

# Superlon Holdings Bhd

## Heated Competition

By **Clement Chua** | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

### INVESTMENT MERIT

**Progressive capacity expansion is seen from its Vietnam plant (by c.15% from current 9.0k tonnes) upon meeting labour requirements. Savings from lower input cost is neutralised by lower ASP, which caused by steeper competition. Our Fair Value of RM0.830 is premised on a PER of 13.0x (closely in line with -1.0SD over its 2-year mean) based on FY20E EPS of 6.4 sen. NOT RATED.**

“For a cooler tomorrow”. SUPERLN is a manufacturer and distributor of high-quality thermal insulation material used in heating ventilation, air-conditioning and refrigeration (HVAC&R) system of residential, vehicle insulation (Acoustec), commercial, and industrial buildings. The group also has a trading division dealing with insulation-related products, i.e. copper tubes, adhesive, refrigeration gas and others.

**YoY**, FY19 revenue declined to RM105.7m (-3.4%) due to lower ASP amidst steeper competition. Meanwhile, net profit margin contracted to 9.7% (-1.5bps), a 5-year low, attributed to unfavourable raw material prices and initial start-up cost in its Vietnam plant. This in turn resulted in a lower FY19 net profit of RM10.3m (-16.1%). A dividend payout of 3.05 sen per share was also declared.

**Progressive capacity growth from Vietnam.** During FY18, the group invested USD4.0m to expand its capacity by 1.5k tonnes/annum (+c.15% from present 9.0k tonnes/annum), with the rationale of catering to its customers in Vietnam. We gathered that its Vietnam plant is operating at 30% utilisation which is expected to expand to 70% by FY21, as labour requirements are progressively met. Until then, we believe that the group could see less meaningful contributions from this plant in the near-term. However, we take comfort that the group is not entirely dependent on the capacity of the Vietnam plant to fulfil its regional production needs, as we estimate that its Shah Alam plant is running at a 70%-utilisation rate.

**Lower input cost advantage was offset by declining ASP.** While butadiene prices, saw a decline of c.>15% (from FY17-FY19), GP margin fell from 41.4% to 28.6%. We suspect this was led by lower ASP due to rising competition.

Going forward, operating environment could be challenging. ASP has declined by 3% annually for 3 years, which might not improve owing to the intensifying competitive landscape, leading to further price pressures. For instance, since FY17, export sales have been decreasing, from RM68.0m to RM61.0m (-9.8%) in FY19. To make things worse, we expect Butadiene prices to plateau going forward, premised on weak downstream synthetic rubber market, given the on-going trade dispute.

**Our assumption** imputes marginal increase in top-line revenue at RM106.8m/RM108.1m, given that the higher growth in sales volume is likely capped by lower ASP. Meanwhile, we believe earnings recovery could only be seen in the longer term due to the above-mentioned limiting factors. Overall, this prompts us to revise our FY20E/FY21E earnings estimates lower to RM10.1m (-2.2%)/RM9.6m (-4.1%). Assuming dividend payout is kept at 45%, this translates to dividend per share of 2.85 sen/2.73 sen, or yield of 3.2%/3.1%.

**Not rated with a fair value of RM0.830.** Our TP is premised on a target PER of 13.0x (closely in line to its -1.0SD over its 2-year mean) based on FY20E EPS of 6.4 sen. SAMCHEM was used as an indirect but relative comparison given that it focuses on the distribution of specialty chemical, which is partly similar to SUPERLN. All in, we believe the premium valuation of c.30% over SAMCHEM's 10.0x PER (-1.0SD over its 2-year mean) is fair given SAMCHEM that has: (i) low single-digit net margin (<5.0% for FY16-FY18) and (ii) higher debt/equity ratio at c.1.5x vs. SUPERLN of c.0.1x.

	Rating	Fair Value
Last Price	-	RM0.890
Kenanga	Not Rated	RM0.830
Consensus	Neutral	RM1.04

### Stock Information

Shariah Compliant	Yes
Stock Name	SLON MK Equity
CAT Code	141.3
Industry	158.7
Industry Sub-sector	1.44
YTD stock price chg	0.87
Market Cap (RM'm)	211,254
Shares Outstanding (m)	65%
52-week range (Hi)	1.5
52-week range (Low)	Yes
3-mth avg daily vol	SLON MK Equity
Free Float	141.3
Beta	158.7
Altman's Z-score	1.44

### Major Shareholders

Liu Lee Hsiu-Lin	22.6%
Kumpulan Wang Persaraan Diperbadankan Yayasan Guru Tun	8.4% 4.6%

