increase in nitrile price, thus allowing more time for the adjustment of selling price of nitrile glove," he said.

Maintaining its world number one position

Lim said Top Glove will strive to sustain its no. 1 position in the world in gloves manufacturing through a two-pronged strategy for growth.

Firstly, the company is looking at organic growth through the expansion of its existing product range and production capacity to capture a bigger market share. Top Glove will also acquire other glove companies if the opportunity arises.

"We are always on the lookout for suitable companies but we are not targeting any particular company at the moment. In acquiring another company, what's more important is the synergistic benefits to ensure the acquisition adds value. We do not fix an amount as funding is not an issue," said Lim.

"Our key challenge to sustaining the top position would be the volatility in latex prices. As a result of the fluctuation, some consumers have switched to using nitrile gloves. We have started to produce more nitrile gloves to cater to the new demand," he said.

Top Glove, which was listed on the local stock exchange in March 2001 has earned itself a reputation of being a one-stop glove sourcing centre offering an extensive range of high-quality, high value-added and cost-effective rubber gloves.

Established in 1991 with only one factory and three



Tan Sri Lim Wee Chai

production lines, Top Glove has grown by leaps and bounds to become the world's largest rubber glove manufacturer by placing great emphasis on research and development to ensure continual improvement in its product quality and production efficiency.

Its manufacturing facilities, located in Malaysia, Thailand and China grew from 5 plants in 2001 to 20, as at March 2011. In line with its objective of capturing a larger share in the world market, the company has undertaken a rapid expansion of its capacity.

Top Glove has embarked on a production capacity expansion plan where by October 2012, it will have 22 glove factories, with 44.85 billion capacity per annum from 499 production lines. It currently produces 33 billion pieces of gloves per annum.

By the middle of next year it expects to produce 41 billion gloves a year. And, by the end of next year, it expects to command 30% global market share from 23% currently.

"We are investing around RM100 million per annum for new capacities. The new factories will be located in Klang and construction has already started," Lim said.

Financial Highlights

In the financial year ended August 31 2010, Top Glove had a shareholders' fund of RM1.09 billion and its market capitalisation as at March 31 2011 was RM3.28 billion.

Top Glove posted record sales revenue of RM2.08 billion and a record profit after tax of RM250 million for fiscal 2010. Its revenue of

RM2.08 billion was an increase of 36% from RM1.53 billion last year while profit after tax of RM250 million rose 49% from RM168 million.

Top Glove's profit after tax was 49% higher due to better sales and improved margins.

The company attributed its strong performance to robust demand for gloves from the healthcare sector and from emerging markets. It is expecting demand for gloves to continue to register double digit growth. In line with the higher demand, the company had increased its capacity during the financial year.

Because of better performance, Top Glove's balance sheet position was further strengthened with a net cash position of RM259.4 million and free cash flow of RM95.8 million as at August 31, 2010.

This year so far the company's earnings have been affected because of high latex prices, the fall in the US dollar and weaker-than-expected demand for its products.

Top Glove's second quarter net profit plunged 64% to RM25.4 million and revenue fell 4.8% to RM485.2 million as it had yet to benefit from price hikes. The decline was amplified by the exceptionally high sales volume last year during the H1N1 flu outbreak.

Top Glove's net profit fell 60% to RM25.6 million from RM64.5 million during its third quarter ended May 31 2011. Revenue was down 3.7% to RM535.4 million.

Moving forward, Top Glove hopes to report better earnings in the fourth quarter of its current financial year as demand for gloves is poised to increase as the price of latex is lower now. The company is expecting to post a 10% increase in fourth quarter sales.

Top Glove is expected to announce its fourth quarter results in mid-October 2011.

Analysts and fund managers are still positive on the company's performance saying the outlook is bright for Top Glove and that demand for gloves is building up because of concerns over the spread of various diseases.

Sentiments by fund managers on the company have stayed positive. Institutional holdings of Top Glove have stayed high, at 50% of total company shares. As a result, the company's share price did not fall drastically despite the drop in its third quarter results.

For Lim, the bad news is over and better prospects lie ahead with latex prices dropping now. Top Glove and other industry players are expecting latex prices to fall to RM7 per kg by the end of this year.

For Top Glove, every one ringgit drop in latex prices would result in cost savings of RM10 million a month for the company. Top Glove uses 10 million kilograms of latex monthly.

Top Glove is however concerned over rising energy prices but thinks that the increase will not affect the business substantially.

"Falling latex prices and higher demand for our products will help to offset any rise in energy prices. People are always looking for rubber gloves to buy, whether in good times or bad," Lim said.

JP Morgan had said in its June research note that the 7% to 8% hike in gas and electricity prices could crimp about 3% of the company's earnings. But it expects reprieve from weaker natural rubber latex prices, which in turn could have a positive nudge on demand.



UBS Investment Research, a foreign research house, expects the company's long term prospects to remain favourable.

Lim said demand for its products is still growing and supply of latex has recently picked up following better weather condition.

Latex price has been rising steadily since last year due to adverse weather in latex-producing countries such as Malaysia, Indonesia and Thailand.

Currently, latex price averages RM8.60 per kg, while at its peak in April, it was trading at RM10.99 per kg.

"The current level of around RM8.60 though lower than earlier this year, is still abnormally high. With the economic slowdown in Europe and US, demand for rubber for the tyre industry is expected to decline. Hence, when there is more supply in the market, the price of rubber would also fall.

"Latex makes up 60% to 70% of the manufacturing costs of natural rubber gloves. Hence, any shift in latex price does affect our business quite significantly," Lim said.

Expansion to continue despite challenges

Top Glove plans to expand its marketing team and set up a sales office in China soon.

Lim said by having a sales office in China, it would be closer to customers who would allow the company to provide better services and respond in a shorter time.

Other countries that the company is looking at are growth areas in Latin America. Top Glove currently exports to more than 900 customers in over 180 countries through its sales and marketing offices in Malaysia, the US and Germany.

Lim said going forward, Top Glove is planning to capture growth in emerging markets and is eyeing Brazil, Russia and China.

"Emerging markets, despite having 89% of the world's population currently consume only around 32% of global gloves output. Demand is set to increase as the healthcare standards in these markets improve," he said.

“***Our key challenge to sustaining the top position would be the volatility in latex prices. As a result of the fluctuation, some consumers have switched to using nitrile gloves. We have started to produce more nitrile gloves to cater to the new demand***”



Lim said while there are ample of opportunities for the company to expand, it is facing several challenges which includes currency exposure as the majority of sales is done in US dollars; latex price fluctuation due to weather impact, as well as crude oil price movement and speculation.

Rubber glove makers are set to raise prices of their products, in view of costlier labour, fuel and packaging, high latex price and a weakening US dollar.

Lim said Top Glove has been adjusting its selling prices regularly in line with its production costs.

"We have been passing on the latex price increase to customers. But the risk is in the percentage of cost increase that we are able to pass on, and the time-lag in passing through," Lim said.

"When latex price falls, customers would benefit from lower glove prices. But if the price increases we will not pass on the higher cost to customers as we will have to take into consideration the supply and demand situation of the product itself in the market," he said.