

VIP Gloves Ltd

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VIP Gloves implements aggressive expansion to serve expected demand growth as quarterly revenue rises 31%, shares soar

VIP Gloves Ltd (ASX:VIP) enjoyed a productive March quarter, increasing revenue by 31% and average selling prices by 19% compared to the previous quarter with investors responding strongly to the news, sending shares up 56%.

These encouraging figures are a result of Line 5 and Line 6 being successfully commissioned during the quarter, with total production output at 163 million pieces - an 18% increase compared to the previous quarter.

The plant operated at 96% of rated capacity during the quarter to meet the increased demand for product.

Notably, full scale production commenced in April 2021 and with a total of six production lines, VIP's nitrile glove production capacity is now 64 million pieces per month, 28% higher than Q2 2020 (December 2020).

Going forward, the company will continue implementing its aggressive expansion drive with demand for its products expected to continue to increase.

Shares were as much as 56% higher intra-day to A\$0.078.

Q3 sales revenue

VIP achieved total sales revenue of RM47.7 million (around A\$16 million) during the quarter, an increase of 31%.

This was due to the combination of higher production output with the expanded capacity and higher average selling prices (ASP).

For the first nine months of FY2021, the company's total revenue was RM110.8 million (around A\$37 million), a 353% increase compared to RM24.5 million recorded during the corresponding period in FY2020.

Demand remains strong as VIP has committed sales to December 2021 with requests and expression of interests to supply gloves in 2022 that will utilise additional production capacity.

Average selling prices

During Q3 of FY21, average selling prices (ASP) reached US\$80 per 1,000 pieces, representing a 19% increase from the Q2 FY21 ASP of US\$67 per 1,000 pieces.

ASP during Q2 FY21 had previously risen by 34% from Q1 FY21 (July-Sept 2020).

The company believes the consistent rise in ASP is attributable to strong demand for nitrile gloves due to the global pandemic and a change in habits and stronger health awareness which lead to a broader usage of gloves generally.

Price: 0.051

Market Cap: \$40.08 m

1 Year Share Price Graph



Share Information

Code: VIP

Listing: ASX

52 week High Low
0.22 0.031

Sector: Pharma & Biotech

Website: www.vipglove.com.my

Company Synopsis:

VIP Gloves Ltd (ASX:VIP) produces and supplies gloves on an original equipment manufacturer (OEM) basis. The company's Malaysian subsidiary manufactures nitrile disposable gloves, used in the medical, health, dental and numerous other industrial and commercial sectors, from a plant in Selangor, Malaysia.

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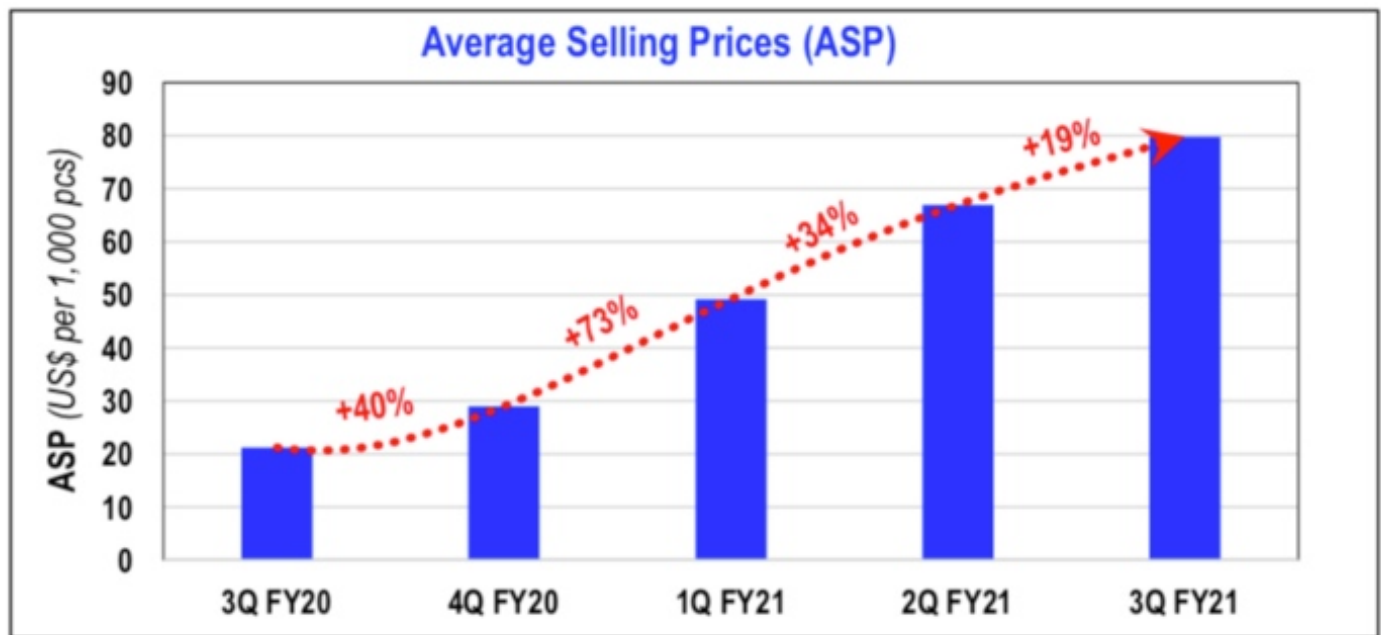
Receipts and cash increases