### Financials

FY Dec (RM m)	2019A	2020E	2021E
<b>Revenue</b>	105.7	106.8	108.1
Gross Profit	30.3	29.9	30.3
Profit Before Tax	14.1	13.7	13.2
<b>PATAMI</b>	<b>10.3</b>	<b>10.1</b>	<b>9.6</b>
EPS (sen)	6.5	6.4	6.1
BV/Share (RM)	0.8	0.8	0.8
PER (x)	13.7	14.0	14.6
Price/BV (x)	1.1	1.1	1.0
Net Gearing (x)	0.0	0.1	0.2
DPS (sen)	3.1	2.9	2.7
Div Yield (%)	3.4%	3.2%	3.1%

### Quarterly Financial Data (RM'm)

	Q2-19	Q3-19	Q4-19
<b>Revenue</b>	<b>27.1</b>	<b>25.5</b>	<b>27.4</b>
PBT/(LBT)	5.7	2.0	2.4
<b>PATAMI</b>	<b>4.2</b>	<b>1.5</b>	<b>1.7</b>
Basic EPS (sen)	<b>2.7</b>	<b>1.0</b>	<b>1.1</b>
Revenue Growth (QoQ)	5.2%	-5.6%	7.4%
EPS growth (QoQ)	48.6%	-63.5%	8.2%
PATAMI Margin	15.6%	6.1%	6.1%

	PER (2y- Histori- cal)	Div. Yld (%)	Mkt Cap (RM'm)
<b>Peers Comparisons</b>			

SAMCHEM	11.5x	5.3%	155.0
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**Comment:** SUPERLN has shown slight signs of recovery in early-January 2019. However, the bearish momentum resumed and brought the share to trade below all key SMAs since the formation of a “Death-Cross” in mid-March. The overall trend remains bearish, with no immediate signs of a bullish reversal. All in, we expect the share to continue trending lower and test key support levels at RM0.830 (S1) and RM0.600(S2). Conversely overhead resistances can be seen at RM1.30 (R1) and RM1.15 (R2).

**About the stock:**

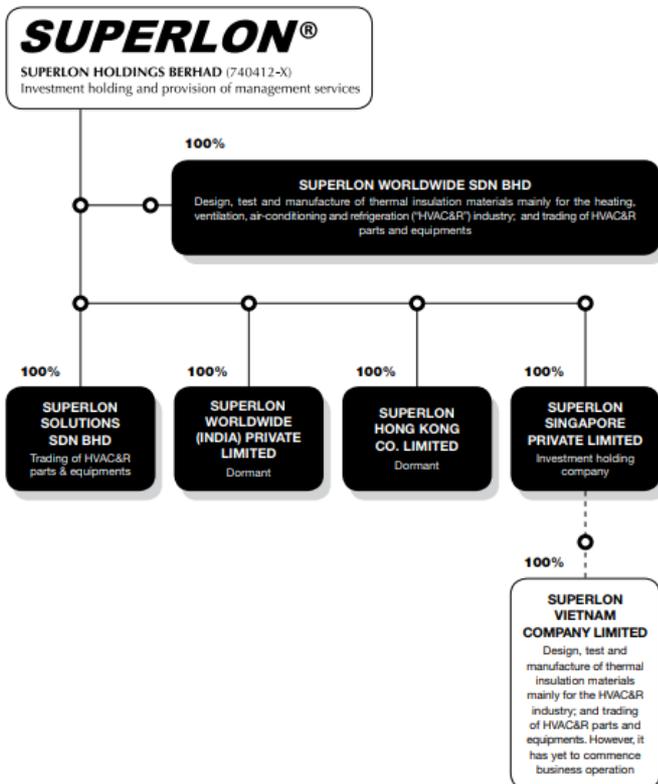
**Name** : Superlon Holdings Berhad  
**Bursa Code** : SUPERLN  
**CAT Code** : 7235

**Key Support & Resistance level**

**Resistance** : RM1.30 (R1)      RM1.15 (R2)  
**Support** : RM0.830 (S1)      RM0.600 (S2)  
**Outlook** : Bearish

Source: Kenanga Research

**CORPORATE STRUCTURE** **BUSINESS OVERVIEW**



SUPERLN has years of manufacturing experience in nitrile butadiene rubber (NBR) foam. The NBR foams are crafted into tubes or sheets based on different application such as heavy automation process, refrigerant lines and heating systems, for insulation purposes. Moreover, the company caters to a wide clientele of foreign distributors, mainly within the APAC region such as India, Vietnam and Philippines.

**BUSINESS SEGMENTS**

- SUPERLN primarily exports NBR based thermal insulators for foreign which could be easily designed based on the required specifications.
- Aside from the manufacturing and trading of NBR based thermal insulators, the company also designs, tests and manufactures HVAC tools and equipment.

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