

14 December 2018 | Briefing Note

## Superlon Holdings Berhad

*Anticipating a better second half*

### INVESTMENT HIGHLIGHTS

- **Vietnam plant completed**
- **Acoustec could be a growth driver in the future**
- **Average selling prices and gross profit margin saw improvement**
- **Maintain BUY with unchanged TP of RM1.50**

**Vietnam plant completed.** During the briefing, Superlon's management had updated the progress of its Vietnam plant. The plant has been physically completed and was doing some trial runs. They had targeted commercial production by end of FY19, mainly to serve the local Vietnamese market and certain export markets. The new plant has a production capacity of 1,500 tonnes yearly, adding about 14% to the group's overall production capacity. The management plans to hire about 60 staff for the plant. We expect positive contribution from this plant by end of FY19.

**Acoustec could be a growth driver in the future.** Superlon had introduced its new product, a type of insulator to insulate against noise, heat and vibration, which can be applied in cars and music studios among others. Management's current focus is to penetrate into the after sales market for automotive specifically targeting the mass market cars. Malaysia will be the first market before it enters other ASEAN markets. Although we think that there is potential for volume pick up for this new product given its unique proposition, we think that it will take some time for it to contribute substantially to the group.

**Average selling prices and gross profit margin saw improvement.** Although volume has declined by 8.5% compared to 1QFY19, it is offset by average selling prices that had increased by 9.0%qoq. Gross profit margin has also improved from 30.3% in 1QFY19 to 35.5% in 2QFY19. We expect its profitability to improve further in 2HFY19 given the easing raw material prices and relatively stable foreign exchange rates.

**Maintain BUY with unchanged TP of RM1.50**, which is based on 13x PER FY20F EPS of 11.55 sen. Our positive view on the stock is reaffirmed following the briefing and we make no changes to our assumptions. Risks to our call include forex volatility, spike in raw material prices and slower than expected commercial production of its Vietnam plant. Superlon's balance sheet is still healthy with a net cash of RM6.5m. Dividend yield is estimated at 2.8%. 

**Maintain BUY**

**Unchanged Target Price (TP): RM1.50**

### RETURN STATS

Price (13 <sup>th</sup> December 2018)	RM1.25
Target Price	RM1.50
Expected Share Price Return	+20.0%
Expected Dividend Yield	+2.8%
<b>Expected Total Return</b>	<b>+22.8%</b>

### STOCK INFO

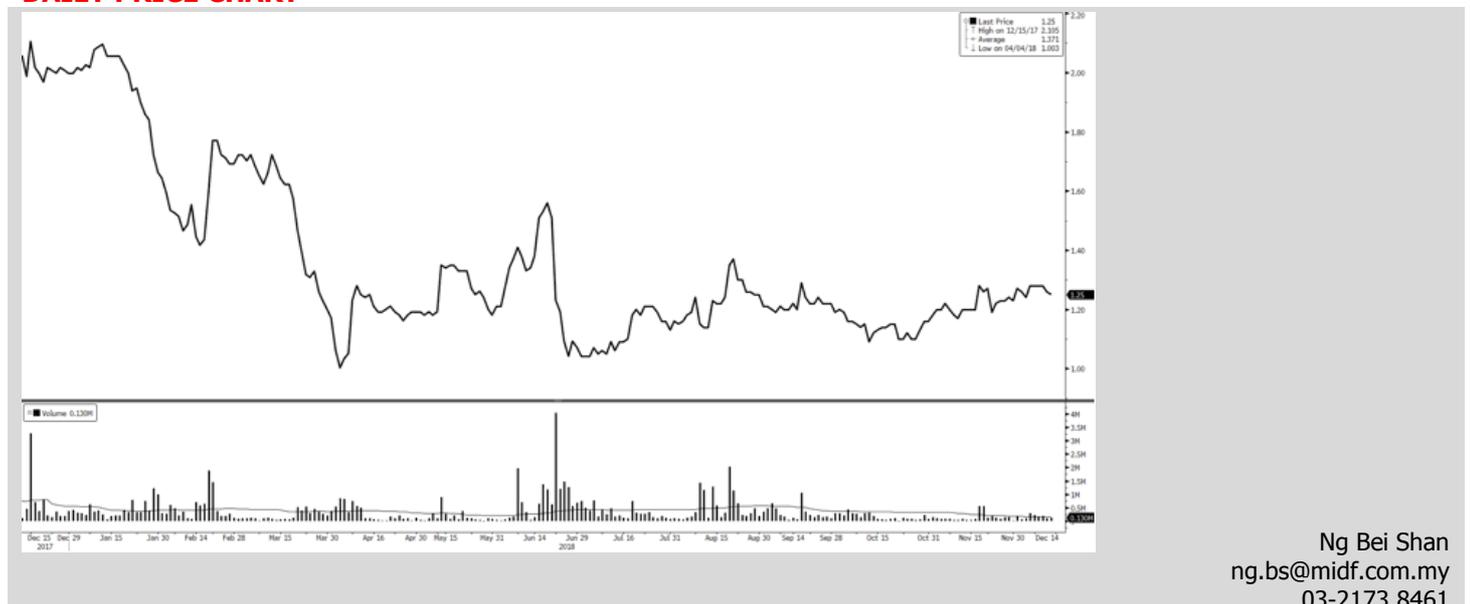
KLCI	1,676.00
Bursa / Bloomberg	7235/ SLON MK
Board / Sector	Main / Industrial Products
Syariah Compliant	Yes
Issued shares (m)	158.78
Market cap. (RM'm)	198.45
Price over NA	0.79
52-wk price Range	RM0.99- RM2.16
Beta (against KLCI)	1.57x
3-mth Avg Daily Vol	0.16m
3-mth Avg Daily Value	RM0.20m
Major 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	16.19	13.25	10.82
Net Dividend (sen)	4.25	5.5	3.50	5.5	5.5
Dividend yield	2.09%	2.71%	2.80%	2.80%	2.80%
Core EBIT margin	23.20%	25.81%	15.89%	16.20%	17.00%

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.