Receipts from customers increased by 48.7% to A\$17.1 million in Q3 FY21 as VIP improved its revenue collection processes to reduce outstanding receivables.

In addition, net cash from operations increased to A\$5.8 million from A\$400,000 previously.

Despite rising nitrile latex (NBR) cost during the quarter, the increase in ASP during the period kept profit margins high and stronger operational net cashflow was also attributable to a reduction in natural gas cost.

Notably, the company paid an A\$1.2 million interim dividend to shareholders in March 2021.



Capacity expansion plans

Catering further for the expansion program, glove production lines 7 and 8 are at the final stages of installation and will be commissioned in August and September this year respectively.

These two lines will increase nitrile gloves production capacity to 78 million pieces per month, a 22% increase over current production levels, or 936 million pieces per annum.

This capex initiative commenced in mid-2020 at a budget of A\$6.2 million.

Production lines 5 to 8 are financed through existing cash reserves and operational cashflow.

Second factory construction

The company has embarked on an aggressive further expansion drive, with the construction of a second factory on

adjacent land owned by VIP to house a further eight double former production lines under a A\$30 million two-year plan.

This entire facility is earmarked for full completion toward the end of 2022, and will generate a combined nitrile glove production capacity of 220 million pieces per month, or 2.6 billion pieces per annum.

Expected demand increases

The Malaysian Rubber Glove Manufacturers Association's (MARGMA) recent virtual briefing in March outlined that global demand for rubber and nitrile gloves is projected to reach 500 billion pieces in 2021, while world supply is only at 420 billion.

The 80 billion shortage is expected to continue to drive ASP higher, as demand continues.

MARGMA further suggested that, even in the post-pandemic era, demand for rubber and nitrile gloves is expected to experience annual growth of between 12% and 15% per annum in the longer term, compared to only 8%-10% annual growth prior to the pandemic.

VIP believes its capacity expansion drive is both timely and prudent and will be able to capitalise on the supply shortage situation.

Given indications from its existing customers, the company is confident to achieve an overall plant utilisation level of over 95% when all new production capacities are in place.

Distribution to new markets

In January, the company was awarded the Conformité Européenne (CE) Mark Examination Certificate, and is now gearing up to expand its distribution network to the lucrative European distributors and wholesalers, as well as to sell its products directly to end buyers in Europe.

At the same time, VIP is also finalising the US FDA applications.

Once it obtains the necessary accreditation, it will open yet another new market in North America.

These new markets offer potential volume sales with much higher ASP and will also provide VIP the platform to launch its own brand name into these markets.

This marketing approach bodes well, as it helps build brand equity and reputation in the longer term and coincides with the capacity expansion plan currently being undertaken as VIP can allocate more products for its house brand.

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