Superlon Holdings Berhad

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

Maintain BUY

Weak start to the year

***Revised* Target Price: RM0.84**

(from RM1.02)

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 core CNP of RM1.0m missed our estimate**
- **Higher material and selling expenses caused earnings to drop**
- **Higher contribution from trading sales, which is a lower margin segment**
- **Downward revision of FY23E/FY24F earnings by -39%/-26%**
- **Maintain BUY with a revised TP of RM0.84**

Within expectation. Superlon Holdings Berhad (Superlon) reported core net profit (CNP) of RM1.0m in 1QFY23, which came in well below our expectation at only 8% of our full-year estimate. The deviation was mainly due to the higher-than-expected material costs.

Quarterly. Superlon recorded higher revenue of RM29.8m (+16.1%qoq) in 1QFY23 due to higher demand from both its domestic and export markets as more projects and installation jobs resumed. Nonetheless, the profit margin was eroded by higher raw material cost and higher contribution from lower margin markets, hence the Group's core CNP declined to RM1.0m (-10.0%qoq).

Yearly. On a yearly basis, revenue saw a significant jump of +55.3%yoy as both the insulation and trading divisions made higher sales on the back of the easing of restrictions and lockdowns in both the domestic and export markets. This was further supported by favourable foreign exchange environment. However, Superlon's core CNP dropped significantly by -51.1%yoy mainly attributed to higher material and freight costs and higher contribution from trading sales which is a lower margin segment.

Maintain BUY. We revised downwards our FY23E and FY24F earnings estimates by -39% and -26% as we have adjusted our margin assumptions to account for the elevated material costs. Freight costs have started to come down, although they are still higher relative to pre-pandemic levels. We believe the gradual normalisation of logistics costs would support the recovery of demand from the export markets which have historically contributed more than 50% of the Group's total revenue. Key downsides include: (i) fluctuations in raw material prices, (2) unfavourable exchange rates and (3) prolonged global supply chain issues which could cause shipping costs to the export markets to remain high. All in all, we maintain our BUY call on Superlon with a revised TP of **RM0.84** (from RM1.02) as we rollover our valuation year to FY24F. We derived the TP by pegging its revised FY24F EPS to an unchanged PER of 12x.

RETURN STATISTICS	
Price @ 21st September 2022 (RM)	0.66
Expected share price return (%)	+27.3
Expected dividend yield (%)	+3.7
Expected total return (%)	**+31.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.3	5.1
3 months	-3.6	-5.4
12 months	-24.9	-20.6

KEY STATISTICS	
FBM KLCI	1,447.18
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	-
Issue shares (m)	158.72
Estimated free float (%)	46.11
Market Capitalisation (RM'm)	105.55
52-wk price range	RM0.61 - RM0.92
Beta vs FBM KLCI (x)	0.79
Monthly velocity (%)	119.40
Monthly volatility (%)	8.17
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Liu Lee Hsiu-Lin	22.59
Liu Jeremy	4.50
Liu Han-Chao	4.50

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INVESTMENT STATISTICS

Income Statement	FY2021A	FY2022A	FY2023E	FY2024F	FY2025F
Revenue	100.6	92.1	106.0	110.5	112.5
PBT	15.2	7.4	10.1	12.7	14.1
Net profit	13.2	6.2	8.5	11.0	11.2
Core net profit	13.4	6.2	8.5	11.0	11.2
Core EPS (sen)	8.45	3.91	5.34	6.96	7.08
PER (x)	7.9x	17.2x	12.5x	9.6x	9.5x
DPS (sen)	3.15	1.50	2.00	2.50	3.00
Dividend yield (%)	4.7%	2.2%	3.0%	3.7%	4.5%

Source: Company, MIDFR

SUPERLON: 1Q23 RESULTS SUMMARY

Income Statement	1Q23	4Q22	1Q22	QoQ	YoY
Revenue	29.8	25.6	19.2	16.1%	55.3%
Gross profit	5.9	5.7	5.9	3.4%	-1.3%
Selling & distribution expenses	(2.5)	(2.3)	(1.5)	-9.2%	-67.6%
Administrative & other opex	(2.2)	(2.5)	(2.0)	12.0%	-9.9%
EBIT	1.4	1.2	2.7	22.2%	-46.6%
PBT	1.3	1.1	2.6	21.6%	-48.9%
Net profit	0.9	0.9	2.3	0.1%	-62.0%
Core net profit	1.0	1.1	2.1	-10.0%	-51.1%
Core EPS (sen)	0.6	0.7	1.3	-10.0%	-51.1%
GP margin (%)	19.7%	22.1%	31.0%		
EBIT margin (%)	4.8%	4.6%	14.0%		
PBT margin (%)	4.5%	4.3%	13.7%		
CNP margin (%)	3.5%	4.5%	11.0%		

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology