

TOP GLOVE SAYS IT OVERPAID RM640.5M FOR ASPION

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PETALING JAYA: Top Glove Corp Bhd, whose shares tumbled as much as RM3.63 or 30% on Monday, said an investigation by an independent accounting firm showed that it overpaid RM640.5 million for the acquisition of Aspion Sdn Bhd.

Irregularities were discovered in certain balance sheet items of Aspion after it was taken over by Top Glove on April 4. Top Glove paid a whopping RM1.37 billion for Aspion.

"From the interim report given by the independent accounting firm, there is currently an overstatement of inventory, plant and machinery in Aspion's accounts amounting to RM74.4 million. Further, the interim report also states that the acquisition price of Aspion was overstated by RM640.5 million. Therefore, the claim amount of RM714.9 million in the legal proceedings consists of the overstatement of assets and the overvaluation," it told Bursa Malaysia on Monday.

Top Glove said, however, the litigation will not impact Aspion's business operations, which will continue as usual. It also stressed that the group's business operations remain resilient and scalable, with a healthy cashflow.

"Top Glove remains upbeat in terms of outlook. With the combined capabilities of Aspion, the group is confident of continued growth going forward. It recognises there will always be challenges in business and is focused on taking immediate steps to address the issues."

Shares of Top Glove plunged to a six-month low of RM8.47 in early trade Monday, hitting limit-down, on news that it had filed a suit against Adventa Capital Pte Ltd, alleging fraudulent misrepresentations in the Aspion deal. The stock managed to pare losses but still settled 24.5% or RM2.97 lower at RM9.13, wiping RM3.8 billion off its market capitalisation. It was among the most actively traded counters on Bursa Malaysia with 50.63 million shares changing hands.

Short selling of Top Glove shares was suspended Monday after its share price declined more than 15%. A total of 10 Top Glove's structured warrants saw falls of between 17.8% and 63.2%.

Claiming a sum of not less than RM714.86 million, Top Glove alleged that fraudulent misrepresentations were made by Adventa Capital directors Low Chin Guan and Wong Chin Toh.

An analyst who declined to be quoted said if the case proved to be a fraud, Aspion will be another "big company" with inflated financial figures after national cargo carrier Transmile, which saw the discovery of losses of up to RM496 million for 2005 and 2006 through a special audit.

He opined that the case is now about whether Top Glove failed in its due diligence or the vendor intentionally hid important information.

"It's hard to say who is right or wrong right now - while it could be a failure of Top Glove in carrying out the due diligence, on the other hand they may blame the seller for not disclosing the information.

"If this is the case, it could be something not very favourable to Top Glove and will affect them materially," he told SunBiz.

PublicInvest Research downgraded Top Glove to "trading sell" as it believes the share price will react negatively to the news and will remain under pressure pending further clarification by the management. The target price is maintained at RM10.65.

Given that Top Glove is not cancelling the entire deal, the research house said it could mean that Aspion will still be able to contribute to the group, though its contribution may not be as great as expected.

The purchase of Aspion comes with a core net profit target of RM80.9 million and RM108.3 million for FY18 and FY19, and Adventa Capital will reimburse Top Glove for any shortfall in the core net profit up to an aggregate maximum limit of RM100 million.

PublicInvest Research believes the lawsuit sends a signal of a potential lower-than-expected contribution from Aspion.

“We maintain our earnings forecast pending more clarity on the matter. The downside risk to our earnings estimates will be lower-than-expected contribution from Aspion and a long-drawn litigation process.”

Kenanga Research noted that the legal action raises uncertainty over Aspion’s future operations and earnings outlook.

For illustrative purposes, based on the back-of-the envelope calculation, Top Glove’s FY19 earnings could be reduced by 12% with a lower target price of RM8.25 from RM9.49 if profit guarantee and profits generated by Aspion were to be stripped out.

It reiterated an “underperform” call for Top Glove with an unchanged target price of RM9.40.

The Sun Daily