

TOP GLOVE SHARES PLUNGE

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CIMB Research expects Hartalega to remain the marketleader in the rubber gloves sector due to its strength in product and engineering innovations.

PETALING JAYA: Nervy investors bolted from Top Glove Corp Bhd, briefly sending its share price down to its maximum daily limit, amid worries that the glove maker may have to make provision to account for overpaying recently completed acquisition.

Top Glove said it is taking legal action against Adventa Capital Pte Ltd for alleged fraud. It is claiming RM714.9mil in overstatement of assets and valuations.

“Although it is still too early to assume that Top Glove would need to make a full provision due to the misrepresentations – which would impact the company’s net profit and balance sheet – we expect such a legal case to drag and potentially impact Top Glove’s near- to mid-term net profit margin as legal expenses are incurred,” RHB Research said in a note.

It said that the total claim accounts to RM787.2mil (57.5%) of the total purchase consideration of Aspion.

The firm said assuming zero contribution from Aspion and a full RM787.2mil impairment, its fair valuation for Top Glove would drop to RM9.90.

The uncertainty caused Top Glove’s share price to collapse, hitting limit down by plunging as much as 30% or RM3.63 to RM8.47 in early morning trade, before paring losses to close at RM9.13.

This represented a decline of RM2.97, or 24.55%, from the previous close, or a loss in the market capitalisation of RM3.8bil.

Top Glove, in a statement after the market closed yesterday, said its business operations remained resilient and scalable, with a healthy cashflow.

“The litigation will not impact Aspion’s business operations, which will continue as usual,” it said.

In an announcement last Friday, Top Glove said it had taken legal proceedings against Adventa Capital and its previous owners for a claim of not less than RM715mil, arising from an alleged conspiracy to defraud Top Glove, and fraudulent misrepresentations that resulted in the company agreeing to acquire Aspion for RM1.37bil.

Top Glove completed the acquisition in April this year.

The acquisition turned Top Glove into the world’s largest producer of surgical gloves and it came with a two-year profit guarantee of RM81mil and RM108mil for Aspion’s financial year ending Oct 31, 2018 (FY18) and FY19, respectively.

Expecting the market to react negatively to the news, RHB Research said investors would be concerned as to Top Glove’s due diligence process on Aspion before finalising the acquisition of the company.

Meanwhile, Affin Hwang Capital Research has downgraded its call on Top Glove to a “hold”, with a lower target price of RM12, from a “buy” at RM13 previously. This follows the brokerage’s cut in the earnings forecast for Top Glove by 1.6% to 7.7% for FY18 to FY20.

“The cut is to reflect the weaker contribution from Aspion, as we now believe it would be challenging for Aspion to grow its net profit to RM108mil organically by FY20,” Affin Hwang Capital explained in its report.

“Despite the cut in earnings, we believe that the fundamentals of Top Glove remain unchanged, as the bulk of its earnings are not dependent on Aspion,” it said.

Concurrently, Public Investment Bank (PIB) Research has downgraded Top Glove to a “trading sell” from “neutral” previously, as it expects Top Glove’s share price to react negatively to the latest development.

The brokerage said the counter would likely remain under pressure, pending further clarification by management. However, its target price for Top Glove remains unchanged at RM10.65.

“Note that Top Glove is not cancelling the whole deal, which means Aspion could still contribute to the group, but the contribution may not be as great as expected,” PIB said, adding that the downside risk to its earnings estimate for Top Glove would be a lower-than-expected contribution from Aspion and a long-drawn litigation process. Given the reduced upside to its fair value and the uncertainties surrounding Aspion, Maybank Investment Bank Research (MaybankIB) has downgraded Top Glove to a “hold” from a “buy” previously.

The brokerage, however, has maintained its earnings forecast and target price of RM12.90 for Top Glove, pending clarity from the management.

Stripping out the profit guarantee from Aspion, MaybankIB said its earnings forecast for Top Glove would be reduced by 8% and 20% for FY18 and FY19, respectively.

However, the brokerage noted that any shortfall in the profit guarantee was supposed to be satisfied by a cash refund from the vendors.

“Furthermore, if Top Glove is successful in claiming back more than RM715mil, its interest savings would be around RM22mil per annum (or a 4% increase to its earnings forecast for FY19),” it said.

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