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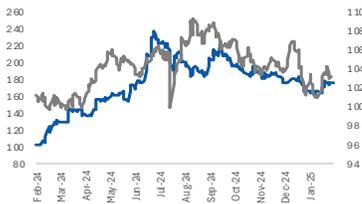
Recommendation:	BUY
Current Price:	RM 0.95
Previous Target Price:	RM 1.90
Target Price:	RM 1.41
Capital Upside/ Downside:	48.4%
Dividend Yield (%):	4.9%
Total Upside/ Downside:	53.4%

Stock information

Board	MAIN
Sector	Industrial Service
Bursa/ Bloomberg Code	5308/ SENFONGMK
Syariah Compliant	Yes
ESGRating	★★★
Shares issued (m)	721.7
Market Cap (RM' m)	685.6
52-Week Price Range (RM)	1.35-0.57
Beta (x)	0.5
Free float (%)	20.1
3M Average Volume (m)	0.5
3M Average Value (RM' m)	0.5

Top 3 Shareholders

	(%)
Sumber Panji Sdn Bhd	60.9
ETak Bin	7.6
NorgesBank	2.8

Share Price Performance

	1M	3M	12M
Absolute (%)	5.6	-7.8	63.4
Relative (%)	4.3	-6.7	58.7

Seng Fong Holdings Berhad

Margin Affected By Timing Mis-matches; Long-Term Growth Intact

Executive Summary

- 2QFY24 CNP fell 49.4% yoy and 35.6% qoq bringing 6MFY24 CNP to RM22.5m (-12.4% yoy), accounting for only 37% of our full-year forecast as gross profit margin declined (-5.2ppts yoy) impacted by timing mismatches in material purchasing and delivery and smart automation machine installation, which temporarily affected production efficiency.
- Trimmed FY25F/FY26F earnings by -22.7%/-5% after reducing gross profit margin assumptions by 2.5ppts/1.5ppts to factor in raw material price fluctuations.
- Maintain BUY with a revised TP of RM1.41 (lowered P/E to 14.0x from 19.0x), advising investors to accumulate on weakness. Confidence in long-term prospects remains supported by capacity expansion and a decent dividend yield of ~5%.

Results fell short of expectations. Although revenue reached 57% of our full-year target, 6MFY24 core net profit of RM22.5m (-12.4% yoy) accounted for only 37% of our RM72.2m forecast. The shortfall primarily stemmed from lower production and a reduced gross profit margin, which was impacted by timing mismatches between materials purchasing and delivery. Despite this, the Group declared a second interim dividend of 1.0 sen per share, payable on 11 Apr 2025.

YoY. 2QFY24 core net profit fell by 49.4% yoy to RM8.8m, mainly due to a 5.2-percentage-point drop in the gross profit margin. This decline was attributed to fluctuations in rubber raw material prices during the quarter and timing mismatches between purchasing raw materials and recognizing revenue upon delivery to customers. Nevertheless, as the Group adopts a cost-plus pricing model, which may eventually result in higher average selling price (ASP) to be reflected in the subsequent period.

QoQ. Core net profit declined by 35.6%. Revenue inched up by just 0.6%, despite a 7.6% rise in the ASP, largely due to lower production and delivery volumes, as efficiency was hindered by the installation and tuning of the new smart automation manufacturing machine.

Outlook. We note that fluctuating rubber raw material prices may temporarily affect margins. However, prices have demonstrated relatively stable in recent months compared to 4QCY24, suggesting an expected rebound in upcoming quarterly earnings. While the ongoing installation of a smart processing automation machine in one factory may reduce production efficiency in the short term, overall production capacity should ultimately improve, contributing to higher earnings in the long run.

Earnings Revision. In light of the weaker-than-expected results, we have trimmed our forecasts by lowering our gross profit margin assumptions for FY25F and FY26F by 2.5% and 1.5%, respectively, to factor in raw material price fluctuations. Consequently, our core net profit forecasts have been revised downward by 22.7%/5% to RM55.8m/RM72.5m for FY25F/FY26F.

