

# TOP GLOVE LOSES RM3.8B MARKET CAP IN A DAY

10 July 2018 / 12:07



**KUALA LUMPUR:** Top Glove Corp Bhd saw a total of RM3.8 billion in market capitalisation wiped off yesterday as its share price tumbled 24.55% or RM2.97 to close at RM9.13 with about 50.25 million shares traded. The value is five times potential impairment of RM714.9 million from the ongoing material litigation related to its acquisition of Aspion Sdn Bhd.

The overreaction to the news was even more apparent in the early trading of the counter yesterday as its share price hit limit down, falling by as much as RM3.63 or 30% to RM8.47 before seeing some recovery after that. The sharp decline followed news last Friday that the world's largest glove manufacturer and its wholly-owned subsidiary Top Care Sdn Bhd had taken legal action against Adventa Capital Pte Ltd, Low Chin Guan, Wong Chin Toh and ACPL Sdn Bhd.

A filing with Bursa Malaysia by Top Glove yesterday clarified that the acquisition price of surgical glovemaker Aspion had been overstated by RM640.5 million. Together with an overstatement of inventory, plant and machinery in Aspion's accounts, the total overstatement amounted to RM714.9 million, which is only a fifth of the market capitalisation erased

from the selldown yesterday.

The amount of RM714.9 million was based on an interim report provided by an independent accounting firm hired by Top Glove to investigate the irregularities found in Aspion's accounts after it took over the company following the completion of the share purchase agreement (SPA).

At the moment, Top Glove is claiming for a sum not less than RM714.9 million, arising from an (alleged) conspiracy to defraud Top Glove and its wholly-owned subsidiary Top Care, and fraudulent misrepresentations made by Low and Wong, which resulted in the group agreeing to enter into the SPA back in January with Adventa Capital to purchase Aspion.

Recall that Top Glove inked a conditional SPA with Adventa Capital to acquire Aspion for RM1.37 billion to be satisfied via RM1.23 billion in cash and RM137 million in 20.51 million new Top Glove shares at RM6.68 apiece back in January this year.

Adventa Capital was then 30%-owned by Low, who is a major shareholder of Bursa-listed Adventa Bhd.

The proposed acquisition also came with a two-year profit guarantee of RM100 million. The acquisition was completed in April and made Top Glove the world's largest producer of surgical gloves.

In January, Top Glove in its filing said that the price consideration of RM1.37 billion was arrived at on a willing-buyer, willing-seller basis based on a price-earnings multiple of 16.93 times to the 2018 target core profit after tax (PAT) and after taking into consideration the profit guarantee by the vendor, rationale for the proposed acquisition, future earnings potential of Aspion Group in light of the outlook for the medical devices industry and its consequential impact on the demand for surgical and examination gloves.

It is worth noting that Top Glove did not say the purchase consideration was arrived at based on Aspion's balance sheet at the time and that Ernst

& Young was the latter's independent auditor.

According to Top Glove's filing yesterday, the litigation will not impact Aspion's business operations, which are expected to continue as usual.

"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 issue," it added.

The management also conducted an analysts' briefing yesterday evening but no media was invited, which is a break from its past practice of including journalists in these sessions.

An analyst who requested anonymity said that the huge overvaluation is a concern as a detailed due diligence should have been conducted prior to the acquisition.

The Edge Financial Daily also contacted Low yesterday but due to the ongoing legal issues, he remained tight-lipped and would only say that the allegations are "without merit and baseless". Low said that he will be taking legal action on this issue.

Low is also the executive managing director of Adventa and an executive director of Top Glove. Adventa has announced via Bursa to clarify that Adventa Capital is not a subsidiary of the group and that the proposed rights intended to be undertaken on a full subscription basis, has been deferred.

"The company (Adventa) proposes to procure irrevocable undertakings from Low Chin Guan, the major shareholder and the managing director of Adventa, to, amongst others, subscribe for his rights entitlements and all the remaining rights shares which have not been subscribed.

“Low has informed the company that at this juncture, due to legal proceedings between him and other parties, he is not in a position to provide the abovementioned proposed undertaking,” it said.

Adventa’s share price also fell by 8.26% or 4.5 sen to close at 50 sen, giving it a market capitalisation of RM75.6 million.