

21 March 2018 | 3QFY18 Results Review

Superlon Holdings Berhad

Robust demand dampened by raw material cost

Maintain BUY

Adjusted Target Price (TP): RM1.82
(previously RM2.36)

INVESTMENT HIGHLIGHTS

- **9MFY18 results missed forecast**
- **Profit for 9MFY18 fell by 37.2% yoy to RM10.9m but sequentially 3QFY18 profit improved by 2.2% to RM3.7m**
- **Earnings estimate reduced**
- **Construction of Vietnam plant is on track**
- **Maintain Buy with lower TP of RM1.82**

9MFY18 results missed forecast. Superlon Holding Bhd's 9MFY18 earnings of RM10.9m came in below our expectations, making up 59% of our full year forecast. The recovery in 2HFY18 has been weaker than expected. Raw material costs came in higher than expected while ASP has been lower than expected. An interim dividend of 1.0 sen was announced, bringing ytd DPS to 3.5 sen.

Profit for 9MFY18 fell by -37.2% yoy to RM10.9m mainly due to the high prices of raw material inventories which plagued the company's performance in 1HFY18. More importantly, core EBIT declined at a lower pace of -21.6% yoy and -17.7%qoq if the fluctuation of forex is eliminated. The main reasons for the lower core EBIT are higher raw material prices and distribution costs. The company's cost cutting measures continued to be seen in the lower administrative cost, which is offset by higher selling and distribution cost amid the robust volume of insulation products.


Sequentially, 3QFY18 profit improved by 2.2% to RM3.7m. This is supported by the resilient demand for its insulation products as well as growth in the trading division, which brought about sales that amounted to RM27.1m (+5.2% yoy and -11.2% qoq). GP margin for the quarter has improved by 4.4 ppt to 35.4% qoq, although it is a decline of 6.9ppt yoy. We expect 4QFY18 GP margin to maintain in the similar range in absence of a spike in raw material prices.

FY18F/FY19F earnings revised by -17.5% and -22.8% as we take into consideration of higher raw material costs and lower ASP. As a result, our new estimates for FY18F/ FY19F net profit are RM15.3m/ RM22.2m from RM18.5m/ RM28.8m respectively.

Construction of Vietnam plant is on track. Superlon's plan to set up of its Vietnam plant is going on as scheduled. The construction of the Vietnam plant is on track for commercial production by end FY19.

RETURN STATS	
Price (20 th Mar 2018)	RM1.60
Target Price	RM1.82
Expected Share Price Return	+13.7%
Expected Dividend Yield	+3.4%
Expected Total Return	+17.1%

STOCK INFO	
KLCI	1,856.39
Bursa / Bloomberg	7235/ SLON MK
Board / Sector	Main / Industrial Products
Syariah Compliant	Yes
Issued shares (m)	158.80
Market cap. (RM'm)	254.08
Price over NA	1.10
52-wk price Range	RM1.25- RM2.96
Beta (against KLCI)	0.90x
3-mth Avg Daily Vol	0.35m
3-mth Avg Daily Value	RM0.63m
Major Shareholders (%)	
Hsiu-Lin Liu Lee	22.58
Kumpulan Wang Persaraan	9.98
Chan Keng Chung	5.67

Maintain BUY with adjusted TP of RM1.82 (from RM2.36 previously). The lower Target Price is due to lower EPS estimate for FY19. Our valuation method of 13x PE is unchanged. We maintain our BUY recommendation as the company's earnings growth is expected to return in FY19. This will be driven by the demand for insulating products as well as heating, ventilation and air-conditioning parts. In FY19, we also expect the new plant in Vietnam to start operating in line with Superlon's market expansion plan. It also has a net cash of RM18m while dividend yield is decent at 3.4%. 

INVESTMENT STATISTICS

FYE Apr	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	74.51	90.41	106.27	113.71	124.09
Pretax Profit (RM'm)	12.55	21.36	30.22	19.83	28.85
Net Profit (RM'm)	9.38	16.66	23.72	15.27	22.22
EPS (sen)	5.91	10.49	14.93	9.62	13.99
EPS growth (%)	60.32%	77.58%	42.34%	-35.61%	45.49%
PER (x)	34.36	19.35	13.59	16.64	11.44
Net Dividend (sen)	3.00	4.25	5.5	4.00	5.5
Dividend yield	1.48%	2.09%	2.71%	2.50%	3.44%
Core EBIT margin	15.65%	23.20%	25.81%	17.70%	22.80%

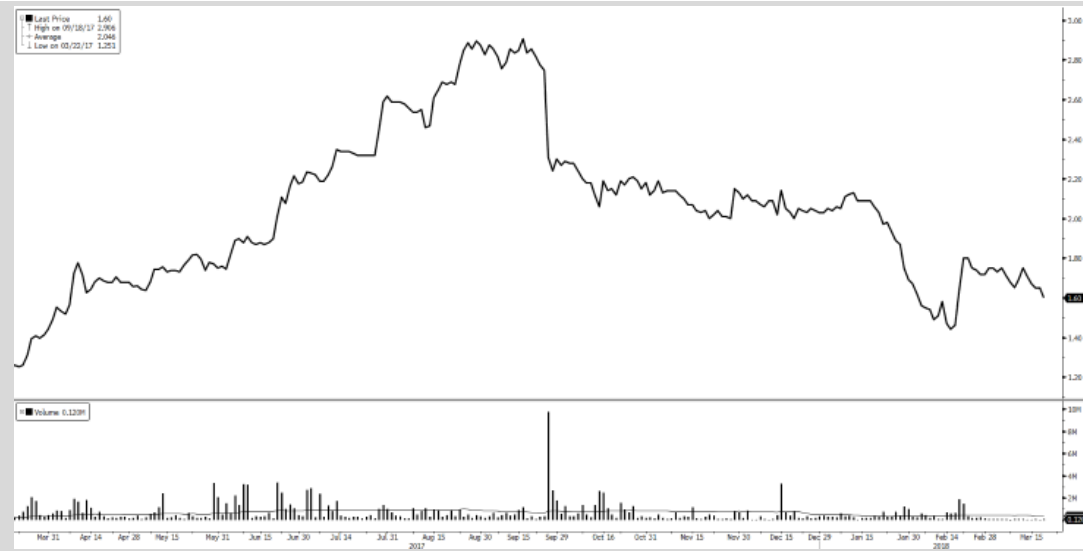
Source: Company, MIDF Research

SUPERLON: 3QFY18 Results Summary

FYE Apr (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	YoY	QoQ	9MFY18	YoY	
Revenue (RM'm)	27.14	5.2%	-11.2%	84.03	14.0%	Robust demand from insulation products and growth in trading division
Pretax Profit (RM'm)	5.02	-37.0%	3.4%	14.44	-35.4%	High raw material prices and distribution expenses
Net Profit (RM'm)	3.71	-40.6%	2.2%	10.89	-37.2%	
EPS (sen)	2.34	-40.6%	2.2%	6.85	-37.3%	
Net DPS (sen)	1.00	-83.3%	0.0%	3.50	-36.4%	
Core EBIT	5.73	-17.7%	11.8%	15.53	-21.6%	Eliminating the impact of forex fluctuation, operation is mainly affected by higher raw material costs
Core EBIT Margin	21.10%	-5.88ppt	4.35ppt	17.23%	-9.66ppt	

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.