Valuation. We believe that the current weak market sentiment, fluctuating raw material prices, and the ongoing automation machine installation will result in short-term uncertainty to profitability margins. As a result, we are assigning a lower P/E multiple of 14.0x which is equivalent to -1 standard deviation from the 3-yr mean of the Bursa industrial index PER, down from our previous 19.0x. Nevertheless, we maintain our **BUY** recommendation with a target price of **RM1.41**, advising investors to accumulate on weakness. Our confidence in the Group's long-term prospects remains underpinned by capacity expansion, and we view the stock as a defensive play during current weak market sentiment due to its stable quarterly dividend distribution, potentially offering a yield of approximately 5%.

Risk. Delays in capacity expansion plans and a longer-than-expected timeline for integrating Smart equipment into production, along with fluctuations in forex and commodity prices.

Earnings Summary

FYE June (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	922.4	937.0	1138.6	1481.0	1574.4
Gross profit	82.7	66.6	108.2	118.5	141.7
Pre-tax profit	50.0	27.2	74.8	68.9	89.5
Net profit	38.0	22.6	57.3	55.8	72.5
Core net profit	38.0	22.6	57.3	55.8	72.5
Core EPS (sen)	5.3	3.1	7.9	7.7	10.0
P/E (x)	18.0	30.3	12.0	12.3	9.5
P/B (x)	6.2	4.0	3.0	2.7	2.5
EV/EBITDA (x)	11.2	19.1	7.1	7.8	6.6
Dividend Yield (%)	3.0%	5.3%	5.3%	4.7%	4.9%
Net Gearing (%)	73%	15%	35%	26%	11%

Source: Company, Apex Securities

Results Comparison

FYE June (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6M FY25	6M FY24	yoy (%)	Comments
Revenue	362.0	287.6	25.8	359.9	0.6	721.9	507.0	42.4	Higher revenue due to higher ASP
Gross profit	16.9	28.6	(40.8)	30.9	(45.2)	47.9	43.5	10.1	
Pre-tax profit	10.9	22.6	(51.8)	17.3	(37.0)	28.2	33.4	(16.5)	
Net profit	8.8	17.4	(49.4)	13.7	(35.6)	22.5	25.7	(12.4)	
Core net profit	8.8	17.4	(49.4)	13.7	(35.6)	22.5	25.7	(12.4)	
Core EPS (sen)	12	2.4	(49.4)	19	(35.6)	7.5	3.6	110.7	
GP margin (%)	4.7	9.9		8.6		6.6	8.6		Slumped in GP margin due to fluctuation of raw materials prices
PBT margin (%)	3.0	7.9		4.8		3.9	6.6		
Core net profit margin (%)	2.4	6.1		3.8		3.1	5.1		

Source: Company, Apex Securities

Products sold and ASP

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Metric tones sold	38,102	34,836	41,268	42,679	45,239	47,250	44,171
ASP	6,202	6,298	6,724	7,037	7,323	7,617	8,195

Source: Company, Apex Securities

Results Note

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Financial Highlights

Income Statement

FYE June (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	922.4	937.0	1138.6	1481.0	1574.4
Gross Profit	82.7	66.6	108.2	118.5	141.7
EBITDA	53.9	34.5	85.1	79.4	99.3
Depreciation & Amortisation	-2.4	-2.6	-3.3	-4.6	-5.1
EBIT	51.6	32.0	81.8	74.8	94.2
Net Finance Income/ (Cost)	-1.5	-4.8	-7.0	-5.9	-4.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	50.0	27.2	74.8	68.9	89.5
Tax	-12.0	-4.6	-17.5	-13.1	-17.0
Profit After Tax	38.0	22.6	57.3	55.8	72.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	38.0	22.6	57.3	55.8	72.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	38.0	22.6	57.3	55.8	72.5

Key Ratios

FYE June	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	5.3	3.1	7.9	7.7	10.0
P/E (x)	18.0	30.3	12.0	12.3	9.5
P/B (x)	6.2	4.0	3.0	2.7	2.5
EV/EBITDA (x)	11.2	19.1	7.1	7.8	6.6
DPS (sen)	2.9	5.0	5.0	4.5	4.7
Dividend Yield (%)	3.0%	5.3%	5.3%	4.7%	4.9%
EBITDA margin (%)	5.8%	3.7%	7.5%	5.4%	6.3%
EBIT margin (%)	5.6%	3.4%	7.2%	5.0%	6.0%
PBT margin (%)	5.4%	2.9%	6.6%	4.6%	5.7%
PAT margin (%)	4.1%	2.4%	5.0%	3.8%	4.6%
NP margin (%)	4.1%	2.4%	5.0%	3.8%	4.6%
CNP margin (%)	4.1%	2.4%	5.0%	3.8%	4.6%
ROE (%)	34.3%	13.2%	25.3%	22.3%	26.0%
ROA (%)	14.5%	7.1%	14.7%	13.5%	19.0%
Gearing (%)	81.1%	76.5%	55.6%	54.0%	25.2%
Net gearing (%)	73.1%	15.0%	35.3%	25.7%	11.1%

