

19 September 2018 | 1QFY19 Results Review

## Superlon Holdings Berhad

*Competition capped pricing power*

**Maintain NEUTRAL**

**Adjusted Target Price (TP): RM1.23**  
(previously RM1.58)

### INVESTMENT HIGHLIGHTS


- **1QFY19 results missed forecast**
- **Profit for the quarter fell by -19.5% yoy to RM2.85m**
- **Sequentially, profit more than doubled as profit margin rebounded**
- **FY19F/FY20F earnings estimate revised by -22%/-20%**
- **Maintain NEUTRAL with lower TP of RM1.23 (from RM1.58 previously)**

**1QFY19 results missed forecast** as net profit of RM2.85m made up only 15% of our full year forecast. Revenue of RM25.72m was largely within expectations making up 22% of our full year estimates. The variance was attributed to lower than expected selling prices, resulting in lower gross profits. An interim dividend of 0.75 sen for FY19 was announced.

**Profit for the quarter fell by -19.5% yoy to RM2.85m** while revenue fell by 2.3%yoy to RM25.7m. The lower profit is largely due to competitive pricing that led to lower profitability. Notably, its core EBIT margin has been compressed by -3.4ppt to 14.4% from 17.8% a year ago.

**Sequentially, profit more than doubled as profit margin rebounded.** Compared to 4QFY18, the net profit of RM2.85m is a vast improvement compared to the RM1.38m qoq. Its core EBIT margin has improved from 4.74% previously to 14.38% while revenue improved marginally by 1.4% from higher manufacturing and trading divisions. The improvement are supported by the favourable exchange rates as well as better operating efficiency.

**FY19F/FY20F earnings estimate revised by -22%/-20%** as Superlon is unable to fully pass on the increase in raw material prices especially to its price sensitive customers. As a result, our estimate for FY19F/FY20F net profit is cut to RM15.0m/RM18.3m respectively. We have also cut our DPS assumption for both years to 3.5 sen from 5.5sen previously.

**Maintain NEUTRAL with adjusted TP of RM1.23 (from RM1.58 previously).** The lower TP is a result of lower EPS estimate for FY19. Our valuation method of 13x PE is unchanged. We cautious of the heightened competition globally while raw material prices remain elevated. On the flip side, its Vietnam factory is on track for production by end FY19 while it is still sitting on a net cash of RM9.2m. 

### RETURN STATS

Price (18 <sup>th</sup> Sep 2018)	RM1.20
Target Price	RM1.23
Expected Share Price Return	+2.5%
Expected Dividend Yield	+2.9%
<b>Expected Total Return</b>	<b>+5.4%</b>

### STOCK INFO

KLCI	1,792.94
Bursa / Bloomberg	7235/ SLON MK
Board / Sector	Main / Industrial Products
Syariah Compliant	Yes
Issued shares (m)	158.78
Market cap. (RM'm)	190.54
Price over NA	1.49
52-wk price Range	RM0.99- RM2.92
Beta (against KLCI)	1.49x
3-mth Avg Daily Vol	0.54m
3-mth Avg Daily Value	RM0.66m
Major Shareholders (%)	
Hsiu-Lin Liu Lee	22.59
KWAP	9.80
Liu Jeremy	4.50

## INVESTMENT STATISTICS

FYE Apr	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	90.41	106.27	109.39	119.04	137.60
Pretax Profit (RM'm)	21.36	30.22	15.86	19.46	23.51
Net Profit (RM'm)	16.66	23.72	12.26	14.98	18.34
EPS (sen)	10.49	14.93	7.72	9.43	11.55
EPS growth (%)	77.58%	42.34%	-48.30%	22.20%	22.42%
PER (x)	19.35	13.59	15.54	12.72	10.39
Net Dividend (sen)	4.25	5.50	3.50	3.50	3.50
Dividend yield	2.09%	2.71%	2.92%	2.92%	2.92%
Core EBIT margin	23.20%	25.81%	15.89%	16.20%	17.00%

