

TOP GLOVE INTRODUCES STOCK BORROW ARRANGEMENT

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KUALA LUMPUR: Top Glove Corp Bhd said yesterday it introduced a stock borrow arrangement with major shareholders in connection with the rubber glove manufacturer's guaranteed exchangeable bonds issue.

Top Glove said the stock borrow arrangement will enable the bonds to attract an even larger investor base while ensuring the terms of the bonds will be more attractive and beneficial to the company.

According to those familiar with the matter contacted by The Edge Financial Daily, the arrangement, open only for investors of the exchangeable bond, is favourable to the bond's issuer as well as those investing.

In announcing the stock borrow arrangement in separate statements on Bursa Malaysia yesterday, Top Glove said issuing the bonds, involving an aggregate principal amount of up to US\$300 million (about RM1.22 billion), was completed last Friday after issuing US\$200 million in principal amount of the bonds. The five-year bonds with a 2% per annum coupon rate was listed yesterday on Bursa and the Singapore Exchange.

“The stock borrow is a common feature for exchangeable bonds, enabling investors to hedge the position when subscribing to the bonds. However, the stock borrow available to investors only comprises approximately 2% of the total Top Glove shares. During this initial period, there may be some downward impact on the share price, attributed to regulated short-selling activity. We expect this impact to be temporary,” it said.

Top Glove, having been funding its expansion via bank borrowings and internally generated cash, said the company embarked on the bonds to diversify its funding sources. The issuance is a preferred option over normal bank borrowings due to a lower annual funding cost and a fixed term, it said.

Net proceeds from the issuance of the US\$200 million exchangeable bonds will be mainly used to repay its existing borrowings, it said. The bonds will result in potential cash flow savings of approximately RM16 million in interest per year.

“The bonds have an exchangeable feature whereby, subject to the bonds’ terms and conditions, the bondholders have the right to exchange their bonds for new shares of the company at any time during the exchange period at an initial exchange price of RM6.2040 per share, a 20% premium to the company’s closing share price on Feb 20, 2019 of RM5.17,” it said.

“This renders the bonds issue a more favourable alternative compared with fundraising via share placement, for which the company would have to offer a discount below the current market price.

“Moreover, the 20% premium coupled with the lower funding cost mitigates the dilution effect on the company’s earnings. The exchange of bonds for new Top Glove shares would only take place upon the share price exceeding RM6.20, which guards against immediate earnings dilution, as new Top Glove shares from the conversion will only be issued at a later stage. In contrast, in share placements, new Top Glove shares would be issued immediately, resulting in an immediate dilution.”

Top Glove shares closed four sen lower at RM4.60 yesterday, with a market value of RM11.76 billion.