Valuations

	FY26F
Core EPS (RM)	0.100
P/E multiple (x)	14.0
Fair Value (RM)	1.41
ESG premium/discount	0.0%
Implied Fair Value (RM)	1.41

Source: Company, Apex Securities

Balance Sheet

FYE June (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	8.9	105.2	46.0	70.8	39.5
Receivables	74.0	77.4	79.5	121.7	129.4
Inventories	130.1	85.6	209.8	145.8	129.2
Other current assets	0.0	2.2	0.4	2.2	2.4
Total Current Assets	212.9	270.5	335.7	340.6	300.4
Fixed Assets	42.3	42.9	47.8	66.6	74.0
Intangibles	4.5	6.7	6.6	6.6	6.6
Other non-current assets	2.3	0.0	0.0	0.0	0.0
Total Non-current assets	49.1	49.6	54.4	73.2	80.6
Short-term Debt	83.7	126.0	123.5	129.7	64.9
Payables	53.0	9.6	24.9	19.5	19.9
Other Current Liabilities	0.0	3.5	0.2	2.7	2.9
Total Current Liabilities	139.5	139.1	154.8	154.7	90.4
Long-term Debt	6.2	4.8	2.5	5.3	5.6
Other non-current liabilities	5.5	5.2	6.3	4.0	5.8
Total Non-current Liabilities	11.7	10.0	8.8	9.3	11.3
Shareholder's equity	110.9	171.0	226.5	249.8	279.3
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	110.9	171.0	226.5	249.8	279.3

Cash Flow

FYE June (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax profit	50.0	27.2	74.8	68.9	89.5
Depreciation & amortisation	2.4	2.6	3.3	4.6	5.1
Changes in working capital	-26.7	-0.6	-108.5	13.7	9.4
Others	-9.9	-6.6	-26.8	-12.6	-15.3
Operating cash flow	15.7	22.4	-41.3	74.5	88.8
Net capex	-13.1	-3.6	-7.9	-23.7	-12.6
Others	-2.3	0.1	0.1	0.1	0.1
Investing cash flow	-15.5	-3.5	-7.8	-23.6	-12.5
Dividends paid	-15.0	-25.9	-26.3	-32.5	-43.0
Others	10.2	102.4	17.1	6.4	-64.6
Financing cash flow	-4.8	76.5	-9.2	-26.0	-107.6
Net cash flow	-4.6	95.4	-58.3	24.9	-31.3
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	13.5	8.9	104.3	46.0	70.8
Ending cash	8.9	104.3	46.0	70.8	39.5

Results Note

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ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Achieved significant reduction in carbon emissions by adopting biomass energy and solar power.
Waste & Effluent	★★★	Implemented waste reduction initiatives and efficient effluent treatment system for water reuse.
Energy	★★★	Increased renewable energy use via biomass systems and solar panels, reducing reliance on fossil fuels.
Water	★★★	Water consumption reduced to 73,515 m ³ in FY2024 from to 87,924 m ³ ; full water recycling system implemented.
Compliance	★★★	Adherence to environmental laws including ISO standards and Malaysian regulatory requirements.

Social

Diversity	★★★	Established a Non-Discrimination and Diversity Policy ensuring equal opportunities at all levels.
Human Rights	★★★	Zero cases of substantiated complaints concerning human rights violations and average 17.2 training hours per employee.
Occupational Safety and Health	★★★	Zero cases of work-related fatalities and Lost time incident rate = 0.4.
Labour Practices	★★★	Compliance with fair labor practices, ensuring industry-standard wages and benefits.

Governance

CSR Strategy	★★★	Strong commitment to CSR, including environmental sustainability and community support.
Management	★★★	100% of senior management trained on anti-corruption policies, with zero reported cases in FY2024.
Stakeholders	★★★	2x analyst briefings per annum, 1x AGM per annum

Overall ESG Scoring: ★★★

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.