

TOP GLOVE COULD SLIP INTO RED IF IT MAKES IMPAIRMENT FOR ASPION DEAL

11 July 2018 / 12:07



PETALING JAYA: The fallout from the acquisition of Aspion Sdn Bhd may push Top Glove Corp Bhd into the red if an overvaluation impairment of RM640.5 million is made in the absence of a profit guarantee for Aspion.

On Bursa Malaysia yesterday, Top Glove fell to a low of RM8.96 before rebounding to close at RM9.90, up 8.43% or 77 sen. Some 49.4 million shares were traded.

At an analysts' briefing yesterday, Top Glove revealed that the conflict started with the discovery that Aspion's balance sheet items were not in accordance with reporting via the virtual data room (VDR).

The finding led to Top Glove to take over the management of Aspion, which invalidated a profit guarantee of up to an aggregate maximum limit of RM100 million if there is any shortfall in the core net profit for FY18 and FY19 from the targeted amount of RM80.9 million and RM108.3 million, respectively.

In response to queries by Bursa Malaysia, Top Glove explained that the RM1.37 billion consideration for Aspion at a price-to-earnings multiple of 16.93 times the FY2018 PAT target of RM80.9 million was based on past profitability which was misrepresented.

PublicInvest said Top Glove is likely to fall into the red, it needs to make impairment on the full amount of the overvaluation of RM640.5 million.

"The downside risks of the legal is-sue also include a long drawn litigation process and lawsuit fees."

The research house halved the estimated contribution from Aspion to only 2% and 7% of FY18 and FY19 earnings, respectively. "As a result, we cut our earnings estimates by 3%-9% for FY18-FY20 to account for lower contribution from Aspion."

It is keeping Top Glove at “under-perform” with a lower target price of RM9.65 from RM10.65, given that the stock will remain weak on the back of uncertainties and downside risks of the legal issue.

The preacquisition due diligence was conducted through VDR, an online database which was populated with Aspion's operational, financial, tax and legal information, commonly used in M&A deals in the industry. VDR was used because a few bidders for the business were competitors of Aspion, hence valuable information had to be provided in a controlled manner to preserve confidentiality.

Top Glove also told Bursa Malaysia that it instituted arbitration proceedings against Adventa Capital Pte Ltd in Singapore yesterday, to claim damages of RM714.9 million as a result of the fraudulent misrepresentation by Adventa Capital to induce Top Glove into entering into the sale and purchase agreement.

The group is seeking legal advice on Low Chin Guan's position as a director in Top Glove. Low is also a director of Aspion and the managing director of Adventa.

Top Glove also said it will proceed with a proposed bonus issue and proposed bonds issue announced on April 20, 2018.

The Sun Daily