

ASPION DEAL OVERPRICED BY RM640M, SAYS TOP GLOVE

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Top Glove Corp Bhd's internal investigation has revealed the RM1.37 billion acquisition of Aspion Sdn Bhd was over-stated by RM640.5 million.

The glove manufacturer is currently taking legal action against Adventa Capital Pte Ltd, from whom it acquired the 270.85 million shares in Aspion on April 4 this year, claiming no less than RM714.86 million from the writ of action.

Top Glove said it discovered "irregularities" in Aspion's balance sheet following the takeover, with subsequent investigations revealing an overstatement of assets as well as overvaluation of the share purchase agreement.

"Upon such discovery, Top Glove conducted its own investigations and appointed an independent accounting firm to investigate the irregularities in Aspion's accounts, as well as the possible overstatement of the acquisition price for Aspion," it said in an exchange filing yesterday.

"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."

It said the report found the acquisition price for Aspion was overstated by RM640.5 million.

The company's RM714.9 million court claim consists of this overvaluation of the purchase agreement, as well as the overstatement of assets.

Adventa Capital, Aspion directors Low Chin Guan and Wong Chin Toh, and Adventa Capital's private vehicle ACPL Sdn Bhd are implicated in the suit.

The Aspion deal was the largest in Top Glove's merger and acquisition history and established the company as the world's largest surgical glove manufacturer.

The news of the legal action caused Top Glove shares to hit limit down after shedding RM3.63 or 30% in value to RM8.47 just after market opened yesterday.

Heavy selling continued throughout the day, resulting in the counter to close RM2.97 lower at RM9.13 and erasing some RM3.8 billion from its market capitalisation.

The legal action also cast uncertainty over Aspion's contributions to Top Glove going forward, though the latter said the litigation will not impact Aspion's business operations which will continue as usual.

According to Kenanga Investment Bank Bhd research analyst Raymond Choo Ping Khoo, the Aspion deal comes with a profit guarantee of RM80.9 million and RM108.3 million for Top Glove's financial years ending Aug 31 this year (FY18) and FY19 respectively.

Choo said Kenanga does not have sufficient details to quantify the impact on Top Glove's earnings in relation to the uncertainty over the profit guarantee attached to Aspion.

"Based on our-back-of-the envelope calculation, assuming we strip out the profit guarantee and assuming normal profits generated from Aspion, our FY19 earnings forecast (for Top Glove) could be lowered 12% and our target price (TP) lowered to RM8.25 from RM9.40," he said.

"Assuming Top Glove is unable to recoup the claims made, an impairment charge of RM714.9 million (worst case scenario) will erode the company's book value by 31% from RM1.77 per share to RM1.21 per share as at May 31 this year."

Pending further clarifications from management, he said the research firm is maintaining its FY18 and FY19 earnings with an unchanged TP forecast.

Kenanga set a TP of RM9.40 — representing a 2.96% upside from Top Glove's last closing price — based on a 24.5 times FY19 earnings per share, while reiterating an 'Underperform' position.

Several other research firms downgraded the stock yesterday following news of the legal action, namely Affin Hwang Investment Bank Bhd, Maybank Kim Eng, KAF Seagroatt & Campbell Bhd and Public Investment Bank Bhd.

The Top Glove management held an analyst briefing at 5pm yesterday in relation to its legal action against Adventa Capital. According to an analyst who was present at the briefing, the company indicated that it will be unable to recognise the FY18 profit guarantee from Aspion due to the legal proceedings.

The source who asked to remain anonymous said the company could not give guidance on the amount of impairment likely to be incurred as many of Aspion's accounts were believed to have been misreported or misleading.

Other listed glove makers also saw their share prices decline yesterday, with Supermax Corp Bhd down 19 sen to RM4.19, Hartalega Holdings Bhd fell eight sen to RM5.72 and Kossan Rubber Industries Bhd lost 30 sen to RM8.20.