TOP GLOVE SET TO BE WORLD'S LARGEST SURGICAL GLOVE MANUFACTURER

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KUCHING: Top Glove Corporation Bhd (Top Glove) is set to be the world's largest surgical glove manufacturer as the group's long-awaited acquisition of Adventa Capital Pte Ltd's (Adventa) surgical glove unit Aspion Sdn Bhd (Aspion) is finally materialising.

In a Bursa filing last Friday, the group announced that after exclusively negotiating with Adventa since November 24, 2017 on the acquisition of Aspion, Top Glove has finally entered into a share purchase agreement with Adventa on January 12 to acquire a 100 per cent interest in Aspion for a purchase consideration of RM1.37 billion.

The purchase consideration which will be satisfied through RM1.233 billion in cash from borrowings and RM137 million via the issuance of 20.5 million new Top Glove shares has been hailed as fair given that it was arrived based on a guaranteed profit for a period of two years at RM80.9 million for the first year and RM108.3 million for the second year.

According to Kenanga Investment Bank Bhd (Kenanga Research), post-acquisition, Aspion's production capacity of about 1.5 billion pieces of surgical gloves and 3.1 billion pieces of examination gloves will cause Top Glove to become the single largest surgical glove manufacturer globally with a market share of 29 per cent.

Additionally, they will also be the largest surgical glove exporter in Malaysia with a large potential for growth in the segment.

MIDF Research expected the core PAT contribution from Aspion to lead to an overall double-digit growth in earnings per share (EPS) for financial year 2018 – 2019 (FY18-19) of 25 and 18.9 per cent respectively.

"Furthermore, following the acquisition, Top Glove's surgical sales volume will increase to 2 to 4 per cent of its total gloves sales volume while in terms of value, Top Glove's surgical sales is expected to increase to 13 per cent of its total revenue from its current 5 per cent.

"The acquisition will also allow Top Glove to tap on Aspion's current exposure in various markets worldwide especially the developed market," guided the research arm.

Adding to that, Kenanga Research also pointed out that Aspion would also help Top Glove facilitate and expansion of its surgical glove product offerings to cater to a broader range of medical practice area, including high risk surgery, micro-surgery, orthopaedics and obstetrics and gynaecology – thereby moving up the value chain.

Ultimately, Aspion is expected to help improve the overall financial performance of the group moving forward.

To help realise the goal, its managing director, Low Chin Guan, will continue to helm its operation over the next two to three years.

And moving forward, it seems that Top Glove is not yet done with its merger and acquisition (M&A) activities for FY18 as the group has guided in an analysts briefing last Friday that it intends to target a double-digit growth of 10 per cent annually in terms of revenue and earnings – achieved through both organic and inorganic growth.

“As organic growth will only lead to approximately 3 per cent growth in earnings, inorganic growth will help to propel its earnings to double-digit growth.

Hence, it targets to undergo three merger and acquisition activities in FY18,” MIDF Research revealed.

While the materialisation of the acquisition is good news for Top Glove, both analysts have placed ‘neutral’ or ‘market perform’ calls on the stock.

Their reasoning for their move is due to the fact that all the positives of the Aspion acquisition and future M&A activities have already been priced in by investors and is now full-valued as the company’s share price has run up by 100 per cent over the last 10 months.

With that said, MIDF Research has revised its FY17-18F earnings forecasts by 12.8 and 17.4 per cent respectively as they incorporate four months of contribution from Aspion in FY18 and full-year contribution in FY19 into their earnings.

Meanwhile, Kenanga Research maintains their FY18E and FY19E earnings as they have already factored in profits from Aspion into their earnings model.

MIDF Research maintains its ‘neutral’ call with a revised target price (TP) of RM8.55, while Kenanga Research downgrades its “overperform’ call to ‘market perform’ with an unchanged TP of RM9.40.