

13 December 2018 | 2QFY19 Results Review

Superlon Holdings Berhad

Brighter outlook expected

INVESTMENT HIGHLIGHTS


- **6MFY19 results within expectation**
- **6MFY19 net profit marginally lower at RM7.08m**
- **Profit for the quarter jumped 16.5%yoy to RM4.23m**
- **Lower raw material prices, new product and new plant to support growth**
- **Upgrade to BUY with higher TP of RM1.50 (from RM1.23 previously)**

6MFY19 results within expectation as net profit of RM7.08m made up 47% of our full year forecast. An interim dividend of 1.15 sen was announced, bringing year-to-date (YTD) DPS to 1.9 sen, which is largely in-line with our forecast.

6MFY19 net profit marginally lower by -1.4%yoy to RM7.08m mainly due to sales that dipped by -7.2%yoy. The underwhelming 1QFY19 dragged down its YTD performance.

However, profit for 2QFY19 jumped 16.5%yoy to RM4.23m although revenue slid -18%yoy to RM25.05m. The lower sales recorded can be attributed to lower volume while the improvement in profit for the quarter is mainly due to favourable foreign exchange rate as well as lower raw material prices. Quarter-on-quarter, net profit soared 48.4% while revenue declined by 2.6%. GP margin has improved to 35.5% from 30.3% in the previous quarter.

Lower raw material prices, new plant and new product to support growth. Looking ahead, we expect Superlon's outlook to improve as one of the main raw materials, butadiene, has seen a price drop of about 30% since the beginning of September. Due to the lag effect in supplier pricing, we expect the benefit of lower raw material price to have a greater positive impact for Superlon in 2HFY19. On top of that, Superlon's Vietnam plant is on track and is expected to contribute positively to the group in 2HFY19. It has also launched a new product recently which could be another growth driver in FY20.

Upgrade to BUY from NEUTRAL with a higher TP of RM1.50 (from RM1.23 previously) as we roll over our base year to FY20. Our earnings forecast for FY18F and FY19F are unchanged while our valuation method of 13x PE remains. Catalysts for the stock include lower raw material prices, sales from its new product and higher volume contributed by its Vietnam plant. It is sitting on a net cash of RM6.5m and dividend yield is estimated at 2.8%. 

Upgrade to BUY
(Previously NEUTRAL)
Adjusted Target Price (TP): RM1.50
(previously RM1.23)

RETURN STATS

Price (12 th December 2018)	RM1.26
Target Price	RM1.50
Expected Share Price Return	+19.2%
Expected Dividend Yield	+2.8%
Expected Total Return	+22.0%

STOCK INFO

KLCI	1,663.27
Bursa / Bloomberg	7235/ SLON MK
Board / Sector	Main / Industrial Products
Syariah Compliant	Yes
Issued shares (m)	158.78
Market cap. (RM'm)	200.04
Price over NA	1.57
52-wk price Range	RM0.99- RM2.16
Beta (against KLCI)	1.57x
3-mth Avg Daily Vol	0.16m
3-mth Avg Daily Value	RM0.20m
Major Shareholders (%)	
Hsiu-Lin Liu Lee	22.59
Kumpulan Wang Persaraan	9.32
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	16.32	13.36	10.91
Net Dividend (sen)	4.25	5.5	3.50	5.5	5.5
Dividend yield	2.09%	2.71%	2.78%	2.78%	2.78%
Core EBIT margin	23.20%	25.81%	15.89%	16.20%	17.00%

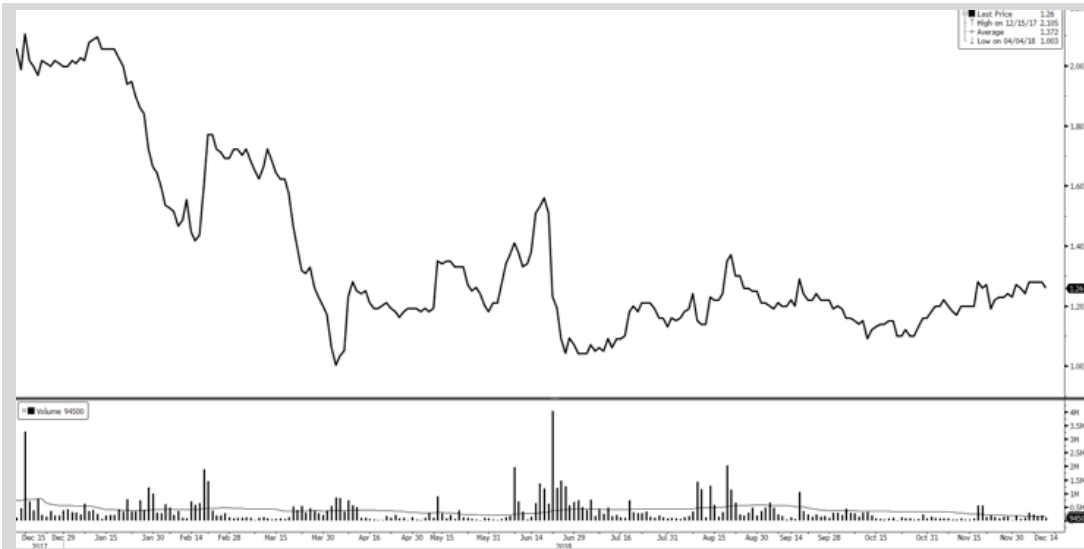
Source: Company, MIDF Research

SUPERLON: 2QFY19 Results Summary

FYE Apr (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY19	YoY	QoQ	6MFY19	YoY	
Revenue (RM'm)	25.05	-18.0%	-2.6%	52.77	-7.2%	Lower volume from the manufacturing division
Pretax Profit (RM'm)	5.73	17.9%	45.4%	9.67	2.7%	Lower raw material cost
Net Profit (RM'm)	4.23	16.5%	48.4%	7.08	-1.4%	Better operating profit and stronger USD rates
EPS (sen)	2.66	16.2%	48.6%	4.46	-1.3%	
Net DPS (sen)	1.15	15.0%	53.3%	1.90	-24.0%	
Core EBIT	5.05	-1.5%	36.4%	8.74	-10.8%	
Core EBIT Margin	20.14%	3.39 ppt	5.76 ppt	16.57%	-0.66 ppt	

Source: Company, MIDF Research

DAILY PRICE CHART



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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.