

# Superlon Holdings Berhad

(7235 | SLON MK) Industrial Products | Non Wood Building Material

## Near-term outlook may be cloudy

### KEY INVESTMENT HIGHLIGHTS

- **FY20 net profit missed forecast**
- **4QFY20 core earnings fell 25.0%yoy to RM1.2m**
- **Earnings for FY21F/FY22F earnings revised by -37/-14%**
- **Downgrade to NEUTRAL (previously BUY) with a revised TP of RM0.73 (previously RM1.17)**

**FY20 net profit missed forecast**, making up on 73% of our full year estimates. Superlon's full year core net profit of RM8.6m, was below our expectation. The negative deviation can be attributed to lower than expected sales from both the manufacturing and trading segments. No dividend was announced during the quarter.

**FY20 core net profit was lower by -13.2%yoy to RM8.6m** as revenue dipped by 3.9%yoy to RM101.6m. The lower full year results can be partially attributed to the six week suspension in operations during the Movement Control Order (MCO).

**4QFY20 core earnings fell 25.0%yoy to RM1.2m** as revenue declined by 31.4%yoy to RM18.8m. We believe that the pandemic has also caused a disruption in supply chain, which distorted the demand for Superlon's products as various countries enter lockdown modes. Due to some inefficiency in operations, the trading division recorded a loss before tax of RM0.05m in 4Q20 as compared to a pre-tax gain of RM0.09m in 4Q19. As for the manufacturing segment, PBT recorded RM1.9m vs RM2.5m in the previous preceding year.

**Compared to 3QFY20, net profit slid by 29%qoq** as gross profit margin decreased by 4ppt to 24%. Subsequently, PBT dropped by 43%qoq to RM1.6m. The weaker sequential results are also mainly due to the suspension in operations.

**Earnings for FY21F/FY22F earnings revised by -37/-14%** as we turn more cautious with the ASPs and demand for its insulation products. Although economies around the world are reopening, the rate of recovery is still cloudy in the near-term. However, we think that Superlon should be able to weather the challenges ahead due to its lean structure and sturdy balance sheet with a net cash of RM9.2m. It also has also allocated RM7.6m short-term investment.

**Downgrade to NEUTRAL (previously BUY) with a revised TP of RM0.73 (previously RM1.17).** Subsequent to our earnings cut, we have also lowered our TP, which is pegged to FY21F EPS of 5.6 sen. Our PER of 13.0x is unchanged. Catalysts for the stock include higher than expected recovery in volume and ASP and prolonged low raw material costs. Dividend yield is expected at 4.5%.

## Downgrade to NEUTRAL (Previously BUY)

**Revised Target Price: RM0.73**  
(Previously RM1.17)

### RETURN STATISTICS

|   |              |
|---|--------------|
| Price @ 29 <sup>th</sup> June 2020 (RM) | 0.68         |
| Expected share price return (%)         | +7.1         |
| Expected dividend yield (%)             | +4.5         |
| <b>Expected total return (%)</b>        | <b>+11.6</b> |

### SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month                     | 3.82     | 1.45     |
| 3 months                    | 32.04    | 18.32    |
| 12 months                   | -31.66   | -24.20   |

### KEY STATISTICS

|                                  |                |
|----------------------------------|----------------|
| FBM KLCI                         | 1,494.43       |
| Syariah compliant                | Yes            |
| Issue shares (m)                 | 158.7498       |
| Estimated free float (%)         | 47.80777       |
| Market Capitalisation (RM'm)     | 107.9309       |
| 52-wk price range                | RM0.4 - RM1.08 |
| Beta vs FBM KLCI (x)             | 1.40037        |
| Monthly velocity (%)             | 0.0012         |
| Monthly volatility (%)           | 19.18844       |
| 3-mth average daily volume (m)   | 1.689812       |
| 3-mth average daily value (RM'm) | 1.127113       |
| Top Shareholders (%)             |                |
| Hsiu-Lin Liu Lee                 | 22.59          |
| Kumpulan Wang Persaraan          | 5.05           |
| Employee Provident Fund          | 4.5            |

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## INVESTMENT STATISTICS

| FYE Apr                | FY18    | FY19    | FY20    | FY21F  | FY22F  |
|------------------------|---------|---------|---------|--------|--------|
| Revenue (RM'm)         | 109.39  | 105.70  | 101.62  | 110.52 | 115.35 |
| Pretax Profit (RM'm)   | 15.86   | 14.06   | 11.25   | 11.71  | 17.30  |
| Net Profit (RM'm)      | 12.26   | 10.29   | 8.62    | 8.90   | 13.50  |
| Core Net Profit (RM'm) | 10.51   | 9.90    | 8.59    | 8.90   | 13.50  |
| EPS (sen)              | 7.72    | 6.48    | 5.43    | 5.60   | 8.50   |
| Core EPS (sen)         | 6.62    | 6.24    | 5.40    | 5.60   | 8.50   |
| EPS growth (%)         | -48.30% | -16.07% | -16.20% | 3.17%  | 51.73% |
| PER (x)                | 8.81    | 10.49   | 12.59   | 12.14  | 8.00   |
| Net Dividend (sen)     | 3.50    | 3.05    | 3.05    | 3.05   | 3.50   |
| Dividend yield         | 5.15%   | 4.49%   | 4.49%   | 4.49%  | 5.15%  |

Source: Company, MIDFR

## FY20 Results Summary

| FYE Apr (RM'm, unless otherwise stated) | Quarterly Results |        |        | Cumulative |        |
|---|-------------------|--------|--------|------------|--------|
|   | 4QFY20            | YoY    | QoQ    | FY20       | YoY    |
| Revenue (RM'm)                          | 18.79             | -31.4% | -28.9% | 101.62     | -3.9%  |
| Pretax Profit (RM'm)                    | 1.66              | -30.0% | -40.3% | 11.25      | -20.0% |
| Net Profit (RM'm)                       | 1.32              | -21.0% | -38.6% | 8.62       | -16.2% |
| Core Net Profit (RM 'm)                 | 1.16              | -25.0% | -51.3% | 8.59       | -13.2% |
| EPS (sen)                               | 0.83              | -21.0% | -39.0% | 5.43       | -16.2% |
| Core EPS (sen)                          | 0.73              | -25.0% | -51.3% | 5.40       | -13.4% |
| Net DPS (sen)                           | 0.00              | N.M.   | N.M.   | 3.05       | 0.0%   |

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Total return is expected to be >10% over the next 12 months.   |
| <b>TRADING BUY</b>  | 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.  |
| <b>NEUTRAL</b>      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| <b>SELL</b>         | Total return is expected to be <10% over the next 12 months.   |
| <b>TRADING SELL</b> | 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

|                 |  |
|-----------------|--|
| <b>POSITIVE</b> | The sector is expected to outperform the overall market over the next 12 months.   |
| <b>NEUTRAL</b>  | The sector is to perform in line with the overall market over the next 12 months.  |
| <b>NEGATIVE</b> | The sector is expected to underperform the overall market over the next 12 months. |