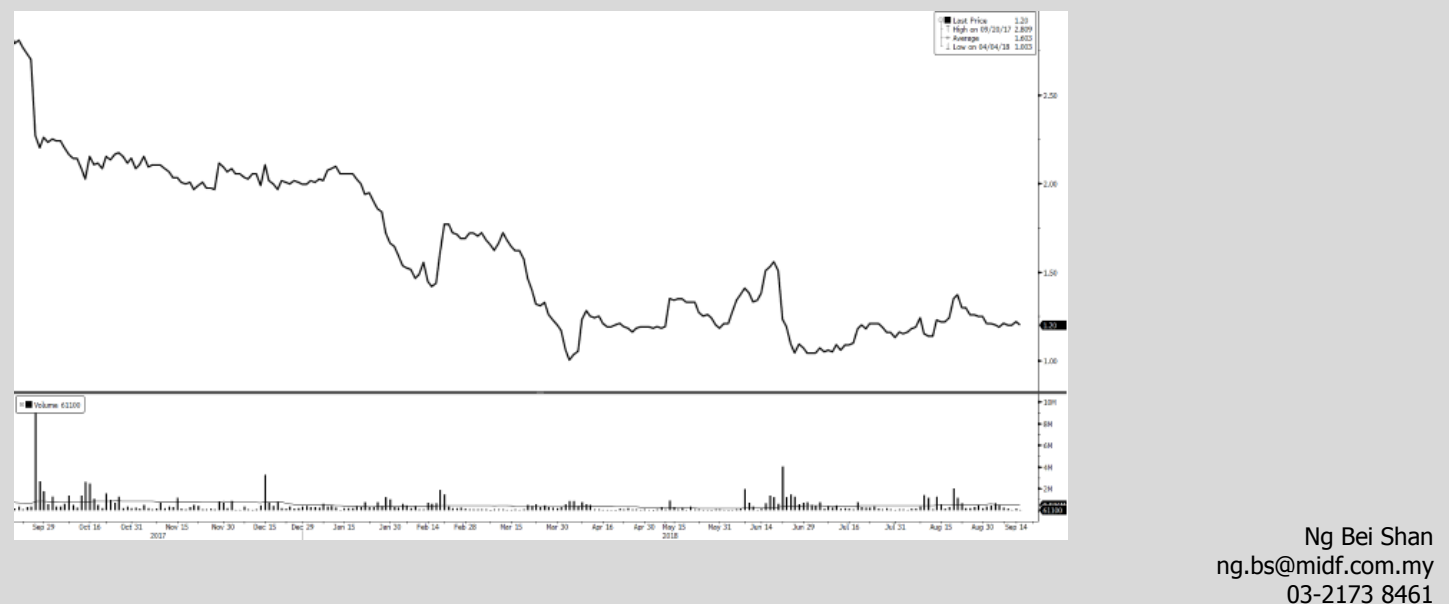
Source: Company, MIDF Research

## SUPERLON: 1QFY19 Results Summary

FYE Apr (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY19	YoY	QoQ	3MFY19	YoY	
Revenue (RM'm)	25.72	-2.3%	1.4%	25.72	-2.3%	Weak ASP offsets effect of higher volume
Pretax Profit (RM'm)	3.94	-13.5%	177.5%	3.94	-13.5%	Raw material prices remain volatile
Net Profit (RM'm)	2.85	-19.5%	106.5%	2.85	-19.5%	
EPS (sen)	1.79	-19.7%	105.7%	1.79	-19.7%	
Net DPS (sen)	0.75	-50.0%	N.M.	0.75	-50.0%	
Core EBIT	3.70	-21.0%	208.0%	3.70	-21.0%	Inability to pass on cost reduced profitability
Core EBIT Margin	14.38%	-3.40ppt	9.65ppt	14.38%	-3.40ppt	

Source: Company, MIDF Research

## DAILY PRICE CHART



Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.