

27 September 2017 | 1QFY18 Results Review

## Superlon Holdings Berhad

*Hit by spike in raw material prices*

### INVESTMENT HIGHLIGHTS

- **1QFY18 profit below expectation due to surge in raw material prices**
- **1QFY18 profit fell by 41.5% yoy to RM3.54m**
- **New market might boost second half results**
- **Vietnam expansion plan is on track**
- **Downgrade to Neutral with TP of RM2.36 based on FY19F EPS of 18.12 sen**

**1QFY18 profit below expectation due to surge in raw material prices.** Superlon's 1QFY18 came in below expectation, making up only 12.8% of our full year estimates. The main reason in the sharp drop in profit is the sudden increase in raw material prices. The company has announced a dividend of 1.5 sen, which is lower than 2.5 sen paid in the previous corresponding quarter.

**1QFY18 profit fell by 41.5% to RM3.54m** because of the surge in raw material prices. Raw material prices have since stabilised but it is estimated to be 25% to 30% higher yoy. Hence, we expect GP margin to remain under pressure for 2QFY18 but it might be a slight improvement compared to Q1. We anticipate for the management to implement cost cutting measures to improve its margins while they are also expected to start talks with customers to gradually revise selling prices going forward.

**New market might boost second half results.** Although first quarter results disappointed, we believe that its second half should improve with normalising GP margin and with the help of sales from a new market. We gather that Superlon is already close to entering this new market and targets to sell products with higher average selling prices to this market.

**Vietnam expansion plan is on track.** Superlon's plan to start building a new factory in Vietnam is still intact. The plant is slated to start operations in the second half of FY19. We believe that funding of the new plant is still not an issue as the company is still sitting on a net cashpile of RM15.85m as of July 31<sup>st</sup> while the capex budgeted for the factory is RM17m.

***Downgrade to NEUTRAL***

***Higher Target Price (TP): RM2.36  
(Previously RM2.26)***


### RETURN STATS

Price (20 <sup>th</sup> June 2017)	RM2.76
Target Price	RM2.36
Expected Share Price Return	-14.67%
Expected Dividend Yield	+1.99%
<b>Expected Total Return</b>	<b>-12.7%</b>

### STOCK INFO

KLCI	1,765.59
Bursa / Bloomberg	7235/ SLON MK
Board / Sector	Main / Industrial Products
Syariah Compliant	Yes
Issued shares (m)	158.80
Market cap. (RM'm)	438.29
Price over NA	4.06x
52-wk price Range	RM1.12- RM2.96
Beta (against KLCI)	0.37x
3-mth Avg Daily Vol	0.67m
3-mth Avg Daily Value	RM1.67m
Major Shareholders (%)	
Hsiu-Lin Liu Lee	22.58
Kumpulan Wang Persaraan	10.39
Chan Keng Chung	5.67

**Earnings revision.** We cut our FY18F earnings estimates by 33% to RM18.5m due to the lacklustre results in 1QFY18. Subsequently, we also lower our DPS assumption from 6 sen to 4 sen. We reckon that the company will reserve some cash for the construction of its Vietnam plant.

**Downgrade to Neutral with higher TP of RM2.36 (from RM2.26 previously).** We downgrade the stock from Buy to Neutral due to the run up in share price since our previous report dated June 21<sup>st</sup>. However, we have increased our target price as we roll our base year from FY18F to FY19F. Our valuation method of 13x price-to-earnings, which is 1 standard deviation above its 4 year P/E mean, is unchanged. As a result, we raise our TP to RM2.36, which is 13x price-to-earnings of FY19F EPS of 18.12 sen. 

## INVESTMENT STATISTICS

FYE Apr	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	74.51	90.41	106.27	118.57	130.50
Pretax Profit (RM'm)	12.55	21.36	30.22	24.04	37.36
Net Profit (RM'm)	9.38	16.66	23.72	18.51	28.77
EPS (sen)	5.91	10.49	14.93	11.66	18.12
EPS growth (%)	60.32%	77.58%	42.34%	-21.95%	55.42%
PER (x)	46.71	26.31	18.48	23.68	15.23
Net Dividend (sen)	3.00	4.25	5.50	4.00	5.50
Dividend yield	1.09%	1.54%	1.99%	1.45%	1.99%
Core EBIT margin	15.65%	23.20%	25.81%	20.36%	28.00%

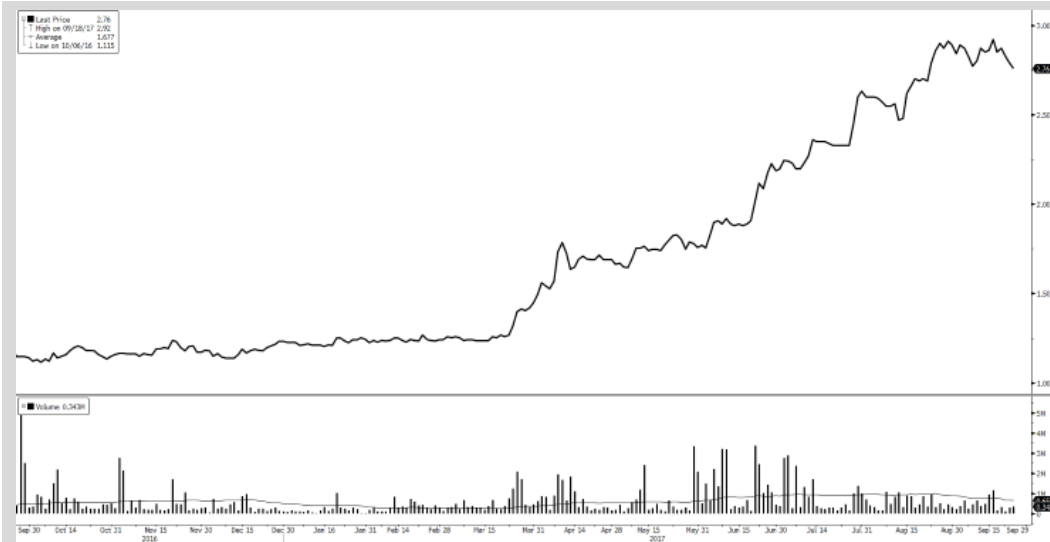
Source: Company, MIDF Research

## SUPERLON: 1QFY18 Results Summary

FYE Apr (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY18	YoY	QoQ	3MFY18	YoY	
Revenue (RM'm)	26.33	2.7%	-19.1%	26.33	2.7%	Lower qoq sales as customers stocked up in 4Q17
Pretax Profit (RM'm)	4.55	-43.4%	-42.3%	4.55	-43.4%	Affected by spike in raw material prices
Net Profit (RM'm)	3.54	-41.5%	-44.4%	3.54	-41.5%	
EPS (sen)	2.23	-41.5%	-44.4%	2.23	-41.5%	
Net DPS (sen)	1.50	-40.0%	N.M.	1.50	-40.0%	
Core EBIT	4.68	-22.0%	-38.5%	4.68	-22.0%	
Core EBIT Margin	17.79%	-5.62ppt	-5.59ppt	17.79%	-5.62ppt	Core EBIT margin compressed due to spike in raw material prices

Source: Company, MIDF Research

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.