

TOP GLOVE DOWNGRADED BY MAYBANK AS ACQUISITION HITS A SNAG

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SINGAPORE (July 11): Maybank Kim Eng is downgrading Top Glove to “hold” from “buy” given the uncertainties surrounding its Aspion acquisition.

Top Glove has taken legal action against the vendors of Aspion. It is claiming for a sum of not less than MYR715 million (\$241.3 million), alleging a “conspiracy to defraud Top Glove” and “fraudulent misrepresentations made by Low Chin Guan and Wong Chin Toh, which resulted in Top Glove agreeing to purchase Aspion”.

Recall Top Glove had, in April, completed the acquisition of Aspion, a surgical gloves manufacturer, for MYR1.37 billion to be satisfied in cash and shares.

This acquisition turned Top Glove into the world’s largest producer of surgical gloves and it came with a two-year profit guarantee.

Maybank says it is unclear at this stage what issues have prompted Top Glove’s legal action against the vendors of Aspion and is looking for more clarity.

Our FY18-20 EPS forecasts have already imputed Aspion’s profit guarantee of MYR81 million and MYR108 million for FY10/18-19. Stripping this out, its FY18-19 EPS forecasts for Top Glove would be reduced by 8% and 20% respectively.

“We maintain our earnings forecasts and target price of MYR12.90 (30x 2019 PER; 10% discount to our target PER for Hartalega), pending more clarity from the management,” says Maybank.

Technically though, any shortfall in the profit guarantee is supposed to be satisfied by cash refund from the vendors. Furthermore, if Top Glove is successful in claiming back the MYR715 million, its interest savings would be MYR22 million p.a. or 4% increase to its FY19E EPS.

As at 11.49am, shares in Top Glove are down 2 cents at \$3.38 in Singapore and down 26 sen to MYR9.64 in KL.

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